In the second situation (with the foundation grant) gross income is $11,000, taxable income is $8,000, tax is $3,800. The tax is approximately 2.7 times the amount which would be collected on taxable income of $8,000 at present tax rates. The marginal tax rate, now 19 percent, probably would have to be raised to more than 45 percent.

Clearly, such a degree of progression is out of the question. Even given the very great increase in gross national product possible over the next 30 years or so, I suspect that we will have to settle for considerably less redistribution than is implied by the radical consumption model for Year 2000, described above.

Concerning the broader incentive effects of foundations incomes and similar devices, I have no more definite information than anyone else. I do have a conviction, which I should like to see tested, that for those now at the bottom, a foundation income would increase the attractiveness of gainful employment by providing a chance to make substantial gains through work. As things now stand, many feel that they can never get off the bottom through work—that they can never aspire to more than bare subsistence. One effect is to drive many into illicit activity where the gains, incidentally, are not taxed.

Training and Jobs

In New York City some 30,000 youngsters have dropped out of school during the current school year; the number of dropouts is rising. The city's education and training programs are becoming more glaringly inadequate (though inadequacy is a weak word) for training the work force needed for today's employment. Many of those who do formally complete school still are functionally illiterate and have no saleable skills. The Human Resources Administration estimates that only about 13,000 people a year are entering the city's various remedial training programs, with possibly 20 percent of that number going on to permanent jobs.

Since my organization [the Institute of Public Administration] is supervising one of the manpower training programs, I can comment on some of its inadequacies. For instance, the maximum training period is 16 weeks, but with all the preliminary work that is needed trainees learn to type from 10 to 20 words a minute, which is below entry level requirements of most employers. Boys can learn only enough about automobile mechanics to qualify as helpers in filling stations.

Meanwhile, there is in the city a desperate shortage of competent typists, secretaries, bookkeepers, and other clerical workers, managers and professional people, and service workers such as automobile mechanics, appliance repairmen, television and computer servicemen. These are the types of jobs available in the central city, and for which we need to be training.

Employment in New York City is projected to rise by 300,000–400,000 in the next two or three decades. These jobs will be mainly in white collar and service occupations. In fact, the increase in these two categories will be larger than the total employment increase because manufacturing and other goods-handling jobs will continue to move out of the city. As things are now going, however, the prospects are that jobs will not materialize simply because trained workers will not be available. Suburban employment, which will be rising much more rapidly than city employment, will absorb a large share of the suburban-based labor force.

New York City exhibits the familiar dilemma of potential workers trapped in the core-city ghetto, unable to do white collar and skilled service work which is available. The impulse, which we see exhibited in the city, is to attack core-city unemployment by persuading industries to remain in, or move to, core city areas. I think this is largely wasted effort. Expanding industries locate outside congested core city areas for such good reasons as lower land prices, less congestion, lower taxes, and so on. If ghetto labor were a critical factor, they presumably would not locate in the suburbs in the first place. Anyway, employment in manufacturing production, what with automation and expanding productivity, is a slow-growth sector. The Department of Labor reports that growth of blue collar jobs was only about 300,000 in 1967 (a year in which overall employment reached a new high and unemployment was low) and that nearly all these jobs were in categories requiring relatively high skills. Future trends are suggested by the National Planning Association's projections of manpower requirements for 1975, shown by the following table (p. 12).

TABLE 1.—MANPOWER REQUIREMENTS FOR NATIONAL OBJECTIVES IN THE 1970'S

Employment category[1]	Employment 1964		Projected employment increase[2] 1964–75		
	Percentage distribution		Percent total increase		Number jobs (millions)
	White	Nonwhite	White	Nonwhite	
White collar workers	47	19	63	36	10.8
Professional and technical	13	7	23	11	3.9
Managers, officials, and proprietors	12	3	12	4	2.0
Clerical	16	8	24	18	4.2
Sales	7	2	4	4	.8
Blue collar workers	36	40	20	36	4.0
Craftsmen, foremen	14	7	9	15	1.7
Operatives	18	20	7	18	1.6
Laborers	4	13	3	4	.6
Service workers	11	32	17	29	3.5
Household	2	13	2	8	.5
Other	9	19	15	21	3.1

[1] Farm employment not included; declines between 1964 and 1975 are projected for both white and nonwhite.
[2] Figures may not add to totals because of rounding.

Reference: Leonard Lecht, "Manpower Requirements for National Objectives in the 1970's," a study prepared for the U.S. Department of Labor by the National Planning Association, 1968, p. 70.

While the projections are highly tentative and depend in part on the types of national policies pursued in the interim, certain aspects have a significant bearing on training and job policies.

1. The proportions of incremental employment in white collar occupations, for both white and nonwhite, are much greater than proportions existing in 1964.
2. Within the white collar category the greatest increases, for both white and nonwhite, are in clerical and professional-technical subcategories. The occupations of managers, officials and proprietors show little change, relatively, and the sales category shows a relative decline.
3. The blue collar category declines relatively for white and for nonwhite, though blue collar employment is projected to pick up about the same total number of nonwhite workers as is white collar employment.
4. Within the blue collar categories the significant increase for nonwhite is in craftsmen and foremen; there is a small increase in the operatives subcategory but a sharp decline in the labor subcategory, which will account for only 4 percent of incremental nonwhite employment. Nearly a third of nonwhite incremental employment is projected to be in services, 8 percent in household and 21 percent in other.

In absolute numbers white collar employment will supply 2.6 times as many new jobs as blue collar employment; the categories of professional and technical and clerical each account for nearly as many jobs as all the blue collar categories put together.

The New York Human Resources Administration now projects a need for 100,000 training slots a year for 10 years to (1) equip dropouts and other hard-core unemployed for entering jobs, and (2) retool the New York labor force to meet emerging needs and to increase its productivity. This is compared with the present 13,000 slots, many (perhaps the majority) of which are doing a far less than adequate job. Even if the projected needs are cut in half, there is still a great discrepancy. The projection also assumes that, as if by magic, the city's educational system—public schools, vocational schools, community colleges and the universities—will do an adequate job with the future generation.

In summary, there are many jobs and many people needing jobs. The first priority is equipping the people to handle the jobs, after which we can worry about whether there will be enough jobs available in the long run. Certainly this is an important question. Yet the bugaboo of automation and the computer taking over society's useful work has been abating. Owing to the fact that reliable accounts of job vacancies have never been developed, we do not know whether the number of people potentially available exceeds the number of jobs available, or vice versa. But such information, however desirable, is not absolutely necessary for doing a better job of equipping available workers for existing jobs and tailoring existing jobs to the capacities of available workers. If ghetto people continue to be kept out of the mainstream by a wall of institutional and cultural obstacles, they will be increasingly frustrated.

At the moment, I am not much encouraged. Yet I think there are, here and there, isolated experiments which offer hope of success. We are not utterly without resources; the question is whether we can take advantage of them.

Representative GRIFFITHS. Thank you very much, Mr. Fitch.

Mr. Lesser?

STATEMENT OF LEONARD LESSER, GENERAL COUNSEL, INDUSTRIAL UNION DEPARTMENT, AFL-CIO

Mr. LESSER. Thank you, Madam Chairman.

I have submitted a paper. Rather than read it, I will discuss it briefly.

Representative GRIFFITHS. We will put the paper in the record.

Mr. LESSER. I think in order to consider the subject of today's discussion, which is labeled income maintenance, it is necessary that we first have an understanding of what we are talking about when we talk about income maintenance programs. Are we talking about a single system which will solve all our problems, either a radical reform of our welfare system, or a new concept such as a guaranteed income, a negative income tax, or some other single-shot solution to meet all of the problems of maintaining an adequate income for all Americans? Are we talking about a panacea-like solution that will either replace existing governmental measures which are aimed at maintaining income such as minimum wage, social security programs, or existing welfare programs, or if not replacing them, at least eliminating the need for further improvements because this new system is going to be so much better in its operation? As I point out in my statement, it seems to me that the concept of any single device which is comprehensive enough to meet all of the problems of income maintenance is quite deceptive. I do not believe there is any such single device which really will be acceptable, either to the Congress or really, to the American people. I think this is borne out, if we examine those persons who are receiving, or who should be receiving or who are likely to receive, some forms of income maintenance payments. Such an examination reveals a wide spectrum of needs resulting from a variety of situations. As I point out, first there are those who want to work, but for whom there are no jobs. There are those who can and do work but whose income from work is inadequate. Low wages account for their substandard conditions. Others in the labor force have had their income interrupted because of the hazards of unemployment, illness, or injury.

Secondly, we have a whole major group of persons who have worked, who have been in the labor force, who are now out of the labor market because they have retired because of age, or who have not yet reached retirement age but have become disabled. Disability has removed them from the labor market.

Finally, there is a group who are not physically able to work or mentally not able to work and for that reason have not been in the labor market or have not been real participants for any period of time. There are others who may be physically able to work but who should not work because of family responsibilities, such as mothers with school age children. As I indicate, it is our opinion that this last group should not be expected to be active participants in the work force, although we recognize that the recent action by the Congress in enacting the welfare amendments indicate a contrary view.

Another aspect of the problem is that while income alone can assist many in raising their living standards and providing necessities for themselves and their families, there is a wide range of supportive services which many citizens need. Job counseling, guidance training, education are but a few of such services which are fundamental if we are to be successful in meeting the needs and enabling all people, particularly poorer people, to become full-fledged members of our society.

It is because of these varying conditions that I believe that much of the emphasis which takes place in most discussions of income maintenance programs has too narrow a focus. I think to a great extent this was evidenced by the discussions before this subcommittee over the past couple of weeks which have centered on the welfare system, what to do about reforming the welfare system or what to do about replacing the welfare system.

While I believe there has to be and there will be either a welfare system or some final system, whether it is a welfare system, a negative income tax, or some new system which will sort of be a catchall to assure a basic minimum income, it is important to understand that the cost of any such system depends on, and can and should be reduced by, other measures which must be taken. These include: a program to provide adequately paid jobs to all who can and should work; an adequate system of replacement income through the proven mechanism of social insurance for those who are no longer able to work; an adequate network of educational and health measures. I would also emphasize adequate legal protection for those who are vulnerable to discrimination and exploitation.

As I point out in my paper, it is our opinion that the highest priority on this agenda of social action should be a commitment by our Government to a full employment economy with adequate rates of growth and the creation of jobs by Government whenever necessary to achieve that goal. There should be an assurance by Government of jobs for people at decent rates of pay.

I emphasize decent rates of pay because an examination of the persons in poverty indicate that about a quarter are persons in families where the head of the family works full time, all year round, but the job still leaves the family in poverty. A total of one and a half million men under age 65 work the year round and in their families are 8 million persons. In addition, there are some 300,000 women, also under the age of 65, who have worked from 50 to 52 weeks a year on a full-week schedule, but because of inadequate wages they and their families have not been able to rise above the poverty line.

Of course, there are also in the working group people who do not have the opportunity to work full time and their poverty is due both to a combination of lack of work for part of the year and inadequate wages.

Even with the increase in minimum wages resulting from the recent legislation, many of these workers will still remain poor. As I point out, it is our view that broader coverage and higher standards of minimum wage are necessary and would be productive in reducing the burden of income maintenance programs. We do not accept the notion that the Federal minimum wage will, in the overall, curtail employment opportunities. While admittedly, higher wages have an impact on costs from the employer's standpoint, when he determines the price of goods, minimum wages also have a major impact not only on the income of the workers involved, but on sustaining the health of the economy through boosts in purchasing power and additions to demand.

I think another area which needs attention, which I referred to briefly, is the whole question of racial discrimination. Many people are poor, who want to work but who cannot get jobs because of racial discrimination. As I point out, I believe that the answer to discrimination is not guaranteed income programs. Guaranteed income programs should not be expected to meet income loss due to racial discrimination. The answer to discrimination is a stronger effort to eliminate discrimination in employment I think that recent cuts in the budget of the Equal Employment Opportunity Commission and the failure of the Congress to give the staff of the Employment Opportunity Commission adequate enforcement powers are unfortunate.

Representative GRIFFITHS. I could not agree with you more.

Mr. LESSER. Thank you.

As I say, at the core of providing jobs for people is the concept of the Government as the employer of last resort, the Government assuring employment opportunities to all workers.

I refer to the report of the National Commission on Technology, Automation, and Economic Progress and their recommendations; the Public Welfare Advisory Commission on which I served made similar recommendations, and almost every commission that has studied the problem has come up with similar recommendations. In this connection, I would like to point out that the recent jobs program, the manpower program currently being sponsored by the Labor Department, is not an alternative to public service employment. Under this program, as you know, industry is being assisted by amounts estimated at about $3,500 per employee to hire the hard-core unemployed. Of course, it is not a substitute, since it is really not creating jobs in the sense of providing new jobs. Basically, it is a program under which industry is being subsidized in training for jobs which frequently are entry-level jobs, where neither extensive skill nor training are required to perform efficiently. In this connection, I would like to refer to the testimony of Mr. Middlekauf of the Ford Motor Co. before the Senate Labor Subcommittee on Employment, Manpower, and Poverty. He discussed the Ford Motor Co.'s Detroit inner city hiring program where they took some 5,000 hard-core people. In response to a specific question by Senator Javits as to whether financial reimbursement was really required, Mr. Middlekauf pointed out, and I am quoting here from the Daily Labor Report of May 15, which contains excerpts from the testimony: "There is no basis," the Ford representative said, "for finding any extraordinary training costs for the Ford experience in the Detroit inner city program. Federal reimbursement has been nonexistent and unnecessary here, with limited-skill-type training involved in preparing applicants for entry-level production line work in Ford's plants."

I mention the $3,500 because the figure of $3,500 per worker is not much different from the annual worker course contemplated under H.R. 12280, which was introduced primarily by Congressman O'Hara and some 80 other persons, under which program the Government would finance employment for roughly 1 million workers primarily at the State and local levels.

I do refer and I make the same point that Mr. Fitch made; that we cannot really dismiss the concept of public service employment on the grounds that we will not have sufficient work in this country for persons. We know, and this committee knows, the amount of needed work which must be done in the health field, the education field, which could be done if somebody were to create and assure financing for these jobs.

In addition to jobs, as I point out, which we believe is first and foremost, we must have a broad strengthening of our social insurance systems to maintain income for those whose earnings from work are interrupted or ended because of retirement, unemployment, disability, et cetera. As I point out, this includes both a strengthened unemployment compensation system, with Federal standards, as well as adequate social security for old-age and related benefits.

Finally, we must recognize that even with a jobs program and with a strong social insurance system, we will need a catchall program to maintain or assure income. There must be such a program of income assistance for those who will not be protected by jobs and social insurance methods. But that income assistance, no matter what its form, should not be expected to and must not be shaped to, make up deficiencies in either job opportunities or earning levels. It cannot be a substitute for a decent job at fair wages. It must not be used to subsidize marginal employers, nor should it be expected to bail out a deficient social insurance system. Rather, it should be designed to provide with dignity the basic minimum need of those who cannot or should not participate as active members of the work force.

In conclusion, it is our opinion that a basic series of programs of income maintenance which rely on all of these measures rather than on any single tool will accomplish the goal we are seeking to achieve with minimal adverse effect on work incentives, labor mobility, and a smooth-functioning labor market.

If I may, Madam Chairman, I would like to submit for the record two resolutions that were passed at the recent convention of the industrial union department, one on income maintenance and one on jobs. The second one I submit because it ties into the whole concept of income maintenance that I have outlined.

Representative GRIFFITHS. We will be pleased to put them in the record.

Thank you very much, Mr. Lesser.

(The prepared statement of Mr. Lesser follows; also, the resolutions referred to:)

PREPARED STATEMENT OF LEONARD LESSER

Madam Chairman, my name is Leonard Lesser. I am General Counsel of the Industrial Union Department, AFL–CIO.

Too many discussions of income maintenance are marked by suggestions which promise a panacea-like solution to the complex issue of how to assure an adequate income to all. It seems to me that the concept that any single device is comprehensive enough in its reach, sufficient in its effect and a socially acceptable device for all who need help as to meet the myriad aspects of income maintenance is illusory and deceptive. From my own experience in dealing with questions of income maintenance, I am deeply convinced that a pluralistic approach is essential.

A look at those persons who receive or should be receiving what is considered some form of income maintenance payments reveals immediately a wide spectrum of needs and situations involved.

Briefly, there are those who want to work but for whom there are no jobs. There are those who can and do work but whose income from work is inadequate. Low wages account for their substandard conditions. Others in the labor force have had their income interrupted because of the hazards of unemployment, illness, or injury.

Another major group is the older persons who have worked but who are now out of the labor market because they have reached the age of retirement. Others have not yet reached retirement age but have been forced to withdraw from the labor market because of total disability.

Finally, there are many others, some who are not mentally or physically able to work and for that reason have not been participants in the labor market, some who are physically able to work but who should not work because of family responsibilities or other factors.

Because of our system of values and social policies, this last group should not be expected to be active participants in the workforce to the neglect of children and other relatives. It should be noted, however, that the action by the Congress in enacting the 1967 welfare amendments indicates another view.

Another major aspect of income maintenance discussions which merits attention is that. while income alone can assist many in raising their living standards and providing necessities for themselves and their families, there is a wide range of supportive services which many citizens need. Such services must be provided so that recurring cycles of poverty can be ended and many forms of social breakdown can be alleviated or repaired. Job counseling, guidance, training, education, information on consumer economics, credit and installment purchases, health care, family planning, and a host of other social welfare services are fundamentals if we are to be successful in meeting the needs of many who have failed to become full-fledged members of our society.

Despite the varying conditions of the poor, the heavy emphasis of most income maintenance discussions, including those which have been held before this committee during the past two weeks, have centered on our current welfare system—its weaknesses and proposals for its reform. But as has been pointed out by many groups. including the Advisory Council on Public Welfare—of which I was a member—hardly one out of five persons who live in poverty today is being aided by public assistance programs financed through the Federal-State program. It is therefore essential that we broaden our view and consider a wide range of programs to meet the problems. When speaking of the poor and those in need of income assistance, we must be aware of the plight of many of the others who are trapped in poverty.

While there may still have to be a final catch-all program to assure a minimum income level, much of the cost of an adequate program of basic guarantees against poverty and social deprivation can and should be reduced by measures to assure adequately paid jobs to all who can and should work, an adequate system of replacement income through the proven mechanism of social insurance for those no longer able to work, an adequate network of educational and health measures, and adequate legal protections for those vulnerable to discrimination and exploitation.

This viewpoint leads me to emphasize the need to strengthen our entire system of social insurance so that workers and their dependents can maintain a decent living standard if the breadwinner's earnings are interrupted. Certainly, if the interruption is caused by an economic slowdown, or insufficient economic growth, or failure to achieve full employment, there will be severe repercussions for millions of workers. Federal standards to assure adequate unemployment compensation benefits for a sufficient period of time would cushion the blow.

To the extent that we are successful in this nation in achieving full employment, adequate economic growth and price stability, the burdens on our income maintenance system will be less severe. Committing our government to a full employment economy with adequate rates of economic growth so that the currently under-employed, new entries into the labor force, and those displaced by technological programs will have job opportunities at decent rates of pay should get highest priority in our agenda of social action.

I emphasize decent rates of pay because a major portion of the persons who are in poverty are there because the heads of those families are forced to accept jobs with poverty wage scales.

Although a total of 1.5 million men under 65 years of age work the year-round on a full work week schedule, their families are still in poverty. The families of these workers comprise eight million persons, approximately one out of every four of those caught in poverty's web. Over 300,000 women, also under age 65, worked 50–52 weeks during the year on a full work schedule but because of inadequate wages they and their families could not rise above the poverty line.

The working poor also include an additional one and a half million heads of families who work substantial portions of the year but not the full year, and here a combination of inadequate wages and lack of steady work spelled annual income below the poverty threshold.

Even with the increase in minimum wages resulting from recent legislation, many of these workers will remain poor. Substantial portions of these workers are employed in trades and occupations not covered by minimum wage legislation.

An environment of full employment would certainly aid in raising wages throughout the economy and be a major help to those poor who participated actively as workers and to the hundreds of thousands of others who were poor because they did not work at all.

Quite explicit in the above is the concept that broader coverage and higher standards of minimum wage legislation would be productive in reducing the burdens of income maintenance programs. We do not accept the notion that the Federal minimum wage curtails employment opportunities. While admittedly higher wages have an impact on cost from an employer's standpoint when he determines the price of goods, minimum wages also have a major impact not only on the income of the workers involved but on sustaining the health of the economy. Boosts in purchasing power by adding substantially to demand act as a stimulant of employment. This aspect of minimum wage legislation is too frequently lost sight of.

To the extent that guaranteed income programs are expected to meet income loss due to racial discrimination, they are being asked to do too much and will be burdened and stigmatized with too great a cost. The answer to discrimination is not income. Federal measures to eliminate discrimination in employment are potentially far more effective. Recent cuts in the budget of the Equal Employment Opportunity Commission and failure of Congress to give to the EEOC adequate enforcement powers are deplorable.

The failure, however, to assure jobs to all persons is not, however, a problem which can be met solely by eliminating discrimination.

I would strongly urge that the concept of assuring employment opportunities to all workers be made an integral part of national policy. The report of the National Commission on Technology, Automation and Economic Progress pointed out cogently that a substantial number of programs have already been instituted by the Federal government that recognize the important principle "that employing the unemployed is, in an important sense, almost costless. The unemployed consume, they do not produce. To provide them meaningful jobs increases not only their income but that of society."

Such a program of guaranteeing jobs has many functions. First, it could aid in providing services so urgently needed in key public service areas which are desperately short of manpower. Second, in combination with training, education and counseling, it could offer training opportunities for workers who for various reasons come to the labor market with lack of skills while simultaneously performing useful jobs.

I would note that the JOB's program—the manpower program currently being sponsored by the Labor Department—is not an alternative to public service employment. Under this program industry is being assisted by amounts estimated at about $3,500 per employee to hire the hard core unemployed. It is not a substitute since it is not really job creation in the sense of providing new jobs over and above those currently provided. Basically it is a program under which industry is being subsidized in training for jobs which frequently are entry level jobs where neither extensive skill nor training are required to perform efficiently. I mention this because the figure of $3,500 a year is not much different from the annual worker cost contemplated under the O'Hara bill, H.R. 12280, under which government would finance employment for one million workers primarily at the State and local level.

It seems to me that such government employment can in fact *create* jobs which are additional to the current total. They can be jobs on which wages paid will enable workers and their families to live decently, to live at least above the poverty level. And of primary importance, they can be jobs which offer promotion opportunities so the outlook can be far brighter and broader than typically is associated with a dead-end post.

Nor should we be timid about the needs for manpower in a society as dynamic, complex and expanding as is ours.

The concept of public service employment is too frequently dismissed as a make-work scheme designed solely to keep idle hands busy. This notion ignores the current needs and the future goals of America.

One well known study by the National Planning Association (Goals, Priorities and Dollars: The Next Decade, 1966) was examined from the point of view of the manpower required. In the words of a special study prepared for the Department of Labor, it was found that if we as a nation are indeed to achieve the goals set forth, then "* * * more manpower would be needed than is anticipated will be available in 1975 * * *. Full achievement of the 16 goals in 1975 would require an employed civilian labor force of more than 100 million—over 10 million above the expected civilian labor force at full employment. Accordingly, so long as the pursuit of goals such as these represent the objectives of the nation in the coming decade, the problem for the economy is likely to be an insufficiency rather than a surplus of manpower."

Finally, on the issue of government support for a jobs program, I would also add that government employment in a broad range of public sector areas can also provide a viaduct to comparable private employment as demand grows in that sector of the economy.

Our basic philosophy on income maintenance and its relationship to the labor market, as my remarks have emphasized, focuses first and foremost on jobs for all who are able, willing and available for work. This must be our first priority to guarantee adequate income to the vast majority of our labor force. It requires full and meaningful commitment to the principles set forth in the Employment Act of 1946, which mandated that government promote maximum production and employment.

To maintain income for those whose earnings from work are interrupted or ended because of retirement, a strengthened national program of social insurance is needed.

We must recognize, however, that a jobs program and stronger social insurance will not assure income to all. There must be a program of income assistance for those who will not be protected by the jobs and social insurance measures. But that income assistance, no matter what its form, should not be expected to and must not be shaped to make up deficiencies in either job opportunities or earning levels. It cannot be a substitute for a decent job at fair wages. It must not be used to subsidize marginal employers. It cannot be used to bail out a deficient social insurance program. Rather, it should be designed to provide with dignity the basic minimum needs of those who cannot or should not participate as active members of the workforce.

A basic program of income maintenance which relies on all of these measures rather than on any single tool will accomplish the goal with minimal adverse impact on work incentives, labor mobility and a smooth functioning labor market.

RESOLUTION ON JOBS

Among the paramount needs which challenge our Nation today, reducing the ranks of the unemployed and underemployed and strengthening many areas of public service, such as health, education and improving the environment, are among those which have the highest priority. Recognition of this view has been underscored in a series of reports on social problems issued during the last three years by commissions composed of a broad cross-section of outstanding Americans.

After study and review of our most pressing social deficits, these commissions have strongly recommended that the Federal Government finance job opportunities in the public sector. When private business and industry, which are the source for the vast majority of jobs, do not or cannot offer employment to all who seek work, these commissions recommended that the Government be prepared to take up the slack.

Despite sharp improvement in employment since 1963, on the average about 3 million workers are completely without work. Close to 2 million more are unable to secure other than part-time jobs, though available for fulltime work.

But these are only the persons who show up in the official monthly surveys of the labor force. Besides these groups, the Department of Labor has found, in a series of special investigations, that as high as one out of three of the hundreds of thousands of residents in our urban ghettos either has no job at all or is working at a miserably low-paying job, or is working only part-time. In each case, his income is so marginal that he and his family are mired in poverty.

Clearly, many of the governmental programs designed to reach the hard-core and others of the unemployed have failed to provide work for those who need it most.

The frightening consequences of the tensions and despair to which persistent unemployment has contributed demand aggressive and effective action by the Federal Government. While we permit our manpower resources to be seriously under-utilized, we are faced with shortages in many areas where the Government has the sole or major responsibility.

Early in 1966, the President's Commission on Automation (The National Commission on Technology, Automation and Economic Progress) called upon the Government to begin a program which has become known as "the Government as the employer of last resort." The Automation Commission identified some 5 million jobs that needed doing. Some were in the public sector solely—education, conservation, recreation. Others were in areas where non-profit private organizations and the public have joint responsibility—hospitals, health and social welfare.

The Commission members shaped their recommendations to embody two purposes: (1) to help satisfy the demand for desperately needed manpower; (2) to incorporate in the program, where necessary, the supportive services of training, education and guidance. Such programs would provide the persons employed an opportunity to improve their basic skills and ability. The qualifications so gained would help make those who stayed in the public service more productive. And it would mean that others would shift more readily to available jobs in the private sector.

The Commission recommendations were widely discussed, and served as a basis for recommendations of a similar nature by many other prestigious groups. Among the most important which endorsed strongly the concept of the government financing job opportunities for those who could not find work were:

The Advisory Council on Public Welfare.
The White House Conference on Civil Rights.
The National Commission on Crime.
The Food and Fiber Commission.
The Urban Coalition.

Last year some eighty congressmen, following the lead of Representative James O'Hara, of Michigan, co-sponsored a bill which called for the underwriting by the Federal Government of one million jobs, primarily in State and local agencies. Recently, Senator Joseph Clark, of Pennsylvania, introduced a bill to provide jobs for 2,400,000 hard-core unemployed during the next four years. But, despite the widespread approval of the form and substance of the program, it still has not been enacted.

The tensions which pervade our ghettos, the unmet needs in so many social areas, the persistence of idle manpower, are the ingredients of a crisis which many have called the most serious since the days of the Civil War.

The President's Manpower Message laid primary stress on a Government subsidized-private enterprise effort to expand job opportunities. Such an effort can indeed reduce the overall dimensions of the problem of those who need and want jobs but are unable to find them. However, the scope of the private program in the President's Message is not nearly adequate to create the number and types of jobs so that sufficient work opportunities will be assured for the unemployed. Nor has appropriate attention been directed, so far, to such important aspects of the program, as safeguarding current work standards. The establishment of a private program cannot be a substitute for a job program in the public sector.

This was made abundantly clear in the just released report of the National Advisory Commission on Civil Disorders. After a detailed review of the factors which have contributed to our urban riots, the National Commission recommended that the Federal Government "take immediate action to create two million new jobs over the next three years—one million in the public sector and one million in the private sector—to absorb the hard-core unemployed and materially reduce the level of underemployment for all workers * * *."

That recommendation for the private sector is double the size contemplated by present Administration plans. It adds the essential element of the Government's stepping into the employment picture in a massive effort to help solve our most pressing employment needs.

Employment through the Government of persons who can make meaningful and productive contributions to meeting our Nation's needs and achieving for themselves some measure of dignity and decency cannot be postponed: Now therefore be it

Resolved: The IUD calls upon Congress and the executive branch of Government to initiate forthrightly an employment program patterned along the lines of the O'Hara bill, the Clark bill, and the recommendations of the Civil Disorders Commission.

RESOLUTION ON INCOME MAINTENANCE

We are falling further behind in meeting the needs of those most in want. Despite the fact that our Nation is the richest the world has ever known, we are failing to ensure a decent, adequate income for all our citizens. We do not have an adequate, comprehensive program of income maintenance for the millions of Americans who live in poverty.

Under conditions of high employment there are still millions of workers consigned to poverty, even though they work full time year round, because of miserably low wage rates.

The increase in the minimum wage this year from $1.40 to $1.60 for some 7.2 million workers still left them in abject poverty with a potential annual income of only $3.200. Another group of more than nine million workers—primarily farm workers and workers in service industries—received a minimum wage increase of 15 cents an hour—from $1.00 to $1.15 an hour, which left their annual wage at $2,300, below the poverty line.

For those who work and whose income is interrupted because of unemployment, disability, retirement or other economic causes, our social insurance system fails to provide sufficient protection against their income loss.

Congress has failed to meet the problems of the elderly and other beneficiaries under the Social Security Act when it adopted insufficient increases in benefits last year.

The lifting of the minimum from $44 to $55 and the provisions for a 13 percent increase in benefits fall far short of what is needed to raise the elderly out of poverty to decent and dignified standards. The benefits provided represent an inadequate 4 percent increase in terms of purchasing power over benefits paid in 1954.

The level of benefits for our unemployed also fails to afford minimum standards of decency and self-respect to the millions of Americans for whom the benefits are either the sole or major source of income.

There are additional millions of Americans who are unable to work productively or whose family circumstances are such that further supplementation of their financial resources is imperative. Our public welfare program was designed to meet the problems faced by these needy Americans. But that welfare program is seriously inadequate and falls far short of meeting the needs of those who unfortunately depend upon it.

The money we are spending on public welfare is a smaller percentage of our gross national product than it was a quarter of a century ago.

There are over seven million people receiving public assistance. More than three million are children, over two million are older people, and well over a million are blind or disabled, and about one million adults are parents of children covered under Aid to Dependent Children.

Thus, the people on public welfare are the very old, the very young, the sick and disabled, and destitute mothers of children.

Last year a conservative Congress enacted repressive welfare program amendments which placed a freeze on Federal money available for aid to dependent children, imposed rigid work requirements for mothers on welfare, tightened the "man in the house" rule, and shifted the financing burden to local governments which often enact even harsher welfare restrictions.

To overcome these many deficiencies in our various systems of income maintenance, many have advocated a number of new proposals. Such proposals have been designed to eliminate the current restrictive and degrading aspects of our welfare program, established in the midst of depression conditions as a temporary stop-gap measure. Those programs have not been revamped to meet the sharply altered problems of the needy. Radical restructuring of the administration of the welfare system has been unconscionably delayed. Unless major basic revisions are made to transform the system into one which respects the dignity of the individual and recognizes his fundamental right to be assured a minimum standard, proposals like the negative income tax, children's allowances, and various forms of guaranteed income will have to be given serious attention. But any single one of them should not be regarded as a panacea capable of supplanting the broad range of minimum wage, social welfare, social insurance, and other income maintenance programs.

Our goal is income sufficient to achieve a decent standard of living—not the bare subsistence level of the completely inadequate $3,200 benchmark now in use: Now therefore be it

Resolved: 1. That the Industrial Union Department support legislation broadly extending the minimum wage act to cover millions of currently unprotected workers and raising the minimum wage to at least $2.00 an hour, and

2. That the IUD urge legislation to raise the minimum monthly benefits under Social Security to at least $100 for disabled or retired workers and provide benefit increases of at least 50 percent for all other workers covered by the system, and that adequate benefit levels, once established, be kept current in relation to rising prices and real wages;

3. That the IUD urge legislation which would allow a contribution from general revenues of at least one-third of the total cost for the Social Security System, to bolster and strength the resources from which to finance the long-overdue improvements outlined above;

4. That the IUD urge the Congress to enact a program of minimum Federal unemployment compensation standards to eliminate restrictive eligibility standards and assure adequate benefits for a sufficient period of time;

5. That the IUD endorse and support recommendations to improve public welfare submitted in 1966 by the Advisory Council of Public Welfare, which include:

> A minimum standard for public assistance payments below which no State may fall;
>
> A nationwide, comprehensive program of public assistance based upon a single criterion—need;
>
> A uniform and simple plan for Federal-State financial sharing in cost of all public welfare programs;
>
> Prompt extension of coverage and liberalization of benefits under the social insurance programs;
>
> Strengthening and extending social services through public welfare programs readily accessible as a matter of right to all who need them;
>
> Administration of all welfare programs receiving Federal funds consistent with the principle of public welfare as a right.

6. That the IUD support legislation introduced by Democratic Senators Fred R. Harris (Okla.) and Robert F. Kennedy (N.Y.) to repeal the restrictive amendments imposed on the welfare program;

7. That the IUD support the continued exploration of alternative programs that would equitably provide a sound income maintenance program which could be integrated appropriately into our overall basic social welfare and income maintenance systems.

Representative GRIFFITHS. Mr. Rees?

STATEMENT OF ALBERT REES, PROFESSOR, DEPARTMENT OF ECONOMICS, PRINCETON UNIVERSITY

Mr. REES. Thank you, Madam Chairman.

Until recently, economists have paid little attention to the effects of public assistance programs on the labor market. Now, under the stimulus given by such distinguished economists as Milton Friedman, Robert Lampman, and James Tobin, the neglect is being remedied and we are distressed by what we find. The findings suggest that public assistance has severe perverse effects on work incentives. In my judgment, assistance programs should either be substantially changed or should be replaced with a wholly new Federal program of income maintenance.

The middle-class observer sees unfilled jobs requiring low skills and at the same time sees growing caseloads in welfare programs. He may conclude, sometimes with much feeling, that the poor are lazy, lack work discipline, and are being spoiled by levels of welfare benefits that are too high. Those who reach such conclusions seek to cut benefit levels and arbitrarily to restrict caseloads, a mood that was reflected in the so-called "freeze" provisions of the Social Security Act Amendments of 1967.

The conclusion that welfare programs inhibit work effort is correct, but the reason is emphatically not that benefit levels are too high. Rather it is that the welfare recipient in effect has had to choose between working and receiving benefits, since there has been no incentive to take any work at all unless it paid more per month than the welfare benefit level. It is important to note that other income maintenance programs do not confront beneficiaries with this all-or-nothing choice. A person between the ages of 65 and 72 can earn up to $125 a month and still receive full old-age insurance benefits; he can earn an additional $100 a month and his benefits will be reduced by only half that amount.

Another way of putting the problem is to note that welfare has in most cases, and this is parallel to what Mr. Fitch said a moment ago, imposed a 100-percent tax rate on earned income by reducing benefits a dollar for every dollar earned. This tax will soon be abated for recipients of aid to families of dependent children (AFDC) by one of the desirable provisions of the Social Security Act Amendments of 1967. When these are in effect, the first $30 a month of earned income can be kept, and so can one-third of additional earnings. I make the same point that Mr. Fitch did, that the marginal tax rate on earned income after these amendments are in effect will still be higher than it is for most of the very rich.

We are often told that mothers on AFDC typically cannot work because they are needed to take care of their children. Those who tell us this may not be aware of the extent to which mothers work in our economy in general. In 1965, 23 percent of married women with children under 6 were in the labor force. For married women with children whose children were all 6 or older, the labor force participation rate was 43 percent. Those figures are for all races combined. If we look just at Negro women, the figures are much higher.

In 1960, the labor force participation rate of separated and divorced urban women aged 25 to 54—with and without children—was 88 percent; this is a category in which many AFDC mothers fall. Finally, there is clear evidence that the labor force participation of married women in 1960 was reduced more by being on welfare than by receiving other types of unearned income.[1]

Representative Griffiths. I would like to thank you for mentioning this, because there are 200 million Americans and up to this time, I thought I was the only person who had ever figured this out.

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[1] These results are drawn from a forthcoming book by my colleagues William G. Browen and T. A. Finegan. I am indebted to them for permission to draw on their work.

Mr. Rees. I assure you, you are not, Madam Chairman.

Now, given the high labor force participation of mothers in general, what is so special about mothers on welfare? There are several answers—including the lack of earnings incentives, the low skills of most welfare mothers, and discrimination against Negroes and Spanish Americans. One of these answers is that the caseworker, rather than the welfare mother, may decide whether the mother is needed at home. The decision may also turn heavily—probably too heavily—on the availability of organized day-care centers, as opposed to informal child-care arrangements.

The Social Security Act Amendments of 1967 further enhance the power of caseworkers to decide whether mothers should work by providing that mothers who refuse work or training shall be denied benefits. If adequate incentives were present in the AFDC program, I submit the decision whether to work could safely be entrusted to the mother herself.

Let me hasten to add that I do not favor child neglect or oppose day-care centers. But I do not see why society should enforce higher standards of child care for welfare mothers than for self-supporting waitresses or beauticians, whose arrangements for child care are a matter of public concern only when they are flagrantly inadequate. We do not really believe that waitresses are by and large better mothers—we simply do not have a set of institutions that scrutinizes their behavior so closely.

Existing public assistance programs also have perverse effects on the mobility of labor. They induce families to move to places where welfare benefits are high or to places where it is relatively easy to get on welfare, even though these places may already have a very high unemployment rate for unskilled workers. The movement of labor toward job opportunities is, of course, desirable and should be encouraged, but no such case can be made for movement induced by public assistance. Those who are not likely to become self-supporting can best be supported among their friends and where living costs are low. The solution of this problem requires a larger Federal Government role in public assistance, such as a minimum level of public assistance benefits applicable to all States.

Let me now turn to broader issues. A family whose income comes entirely from an income-maintenance program, whether it is a welfare program or an insurance program, is a deadweight burden on the rest of the economy. If there are no compelling social reasons why members of that family cannot do some work—even part-time or occasional work—they should be encouraged to take employment. By becoming even partially self-supporting, they can increase the national output, reduce the burden of their support on others, and at the same time improve their standard of living. In this way, families on public assistance can also gain increased dignity and self-respect, and lessen their sense of dependence on others. Through work experience, and perhaps on-the-job training, some of them can, in time, become fully self-supporting.

An income-maintenance program with adequate work incentives could be extended to help the millions of working poor not now helped by public assistance. The only present provisions of the law designed to help the working poor are the minimum wage provisions of the Fair Labor Standards Act and similar provisions of State laws. It is doubtful whether, on balance, these have had the intended effect. The difficulty with these provisions is that although they require employers to pay the minimum wage to the workers they employ, they cannot require employers to hire or retain workers who, in the employer's judgment, are not worth the minimum wage. The figures I have seen indicate that only about 8 million of the 30 million poor people are helped now by public assistance programs.

Mr. Lesser pointed out a moment ago that for those workers who remain employed under higher minimum wages, there is an increase in purchasing power. But that increase in purchasing power cannot offset the increase in the cost of employing the lower skilled workers, because all of that increasing cost falls directly on the employer who employs low-skilled workers, whereas the increase in purchasing power is diffused across the whole economy, including the purchase of capital-intensive products and the products of high-skilled workers who are not affected by the increase in the minimum wage.

The minimum wage has thus encouraged the substitution of capital and of higher quality labor for low-quality labor. This is no mere theoretical argument—there is a good deal of statistical evidence suggesting the presence of such effects. In particular, the recent relatively high unemployment rates of teenagers, of Negroes, and especially of Negro teenagers, despite the general tightness of labor markets, may in part be the result of the extension of minimum wage laws to industries that were large employers of such labor. A broad income-maintenance program with adequate work incentives would make further increases in minimum wages unnecessary. The amount of unskilled labor demanded would not be further restricted by periodic increases in the minimum wage. However, workers' incomes would be protected, and employers would still have to offer jobs that were sufficiently attractive to induce workers to supplement their unearned incomes by working.

I agree with Mr. Lesser that no single income-maintenance program is a panacea. Not all the problems of the working poor can be solved through an income-maintenance program. There are other important problems that would still urgently require independent solution—for example, the improvement of vocational training, the elimination of racial discrimination in employment, and the improvement of public transportation from the places where low-income people live to the places where they work—or should work—within metropolitan areas. However, I am convinced that a new approach to income maintenance is an important part of an overall solution.

Representative GRIFFITHS. Thank you very much, Mr. Rees.

Mr. Levitan?

STATEMENT OF SAR A. LEVITAN, CODIRECTOR, CENTER FOR MANPOWER POLICY STUDIES OF THE GEORGE WASHINGTON UNIVERSITY

Mr. LEVITAN. Permit me to apologize for my strange headgear. I am not using your subcommittee to promote a new fashion. It is the product of a bout I had with some surgeons.

To pick up the final point of Professor Rees, I fully agree with the need of providing a proper mix of services and income maintenance in aid of the poor. Since we are meeting today in the shadows of the solidarity march, it might be worth while to recall the demands of the Poor People's Campaign. Their demands covered housing, jobs, education, and many other things.

I was rather surprised that a group of economists, with unimpeachable liberal credentials, singled out the income-maintenance proposal of the Poor People's Campaign and ignored all the other demands. Some of the sponsors appeared before your subcommittee, Madam Chairman—Professors Lampman, Watts, and Tobin; two other sponsors were Samuelson and Galbraith.

I can see conservative economists, who believe that welfare programs which are intended to help the poor do more harm than good, would resort to income maintenance as the only form of assistance to the poor. It is more difficult to understand the thinking of the liberal economists who, singling out income maintenance, ignored all other forms of aid to the poor needed to help move them out of poverty. I suspect that, to a large extent, this emphasis on cash assistance is due to the fact that Professor Rees has just alluded to: Economists have paid very little attention to poverty and to the welfare system. Now that they have discovered that we have poor amongst us, they would "solve" the problem in a hurry and give the poor money.

I am afraid that the solution offered by the economists is part exhortation and part oversimplification. A realistic income program would cost more than society is willing at this stage to commit in and of the poor. A meaningful minimum cost of a negative income tax would be about $5 billion, although some are now pushing for a lower cost program at bargain prices.

The cost of a negative income tax would exhaust whatever additional expenditures we are likely to make in aid of the poor over the next few years. The issue is whether society would invest additional aid only for income maintenance or should it also expand other forms of aid. I submit that we should have a combination of income and expansion of services.

The Federal share is $15 of the first $18 paid to recipients of AFDC plus 50 to 65 percent of the monthly payment—between $18 and $32. The Federal Government should take over the responsibility for the AFDC payments and work toward a more acceptable income maintenance program.

At the same time, we should not ignore the wealth of experience we have gained during the last few years in helping the poor. While it is fashionable in some circles to condemn the antipoverty program and OEO efforts, I would submit that there are several important lessons we have learned from this experience. Certainly, a birth control program is a cost-effective antipoverty effort. For $100 million a year we can buy all the birth control we need to help the poor who want it and to whom it is acceptable in accordance with their religious and moral values and beliefs.

I would also submit that a child care, or Headstart program is necessary. Professor Rees suggests that mothers on relief should not be favored above waitresses, and I fully agree. But if we are to encourage mothers on relief to work and supplement their income, their preschool children should be provided proper surroundings and be given a chance to escape from becoming candidates for future welfare programs.

We must have a better school system which should start at age 3 rather than age 6. We have fought the battles of a free public school education over a century ago, and decided that we are going to have a free public school system. At that time, we decided on starting the public educational system at age 6. I think the experience of the last few years, including studies outside of the poverty program, suggest very strongly that education should start at age 3, at least for children from impoverished homes. Since World War II we have emphasized free higher education and have made it, if not universal, reasonably within reach of anyone who gets a respectable average in high school. But we have done very little to expand free education at the lower age level.

Even if we decide on providing income maintenance it is not clear that a universal program is best. The in-school Neighborhood Youth Corps provides income maintenance to kids who might leave school if they did not get these subsidies. There is considerable evidence showing that the subsidies paid to in-school NYC participants—about $15 a week—is enough of an incentive to keep them in school. I am not sure what they learn when they stay in school after age 16 but it is generally conceded that a high school diploma is a necessary credential for many jobs and that schools offer a more wholesome environment than streets.

The NYC experience shows that there are all sorts of ways for providing income maintenance. A guaranteed income though is appealing and does away with the bureaucrats, also costs billions of dollars, and part of the income maintenance will not be given to poor people. The welfare system must be improved before we can expect to provide a guaranteed income. As we improve income maintenance and essential services to the poor, the cost of a transition to a guaranteed income would become manageable. I do not think that we are ready for the change at this time.

The issue at this time is to provide a combination of income and services, including housing, job training, and job creation, in addition to the type of services I mentioned earlier. To say—as many are fond of saying—that we can do all these things and that in an economy of $800 billion, or whatever the latest figure is, we can spend $30 or $40 billion for the poor does not do any good. Nobody takes that very seriously. It is nice for exhortation and for Solidarity Day speeches. We have other priorities and needs that we have to consider. What is needed, I would suggest, is to increase the welfare expenditures, but at the same time to judiciously divide the increments—and nobody can be against dividing something judiciously--between income maintenance and the various services that are offered now under OEO community action programs; the various Labor Department, HEW, and OEO job training and job creation programs; and also some forms of subsidies for housing to offer ghetto residents an opportunity to escape to a better environment.

Thank you.

(The prepared statement of Mr. Levitan follows:)

PREPARED STATEMENT OF SAR A. LEVITAN

The rediscovery of poverty in the United States has focused attention on public assistance. The program has been found wanting and has been attacked not only by traditional foes of the welfare state who are disturbed by the ever increasing costs but also by liberals. In a recent volume on the welfare system, sponsored by the Industrial Relations Research Association, none of the academic contributors had a good word for public assistance programs and they found the program "niggardly", "capricious" and "anachronistic." Their views are typical of sympathetic observers of the welfare system.

THE NEGATIVE INCOME TAX PANACEA

The obvious solution offered by new antipoverty warriors has been to wipe the slate clean and to design a new income maintenance program. The most appealing approach to supplying income to the poor—the negative income tax—has been designed by economist Milton Friedman and had become the rallying cry for those who would reform the existing system. Friedman's proposal had the appeal of simplicity and presumed efficiency. The law which currently provides only for the collection of taxes would be extended to include grants based on family and individual income.

That the proposal appeals to liberals and conservatives alike may be baffling. Friedman proposed the scheme as a substitute for existing welfare programs. Convinced that many of these programs frequently work to the detriment of the poor, Friedman opted for supplying the poor with a minimum income and anticipated that they would exercise free market choice and maximize their welfare with their limited resources. Given Friedman's views about welfare legislation his proposed alternative appears logical and preferable to the present system.

It is rather surprising that liberal economists who do not share Friedman's biases and disdain for welfare programs have adopted his schemes to the exclusion of other forms of aid to the poor. As a reaction to the Poor People's March on Washington a group of economists with impeccable liberal credentials formally endorsed only the income maintenance program demanded by the poor people and ignored all other demands. A petition sponsored by the group to drum up support in favor of income guarantees was signed by 1,200 economists. Paul Samuelson, one of the sponsors, has drawn the inference that economists agree on the desirability of the negative income tax.

It is not clear what type of income support is envisioned by liberal supporters of the negative income tax. Few have proposed a rate schedule which will provide an income sufficient to lift the poor above the threshold of poverty. Concerned with the costs of a negative income tax and its impact upon the incentive of low-paid workers to seek gainful employment, the most frequent proposals are designed to guarantee about half of the income needed by the non-working poor. In a number of states the support provided by public assistance currently exceeds the income that would be paid under the new proposals. Obviously, since liberal proponents would not want to reduce the income support, they would probably opt for both systems in states where public assistance exceeds uniform negative income tax payments. There would also be a need to maintain some system to take care of emergencies. Inadequate and harsh as the present system is, it is geared to provide for the needy in emergency situations. Moreover, unlike the negative income tax plan, the public assistance system is geared to provide for difference in cost of living between rural and urban areas. It is, therefore, becoming increasingly clear that the "clean and efficient" negative income tax scheme is not a complete substitute for existing programs.

Well, I am afraid that any guess would be a horseback guess. But New York City people get approximately $30 to $35 billion of legitimate income every year. I would guess that possibly the illegitimate income would run to several billions.

Representative GRIFFITHS. I would think it would, too.

Would you not think that any proper count of the employed should count some of those people as full yemployed? They really are, are they not?

Mr. FITCH. Well, it depends on the purpose for which the figures are used, does it not? If you are asking how many jobs the New York economy should provide to keep people legitimately employed, then I think you would count the illegitimately employed as part of the labor force. After all, when we figure up the gross national product, we do not include the returns from illegitimate activity.

Representative GRIFFITHS. No, we do not, but the real truth is if you are going to offer some of those people a job, it is going to have to be a very attractive job to be better than what they are getting.

Mr. FITCH. Is it not a question, though, of whether you are going to provide sufficient incentives of all kinds, not just conventional income incentives, whether you are going to get people into a cultural and social mainstream which holds out attractions? After all, as a judge in the criminal court, you probably put away a lot of crooks. Presumably, they do not regard jail as a highly desirable form of spending time.

Representative GRIFFITHS. All the runners pay the fine. They just do not put you in jail.

Mr. FITCH. All right. I do not know where I am being led.

Representative GRIFFITHS. I would just think there would be some problem—I mean there is some difficulty, first, in who we count as employees. That is the first problem. Secondly, when we began seeking jobs for everybody, in some instances, the jobs, if they are going to be legal jobs, are going to have to be more attractive than we now admit to ourselves to get people engaged in them.

Mr. FITCH. That I would agree with.

Representative GRIFFITHS. Would you not say that is generally true?

Mr. FITCH Let me post another point. The people who make it big and who manage to stay out of jail and avoid trouble and don't get bumped off; I should guess that such people are fairly smart and that probably the legitimate world can afford to tempt them with competitive rates of pay. If they are that clever and intelligent, it is a matter of getting them into the right social milieu.

Representative GRIFFITHS. It would be really very fascinating to determine how much money a numbers runner made as compared to an Avon saleslady.

Mr. FITCH. Discounting all the disadvantages we have mentioned, of course.

Representative GRIFFITHS. Yes; right. What are the opportunities for worthwhile public service employment in New York? There are going to be none in the government after tomorrow—in the Federal Government—but in New York, maybe you are doing things differently.

Mr. FITCH. I am trying to interpret the question to myself. Do you mean how fast is public employment growing?

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Representative GRIFFITHS. Picking up; yes.

Mr. FITCH. It has been one of the principal growth industries in New York—State, particularly city, and to some extent, Federal service. But if you said how significant is this in providing for the present labor force in New York, well, I would say of relatively small significance, on the order of 10 percent, not on the order of 30 percent; certainly not on the order of 50 percent.

Representative GRIFFITHS. Would an open-end order of public service employment at minimum wage attract many people now in low-wage private industry, or many people who are not employed, do you think?

Mr. FITCH. I think that it would. It would attract a great many.

Representative GRIFFITHS. We had a gentleman from New York testify where another subcommittee of this committee on the need for separation of storm sewers from the regular sewers. He pointed out that it would cost about $100 billion throughout the United States and that it employs about 26 percent manual labor. Personally, I was ready to vote for it right then. I thought it would work out fine.

Mr. FITCH. I think I would agree with Mr. Lesser and everybody else who said there is all kinds of such work that badly needs doing and that much of it requires only a low skill. But I keep coming back to the point that impresses me, which is that the basic economy of a city—and this is also true of the other great regional and national capitals—the basic economy essentially rests on office industries, fortified by the industries which serve the office industries.

We are not producing the labor force to man that office industry. Today, you cannot get a stenographer or secretary, you cannot get a typist, you cannot get a bookkeeper without doing a great deal of looking and paying a great deal of money for limited competence. In the New York south Bronx CEP training program, you can get 16 weeks training—that is all. In that time, you can train a typist to type from 10 to 20 words a minute after supplying remedial preparatory training. This is below the entry requirements of most employers. You can give a kid enough training in automobile mechanics to become a filling station helper. You cannot train him to be an automobile mechanic. You cannot train him to be an appliance serviceman in that period of time when you consider the basic things you have to do with him.

Representative GRIFFITHS. What kind of a job training program do you think would be required?

Mr. FITCH. I would think that job training programs ought to run to at least 2 years, if necessary. This is what it takes to train a fairly competent automobile mechanic, or a television repairman. Certainly, to train a competent secretary. I cannot get a Negro secretary in New York, they are a rare commodity.

Representative GRIFFITHS. I have heard a lot said concerning the idea that people do not care to have jobs where there are no promotion possibilities. I really wonder if this is not really what has happened in the secretarial field? You know, secretaries never do become the boss, although a lot of them are running the place.

Mr. LESSER. They marry the boss.

Mr. FITCH. I would have thought that, considering the salaries which secretaries get and the degree of responsibilities which they can exercise, there is a good deal of opportunity in this particular occupation. These are good jobs. You know, a typist in New York City—and the same is true in Washington here—starts out at a minimum of $100 a week.

Representative GRIFFITHS. At least.

In your judgment, would open housing help take people to the jobs?

Mr. FITCH. No doubt that it would. I have no doubt that sooner or later, and preferably sooner, we are going to have to attack the system of things which keep people concentrated in ghettos merely because the job expansion is not in the central city; by and large, it is in the suburbs, and our strategy is going to have to contemplate putting the workers where the jobs are. However, my point is a bit on the other side of the fence, because something else is happening that frequently is not recognized. That is the changing composition of jobs in the central city. It is changing toward the white collar and skilled service occupations that I have been describing, toward governmental occupations, and unless we train people to take those jobs, we are both going to defeat the purpose of the central city and frustrate the people who are living in the ghetto.

Representative GRIFFITHS. If the Government were to become the employer of last resort, offering employment at the minimum wage to all who wanted to work; do you think that many low-paid jobs would simply disappear?

Mr. FITCH. I suspect it would help. One of the problems that impresses me, and gets back to what you were saying about the promotion possibilities, is that there are large numbers of unfilled jobs in a city like New York. You go to any Horn & Hardart Automat, and you see signs, "Help Wanted." What are the jobs? They are busboys, dishwashers, and so forth—not only low paid, but also of very low dignity. Who wants to hold such jobs? Such labor stigmatizes the jobholder, as Mr. Lesser says. If there were jobs which paid a little bit more or for some other reason were a little more desirable, Horn & Hardart would have an even harder time finding busboys.

This does not worry me very much. I think we have to invent ways of making this kind of work more desirable.

Representative GRIFFITHS. Supposing it is just better paid?

Mr. FITCH. Yes.

Representative GRIFFITHS. What really is wrong with having that work well paid?

Mr. FITCH. You mean the Government work?

Representative GRIFFITHS. No; the busboy and the person in the restaurant. What if they started drawing $2 an hour. Would you not assume that you would be able to get them?

Mr. FITCH. You would get more of them, certainly. However, I would think that people who are at all educated—and after all, we are pushing education as a poverty preventive—will not be willing to take them no matter what they pay. In other words, few Negro high school graduates in New York City will take busboy work at any price—any reasonable price.

So the composition of the labor supply determines in part how much the kind of work which is considered degrading will be able to attract.

Representative GRIFFITHS. Again are you not really saying that if we had a guaranteed annua lincome, there is some of the worst work that is just not going to be done. What is everybody going to do, take a sandwich for lunch?

Mr. FITCH. Let me say that I compare any efficient income delivery system, as a negative income tax, with the present system, not with some idealistic system where people would starve if they did not take work as busboys. But there is a system, rather an efficient system, for holding out incentives. If you want people to work, the first thing is let them keep the lion's share of the wages. Nobody is going to take a hard, menial task if he has to pay 100 percent income tax, in effect, or, I suggest, even 70 percent.

Representative GRIFFITHS. But a high school graduate today could get a job as a busboy and not have to give up anything.

Mr. FITCH. True, but I do not think many high school graduates are going to aspire to such work. For one thing, many of them can get better jobs. But it is certainly true that lots of people in the labor market—30,000 dropouts a year as a measure of their annual increment—are not high school graduates.

Mr. REES. I wanted to comment on a point Mr. Fitch made a while ago, the difficulty of getting Negro secretaries. I concede there are some difficulties on the supply side, but I think we have to look at the demand side, too. Government agencies quite frequently seem to find competent Negro secretaries. So do universities.

I have seen the data from the Equal Employment Opportunity Commission on private employers and if you look across this data by industry, you find in some industries lots of nonwhite clerical personnel and in other industries almost none. When you get that kind of pattern, I submit it cannot be all a question of deficiency of supply, it has to be in part a question of discrimination on the part of employers. You can go into factories that employ no nonwhites and the personnel manager will tell you, none ever apply, when right across the street, there will be a factory that has 30 or 40 percent nonwhites. Why do none ever apply to this company that has none? Because that personnel man has followed a pattern of using sources of recruitment that he knows will not yield him any nonwhite applicants. He places his help wanted ads in neighborhood newspapers in what he knows are white neighborhoods. He avoids the metropolitan newspapers because he knows these produce a supply of nonwhite applicants. He avoids the State employment service because that produces a supply of nonwhite applicants. Then he says piously, they never apply.

I submit when you look across these employment statistics of the EEOC, a great deal of discrimination does exist. It is clear from the figures and it is more than a problem of training people or finding competent people. It is also still a problem, unfortunately, of getting these competent people placed once they are trained.

Mr. FITCH. I have no doubt that the deficient demand which Mr. Rees mentions discourages people from seeking training. But I am on the other side of the fence. I keep looking everywhere for Negro personnel. I will hire as many black people as I can in my own shop, partly because of our social conscience and partly because it is good business. The same was true when I was an official of the city of New York. We kept up a lively search all the time for competent Negro secretarial and other office help. It is not easy to come by, Mr. Rees. It is just not.

Representative GRIFFITHS. The real truth is, secretarial help is hard to come by in any city, at any time, today. But there has to be some other reason than the fact that the wages are not good and this or that. I suggest to you that one of the real answers to this is that there is no opportunity beyond a certain point. You get to a certain point and it levels off to a plateau and that is the end of it. Furthermore, it is a terribly hard job. A woman working with a manual typewriter lifts more weight than a ditchdigger. I used to be a secretary.

Mr. LESSER. I was going to agree and stress the point of promotional opportunities. I do point out, and I can cite experiences from many areas, like the health area, the education area, where much has been done in training people and creating of job ladders so there can be promotional opportunities.

In other words, I think with Government as an employer, in these areas, this can be done and it is terribly important that there be the promotional opportunities. In other words, you may start a person with very little skill and very little training at a very low place in, say, a hospital. But if you have built-in training, and job ladders, he will come in much more easily and much more readily if he sees progression ahead than if he is just going to come in and handle bedpans for the rest of his life.

Representative GRIFFITHS. What, in your opinion, would be a proper job training program? Do you think the present job training programs are really working?

Mr. LESSER. Well, I think some of them are. I think one of the problems is the actual availability of jobs, decent jobs, for which you are going to train people. I think that is a key part of the problem. The materials that I have seen indicate that at this stage, without the Government as an employer of last resort, there just are not going to be enough jobs. Many of the areas where we have the needs and where jobs should be performed are areas such as the health field and other fields where the jobs just are not going to be available without Government financing.

Representative GRIFFITHS. Mr. Levitan, may I ask you, how can you keep any sort of guaranteed annual income, negative income tax, or whatever you may call it from actually being a child allowance system?

Mr. LEVITAN. First of all, under a guaranteed income, families who do not have children will still get income maintenance.

Representative GRIFFITHS. But if you have more children, you will probably get more money, right?

Mr. LEVITAN. Unless you imposed some kind of limit on the number of dependents in a household.

Representative GRIFFITHS. So you impose the limit. What will happen?

Mr. LEVITAN. It depends upon the stage at which you impose the limit. If the maximum income guarantee is imposed on the basis of six children a small proportion of families is going to be affected.

The important point to consider in designing an income guarantee is the fact that there is a definite correlation between size of families and poverty. The controlling factor would be the amount of money that would be allocated to whatever income scheme is designed.

Representative GRIFFITHS. How could a guaranteed job solve the problem of poverty for the full-time working poor who just have too many children?

Mr. LEVITAN. A family allowance program would be partly responsive to the need.

I think, however, that an effective birth control system would help reduce the number of unwanted children and reduce the need. There is no need to design a new system to provide subsidies to the working poor. In New York City, for example, people working in low-income jobs with large families get subsidies and a good proportion of the New York welfare system goes to this kind of wage subsidy. The welfare system as it works today can provide for subsidies to the working poor assuming society is willing to invest the money.

Representative GRIFFITHS. No matter how you set up a welfare system, how can you get around a categorical system? There has been great objection to the categories, and I agree. Most of the time of the worker is spent on determining in which category you fall and whether you are entitled to this or entitled to that. But how do you get around it?

Mr. LEVITAN. The negative income tax would do that. All a person has to do is file, the same as most of us do, a return. If the income is below a predetermined level, Uncle Sam pays the difference.

Mr. LESSER. I think you can do it—certainly, the negative income tax would do it. You can do it in the welfare system by just saying the criterion for eligibility is need—income below a certain amount. The British do this. One of the problems with some States—you know, even where they pay to the non-Federal category people, they still have to determine which category a person falls in because of the Federal matching formula being different for the different categories. So it is important for a State to put a person into the aged program or the disabled program or the blind program dependent on the Federal matching requirements.

Representative GRIFFITHS. If you had a negative income tax and you made a determination that it took a certain amount to support a blind person at 44 and you gave that exact amount to every person who was 44, then what incentive is there left for the person who is perfectly able bodied at 44 to work?

Mr. LEVITAN. Should we adopt a negative income system, there would be a need to provide work incentives along the lines that Tobin has suggested. There is one bill that I know of which follows Tobin's approach. It was introduced by Congressman Ryan, of New York, and provides for income supplements up to $6,800 per year for a family of five.

There is no need to go across the ocean, as Mr. Lesser suggests, to obtain the system he desires. We have the veterans pension system which works efficiently and without undue burden. A veteran with an income below a given level may fill out a form and he is paid a monthly pension based on a predetermined formula. There are no checkups, and very little scrutiny, a fact which was criticized by the

GAO. To continue getting the pension the veteran or his survivor files annually a simple form the size of a postal card. A social worker once told me there is nothing wrong about the means test if it were not so mean. We can operate the welfare system along the line of veterans pensions. It is just a question of how much money we want to invest in the welfare system and to whom we want to pay stipends.

Representative GRIFFITHS. The moment you determine categories, then you begin to make it again into a child allowance system.

Is that not right? Do you not agree, Mr. Rees?

Mr. REES. No; I think there is a basic difference here, as I understand the difference between a negative income tax and a child allowance system. One of the differences Mr. Levitan has pointed out is that a negative income tax would help the childless poor. Another difference is that under a child allowance system, as under the present social security law, you could draw benefits even if you had an income of $50,000 a year, whereas, under the negative income tax, there would be some ceiling. In Congressman Ryan's bill, it happens to be $6,816 a year, above which you would not draw any benefits at all. Now, if you are going to provide enough income per child to help the large families of the poor, and if, in addition, you want to have no income test at all so that everybody in the country, no matter how rich, would draw the same allowance per child as these very poor people, then you will have an enormously expensive system, much more expensive than a negative income tax system.

One other point I think should be made and that is that most children's allowance schemes I am familiar with provide for a flat amount per child, so much per child per year. Under most of the negative income tax proposals, you have a diminishing scale; one of the plans that is being experimented with in New Jersey would offer $750 per year for the first child, $550 per year for the second child, then diminishing amounts until after six children there would be no additional amounts. But you could make that diminution as sharp as you like. If you think there are very substantial economies of scale in living, if you think five could live almost as cheaply as four, then you would provide a smaller payment.

Representative GRIFFITHS. You would get your greatest objection to any system that pays to a family that does not work an amount that is about the same for a poor family that does work. So you just have to figure out a system that is going to do better than that. The persons are going to have to be able to work and still draw something, because you would have all of those people objecting.

One of the objections I received recently is from a woman who works for Sears, Roebuck Co. You work there for free and then draw a large pension at the end. She objected when people were brought in under the poverty program and purchased $18 shirts. And she said, in my lifetime, I never had an $18 piece of clothing.

These people were being set up to go out to apply for jobs.

One of the difficulties in establishing any system is first, that in general, people do not know how bad the present system is and how it is really keeping people from working. But second, many of the people who see the new systems work, the new efforts work, are themselves not making that much money; therefore, they have real objections.

I would like to say also that we reviewed yesterday the New Jersey test. I think it has lots of things seriously wrong with it. The only thing that it is going to test is whether or not an income given to unemployed males with families will do anything. It should test also, in my judgment, women with families, as it should test young people who have no families at all. Why does it not test young women and young men? That young woman has a very good chance of being one of those who draws ADC. Why not give her some money and see what she does there without having a child?

Mr. REES. Could I respond to that?

Representative GRIFFITHS. Yes.

Mr. REES. I am involved in the New Jersey program. I am a consultant to Mathematica, which is the organization doing the field work in the New Jersey experiment.

Representative GRIFFITHS. Yes.

Mr. REES. I think there are two answers. I think it is a fundamental of good experimental design that in order to detect the effect of any experimental treatment, the people within your sample have to have some characteristics in common. There has to be some homogeneity in that sample. Therefore, to include a large variety of different types of families in the same experiment, I think, would obsure the results. It would make it difficult to see what the outcome of this experiment really was.

Now, I quite agree with you, there should be an experiment on the effect of incentives on welfare mothers. There have been some minor experiments along these lines in some of the ADC programs, and I hope that there will be more. I would like to see somebody fund another experiment about the size of ours in which the sample consisted entirely of female-headed households.

In other words, in order to see how a national negative income tax would work, we really need three or four such experiments. It is quite clear that the one we are doing now, in and of itself, will not provide a complete estimate of national costs. I would regard it as one of a number of possible tests that are needed. One would be an experiment in a rural area, because our experiment is entirely urban. Another one would be one with female-headed families, because ours is entirely with families that contain a male member.

But an experimental negative income tax program is very expensive, because you have not only your research costs, you have also the payments to the participants. With the amount of money that OEO could squeeze out of its budget, it was not possible for them to fund more than one such program. Now, I understand there is some possibility that some private foundations may fund additional experiments with other populations. Then if we had two or three of these, I think we would have the best experimental evidence on the effects of a public income maintenance program before it was actually legislated that there has ever been. I do not know of any previous history of large-scale experimentation with the programs before they have been designed and adopted.

Representative GRIFFITHS. I would think that in addition to welfare mothers, you really should have out-of-work teenagers—out-of-school and out-of-work teenagers—to see whether or not they use the money to train themselves or just assumed that from then on, they were going to get money.

Mr. REES. The New Jersey experiment will give you evidence on the work behavior of out-of-work teenagers, because there will be teenagers in many of these families. But, the sample is not so designed that every family will have a teenager.

Mr. LEVITAN. It is unfortunate that the 1967 social security amendments did not provide for studies on the effects of the work incentive provisions. It would be desirable to allow HEW to fund experiments with different types of formulas. Instead of the present monthly $30 and one-third of earnings exemption States might be encouraged to provide different demonstration exemptions.

Representative GRIFFITHS. One of the things that I think everybody ought to keep remembering is that the Ways and Means Committee had already set it up so that States could arrange this themselves and States did not take advantage of it. They did not change their laws. They did not permit these people to draw welfare and work. The State, in my opinion, simply has broken down on the welfare system. This is one of the really great problems. It is one of the reasons, among others, why I think the Federal Government should take it over altogether. I would far prefer this to sending back unencumbered money to the States. It would make much more sense to me simply to take over the welfare system.

Did you have something else you wanted to say, Mr. Lesser?

Mr. LESSER. No; I would agree.

Representative GRIFFITHS. Since over half of the poor work, the great majority full time, and most of the nonworking poor are disabled or too old to work or are women, would a fuller employment policy do much to relieve poverty?

Mr. LEVITAN. Yes.

Representative GRIFFITHS. You would say yes?

Mr. LEVITAN. The lower level jobs would pay higher wages in a sustained tight labor market. However, in many areas, jobs are just not available. An example is eastern Kentucky, where the work experience and training program, under title V of the Economic Opportunity Act produced the only available jobs, paying $250 a month. Participation in the projects was limited to families with children headed by a male.

Representative GRIFFITHS. You see, that is set up by Congress, runs all through HEW, all through the Labor Department. You just have to have a male in the family.

Mr. LEVITAN. It was just a question of not having enough funds, so they selected families headed by a man.

Representative GRIFFITHS. It is a myth.

Mr. LEVITAN. In eastern Kentucky, it is not a myth, Madam Chairman.

Representative GRIFFITHS. I mean it is a myth in this country that all women are supported by men.

Mr. LEVITAN. Income statistics will amply support your statement.

Representative GRIFFITHS. How many of the poor can benefit from job training, would you say?

Would you care to answer it, Mr. Lesser?

Mr. LESSER. I could not really give a figure. I am sure tremendous numbers. I would say probably all those who were physically able would probably, if they are working age, benefit, or most of them would benefit by training. But I think you have to have the jobs there; in other words, to train a person, even if you had the funds, let us say, in Appalachia, in certain areas where there are no jobs, to train them and leave them there is not going to help them particularly. I think there have to be the jobs as well as the training, but I would not know the figures.

Representative GRIFFITHS. How could we assure—and the Ways and Means Committee particularly—that these women are given a chance to work? How could we assure that State employment services will actively seek out the employable poor and find jobs or better jobs for them? They are not doing it. We have brought them in and they are just not doing it. So, what do we write into the law that makes them do it?

Mr. LESSER. Well, I think one reason, from my experience with the employment service—I do not know if it has changed in recent years, but one reason for the problem is your budget depends on the number of placements and things like this. Of course, the poor are the hardest people to place, so it is much easier to concentrate your efforts on the nonpoor. Now, this may have changed. As I say, I know that was one of the problems in the past.

Again, I do not know whether there are at this point the jobs.

Another problem tied to the employment service is that a great number of jobs are not placed with the employment service. I think, as Mr. Rees pointed out, an employer who wants to attract a certain type of applicant does not list a job with the employment service. Maybe the Ways and Means Committee should give consideration to a proposal that as a condition of tax offset under unemployment compensation, or a reduced rate, anyway, that an employer be required to list his jobs with the employment service.

Representative GRIFFITHS. Another thing, though, is that although the employment services are required to do so by law, they do not carry the poor unemployed people on the rolls. They do not carry these welfare recipients on the rolls, but they are supposed to. The law says so specifically. We brought them all in—at least five of them from five big, industrial States and they do not do that.

Did you have something that you want to add, Mr. Fitch?

Mr. FITCH. This referred to the question asked earlier about how many of the poor can benefit by training. A partial answer to the question is afforded by the investigations the New York City Human Resources Administration has been making and the existing labor force and the people who might benefit by further training to qualify for the emerging kinds of jobs. They put the training need at about 100,000 a year—over a 10-year period about a million in New York City.

Representative GRIFFITHS. How many are we training now out of that 100,000 in New York City?

Mr. FITCH. That is the 13,000 figure. That is the number in present remedial training programs.

Representative GRIFFITHS. In your opinion, those training programs themselves are inadequate?

Mr. FITCH. Grossly inadequate for the most part.

Mr. LEVITAN. It is a question, again, of funds. What level of benefits are you going to pay the trainee and, as Mr. Fitch pointed out, for how long a period? For instance, under the new careers program, the goal is to train participants for subprofessional jobs and when the program gets going many participants will be women. But the costs are high since the duration of enrollment is longer than in the usual MDTA courses and some new career projects involve college courses for a period of 2 years. For example, in Minneapolis, if the State Legislature approves, the new careers will have led to a new certified type of job for teacher assistants. It will require an annual investment of $5,000 or more to train a participant in the project. Under MDTA, as you know, the law allows 2 years of training, but very few courses are designed for as long as 1 year and most of the courses are of 26 weeks duration or less.

Again, it is mostly a question of funds. If the Congress would give the employment service more funds for MDTA, I am sure that MDTA would offer more courses of longer duration.

Representative GRIFFITHS. Right after tomorrow, I am sure all of them will be cut.

Yes, Mr. Rees?

Mr. REES. I wanted to comment on the question of full-employment policy and what it would do for the poor. It seems to me that we cannot go much beyond where we have already gone in getting full employment without the danger of inflation. When unemployment is as low as 3.5 percent, to put it lower by aggregate demand can only be done in connection with very sharp price rises. I think that is why the administration was willing to fight so hard for the surtax and why they were willing to buy this rather bitter package of the combination of the surtax and the expenditure cut. It seems to me it will be extremely unfortunate now if the expenditure cut includes job-training programs, since these are the only policies remaining that will reduce unemployment without inflation.

Representative GRIFFITHS. How can it do anything else? You have already ruled out of it the Defense Department. You have ruled out of it veterans, you have ruled out of it social security. There is only $21 billion that can be cut. If you are going to take out $6 billion, that looks to me like 30 percent of everything that is left.

Mr. REES. Then the result is going to be substantially higher unemployment rates among the poor than we now have.

Representative GRIFFITHS. This is exactly what the tax conference report says:

> We are going to stabilize this country at the expense of the poor. We cannot afford full employment. Because of inflation, we are going to have to put some of these people out of work.

That is exactly what the report is saying.

Mr. FITCH. Let me add another paradox, which is simply that by cutting training programs and throwing the poor out of work, we are decreasing the potential productivity of the country and adding to inflation.

After all, when you are not training these workers who are in dire need you do not have the construction workers, you do not have the office workers, and you do not have the other workers which a growing economy needs and you are adding to inflation.

Representative GRIFFITHS. Of course, those few that are left get as much money as they can. If you all of a sudden had 100,000 new secretaries put on the market, you might cut the price.

Mr. FITCH. I suppose this session should not conclude without paying some obeisance to the usual complaint against the public schools. After all, these 30,000 dropouts are, at least in large part, the result of the breakdown of the public education system. Although the cost per kid is now up somewhere around $1,500 per year—it has doubled in the last 10 years—all the evidence that I can see is that the product has gotten worse. The dropout rate has increased; there is too little attempt to find out what the occupational needs of the city are and to fashion training programs to meet them; there is still no very substantial effort to do the things which are necessary to get the community involved in education. We are now at a stage when the Board of Education is busy fighting with the communities. This, more than anything else we have been talking about, is the source of the difficulty, not only in New York but in any other large city I know.

Representative GRIFFITHS. Part of the problem is that we are still living in a world that has passed. Education probably never was good enough for it in the first place, but it certainly does not meet today's needs. We are not realizing how badly families are broken up and how much a family used to teach a child that is no longer possible within that family. But this is the same thing that is wrong with the welfare system. So that we need to rethink the whole thing.

I want to thank each of you for being present here today and adding your own bit to our new look at it.

(Whereupon, at 12:05 p.m., the committee recessed, to resume at 10 a.m. Thursday, June 20, in room S-407, the Capitol.)

INCOME MAINTENANCE PROGRAMS

THURSDAY, JUNE 20, 1968

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON FISCAL POLICY
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10 a.m., in room S-407, the Capitol, Hon. Martha W. Griffiths (chairman of the subcommittee) presiding.

Present: Representatives Griffiths, Rumsfeld, and Senator Proxmire.

Also present: John R. Stark, executive director; James W. Knowles, director of research, and Nelson D. McClung, economic consultant.

Representative GRIFFITHS. The subcommittee will come to order. Despite the fact that Mr. Rossi has not yet arrived, we will begin.

I want to thank each of you for being here. Would you care to start, Mr. Miller?

STATEMENT OF S. M. MILLER, PROGRAM ADVISER IN SOCIAL DEVELOPMENT, FORD FOUNDATION; PROFESSOR OF EDUCATION AND SOCIOLOGY, NEW YORK UNIVERSITY

Mr. MILLER. Thank you.

I want to start by saying I speak for myself and not for any of the organizations with which I have been connected.

There has been a good deal of technical discussion about the variety of ways of reforming income maintenance in the United States. I am not a technician, and there seem to be some important and obvious truths which do not often get the focus of attention that they should. I do not want to focus on the question of which reform is preferable to another. I think that the discussions before the committee will eventually help us in that direction. But I think we should look at this in the perspective of what has been happening in the 1960's, when this Nation has been moving toward reforms to help the poor, no longer counting on the general economic expansion of the economy to solve the problems of poverty in the United States, recognizing that general economic expansion is important but not enough by itself to reduce poverty at a very rapid rate. As a consequence of this effort, we have developed the war on poverty.

But the enabling legislation was deficient in two crucial respects. In one respect, it lacked a strong job component, in another respect, it lacked an income program. I think in the late 1960's, we are beginning to rectify the limitations of the original war on poverty. We are now talking about job programs in more practical ways than before, now talking about cash programs much more frontally than we did before.

It seems to me if you turn to cash programs, there is one over-arching point that has to be made. We are not fundamentally looking at cash programs as a way of reducing cash expenditures, but rather the opposite.

Now, the important thing is to understand that any kind of a program we adopt, at least in the short run, is going to increase cash outlays. I think it is important to see this because sometimes we tend to believe that we have one or another panacea that will, in a very short number of years, drastically change expenditures on cash programs. I think the reverse is true, that we are going to have to increase the amount that we spend on cash programs.

We should recognize that in recent years, despite all the attention that has been given to increasing welfare rolls, the percentage of national income devoted to cash transfers has been changing very little. It is still slightly under 1 percent. So I think it is important to put it in the context that we are talking about expanding the relative importance of cash programs in the United States.

The second point that has received surprisingly little attention that in 30 years of public welfare in this country, its character has changed to a considerable extent. The Social Security Act of the 1930's, and its supporters regarded welfare as a residual, declining program and as disconnected with work. It was either a case of being on welfare or of working. I think what has happened in the last 30 years is that welfare and work have become somewhat mixed, that welfare has become supplementary, that there is a much more intimate relationship already existing between welfare and work than we had imagined. There is a discussion of it which Martin Rein and I helped write in the recently issued "Manpower Report of the President," chapter 3, which tries to show the extent to which people presently on welfare, including AFDC mothers, are working at least part of the year. I think that it is important to recognize that what our current programs do not produce welfare work as alternatives, but offer a much more complex interweaving of welfare and work as strands of income for the poor and near-poor in the United States. We have not really conceptualized and recognized the important change in welfare that has taken place in our country.

Third, I think it is important to begin to get away from some of the cliches that are widespread, such as the easy phrase of the inheritance of welfare, welfare as a way of life. We do not have very good data on that. I think one thing this subcommittee should recommend is that Government agencies collect much better information than they have. But it is clear from the limited information that we have that most children on welfare do not end up on welfare. If that were true, we would have an enormously expanding welfare roll, much beyond the present rate. It seems, from the limited information that we have available, that there is a considerable turnover of those on welfare and that the Podell material and other material that is available to you, though not the best material that one would hope for, show that a high percentage of people who start out on welfare do not stay very long on welfare rolls.

I think it is very important to begin to look more realistically than some of the newspaper headlines frequently present the welfare picture in our country.

Fourth, there is a new way of looking at welfare that I am optimistic and pessimistic about at the same time. I think the long-term way of looking at welfare has been as a program which was fundamentally designed to improve the incomes of people. It was looked upon as a consumption program, to make it more easy for the people to live. But I think the last years, as with all other social programs, we have translated them, transmuted them, perhaps, into programs which are now considered as investments in human resources. They have moved from the category of providing direct consumption aid to people toward the notion that providing aid over the long run, perhaps, will have some impact upon their trainability, their education, the mobility of their children, and so on. They are not looked upon as ways of shoring up people at a particular time when they are in trouble, but as long-term investments in people, just as we talk about educational investments as being long term.

The thing that does worry me about it is that I think we might be getting much more grandiose about what a program of cash transfers can do. I am for expanding cash transfers and making them more humanitarian than the mode we have currently. But I think we make a mistake if we think cash transfers can solve all the problems of family stability in the United States, can solve all family problems and the like. But I think it can play a role, itself. This leads me to the point that was made yesterday here; that is, not looking upon a job program or other programs as competitive programs, but programs that have supplementary roles, expected to improve job prospects and possibilities for low-skill people and at the same time, guaranteeing an income floor. It is not enough, I think, from the perspective of our experience in the 1960's, to talk about opportunities and training without making sure there really are opportunities available for low-skill people.

Next, a major point of difficulty in our thinking is that we have three different objectives which somewhat converge and somewhat compete with one another. These are the objectives of adequacy, of coverage, and of incentive. In adequacy we refer to providing a level of income for people which can provide a decent standard of living. In coverage, we are concerned with expanding the programs so that they deal with that neglected portion of the poor, the employed poor. And finally, with incentive, we are concerned with promoting the desirability and the possibility of working.

If we try to do all of these things, they are obviously very expensive. If you expand adequate levels, it not only makes more people eligible, but is also expensive per capita. Coverage means that more people will be included than presently, which means including the working poor, which I think is what we are moving toward in most of the reforms.

Incentive has the problem that if you try to provide an incentive to work, you lead to the difficulty of what is an adequate level. In order to provide some incentive, you may have to reduce an adequate level. So the points converge at the same time that they diverge.

I think we have to accept that we cannot meet all these objectives with one program. We have to decide which principle is partially sacrifice. I personally am more concerned with adequacy, because I think that a decent level of living will have a bigger effect upon people than providing a relatively small incentive to work might have. I think people on welfare, by and large, despite the popular cry, are likely to work. Most of those who are available for work could work, are working, and with relatively minor incentive changes, we could induce more to work, though I think there will still be malingerers. Though, as I argue in my printed statement, I think it is a mistake to construct a law in terms of its abuse rather than in terms of its fundamental contribution.

We come to the point that I think it is important to think about our income cash policies in the larger context of our economic policies in the country. We need to move on the two fronts of jobs and cash programs. They should not be thought of as separate kinds of activities or that one can perform the role of the other. I think it is important to bring them together, whether we are dealing with a rural area or an urban area. An income program can help in handling some of the problems, but it cannot handle all of the problems in any particular area in the United States.

There are degrees of conflict and divergence among our programs. I think we lack a good deal of basic information that is needed today, but most of all, I think we have to get away from the notion that there is a magic in any kind of program, whether the heavy emphasis is put upon incentive, or upon some other major reform in administration of public welfare. I do not believe in magic. I think we have to decide on a monasty and priorities; my emphasis is upon adequacy and coverage, as the foremost issues today in income maintenance.

(The prepared statement of Professor Miller follows:)

PREPARED STATEMENT OF S. M. MILLER*

In the last year we have seen a pronounced concern with cash, transfer or income maintenance programs. This interest is in contrast with the beginning stages of the war on poverty and deserves analysis. Frequently, when we get the kind of convergence of concerns that we have now, it turns out that individuals have quite different agendas, even though their interests appear merged into one particular concern.

We do not have an adequate social history to paint a full picture of why cash programs have become important. But there seem to be some obviously important pigments to which we can point.

The war on poverty which was declared in 1964 lacked both job and cash components. Consequently, the best of programs would be very limited in impact. The war on poverty essentially started out as a rehabilitation and community coordination effort. As such, the main components of a war on poverty—cash and job programs—were very limited.

The years since the beginning of the war on poverty have shown that training is an inadequate strategy for improving the prospects of many of the poor. Training without a guarantee of jobs at the end of, or intermixed with, the training cycle has proved to be of only limited value in dealing with the problems of the unemployed or underemployed poor.

The recognition of this failure is leading us now into programs which put the poor into jobs and building services and training around the jobs, rather than those which provide training in the hope that jobs will somehow eventually emerge.

*I present my personal views, not those of the organizations with which I am connected. I have been aided by Martin Rein of Bryn Mawr College in preparing this statement.

But a full scale, long term job program for the underemployed requires a considerable amount of money. It requires a full employment program which would drive the unemployment rate permanently below 3% nationally, with no labor market creeping above 5% for any length of time.

Thus, the programs needed to produce a full employment program among the poor require the kinds of efforts on a national scale which are not politically or economically acceptable today. They require a very low general unemployment rate, a considerable subsidy to business, and an expansion of public employment in order to guarantee employment.

As one result of these political constraints, we are turning now to cash programs as an alternative, or perhaps better, a supplement to job programs. We now conceive of cash programs in a different way than before. Before we saw cash programs as merely "transfers" of income to the poor, providing some basic level of subsistence of amenities for them. Today we look upon these programs, in the popular economic lexicon, as "investments in human resources." The hope is that by spending money directly on the poor they will be able to move away from being poor, that making the poor less poor is the first step in their economic and social mobility. Giving cash to people will lead them to become better trained, be available and obtain better jobs, and encourage their children to do better in school. We have moved from the notion of a culture of poverty which prevents people from moving to the notion that income is significant in affecting peoples' attitudes and life chances.

Accentuating these changes is the increasing recognition that we have a sizeable working poor in the United States and that cash programs have failed to help them. There has been increasing disturbance about the way cash programs have operated: a concern about the stigma and limitations on self-determination involved in welfare, inadequate payments, and the absence of incentives to work.

The problems of poverty are viewed to much broader terms than before. Our arsenal of weapons to deal with poverty has been expanded beyond rehabilitation and training to work and cash programs. To some extent, we are welding together the latter two in open acceptance of the idea that welfare reform would lead to the operation of welfare systems as wage supplement programs. On the other hand, we accept employment as a supplement to welfare.

Whatever priorities and techniques of income maintenance are accepted, it is clear that, in the short-run at least, out-of-pocket costs of cash programs will increase. It may be that if we could adequately assess the costs in health, education, crime and woe of inadequate cash programs that we would be saving money overall by spending money on cash programs. But the positive results of increased expenditures would not be easily visible in a year or two. More likely, we would be expanding expenditures on cash programs. They are not inexpensive magic bullets.

The different kinds of concerns with welfare makes many different publics involved. It is not only the administrators of welfare or taxpayer leagues who are involved. Now economists traditionally interested in economic policy discuss the role of cash programs. Specialists in labor market analysis discuss work and welfare, and those concerned about the poor now see the importance of cash programs. No longer are welfare discussions restricted to that narrow circle of people who initiated and conducted welfare programs. It is in this context of a widening set of publics that I speak, for I am not a long-time expert on cash programs. Rather, I have long been concerned with the situation of the poor. I have attempted to look at a variety of the programs attempting to aid the poor in order to see which ones should be given priority and what their interrelationships should be. It is in this context that I speak today.

What Can and Cannot the Cash Program Do?

The evidence to check on what a cash program can and cannot do is exceedingly scarce. As a result, we find frequently that argument about political feasibility substitutes for economic and social analysis. It is important, at least, to make clear what the questions are, even if we cannot satisfactorily answer them. Otherwise, we fall into the pit of making decisions on very pragmatic grounds, even though we present them as though they have a much more far reaching basis.

It seems to me that three different sets of arguments are presented to support such a cash program. One is along the lines of achievement and deviancy; the second is on the contribution to family stability; and the third is on the contribution to national or social stability.

Low levels of education and high rates of crime and delinquency are associated with low levels of income. It is therefore enticing to say that we will eliminate the problems of crime and encourage people to get higher education if we change their income. Earlier it was said that since educational levels correlate highly with crime and delinquency, the obvious way to handle crime and delinquency was to expand the educational levels of individuals. Hopefully, increasing income will lead to a take-off into social mobility.

The argument is attractive. In the recent past, we attempted to do everything about poverty but to make sure that the poor are non-poor in terms of their income. Obviously, increasing the income of the poor will make them able to get many more services and resources than before. It may improve the educational performance of their children.

There is a but here. The evidence to support these contentions is not very strong. Indeed, in the field of education, it turns out that the educational experience of the parents is in general more important than the income level of the parents in affecting the educational performance of the children. This suggests that income alone will not be effective. It becomes important to change schools in order to have some real impact upon the performance of children. Improving family incomes, as important as that is, does not eliminate the problem of improving the schools in America.

The vicious cycle argument of poverty—that every element of poverty builds back upon itself—leads to the notion that we should indirectly try to approve the conditions of people. By improving income, it is believed, we can have a marked effect upon education without directly affecting the educational institutions. This seems to me to be only partly true. Affecting the income of parents is very important, but probably, in most cases, will not be sufficient *if* the schools do not change at the same time so that they can work more effectively with disadvantaged youth.

I think it is important to avoid making the mistakes that we have made with the non-cash programs. That is to oversell them in terms of the range and depth of impact that they can have. A cash program has great value. Even if it does not achieve substantial educational advance, it should not be neglected, ignored, or downgraded. It cannot do everything, but nothing can. It has a useful role; it does not have a total role.

The second argument centers about family stability. The present method of welfare allotment contributes to family instability. Where income is not available on the basis of needs but on the basis of the absence of the male head of the household, we are prescribing family instability. But, on the other hand, we cannot have surety that if present welfare arrangements contribute to family instability, that changing them will automatically produce family stability. The world, unfortunately, tends to be a little more complicated than that.

The argument about family stability is based upon two considerations—that the level and dignity of income are crucial in affecting stability. Here the evidence is rather strong. Higher income families tend to be more stable—that is, the male is present—than lower income families. Second, providing income without stigma contributes to family stability. This is part of the argument for the universalistic system of the family allowance. As far as I know, there is no evidence to test this proposition, but one can be supportative of it, regardless of whether or not it contributes to stability. There are advantages in not demeaning individuals. I want to support the decent treatment of people, not on the basis of its functionality, but on the basis that this is a just way to treat individuals in society.

A third reason for many supporting cash programs is that they will produce national and social stability, that they will cool the ghetto. It seems to me, again, that this argument is misplaced. Indeed, though it may be true that cash programs will make people more secure financially and more accepting of what takes place in society, the issues of ghetto unrest are broader than just economic. Getting money is, of course, being a part of society. But it is not all of that feeling. I think it will be important to try to affect the ghetto situation directly and have new forms of involvement of participation of people and decision making than ever before. A large part of the problems in America today are not only presented by ghetto residents, but also by affluent youth both of whom are alienated by the character of the direction of society and charged with the desire to feel that they participate in the important decisions which affect and sometimes overwhelm them. Cash programs cannot solve these problems alone. They can contribute to their solution.

In indicating the limitations of the income approach, I am not attempting to pile up objections. Rather, I passionately believe in the importance of emphasizing income programs and have long argued that the war on poverty was limited because it was not moving on both the job and income fronts. I am aware that pointing out the limitations of a cash approach may feed its critics. But it seems to me that it is dangerous to try to oversell something when it be clear that its basis is flimsy. Failing to provide a decent income floor for individuals is harmful to them. But providing an income floor will not automatically solve all the problems of our society. We have been subject to too much panacea-hopping and gimmick-chasing these last years. I hope we shall avoid them.

No one program, it should be clear, can solve all the woes of America today. That stands true for a job program. It stands true for an income program. They both have a role as do other kinds of programs. Some of the sickness of America cannot be solved by jobs or income. Other kinds of activities—particularly political participation and decision making—are also needed. But to argue the limits and effectiveness of any program is not to deny their tremendous worth and need in America today.

The social science knowledge needed to test the arguments for cash programs is deficient. Most issues come down to a question of what are the important values that we have rather than the knowledge questions. Social sciences cannot solve for us these problems of choice. We are dealing with what are essentially moral and political, rather than scientific, questions.

As such, then, what can we say about what a cash program can do? A cash program can help the employed poor in the United States. Only a fourth of the people who are poor in the United States are currently receiving welfare aid. This is a terrible circumstance.

A cash program can assure that every American has a decent standard of living.

A new cash program can eliminate the stigma of welfare payments today.

Why Welfare Rolls Have Risen

At the same time that we are concerned that people should have more money, we are also concerned with the rising rolls of welfare. There is a fundamental ambivalence in our analysis of thinking today about cash programs. We are concerned that there are poor who are not being aided; we are concerned about stigma; we are concerned with low income as a permanent way of life. But, we want to reduce the welfare rolls and at the same time increase them by making sure that everybody in need gets funds. We want to provide an adequate level of living, but we want to make sure that people have incentive to go out to work. Thus, we believe in the importance of cash programs, but fear them at the same time.

It is important to recognize that the absolute increase in the numbers in cash programs is far smaller than the absolute increase of the population in the United States each year. And that the percentage of all cash transfers in the United States welfare has *not* been increasing as a percentage of national income. Nor may welfare be increasing as a percentage of city budgets. But I am less sure of that. Welfare payments have gone up absolutely but not relatively, apparently.

The Changing Nature of Cash Programs

This country has moved in thirty years from depression to affluence, with a current fear of inflation. A cash system constructed for the depression days is being evaluated in terms of the issues of quite a different economy and society. Recognition of these changing conditions are important for appraisal of cash programs. Three important changes have taken place—in scope, in clientele, in goals.

The prediction of the late 1930's was that public welfare would have a narrow and declining *scope*. It was intended as a residual program. As social security expanded, the need for public welfare would decline. The rising numbers on welfare have consequently been disturbing. But it should be pointed out that, despite the absolute increases of those receiving welfare aid, we have been fairly stable in the percentage of national income going for welfare.

A second aspect of scope has changed. The welfare program was thought of as a part of the efforts to deal with the interruption of income during the depression. Note the term income *maintenance* rather than, say, income *adequacy.* Now we find that many families are on welfare for a long period. *But* not as many as implied in the facile discussions of the inheritance of welfare which seem to offer the conjecture that all children raised on welfare end up on welfare. This is decidedly not the case. As Podell's testimony has shown, there is considerable turnover on welfare in New York City; Martin Rein and I in chapter three of the 1968 *Manpower Report of the President* have reviewed the evidence of national surveys and have shown that welfare is not a way of life for most people who have received it.

The *clientele* of public welfare has changed. Welfare was originally intended to help the unemployed and the aged. It primarily benefited the white poor. The aged are still important in the welfare rolls, but two new groups are now important: the female-headed family and the employed poor. The former group is largely, though far from exclusively, Negro. And we have confronted deep-seated feelings about aiding black women and their children.

A curious and unnoticed evolution of public welfare has occurred in the United States. As Rein and I point out in the *Manpower Report,* many of those on welfare do work. The peculiar irregular economy of the poor means that welfare is for many a wage supplementation plan and that low wages and part-time work are welfare supplementation today. The familiar notion that it is welfare or work, employment or unemployment, fails to capture the complex financial arrangements of the poor in society today. A change in cash programs cannot be considered apart from the nature of economic and manpower policies.

The *goals* of welfare programs have been changing and we do not have unanimity on which are the prime goals. Many now expect welfare programs to deal with all of the poor, not just the quarter who now are aided by programs. This means principally including the working poor as a group that should be aided by welfare. But some are concerned with reform of the welfare systems and think primarily in terms of those concurrently on welfare rather than with changing the scope of welfare benefits by including the employed poor. Whether or not the employed poor are the focal concern is a central, though covert, issue in many discussions of welfare reform.

Equally important, but more subtle, is the shift in emphasis. Formerly, welfare programs were regarded as offering amenities, a better level of living for the poor. Now, as I have said earlier, many regard it not as a consumption program but as an investment in human resources, leading its recipients to move into work and their children into performing better in school. The Sixties have been marked by moving consumption programs into the camp of investment programs. This change is not a verbal one; it raises expectations about what the program can and should do (e.g., if people on welfare do not shift into work after a while, the program would be deemed a failure even if the work offered no more income than welfare). It transmutes programs formerly aimed at softening the impact of market forces into becoming adjuncts and instruments of the market with the consequence of reducing efforts to remold the market so that it achieves socially desirable objectives.

A third question of goal is that of poverty, inequality and adequacy. Is the objective to bring everyone up to some subsistence level? If so, then the debate is what should that level be? That question is always answered in partially social terms (the minimum level of living is seldom in the affluent society a question of only bare survival but is intermixed with social issues) and partially political (how much are we willing to spend on the poor).

Another way of looking at the question of adequacy, which overlaps, though not fully, with the fixing of the poverty line, is that of whether the concern is *poverty* or *inequality.* The poverty line approach that has been followed in the United States has taken a pseudo-scientific poverty line and up-dated it for price changes since 1960. Despite the fact that real living standards have gone up considerably since 1960, the poverty line for 1968 does not mirror that change. It is 1960 up-dated only for price changes.

A concern with inequality starts from the premise that the great issue of our society is not poverty but inequality, the *comparative* position of individuals and families. It is the relation of an individual to other individuals that is central to his feelings of well-being and satisfaction rather than his relationship to a fixed poverty line.* I believe that there has been insufficient attention in the Sixties to the fundamental issues of inequality. As a consequence, much of the anti-poverty efforts cannot be effective because they are not redistributive so that they reduce the gap between the poor and the affluent.

Over the longer run, the issue is a *dynamism* of cash payments, the adjustment of payments to keep up with the rising standards, as well as the rising prices of society. In my opinion, current discussions neglect dynamism. An important question is—which kind of change in cash programs is most likely to foster dynamism?

What are the implications of the changing scope, clientele and goals? Clearly, not all critics are concerned about the same issues. The common concern about faulty performance of the welfare systems does not mean that all critics have the same agenda. Indeed, the concern of many economists with which plan is more desirable frequently lapses into technicalities which bury the basic issues of objectives and commitments.

The goals of many reformers collide. The goal of adequacy may conflict with that of incentive, encouraging people to work. Reducing costs conflicts with extending coverage to the working poor and with providing adequate payments. These are not technical issues alone but questions of policy direction.

Issues

After insisting on the divergences among those supporting change in the welfare systems, I do want to say that it seems to me that at least some ingredients of reform have widespread agreement. Many, as do I, want to get away from a heavy emphasis on investigations of individuals on relief, freeing them from invasions of privacy and dignity. Simplifying need determination is important. Second, I see widespread agreement on the desirability of getting away from creating new social types (e.g. "families with dependent children") with intricate regulations about whether or not they are "eligible" for aid to treating families in terms of their needs.

There is less agreement about the aged, but I believe there is a growing conviction that the aged poor should be folded into the social security system, receiving payments as a matter of age rather than because they have made some past contributions to the system. The extension of the Prouty Amendment to those past 65 would be the policy I would recommend.

Incidentally, the social security system has not had the searching analysis that it merits. The vehemence of its critics in the '30s seems to have permanently scarred its long-time friends so that they do not freshly address the role and character of the system today.

The basic issue in income maintenance reform, however, is complicated and plagues us today as it did the enacters of the Poor Laws. That is the possible conflict between adequacy and incentive. A level of benefits permitting a decent level of living may encourage some people not to work. But, on the other hand, a low level of benefits probably reduces the effectivenes of cash programs as investments in human resources as well as maintainers of self-respect.

We do not know sharply the effects of high benefits or incentives to work. Our opinions are more often anecdotal, reflective of our experiences with or hopes for humanity, than based on hard information. But even though as one of those proud to be a "bleeding heart," I am ready to agree with the most pessimistic that some people will be malingerers, preferring the indolence of an adequate, unearned income to the pressure and pain of working. The question is how many will act this way. And the following basic question is should public policy be *primarily* constructed to deal with potential malingerers? For if so, it is likely that the new objectives of our cash programs cannot be achieved. Inadequate payments, investigations, interference with self-determination are likely to follow.

Nor would I assume that work is the therapeutic for everybody and that everybody should be encouraged, nay pushed, into working. Many women should be able to concentrate their energies on their children rather than having to work.

But I would not dismiss the incentive issue. I think that our cash program reforms should have heavy incentives to earn, much greater than in the Welfare Amendments of 1967. I recognize that increasing incentives to earn introduces questions of equity with the "notch groups" not receiving benefits because they are just beyond the benefit lines. But I do not think that we have fully utilized our ingenity in dealing with this problem.

(Incidentally, the current earnings exemptions and tax rates of the income incentives provision of the 1967 amendments encourage part-time work, making clear that welfare and work are intermixed rather than competing economic systems.)

The incentive issue has to be viewed more broadly in terms of general labor market conditions. If jobs are not available for the low-skilled, neither pressure to work nor training will help much. It is important to increase the wages offered to the unskilled; the wage levels of the unskilled have not risen as rapidly as those of other groups in society so that the incentive to work is not great. The issue is *relative income*. The depression psychology of many of us leads us to view $2.00 an hour as a superior job even though by today's standards that is no longer true.

To some extent, the usual question of incentives has to be reversed. The traditional question is how low do benefits have to be to encourage people to seek work? The new question is how high do wages have to be to induce people to work? That way of stating the question may be too strong but it does indicate the importance of looking at welfare in terms of the work world—the availability and remuneration of work—rather than in terms of itself.

No policy can come close to adequacy without having the question of incentive introduced. It seems to me that we should not construct a social policy primarily on the basis of preventing its abuse. Even if we have as many as 25% on welfare who are malingers, and I am sure that is very high overstatement, we would be poorly treating the other 75% to deal with the abusers.

The second major issue is whether adequacy or coverage should be more important. If only a fixed sum is available for the increase in cash programs, is it more desirable to give relatively high benefits to a few or lower benefits to many more? At this stage of reform, I lean to extending coverage as the more important consideration. To concentrate on particular groups will make it more difficult to eliminate issues of category and investigation. More importantly, we should be paying attention to the non-welfare poor, especially the working poor.

Incentive, adequacy and coverage vie with each other. They collide perhaps more than they overlap. The less the increase in expenditures on cash programs, the greater the collision. I think that we have lacked presentation of various possible permutations of the three. The concern with the techniques of reform have sometimes masked the clarification of choices.

Cash Programs Cannot Solve Problems Alone

If I am right in believing that cash programs are now being assigned a new role as investments in human resources and that greatly extended hopes attach to what can be done with a more adequate and humane transfer system, then it is important to see that cash programs cannot do the job alone.

As I have said earlier, it is important to improve schools if we want to improve the educational performance of the children of the poor.

If we want to encourage individuals to work, then, we must have a strong demand for their work. This means, as I have said, a high employment policy generally plus specific programs which construct jobs, both private and public, for those of little education or skill. Incentive to work is not enough if opportunity lacks. The experience of the Sixties is that we have underestimated the scarcity of opportunity for the low-skilled.

A good cash program is expensive; a good job program is expensive. They both require governmental subsidies. The temptation is to go either way—to say that funds effectively spent on the provisioning of jobs will eliminate the need for welfare or that a decent welfare system will take people out of poverty and encourage them to find opportunities. But *both a job and income strategy are needed.*

The poor are very diverse. Not all can or should work; they will require cash assistance. Rehabilitation, training and counseling can help but I am not optimistic about the effectiveness of these devices. Cash can help.

Since work and welfare are now intermixed, we would have to have a very sizable increase in payments in the low wage sector to pay an adequate wage to families. Whether such an increase is compatible with expanding enormously and rapidly the number of jobs may be doubted.

The diversity of the poor and the intermixing of work and welfare support the importance of a cash transfer program. The inability of incentives to be effective without opportunity to work lead to the importance of economic and labor market policies. Both cash and job programs are needed.

This is especially true in rural areas, where 40 per cent of the poor live. A substantial cash program might retard the march to our overburdened cities. That would be to the good. The added income provided by the transfers to rural residents would improve the purchasing power in the local economy. Some jobs and opportunities would be created. But a more sweeping change in opportunity requires that there be active effort to expand the economic base of at least some of these localities. Cash programs alone cannot do it, although they can contribute.

We are slowly coming to the realization that one of the great inequalities in our society is that where one is born in the United States deeply affects one's life chances. To be born in a rural area means that one has less chance of a decent education or job. Reducing the rural-urban inequalities is one of the great issues which we are only very slowly touching. It cannot be handled without economic, manpower, education *and* cash programs.

I think information is lacking on what would be the effects of one or another mix of cash and job programs. I think that we should proceed by avoiding panacea-thinking and by recognizing that Congress and the White House have to be flexible. They should move in both directions of jobs and income, increasing the expanditures in both areas. As the results come in of the impact of the particular mix, than changes would be made.

I think it very important to get away from the notion that we know enough to formulate a fixed policy that will require limited change. (OEO despite its experimental stance at its initiation locked itself early into first programs and lost the opportunity to learn.) Congress would have to learn how to deal with evolving policy rather than with slowly moving programs.

Conclusion

The appeal of the investment in human resources argument should not obscure the significance of the consumption or amenities argument, that we seek as an end in itself to make people's lives more comfortable and satisfying.

In the 1960's we have frequently made sweeping claims about what a particular policy could do as an investment in human resources, only to be disappointed in the outcome. Frequently, we transmute our ends into means. We support a policy because it is more humane but argue that it is instrumental for some other end. Many support large-scale reform of welfare because they seek a more humane treatment of their fellow citizens. But the argument frequently presented is that it will eventually lower the welfare bill or get people to work. A good deal of the time the welfare change or the use of social services will not have that result—for other than welfare changes may be involved—but it will humanize our activities.

I wish that we would talk more about the humane objectives of our policy rather than the economic.

We are caught in a disturbing paradox. A better welfare system in terms of adequacy and dignity will bring more people into it. There is no easy or immediate solution to rising costs or rolls. But we should not construct policy largely in terms of this year or the next. Our concern should be with the large number of children growing up with little hope or possibility. An increase in welfare expenditures and a change in policies can help them even if not all problems of poverty and inequality can be solved by these moves.

I hope that I have not disappointed you by not making a case for one specific reform or another. These proposals are not lacking. What I have tried to do is to show some of th issues in making a choice. It is my perhaps falsely rational hope that if we understand what the underlying issues are, we will not find it so hard to select among the technical alternatives. Where we ignore these issues, we resolve debates on the basis of what each thinks is politically "acceptable." I do not mind as such "politically acceptable" arguments; I do mind when they masquerade as analyses of basic issues.

Representative Griffiths. Thank you very much, Mr. Miller.
Mr. Tobin?

STATEMENT OF JAMES TOBIN, PROFESSOR, DEPARTMENT OF ECONOMICS, YALE UNIVERSITY

Mr. TOBIN. Thank you, Madam Chairman, members of the subcommittee. I did take the liberty of having distributed to you offprints of the general negative income tax proposal that I and a couple of other economists support. I will not go into the details of that plan here. I shall be prepared to do so if you want to question me about it.

Representative GRIFFITHS. Thank you, Professor Tobin. We will include it in the record following your oral testimony.

Mr. TOBIN. As you may know, the general idea of a system of income guarantees and supplements of the type which we advocate is very widely supported by economists, and recently over 1,200 economists associated themselves with a statement in favor of these general principles of reform of public assistance. What I want to devote a few moments to today, to begin with, is the following: The main objection I detect to a system of income guarantees and supplements of the kind roughly described as a negative income tax, is the possibility that some people who could work will refuse to work and choose to receive the minimal guarantee instead. Personally, I believe that the number of such cases would be relatively small. Even if guarantees are set at official poverty-line levels, they would scarcely provide a standard of living which one would not wish to improve.

Moreover, the basic idea of the negative income tax plan is to provide incentive for work by permitting the beneficiary to keep a sizable fraction, at least half, of his earnings rather than reducing his benefits by a full dollar for every dollar of his income. Nevertheless, I recognize that payment of the basic guarantee for no work to people who might be expected to work is a feature that attracts attention and opposition, because it seems to conflict with a strongly ingrained American ethic. That was illustrated again by the Gallup Poll which was reported in Sunday's paper.

I would hate to see a welfare reform along the basic lines we are advocating prevented or postponed for this reason. I, therefore, would like to make a suggestion for integrating a negative income tax system with a national program of training and job opportunities. Under the integrated program, it would be possible, if Congress wished to do so, to limit benefits under the negative income tax system to those individuals for whom the opportunity to earn income in employment and training programs cannot or is not being provided.

The procedure would be as follows: Under the basic negative income tax proposal I am referring to, the basic allowance for guarantee for a family unit is calculated as the sum of the allowances for individual members of the unit—adults and children, adults being provided generally with a higher basic guarantee or allowance than children. Under most schedules that have been suggested, the allowance that is made for a child depends on how many children there are in the family unit. The actual benefit received by the family unit is equal to this basic allowance minus a fraction, say 50 percent of its other income.

So now let us consider certain categories of individuals as *potential workers*. That category might include all able-bodied persons from 18 to 65 years of age except full-time students and except females who are caring for one or more children under 18. No doubt, we could think of some other exclusions that might be necessary, but there is no need to list them here. My purpose is to explain the principle.

For the purposes of negative income tax benefits, let us presume that a person defined as a potential worker has an income large enough to wipe out the negative income tax benefit to which his membership in the family unit would otherwise entitle his family. For example, suppose that the basic allowance were $1,000 a year for an adult male head of household and that the "tax rate" were 50 percent. Then we would *presume* that such a person, an adult male, is earning income at a rate of $2,000 a year. This would be the presumption even if he were in fact earning less than that, or nothing. Therefore, the family unit would receive no benefit by virtue of his membership.

Note, however, that his membership would in no way reduce the benefits to which the family is entitled by virtue of the other members, the wife and children. This avoids the disastrous, perverse effects of the current aid to dependent children program under which the man's presence disqualifies his family for the entire amount of assistance that they could otherwise receive; that is, if he were absent.

The same kind of presumption about income would be made for other potential workers in the family unit. If, for example, the basic allowance for a dependent child 18 years of age or older were $600, then the presumptive income on account of such a person would be $1,200 a year.

Now, of course, if the Government makes such presumptions, it must also offer the means to make them realistic. There would be, accordingly, Federal manpower offices all over the country coordinating programs of training, retraining, including on-the-job training and apprenticeship, and coordinating information about opportunities for private or public employment. Moreover, the Government should and could augment these latter job opportunities by offering funds for expanding and approving the services provided by local governments and by nonprofit institutions.

A potential worker, as defined for the purposes of the negative income tax system, could then report to the Federal manpower officer in his locality for suitable training or job opportunity. Now, suppose that during a particular month, no such opportunities are available or that, for other reasons—temporary medical reasons or other personal reasons—the individual could not reasonably be expected to earn income at the presumed rate, the presumed rate being one-twelfth of $2,000 for the adult or one-twelfth of the $1,200 for the teenager in the examples. The Federal manpower officer would certify that this is so, that, either for lack of suitable opportunities or for other reasons, this individual could not have earned that income. For that month, the actual income of the individual, which might be as low as zero, would be substituted for the presumptive income, and the benefits for his family under the negative income tax would be correspondingly larger. Thus, the certification that no opportunity was available for an entire year would restore the full annual benefit, that is, in our example, $1,000 for the adult male or $600 for the teenaged dependent not in school.

I think this system could be administered in an efficient and humane way, but I do not think that we should underestimate the difficulties. A kind of common law would have to be developed to guide the administrative, quasijudicial decisions as to whether a particular individual should be given an "excuse" for not working or for working less than an adequate amount of time during a particular time period. And probably there should be some provisions for appeal from such decisions.

The administrative costs would be greater than those for an unconditional negative income tax system, and there would also be the additional costs of providing the expanded supply of training and job opportunities. Both funds and effective administration would have to be provided for a meaningful expansion of training and employment opportunities so that the work alternatives to welfare would be realistic alternatives. But it seems very likely or very possible that this is the kind of a system that the country and the Congress would prefer. So I think that we should get ahead with it.

The worst thing we can do is to fail to provide a decent system of income assistance because of the widespread feeling that people who can work should work, while at the same time we fail also to provide the opportunity to earn income from work.

I focused on this problem this morning because it seems to be so salient a stumbling block to acceptance of a system of income guarantees and supplements. But let us not forget, however, that it is in reality a relatively small problem. Among the poor people of the country, there are relatively few potential workers who are not in the labor force, either working full or part time, or seeking work and yet unemployed. After all, these people are Americans, too, and they share the same work ethic of the society that I have been referring to. But unfortunately, there are many whose earning capacities are not sufficient to give them and their families a decent standard of life.

One of the principal purposes and principal advantages of the negative income tax system is to make up that kind of gap between earning capacity and family responsibility without impairing incentives to the people involved to improve their lives by their own efforts.

(The study referred to by Professor Tobin at the beginning of his oral testimony follows:)

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Is a Negative Income Tax Practical?

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The war on poverty has brought emphatically to public attention the inadequacies of the nation's welfare system. The assistance given to the impoverished is pitifully inadequate in most states, and the rules under which it is given severely impair both the incentives and the potential of the recipients to help themselves. Most poor people are ineligible for public assistance, so restrictive are the eligibility requirements for the various categories of federal, state and local welfare programs. Many eligible poor people do not accept assistance from local welfare agencies because recipients are subject to numerous indignities by the procedures employed to enforce the means test and other conditions which determine who is entitled to help and to how much. The means test is in effect a 100 per cent tax on the welfare recipient's own earnings; for every dollar he earns, his assistance is reduced by a dollar. Administration of public assistance is now largely a matter of policing the behavior of the poor to prevent them from "cheating" the taxpayers, rather than a program for helping them improve their economic status through their own efforts. As a result poverty and dependence on welfare are perpetuated from one generation to the next, and the wall dividing the poor from the rest of society grows higher even as the nation becomes more affluent.

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Four ideas for reform of our present system of public assistance, none of them novel, have lately received serious attention from economists, social welfare experts, and public officials. One is that assistance should be available to everyone in need. Present welfare laws require not only a showing of need but also an acceptable reason for the need. Old age, physical disability, having children to feed but no husband to feed them—these are acceptable reasons. The inability or failure of the father of a normal, intact family to find a job that pays enough to support the family is not an acceptable reason. Such families cannot now receive welfare assistance in most localities. The second proposed reform is that need and entitlement to public assistance should be objectively and uniformly measured throughout the nation in terms of the size and composition of the family unit, its income, and its other economic resources. There would not be different calculations of need and entitlement from one state to another, one welfare administration to another, one case-worker to another. The third is that the public assistance to which people are entitled should be paid in cash for free disposition by the recipients, not earmarked for particular uses or distributed in kind as food, housing, or medical care. The fourth reform would modify the means test to reduce the "tax" on earnings below 100 per cent, in order to give the recipients of assistance some incentive to improve their living standards by their own efforts.

Some or all of these objectives are embodied in specific proposals that have entered public discussion under a confusing variety of names: "guaranteed income," "family allowance," "children's allowance," "negative income tax." These proposals can be described and compared in terms of two identifying features: the *basic allowance* which an eligible individual or family may claim from the government, and the *offsetting tax* which every recipient of the basic allowance must pay on his other income. The *net benefit* to the recipient is the basic allowance less the offsetting tax. The net benefit can be considered a "negative" income tax because it makes the income tax symmetrical. The regular or positive income tax allows the government to share in a family's earnings when those earnings exceed a minimum that depends on the number of exemptions and the size of allowable deductions. Under a negative income tax plan, the government would by providing benefits also share in any shortfalls of family income below a minimum similarly but not necessarily identically calculated.

The basic allowance can be regarded as the income guarantee. It is the net benefit received by a person whose other income for a year is zero and who has no offsetting tax to pay. It is therefore the minimum total disposable income—income from all sources including basic allowance less offsetting tax and other income taxes—the recipient can receive.

The basic allowance depends on the size and composition of the recipient unit. Plans differ in the schedule of basic allowances they propose, both in the adequacy of the amounts and in the variations for family size and composition. Some plans contemplate a fixed per capita allowance. Some would allow more for adults than for children. Some would add diminishing amounts to the basic allowance of a unit for successive children and perhaps impose a ceiling on the amount a family unit can receive regardless of size. Some would give no allowance for adults and would perhaps count young children more heavily than older children.

With respect to the offsetting tax, the main issue is the rate at which other income should be taxed. As already noted, current public assistance procedures generally impose, in effect, a 100 per cent tax. Some proposals for a universal "income guarantee" retain this same tax, disguised as a federal commitment to make up any gap between a family's income and an established living standard. Other "family allowance" plans contemplate no special offsetting tax at all; other income would simply be subject to the regular federal income tax. Some variants of this proposal would count the basic allowance as taxable income. In either case everyone in the country eligible for a basic allowance would be a net beneficiary.

So-called "negative income tax" proposals typically subject allowance recipients to a special offsetting tax with a rate less than 100 per cent but greater than the low-bracket rates of the regular income tax. At sufficiently high incomes the offsetting tax produces a negative net benefit to the family unit as large as or larger than its liability under the regular income tax. Taxpayers in this position would exercise the option to decline the basic allowance and thereby avoid the offsetting tax.

The authors strongly support some sort of negative income tax (NIT) plan, and indeed we have, as will appear below, some specific proposals regarding basic allowance schedules and offsetting tax rates. But the purpose of this article is not to expound the merits of the negative income tax approach in general or of our proposal in particular. The primary purpose is the more limited one of examining some of the sticky technical problems that must be solved if any such plan is to be implemented. The larger issues of social policy are doubtless more important for the ultimate national decision, but the technical problems are neither trivial nor peripheral—nor can they be wholly divorced from the policy issues. The technical problems are in our opinion solvable. An analysis of at least one plan, with specific feasible solutions suggested for most of the problems, should advance understanding of the approach and meet some lines of criticism. A secondary purpose is to provide rough estimates of the cost of several alternative NIT plans; these are presented at the end of the article.

There are three major sets of problems in designing a workable plan: (1) How to define the family unit and relate basic allowances to its size and composition; (2) How to define the base for the offsetting tax and to relate NIT to the regular income tax and to existing governmental income assistance and maintenance programs; (3) How to determine eligible claimants, make timely payments to them, and collect offsetting taxes from them.

These questions are best discussed in the context of a specific proposal such as that described in section I. The three sets of problems are then considered in sections II, III and IV. The advantages and costs of the several variants of our proposal are described and evaluated in section V.

I. The Proposals

Under our NIT plan every family unit would be entitled to receive a basic allowance scaled to the number of persons in the family, provided it paid an offsetting tax on its other income. Two specific schedules of basic allowances are presented here; a High (H) Schedule which would guarantee allowances that approach the officially-defined "poverty lines" but would be relatively costly to the federal budget; and a Low (L) Schedule which would be relatively inexpensive but would guarantee only a fraction of poverty-line incomes. The schedules were chosen with some care. However, different numbers could be substituted for budgetary or other reasons.

The H Schedule would provide basic allowances ranging from $800 a year for a one-person family to $3,800 for an eight-person family. Under the L Schedule the allowances would range from $400 to $2,700. Two rates of offsetting tax are considered: 50 per cent and 33⅓ per cent. Table 1 describes two plans: H-50 and L-33⅓. Two other possible plans are the H Schedule with a tax rate of 33⅓ per cent and the L Schedule with a 50 per cent tax rate.

To illustrate how the plan would operate, a four-person family under the H-50 Schedule would receive a basic allowance of $2,600, and its other income would be taxed at a 50 per cent rate. However, no family would be left with a smaller net disposable income than it would enjoy under the current federal income tax without a basic allowance. For every family size there is an income at which the net tax, *i.e.*, offsetting tax less basic allowance, under this new rule is the same as the tax under present rates. On higher incomes, the regular tax schedule would apply.

The proposal thus would not increase anyone's tax liability under

TABLE 1

BASIC ALLOWANCES, BREAK-EVEN POINTS, AND LEVEL AT WHICH PRESENT INCOME TAX SCHEDULE APPLIES UNDER THE PROPOSED NEGATIVE INCOME TAX[a]

Family size (number of persons)[b]		Basic allowance (received by units with no income)	Break-even point (point at which no allowance is received and no taxes paid)	Level at which present tax rates begin to apply[b]	Present marginal tax rate at income in (4)
(1)		(2)	(3)	(4)	(5)
		H Schedule (with a tax rate of 50%)			
1	adult	$ 800	$1,600	$1,876	15%
2	adults	1,600	3,200	3,868	16
3	including at least 2 adults[c]	2,100	4,200	4,996	17
4		2,600	5,200	6,144	17
5		3,000	6,000	7,003	17
6		3,400	6,800	7,857	17
7		3,600	7,200	8,100	17
8		3,800	7,600	8,359	16
		L Schedule (with a tax rate of 33⅓%)			
1	person	$ 400	$1,200	$1,420	15%
2	persons	800	2,400	3,007	15
3		1,200	3,600	4,633	16
4		1,600	4,800	6,279	17
5		2,000	6,000	7,963	19
6	including at least 2 adults[d]	2,400	7,200	9,728	19
7		2,550	7,650	9,951	19
8		2,700	8,100	10,196	19

[a] The tax rates are 50 per cent for the H Schedule and 33⅓ per cent for the L Schedule.

[b] Assumes one-person family is a single unattached individual with no dependents and that families of two or more persons are husband and wife families and file joint returns. Assumes also that the families are entitled to the number of exemptions shown in column 1 (and no additional exemptions for blindness or old age) and use the standard deduction. Rates are those applicable to 1965 and 1966 incomes under the Revenue Act of 1964.

[c] A family of three or more receives basic allowances $300 less if only one of the members is adult.

[d] A family of six or more receives basic allowance $150 less if only one of the members is adult.

the regular federal income tax (unless, of course, taxes were increased generally to finance the plan). Under the NIT proposal the government would pay net benefits to many families who now pay no taxes. Some families who now pay taxes would be relieved of these and would qualify for net benefits. Some families who now pay taxes would pay less taxes. Other families, with relatively high incomes, would be unaffected.

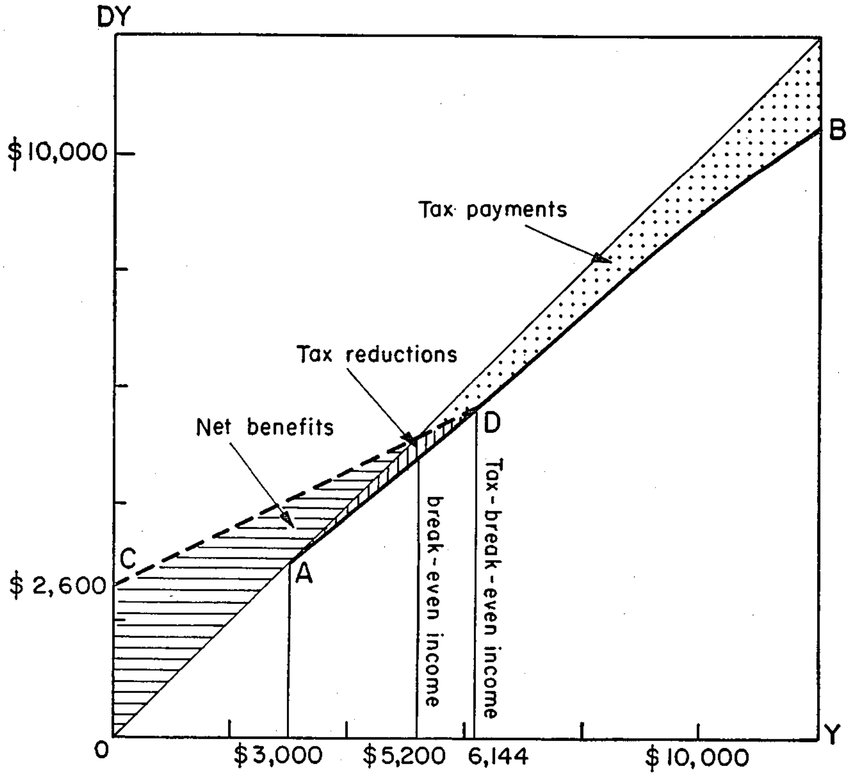
Table 1 summarizes the proposal for families varying in size from one to eight members. Column 2 gives the basic allowance, the amount to which the family unit is entitled if it has no other income. Column 3, which is simply Column 2 multiplied by two for the H-50 Schedule and by three for the L-33⅓ Schedule, shows the "break-even income"; below it the family receives a net benefit equal to ½ or ⅓ of the shortfall from break-even income; above it the net benefit is negative, *i.e.*, the family pays a net tax. The net tax is ½ or ⅓ of the excess of the family's income over the break-even point so long as the tax so computed does not exceed the present federal tax liability. The income at which the two calculations are equal for typical taxpayers is given in Column 4, and the marginal tax rate applicable at that income under the regular tax schedule is shown in Column 5.

The best way to understand the proposal is to consider the disposable income (DY) after tax and allowance which corresponds to every income (Y) before tax or allowance. Aside from modifications which will be mentioned below, Y is the total income of the family before exemptions and deductions. In Figure 1 the solid line OAB shows the relationship between DY and Y under the present tax law for a married couple with two children filing joint returns. After starting from the origin with a slope of 1, since four-person families with incomes below $3,000 pay no tax, OAB then takes on successively lower slopes as income increases and progressively high tax rates apply. The total tax is the vertical distance between OAB and the 45° line.

The proposal under the H-50 Schedule is to substitute the relationship CDB for OAB. Below $6,144 (Column 4, Table 1) families will have larger disposable incomes than they do now; the dashed line CD is higher than the corresponding segment of OAB. Those with no income will get an allowance of $2,600. Those with incomes below the break-even level of $5,200 will get some net benefits—and this group includes some families, those between $3,000 and $5,200, who now pay tax. Families with incomes between $5,200 and $6,144 will pay a smaller tax than they do now; and those above $6,144 will not be affected.

The plan must include units with incomes somewhat higher than the break-even level of $5,200 in order to avoid confiscatory marginal tax rates at that point. The H Schedule would wipe out all tax payments on incomes below $5,200. If the regular tax schedules were applied to all income above $5,200 a four-person family with an income of $5,201 would pay a tax of $322, leaving it with a disposable income of $4,879. In other words, the additional dollar of earned income would cost the family $322. The plan avoids this problem by giving the family the option to remain under the negative income tax system until its disposable income is exactly the same under the positive and negative income tax. For a family of four persons, this point is reached under the H Schedule at a "tax-break-even" income of $6,144.

Figure 1 Illustration of Proposed Income Allowance Plan for 4-person family under the H-50 Schedule



II. The Family Unit and the Allowance Schedule

A workable and equitable definition of the family unit is crucial to the success of a negative income tax plan. The two major problems are the relative amounts to be provided as basic allowances for families of different size, and the rules governing the assignment of individuals to units.

A. *Basic Allowances in Relation to Family Size and Composition*

One consideration in setting the schedule of basic allowances is the relative cost of supporting units of different sizes at the same standard of living. By this criterion a family of five should be given just enough more than a family of four so that neither is "better off" than the other. In principle a schedule of basic allowances so computed would be neutral as among families of different sizes. The basic allowance should rise with family size but not proportionately, since there are economies of scale in family consumption. Beyond this qualitative indication, the criterion is not an easy tool to apply; it tends to break apart in the hands of the user. Consumption patterns vary with income, and the economies of scale will be different for different consumption mixes. Whose consumption level should be maintained as family size increases? Parents presumably get some utility, or disutility, from having children; at any rate parents' consumption patterns are not the same as if they were childless.

Another major consideration is the possible impact of the basic allowance schedule on the stability and cohesion of the family as a unit. If there are large per capita differentials between small and large families—more than are justified by economies of scale—there will be an incentive to split up large units. For example, if a family unit of two gets a basic allowance of $2,000 and a family unit of four a basic allowance of $3,000, a group of four people could gain $1,000 by splitting into two two-person units.

In the vast majority of cases the factors governing family-unit formation or splits are largely non-pecuniary in nature. Nevertheless, it would be unwise to ignore the possibility that a financial incentive might cause families to break up, or to pretend to break up. Accordingly, the objective of scaling assistance to poor families of different sizes in proportion to their needs must be balanced against the possible incentive such a standard might provide for family disintegration. The basic allowance schedules shown in Table 1 were designed to strike such a balance. In both schedules the per capita allowance for the first two members of the family unit is the same—$800 in the H Schedule and $400 in the L Schedule. Thus there is no incentive for a couple to define themselves as two single individuals. In the H Schedule the two $800 allowances are available only to adults; otherwise there would be an opportunity for financial gain by setting up one-adult units in which a child is listed as the second $800 member.

The allowance for children declines as the number of children increases. In the H Schedule, the allowances are $500 for each of the first two children, $400 for the third and fourth, and $200 for the fifth and sixth. In the L Schedule the allowances are $400 for each of the first four children, and $150 for the fifth and sixth. No additional allowance is provided for children after the sixth in order to give some incentive to limit family size. A corollary, in all justice, is that the government should make birth control information and supplies easily accessible.

Although the schedules provide larger per capita allowances for small than for large families, the incentive to split will normally not be great. For example, under the H Schedule a family of two adults and six children would receive $4,600 if it split into four-person families, as compared with $3,800 if the group remained together as one unit—a difference of only $800. Amounts of this size do not seem to be large in comparison with the other considerations that are ordinarily significant in the decision to maintain or split a family unit. For the rare cases of families with very large numbers of children, a significant financial advantage for splitting is unavoidable. For example, the H Schedule would give a family of 12 $6,200 if it split in two but only $3,800 if it remained together.

B. *Membership Rules*

Definition of family units for NIT purposes may be the single most difficult legal and administrative problem. The intention is clear. A single adult is a unit. A married couple and their children are a unit. A widowed or divorced mother and her chidren are a unit. But rules must also cover other situations—children who live with grandmothers or aunts rather than their own parents, fathers who support children but do not reside with them, married teenagers, college students, self-supporting 19-year-olds, etc. The rules should provide for genuinely split families—some children living with father, others living elsewhere with mother—without giving too much financial incentive for apparent or real splitting of intact families. The following rules have been devised with some of these complexities in mind.

A family unit consists of an adult nucleus, plus any other persons claimed as members by the adult nucleus. Government checks are payable to the individual, or jointly to the individuals, who form the adult nucleus; and this nucleus is also responsible for payment of the offsetting tax. The following can be the adult nucleus of a family unit for the purpose of qualifying for NIT allowances:

(1) Any person 21 years of age or older.
(2) Any person 19 or 20 years of age who maintains a domicile separate from his parents or guardian and does not receive more than half his support from his parent or guardian, and is not studying full time for his first college degree. We would conclusively presume that any unmarried non-student below 19 years of age was not in fact maintaining a separate domicile.
(3) Any married couple, whatever their ages.

Individuals who are not eligible to be the adult nucleus of a unit are "children." The adult nucleus of a unit may claim children as other members of the unit as follows:

(1) Any child of whom he is (they are) the legal parent(s) or guardian(s) provided the child is living with him (them) in the same dwelling unit, or, if not, is receiving more than half support from him (them) or is studying full time for his first college degree.
(2) Any other children residing with him (them) in the same dwelling unit and receiving more than half support from him (them). An adult claiming someone else's child without the written consent of the child's parent or guardian would have to substantiate the claim.

However, no adult can claim a child without also including in the same unit any parent or guardian of the child residing in the same dwelling unit as the child. And, no adult nucleus can claim another adult without his consent.

No person can be a member of more than one unit. No person who is taken as an exemption on any regular income tax return can be claimed as a member of a family unit claiming NIT allowances. Likewise, if either husband or wife is a member of such a unit, they may not file a joint return under the regular income tax. The income of all members of a unit must be aggregated for the purposes of the offsetting tax.

In recognition of the additional expenses of college education, the adult basic allowance might be allowed for a person engaged in full time study for his first college degree, and added to the basic allowance to which the unit would be entitled if the college student were not counted as a member. Suppose, for example, that one of the three children of a married couple goes to college. Under the H Schedule the basic allowance of the family unit would rise from $3,000 to $3,400 ($800 for the student plus the schedule allowance for a unit of four, $2,600).

These rules leave open at least two possibilities that might be regarded as loopholes, but there are good reasons for retaining both. The first is that any adult could qualify as a separate unit and receive an allowance while remaining residentially, economically, and socially a part of a unit with adequate income. If this is deemed a loophole, it would be possible to plug it. But it seems consistent with good social policy and certainly with horizontal equity to assist adults who are incapacitated for independent living and employment by physical or psychological difficulties, even if they are attached to families of high income. The other possible "loophole" is that married minors would be permitted to claim allowances even though they are living with a parent. Again, this is a possibility which could be eliminated. But the advantages of giving married couples of whatever age some financial independence, even if their parents are well off, seem worth the small cost involved.

III. Definition of Income

Since the basic purpose of the negative income tax is to alleviate economic need, the definition of income should not coincide with the definition used for positive income tax purposes. The latter excludes many items of income that contribute as much to the ability of the family unit to support itself at an adequate consumption level as do taxable items. To avoid paying benefits to those who are not needy, the definition of income should be comprehensive.

A. *Receipts To Be Included in Income*

Income for NIT purposes should include many items that are specifically excluded in whole or in part from the positive income tax base. Thus, tax-exempt interest, realized capital gains, and scholarships and fellowships in excess of tuition would be included in full; income from oil and other minerals would be computed after allowance for cost depletion only; and exclusions for dividends and sick pay would not be allowed. In addition to these obvious changes from the positive income tax base, a number of other modifications seem to be necessary:

(1) The simplest procedure is not to allow any exemptions for dependents or deductions (standard or itemized) in computing income subject to the offsetting tax. The basic allowance schedule already reflects the size of unit and the standard costs of living for units of different sizes. Therefore, further refinement of the income concept seems unnecessary. The only exception might be to allow deductions for certain unusual but unavoidable expenditures, *e.g.*, medical expenses greater than some function of the unit's basic allowance.

(2) Exclusion of the value of the services of owner-occupied homes from the offsetting tax would create the same inequities as it does under the positive income tax. Mr. A does not own his home but pays rent with the $1,000 of taxable income he receives from $25,000 worth of securities; Mr. B, having sold his securities and bought a home with the proceeds, has no taxable income to report. To put these individuals on a par, the net value of the services provided by B's home should be imputed as taxable income to him. For this reason we would favor inclusion of the value of the services of owner-occupied homes under the positive as well as the negative income tax. But general reform of income taxation is not our present purpose, and it is not necessary to make the definition of taxable income the same for both the positive and negative income taxes. The reason for taxing this type of income under the negative income tax is to gear net benefits more accurately and equitably to the true economic need of the family.

The problem of calculating the imputed net rental value of owner-occupied homes is admittedly difficult. However, most persons should be able to estimate the market value of their homes by correcting their property tax assessments for the generally known rate of underassessment in their locality. The rate of return on this market value must be imputed on an arbitrary basis. At recent interest and dividend levels, a 5 per cent rate would seem fair. As under the ordinary income tax, actual interest paid on a home mortgage would be deductible from income. Alternatively, at the taxpayer's option, the canonical 5 per cent rate of return could be applied to his equity in the home—that is, its market value less the outstanding principal of the mortgage.

(3) The value of food grown and consumed on the farm should also be imputed as income. The federal income tax law and most state tax laws omit this imputation, but it would be undesirable to extend this omission to a negative income tax. It should be possible to settle on a flat per capita amount for each state (if not for each region) to be added

to the money income of farmers for this purpose. Farm families could declare a smaller amount, but the burden of proof would be on them. In addition, the value of meals and lodging provided by employers should be included in employees' incomes, at least up to the amount that the individual would normally spend for the same purposes.

(4) Whether government transfer payments should be regarded as income subject to offsetting tax will depend in large measure on how the plan is integrated with other public welfare and social insurance programs. This problem is discussed in Section III *infra.* In general we recommend that if a transfer is intended not as a payment based on need but as deferred compensation for previous work it should be counted as income. Unemployment compensation and veterans' pensions, for example, would thus be included in the NIT base. If on the other hand a payment is based on need and is designed to supplement the benefits of the NIT program, it should not be counted as income. Public assistance, the benefits of the food stamp program, and rent subsidies would accordingly be excluded from income if these programs are continued unchanged after the negative income tax took effect.

Pensions and annuities from pension plans other than social security should be included in income to the same extent that they are included in the positive income tax base. Social security benefits are not included in the positive income tax base. But if social security beneficiaries are eligible for NIT, their benefits under Federal Old Age Survivors and Disability Insurance—but not their Medicare benefits—should be subject to the offsetting tax, at least in part. They might well be included in full, since the proportion of benefits paid for by the recipients is currently relatively low, particularly among those with very small benefits. Alternatively, a standard fraction of these social security benefits might be excluded as a return of contributions previously made from taxed income.

(5) Transfer payments from relatives, friends, and private charities are as helpful in maintaining consumption as are government transfers. These gifts should not be discouraged, but neither should the government assist individuals with easy access to private sources of aid as generously as it assists others. If gifts from relatives were to be wholly excluded from the negative income tax base, adult children of very wealthy families might be eligible for negative income tax allowances. Also, inequities might arise if some individuals were more fortunate than others in the amounts of assistance they receive from private charities. We propose as a compromise that transfer income from individuals and private charities be excluded from the tax base up to an

amount equal to half the basic allowance shown in Column 2, Table 1. Amounts in excess of half the basic allowance would be included in the tax base.

B. *Integration with Public Assistance Programs*

Current disparities among states in public assistance standards greatly exceed differences in cost-of-living; they reflect other political and economic differences among the states. They are inequitable and lead to uneconomic migrations. Although migration from agriculture and low income rural areas should be encouraged, it might well be desirable on both economic and social grounds to reverse the present tide of migration into a limited number of large northern urban areas. One of the purposes of establishing a national NIT program is to guarantee a decent minimum standard of life to Americans wherever they reside.

Nevertheless, it is probably desirable to encourage states to maintain public assistance programs as supplements to the national NIT system. This is particularly true if basic allowances are on the scale of the L Schedule, since these amounts would be inadequate substitutes for existing public assistance in most states (though of course much more comprehensive in coverage). Even the H Schedule falls short of welfare payments now made in some jurisdictions. State and even local supplementation is an attractive economical way to adjust for cost-of-living differentials. States with a greater than average sense of obligation to their less fortunate residents should not be discouraged from implementing it.

However, if the states continue to administer public assistance with a 100 per cent tax on other income, the value of the NIT as a device to maintain work incentives will be diluted. Suppose, for example, that the H Schedule is in effect nationally and a state wishes to add $400 to the $2,600 basic allowance for a family of four. If the state reduces its aid dollar-for-dollar for other income earned up to $400, the incentive effect of the 50 per cent NIT rate would be negated unless the family could earn more than $400. To be sure, the family certainly has more incentive than under present welfare laws; with a $3,000 basic allowance and 100 per cent tax the family must find a way of jumping from zero earnings to more than $3,000 before there is any financial reward for self-help. But it is undesirable for even small amounts of income to be subject to 100 per cent marginal tax rates.

States should therefore be encouraged to modify their rules to avoid inconsistencies with the national plan. One possibility is to condition a federal subsidy for supplementary state allowances on adoption by the states of the federal negative income tax rules. That is, to be entitled to a federal grant-in-aid equal to, say, 50 per cent of the cost of a supplementary program, the states would be required to use the same rate of offsetting tax as used in the federal negative income tax.

At present the federal government pays an average of 59 per cent of the cost of federally aided categorical public assistance. The basic nationwide NIT program would be entirely federal; thus sizable state funds would be freed for the supplements or other purposes. The attraction of the optional state supplement plan is that it allows adequate guarantees to be offered in high cost-of-living states without entailing the expense of providing the same scale of allowances throughout the country. Also, individual states may find it desirable to allow for variations in the supplement plan within the state if there are substantial cost-of-living differences between rural and urban areas.

Ideally, the federal NIT program should be so generous that state supplements would be unnecessary. Although political and budgetary considerations probably make this impossible in the beginning, we believe that once an NIT program was adopted the federal minima would eventually become adequate. The welfare-minded states would have strong financial incentives to make the federal government solely responsible for income maintenance.

Since we view the negative income tax as a superior alternative to such welfare programs as Old Age Assistance and Aid to Dependent Children, we expect these and other categorical income-maintenance programs to be scaled down or eliminated if the negative income tax is adopted.

Whether assistance in kind should be abolished once cash assistance is increased in amount and in coverage is more doubtful. In general, we suggest that if public housing, the food stamp program and medical programs for the poor are to be continued, they should be justified, and modified, by considerations other than income maintenance. For example, under an adequate negative income tax the means test presently used in the determination of eligibility for public housing could be eliminated, and rent subsidies eventually could be eliminated. Eligibility for housing built under government programs would not depend on income levels. Public funds might still be made available by the government at rates below the market rate of interest, but these loans would be related to urban renewal programs and to the elimination of discrimination in the housing market—and not to considerations of income maintenance. On the other hand, society will not allow anyone to be without essential medical care, even if his inability to pay for it reflects improvidence rather than poverty. Therefore, it is unlikely that direct assistance in kind in the health field can be eliminated until a comprehensive, compulsory health insurance plan is adopted.

C. *Integration with Social Security*

The negative income tax might be integrated with social security in two ways. One approach would be to cover people by both social security and NIT allowances. In this case, as explained above, social security benefits would be counted partially or fully as income subject to offsetting tax.

Alternatively, if minimum social security benefits were set at levels adequate for all groups, it would be unnecessary to include the aged and the disabled covered by OASDI in the negative income tax plan. Those who are not now eligible under the social security system could be blanketed in, and the cost of their benefits reimbursed to the social security trust fund from the general treasury. This cost would be relatively small since the vast majority of retired people are already covered by social security.

Nevertheless, to raise the benefits of social security to levels high enough to make the negative income tax unnecessary for retired people would probably be too expensive to be feasible. The present minimum social security benefits of $792 a year for a retired worker and his wife would have to be raised substantially, and it is unlikely that this could be done without increasing OASDI benefits across the board. This would be an expensive and inefficient way to meet the objectives of income assistance, because large amounts of additional social security benefits would be paid to people whose incomes are adequate.

In general, it seems advisable to separate income assistance from the other objectives of the social security system and to meet the minimal needs of retired people by NIT allowances rather than by blanketing them under social security. The two systems are based on quite different principles; they can and should be operated independently.

D. *Application of the Offsetting Tax to Wealth*

There are a number of arguments for and against taking wealth into account in computing the offsetting tax. The major argument against "taxing" wealth is that *income* is the basic measure of ability to pay in the positive tax system. Reducing NIT benefits on the basis of wealth as well as income seems to impose a discriminatory capital levy on those with very low incomes. Moreover, the use of a comprehensive income tax base would prevent most "tax avoidance" on the part of recipients of NIT allowances.

On the other hand, it may be argued that the analogy between positive and negative income taxation is not appropriate. Isn't a government providing financial assistance to a family on a need basis entitled to ask the family to use at least part of its wealth in its own support? Some would argue that the family should be required to exhaust its capital before becoming eligible for NIT allowances. This is an unappealing view, and not only because it is inhumane. A 100 per cent capital levy is surely a disincentive to rainy-day saving, an invitation to improvidence for anyone who thinks it likely he will be needing government help.

In practice, the use of any except the harshest capital test would have little effect on the vast majority of poor persons. It has been estimated that only 39 per cent of all family units with incomes below $3,000 have a net worth of more than $5,000. The average net worth of all families in these income classes was $7,609, of which owner-occupied homes acounted for $3,204.[1]

Nevertheless, it seems desirable to take some account of wealth, if only to avoid the charge that the program would subsidize wealthy persons who prefer to hold their capital in forms that yield little or no current income. Currently, an individual owning $100,000 worth of IBM stock receives cash dividends of less than $1,000 per year. While it is highly unlikely that such an individual would not have enough other income to disqualify him for NIT benefits, the mere possibility that the public might be obliged to such a capitalist could discredit the program.

One possibility is to deny eligibility to any individual or family unit with a net worth of more than, say, $25,000. This solution has the merit of simplicity. However, a fixed limit would deny benefits to families with wealth just above the limit, while others just below it would be eligible. Such a "notch" would be inequitable and would create incentives to conceal or even give away wealth in order to preserve eligibility for negative income tax.

1. D. Projector & G. Weiss, Survey of Financial Characteristics of Consumers, table A-1, at 96, table A-8, at 110 (1966).

A much more equitable approach would be to impose an offsetting tax on capital as well as on income, though not at the same rate. The offsetting tax on capital would in effect require the family to use a portion of its wealth to maintain its consumption. The capital tax would be a flat percentage, say 10 per cent, of the family's net worth above an exemption, most simply stated as some multiple of the basic allowance. Thus, for example, if the minimum allowance for a family of four is $3,000, an exemption of eight times the allowance would be $24,000. A family with a net worth of $50,000 would have to pay 10 per cent of $26,000 or $2,600 as offset against the NIT allowance to which it would otherwise be entitled.

There is room for difference of opinion on how large the exemption should be. The arguments are qualitatively the same as those for and against imposing any capital tax at all. Our own balance of these considerations leads us to suggest an exemption between four and eight times the basic allowance.

Net worth should be comprehensively calculated, with the family's debts deducted from its total assets. Valuations should be made on a current market basis; where market valuations are not available, they should be approximated by expert appraisers. As observed above, the value of owner-occupied homes may be estimated in most parts of the country by reference to the average ratio of market values to assessed values in the community.

Including the value of the equity in owner-occupied homes in net worth may be regarded as too strict. This rule might force some poor people to sell or mortgage their homes. But it would be highly inequitable to require a capital offset on the part of families with other types of assets and to exclude homes altogether. Since in any case the proposal would exempt a substantial amount of wealth for each family unit, any hardship that might be imposed on poor homeowners would be minimal. If further protection against the danger of forced sales is desired, the value of the home might be reckoned, not as market value, but as the maximum first mortgage for which it would stand as collateral.

An alternative method of dealing with wealth is to disregard property income in defining taxable income and to impose an appropriately larger offsetting tax on capital. For example, a total of 15 per cent might be imputed to the family's net worth and taxed as income. The 15 per cent equals the sum of a 5 per cent rate of return plus the 10 per cent capital offset discussed above. This procedure has the advantage of correcting for differential yields on assets; it would even impute a rate of return to cash holdings. To provide for the exemption proposed earlier, the imputation might be set at the rate of 5 per cent on net worth up to eight times the minimum allowance and 15 per cent above this point. This method has the additional virtue that the form filed by the family would require only two items of information—total family earnings and net worth—whereas the other method would require the family to report property income as well. On balance, there is little to choose between the two.

E. *Fluctuating Incomes*

It is well known that a progressive income tax based on a one-year accounting period imposes a heavier tax burden on persons with fluctuating annual incomes than on those with stable incomes. For example, under present law, the federal income taxes on a single person with an income of $25,000 in each of two successive years total $17,060; if the individual receives $50,000 in one year and has no income in the second year, his two-year tax would be $22,500, or almost a third higher. To reduce this inequity, sections 1301-04 of the *Internal Revenue Code of 1954* allow a measure of "income averaging" in federal taxation. Under these provisions, taxpayers are generally permitted to average their income for individual income tax purposes if "averageable income" (current year income minus 133⅓ per cent of the average of the four prior years' income) exceeds $3,000.[2]

Similar inequities could arise under negative income taxation. But here the rate structure benefits rather than penalizes recipients of fluctuating incomes. Fluctuations in and out of the NIT income range are advantageous. Consider an individual at the tax-break-even income level, with a regular marginal tax rate of 20 per cent and an NIT rate of 50 per cent. If his income exceeds that level by $1,000 he is taxed $200. If his income falls short by $1,000, he gains $500. Over a two-year cycle he is $300 better off than if he had received the same total in equal installments.

Under plan H-50 a family of four which earns a *total* of $10,000 spread evenly over a three year period will receive $2,800 in NIT benefits. The same family, if it earned $10,000 in one year and nothing in the two following years, would pay $1,114 in positive tax and

2. INT. REV. CODE OF 1954, § 1301, provides:
. . . the tax imposed by Section 1 for the computation year which is attributable to averagable income shall be 5 times the increase in tax under such section which would result from adding 20 per cent of such income to . . . 133⅓% of [the average income of the previous four years].

receive $5,200 in net NIT benefits during the two years of zero income: its net receipts from government over the three-year period would thus be $4,086.

Moreover, there will doubtless be some instances in which the use of an annual accounting period for negative income tax purposes will provide benefits to persons who are not "poor" by most standards. Consider, for example, an individual who spends all his income when he earns it, with violently fluctuating annual income. Most people would not regard it as proper to provide negative income tax payments in one year to an individual who earned $25,000 in the year before.

In spite of these inequities and anomalies, it does not seem desirable to try to enforce income-averaging by NIT allowance recipients. Most eligible people, the real poor, gear their outlays closely to their incomes. They would suffer real hardships if their current NIT benefits were cut back because of their past income, or if in their more prosperous years they had to repay NIT benefits received in the past. The rich man who by design or misfortune turns up with no income in one particular year will usually be disqualified by the offsetting capital levy already discussed. If not, the best protection is simply to deny him the privilege of averaging for regular income tax purposes if he has received negative income tax benefits in any of the four preceding years. A rule of this sort would require any individual with wide income fluctuations to weigh the advantage of receiving negative income tax against the disadvantage of losing the benefits of income averaging. It has the obvious attraction that it is entirely self-administering and does not complicate the negative or positive income taxes.[3]

IV. Methods of Payment

Although the calendar year should be the basic accounting period, there is every reason to adopt a short payment period. Benefits should be paid weekly or twice monthly to prevent real distress among those who have little capital or credit. Such an arrangement would be analogous to the positive income tax, which is withheld weekly or twice monthly for most wage earners and is then subject to a final reconciliation for the entire year when the final tax return is filed.

Government welfare and other agencies have substantial experience

3. A statement of the rule might be included with the averaging form. It is doubtful that this refinement needs to be mentioned on the form filed by the negative income tax recipient.

in the payment of transfers to individuals and families, so that the mere preparation and mailing of NIT allowance checks poses no great administrative difficulties. The problem is to devise a method of payment prompt enough to prevent distress among those eligible and in great need for assistance while avoiding the paternalistic rules now imposed by the nation's welfare programs. Among the methods we have considered, two meet the requirements: (1) automatic payments of full basic allowances to all families,[4] except those who waive payment in order to avoid withholding of the offsetting tax on other earnings; (2) payment of *net* benefits upon execution of a declaration of estimated income, patterned along the lines now used for quarterly payments of federal income tax by persons not subject to withholding.

A. *Automatic Payments of the Full Basic Allowance*

Under this system, the full basic allowance would be mailed out at the beginning of each period—week, or half-month—to all families. The checks would be received by families who may ultimately have incomes in excess of the break-even point, as well as those who will be eligible for net benefits. Likewise, all families would be subject to withholding at the rate of the offsetting tax on the first X dollars of their earnings, and would be required to pay the offsetting tax on other income by quarterly declaration. Final adjustment would be made by the tax return for the year filed the next April 15th.

This method may be illustrated for a family of two which, on the basis of the H-50 Schedule, has a basic allowance of $1,600, a break-even point of $3,200 and an offsetting tax rate of 50 per cent, and a tax-break-even point of $3,868. The basic allowance would be mailed to all families in 24 installments of $66.67. However, withholding tables would be adjusted so that 50 per cent of earnings up to $322.33 per month ($3,868 a year) would be withheld. Taxpayers not subject to withholding would be expected to pay the offsetting tax quarterly.

4. This is the procedure used for "demogrants" or family allowances in other countries. The essential characteristic of demogrants is that the payment is made to all families in the potential eligible group, regardless of income. In some cases, the allowances are subject to positive income tax, but this is not a necessary condition. Family allowances are used in many countries, including Canada, Belgium, France, West Germany, Italy, Luxemburg, Netherlands, Sweden and the United Kingdom. For data on the European countries, see JOINT ECONOMIC COMMITTEE, EUROPEAN ECONOMIC SYSTEMS, ECONOMIC POLICIES AND PRACTICES, PAPER No. 7, 89th Cong., 1st Sess. (1965). It should be noted that universal payment of basic allowances under an NIT program does not mean everyone is benefited by the program. Most people would pay an offsetting tax large enough to repay the allowance checks. Therefore the NIT program differs in essential respects from programs under which everyone benefits, no matter how wealthy. There is only an apparent procedural similarity.

There is no reason, of course, to burden the government and the population with unnecessary exchanges of payments. Any family which does not expect to be eligible for significant net NIT benefits can always elect to withdraw. The family will not then receive the periodic basic allowance payment from the government, and its working members will not be subject to withholding (or quarterly payments) of the offsetting tax. This election could be made in writing either to the Internal Revenue Service or to the employer. In the former case, the IRS would inform the employer not to withhold the offsetting tax. In the latter, the employer would inform the government through the IRS to stop the payments.

B. *Declarations by Benefit Claimants*

The declaration method would operate as follows: At any time families who believe they are or will be eligible for net NIT benefits could prepare a declaration of expected income for the current year. The declaration might be a simple post-card form requiring information only on family composition, expected income for the year, income in the prior quarter, and (if the proposed offsetting tax on wealth were adopted) net worth. The federal government—whether the IRS or some other agency—would compute the estimated *net* benefit, basic allowance less offsetting tax, for the year. Taking account of payments already made to the family during the year and taxes already collected from the family, the agency could estimate the remaining net benefit due and pay it in weekly or twice-monthly installments. Families whose incomes increased above expectation would be required to file a new declaration to stop or reduce the benefit payments. Families whose income fell short of expectation could make a new declaration at any time. Even if circumstances do not change, a renewed declaration would be required at the beginning of each year.

The withholding system would not need to be changed to collect the offsetting tax, because it would be deducted in determining net benefits to be paid.

The declaration method would not, of course, avoid the necessity of a final accounting and settlement between the family and the government for the year as a whole. This would be accomplished, as now, by the final income tax return on April 15, which would cover obligations under both the NIT and the regular income tax. At this time the family would either claim any net benefits not previously received or pay any net amount due the government.

The major drawback of the declaration method is that it would invite many families to underestimate their income in order to obtain current payments. Claims for benefit payments would have to be compared with income information already available from prior years, from prior declarations, and employers' withholding. The computer makes prompt cross-checking of this kind feasible. Nevertheless, some families will use the NIT facility as an easy source of credit. This is not wholly undesirable, because many poor people lack credit facilities. But it would be reasonable to charge an interest penalty for underpayment of taxes or over-claiming of benefits. There will also be cases of outright fraud and these will have to be handled as severely as is fraud in the positive income tax. However, it should be remembered that the amounts potentially involved in "negative" fraud are small fractions of the sums often at stake in "positive" fraud.

It is difficult to choose between the two methods of payment. Both are workable. The declaration method would limit payments to families who expect to be eligible for net benefits and would not require any changes in the present withholding system. The automatic payment method, on the other hand, would be less likely to be abused by persons who are willing to take the chance of defrauding the government. The declaration method imposes the burden of initiative on those who need payments; the automatic payment method places the burden on those who do not want them. It may be argued that the latter are more likely to have the needed financial literacy and paperwork sophistication.

V. Budgetary Cost of the Plans

We have made a tentative and preliminary attempt to estimate the cost of the plans to the federal government. These estimates should be regarded as merely indicative and very rough. The costs are defined as the net reduction in income tax revenues which would result from superimposing the plans on the 1965 income tax code; this sum is the equivalent of the total increase in family incomes after taxes and allowances resulting from the plan. Although the tax law and rates applicable in 1965 are the reference point, the cost estimates are based on the 1962 population and the 1962 distribution of families by size and income. The reason is that 1962 was the last year for which *Statistics of Income: Individual Income Tax Returns* was published when work on these estimates commenced.

We made four sets of cost estimates covering each of the two allowance schedules in turn at the rates of 50 per cent and 33⅓ per cent.

The costs are broken down into three parts: (A) the net benefits to family units which did not pay taxes in 1962; (B) net NIT benefits, plus reduction in income tax payments, for units which paid taxes in 1962 and which would receive net benefits under the negative income tax plan (*i.e.*, families whose incomes are below the break-even points); (C) the reduction in taxes for units which paid income taxes in 1962 whose net benefits would be negative under NIT but smaller than their regular income tax liability. The cost estimates for each of the four plans are given in Table 2.

TABLE 2
ESTIMATES OF ALTERNATIVE NEGATIVE INCOME TAX PLANS
(billions of dollars)[5]

The status under present law	H Schedule		L Schedule	
	33⅓% tax rate	50% tax rate	33⅓% tax rate	50% tax rate
A. Nontaxable	22.3	18.2	10.0	6.7
B. Taxable, income below break-even point	23.2	6.7	3.3	.2
C. Taxable, income above break-even point	3.8	1.1	1.0	.1
Total cost	49.3	26.0	14.3	7.0

The estimates are based on data found in Table 18 of the *Statistics of Income*;[6] this is the basis for an estimate of the distribution of taxpaying families by size and income. In deriving these distributions we assumed that families who claim children as exemptions do not have other dependents and families who have other dependents do not have children. Secondly, it was necessary to account for the 14.1 million people who do not appear on tax returns. It was assumed that they have the same family size and income characteristics as the non-taxpaying units who filed returns in 1962. This last assumption probably leads to a downward bias in the cost estimates, as families who do not file tax returns can be expected to have very low income.

On the other hand, the costs are over-estimated to the extent that the "adjusted gross income" concept on which they are based is nar-

5. These estimates are based upon a distribution of taxpaying families by size and income estimated from U.S. TREASURY DEP'T, INTERNAL REVENUE SERVICE, STATISTICS OF INCOME—1962: INDIVIDUAL TAX RETURNS table 18 (1965).

6. *Id.*

rower than the income concept proposed for NIT. Also, against the cost of the NIT program must be set the saving on other governmental income assistance programs which it will, at least in time, substantially replace. The federal government spends $3.2 billion for categorical public assistance, and the states and localities dispense another $2.4 billion.

On the assumption that people receiving social security also qualify for negative income tax, the single largest downward adjustment in the cost estimate would result from the inclusion of social security and veterans' pensions in the tax base. On the basis of information from the Social Security Administration,[7] it is estimated that about $4 billion of OASDI benefits and veterans' pensions are paid to married couples whose total income (including social security) is less than $3,000 and to single men and women whose income is less than $1,500. Since this type of income accounts for between 50 and 60 per cent of the total income of these groups, its inclusion in the tax base under plan H-50 would increase the base by at least $4 billion and decrease the cost of the plan by at least $2 billion.

In 1962 the gross rental value of owner-occupied dwellings was estimated to be $37 billion. From the 1960 Census of Housing[8] we estimated that about 12.8 per cent of the total value of owner-occupied homes was owned by people whose income was less than $3,000. We estimate that imputing a 5 per cent return on owner-occupied residences would increase the negative income tax base by about $2 billion and decrease the cost of plan H-50 by about $1 billion. Other items, part of which would be included in the broader negative income tax base include: $500 million of capital gains accruing to taxpaying units whose adjusted gross income was less than $3,000, $1 billion of unemployment compensation and $2.2 billion of food consumed on farms.

Although our analysis is very imprecise, we estimate that the broadened tax base would save between $3 and $5 billion for plan H-50. It is not obvious whether the saving for plan H-33 would be higher or lower. For this plan the break-even levels of income are higher; therefore larger amounts of income that is not now taxed

7. *See* Merriam, *Social Welfare Expenditures, 1963-64*, in SOCIAL SECURITY ADMINISTRATION BULLETIN, table 3, at 3, 9 (October, 1964); Palmove, *Differences in Sources and Size of Income: Findings of the 1963 Survey of the Aged*, in SOCIAL SECURITY ADMINISTRATION BULLETIN, table 1, at 3 (May, 1965).

8. 2 U.S. DEP'T OF COMMERCE, BUREAU OF THE CENSUS, CENSUS OF HOUSING pt. 1, table A-3, at 1-5 (1963).

would be included in the negative income tax base. On the other hand, the tax rate is lower.

Taking into account the fact that a substantial proportion of the $5.6 billion of categorical assistance would be replaced by NIT, the net cost of H-50 would be about $20 billion, while plan H-33 would cost at least twice that amount. The net cost of plan L-33 would be around $10 billion, while the cost for L-50 would be less than $5 billion.

Clearly these rough estimates do not even begin to take account of:

(1) The growth of population and income since 1962: There are more people, but the incidence of poverty has declined. How the costs of various NIT programs have been affected is hard to say.

(2) Induced responses to the program itself: Some people may work and earn more when their marginal tax rate is reduced from 100 per cent to 50 per cent or 33 per cent, while others work and earn less when the government makes them better off and raises their marginal tax rate from zero or 14-20 per cent to 33 or 50 per cent. These responses will change the tax base, but in the absence of experience or experiment it is not possible to estimate in which direction or how much.

(3) Savings in government expenditures other than income assistance: To an unknown degree NIT benefits may reduce the need for assistance in kind such as medical care, housing and food. We believe that a generous NIT program would also in time diminish expenditures now devoted to controlling and suppressing the symptoms of poverty—crime, social disorder, unsanitary environments—rather than to eliminating poverty. But budgetary savings are the smallest consideration in this anticipated consequence of the program, and they neither can be nor need to be estimated.

Although the authors believe that it is well within the fiscal capacity of this country to adopt a generous negative tax plan, there may be in the first instance a conflict between cost, the adequacy of the basic allowances, and the objective of keeping the offsetting tax rate as low as possible. The allowance levels for plan L are inadequate for many parts of the country and this plan would have to be supplemented in some way. On the other hand, if plan H were adopted for the country as a whole, the offsetting tax rate would probably have to be considerably higher than 33 per cent because of cost considerations. High tax rates unfortunately weaken one of the basic objectives of NIT, namely to improve upon the disincentive aspects of existing welfare programs.

The course of action which we think best balances these considerations is federal enactment of plan L with a tax rate of 40 per cent. The basic allowances of this plan would then, we hope, be supplemented by individual high cost-of-living states along the lines outlined above. As the federal budgetary situation eases, the national basic allowance schedule could be gradually improved to approach plan H.

Representative GRIFFITHS. Thank you very much, Mr. Tobin.
Mrs. Winston?

STATEMENT OF MRS. ELLEN WINSTON, WELFARE CONSULTANT, AND FORMER COMMISSIONER OF WELFARE, U.S. DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

Mrs. WINSTON. Thank you, Madam Chairman, members of the committee. I have already filed a statement that I ask be included in the record, and I shall speak of some of the points in that.

In preparing this statement, I was guided by some of the questions that were sent out in preparation for the testimony. When one comes along as third in a panel, there will be, unfortunately, some repetition, or perhaps fortunately so, because that emphasizes our points.

First of all, I would like to emphasize the fact that there are millions of poor who need help now, not next year or in a later year after we have gone through the process of lengthy discussion and debate about the adoption of some system other than public assistance, such as negative income tax, or children's allowances, or some other approach that has been discussed before the committee. Therefore, I think we need to address ourselves to the people now receiving public assistance, who need more financial help today, and how we may promptly extend financial aid to those who are now eligible under existing Federal law, but not receiving assistance because of a variety of State limitations. This is particularly pertinent because of the Supreme Court decision earlier this week.

In addition, of course, to income maintenance, we need to give attention to the need for services—not services for all people, but services for those who wish to receive help in raising their level of living, strengthening family life, improving their employability, and in a great number of ways. We need to provide this help irrespective of financial status, because we find the need for services across the entire income range, such as need for a vastly expanded homemaker service program. We now have about 12,000 homemakers in this country; we need an estimated 200,000, on a minimal basis. The extension of day care likewise has to be substantial. At the present time, we have facilities for something like 475,000 young children; we need day care for an estimated 3 million young children at this time.

There is also the need for intensified counseling and help in how to get to and use the range of services that is available while we are expanding and bolstering those services, not only in the welfare field, but also in education and health, employability, and so on.

In the second place, we need to evaluate and program in much greater detail than we have up to the present time what we will require as a continuing public assistance program and the expanded community services which will be needed. Come what may, there will need to be a net of provisions to undergird those persons who, for any reason, are most vulnerable in our society. I would suggest that this should include an objective, practical, basically routine public assistance program, whether this is the continuing method of economic aid for the poor, or whether it is reduced to a smaller program through introduction of some new type of income maintenance. In the latter case, the public assistance program would then become residual, for those who have the greater economic needs or special crises which call for special help.

The Congress made it possible many years ago to provide through the States minimal income maintenance. I use the term "minimal" advisedly in relation to the amount of assistance which may be provided with Federal matching; namely, $75 per month, on the average, for the aged or disabled and $32 for a child or a parent. Within this overall framework, we have given the States really total freedom in setting the level at which they would provide help. Consequently, we have an inequitable program, a very inequitable approach across the country. When we have tried to defend this, we have noted that States with low per capita income had much greater difficulty in providing for their citizens than States with higher per capita income. But actually, the data do not support this kind of explanation.

In a release of last month, for example, we were told that the national average amount expended per inhabitant for all welfare payments in fiscal 1967 was $34.80, ranging from $75.70 in Oklahoma to $10.50 in Indiana, although the States ranked just the reverse in terms of their per capita income and, theoretically, their ability to provide adequate programs.

We also know that the distribution of funds between the Federal and non-Federal levels of government is important, with the Federal Government now providing almost 60 percent of the cost of public assistance, but that more than 40 percent of non-Federal funds is also highly important in terms of any consideration of a continuing program. I think it is questionable whether we would want to move to a totally federally supported program at this time, but obviously, the inequitable results of the present system should be reformed. For that reason, I want to call your particular attention to the recommendation of the Advisory Council on Public Welfare.

The proposal was made by the council that on the basis of a purely objective formula each State would put in a certain amount of money as the bottom layer of financing public welfare programs. Then the Federal Government's contribution would come in on top to maintain nationally established standards. It would also take care of any additional risks or changes—such, for example, as the additional number of children who now become eligible for assistance as a result of the Supreme Court decision. Such a system would include not only public assistance but also administration costs, medical care for those unable to pay, and an increasing battery of social services which would be available to people across the board. Under this recommendation, there would be a single formula which would cover all of these items.

It is important to think in terms of a single formula that covers the gamut—not that we allocate certain responsibilities at the Federal level and other responsibilities at the State level, for the simple reason that we again would have great inequities. As long as we have Federal participation in all parts of the program, we have the leverage for national standards in all parts of the program.

You raised the question as to why we need uniform national standards. I thought it would be useful to point out well-known figures, but they certainly emphasize this. For example, in March of this year, the AFDC payment per needy individual ranged from $8.50 in Mississippi to $61.45 in New York. Another measure that is perhaps just as useful, that we have not emphasized so much, is the fact that there were 22 children per thousand under age 18 in South Carolina receiving AFDC help in the same month that there were 110 per thousand in West Virginia, States which are almost equal in per capita income.

So it is not a question of having to document the need for uniform national standards, but rather, a question of how soon we are going to move to require them.

In looking at the current situation and what we need to do now, as well as what we may do in the future, is it important to emphasize again the need to remove the 1967 coercive and restrictive provisions in public assistance, and to require conformity up to the maximum financial provisions of present law, which would have substantial benefits for the very poor. We are not even taking full advantage of those ameliorative provisions in our present law in any of the States, to my knowledge.

We have seen that this type of change is very difficult. Efforts to enact legislation to require States to meet their own standards in full have not been successful. We are all familiar with the efforts that have been expended to try to remove the more restrictive of the 1967 amendments.

Again, we come to this question of diversity of the caseload, the fact that we look at the aged and the disabled and the blind from one point of view and with little criticism, even though this has not moved us to provide adequate grants generally for them. But as we turn to the AFDC caseload, there are all the questions of employability, what we do in the way of extending training, and so on. These have already been discussed by both Dr. Miller and Dr. Tobin. I would like to make one further point; that is the importance of providing supportive services in the community so that the very poor woman has the same opportunity for choice as to what she does with regard to employment and the care of her children that the women in more fortunate circumstances have. Sometimes we tend to disregard the importance of her being able to act as the same free agent with regard to determining what she considers best for her family that we take as a matter of ordinary decision on the part of most women.

I would like to reemphasize what has already been pointed out, that from our sketchy research and what we know empirically, poor women are motivated to seek jobs and to help improve the situation of their families as are women who do not fall into this category. Also, it is important as we move forward to think in terms of what we can do to stress the tremendous movement in the AFDC caseload.

For example, in 1967, cases closed represented 42 percent of the average monthly AFDC caseload for the calendar year. These are not people who come and stay on assistance to the last possible month. Rather, they go off very promptly on the average.

We are beginning to recognize that it is necessary as we look at the present program, let alone what we consider for the long haul, to move as promptly as possible to financial need as the single eligibility criterion, that we adopt across the country a simplified method for determining eligibility. This is often referred to as a declaration or affidavit. Of course, there must be test checks. The test checks that have been made show that this is just as efficient as former procedures as well as being a far more economical and dignified system.

I would like to return to the point for a moment of the persons currently eligible under Federal law who are not receiving financial aid. As of just a year ago, the Department of Health, Education, and Welfare estimate on this was 8.5 million persons eligible under Federal law not receiving assistance. This was slightly higher than the public assistance load as of that time.

Another point that has to be dealt with, and that I find cropping up in discussions of even the proposals for other forms of income maintenance, is how people spend their money. Actually, we know that most of these mothers in AFDC families do a good job. Otherwise, they would not be able to eke out a daily living for their families. We do not ask how families who receive governmental help in any of the other programs spend their money. This is one of the concerns that has to be dealt with as we look at what it would mean to give a mother enough money so that she could rear her children in some decency.

If we would extend and improve our public assistance payments so that there was simply enough money, we would reduce greatly the number of families which need some other type of special public help. I have often gone back to an experience I had in Detroit 2 or 3 years ago. While speaking to a group, an AFDC mother stood up in the back and said, "You talked about services this evening. If you would just give me enough money, I could meet the rent and pay for the other things my children need. I do not need services."

That, I think, we sometimes forget.

Another area that must be dealt with is this question of a cycle of welfare dependency. Yesterday, I had the question thrown at me. What about third-generation families on AFDC? Actually, of course, we do not have the data we need to reply precisely. This is an area in which we have been very slow to undertake what would really be rather simple research.

We do know, however, that by the time they reach 18 years of age, approximately one out of six of our young people have for a shorter or longer period been helped by the AFDC program. By looking at the population generally, we know that most of them have moved into the total society and are taking care of their families, paying taxes, and so on.

Certainly we would see this whole process of helping young people become economically independent greatly stepped up if they were given a fair chance through an adequate income as they were growing up.

This brings me also to the present law in which we now permit a working parent to retain part of his or her earnings without being penalized in terms of the AFDC grant. The law, as you well know, provides for exempting $30 plus one-third of the balance. This is a very limited concession to the poor in their efforts to better themselves. We need to work out very carefully what it really takes in the way of cash incentives to help people move themselves out of the poverty group.

We have available, while we are discussing and anlyzing and studying all of the current proposals, a blueprint for immediate reform. For that reason, I want to call your attention again to the report of the Advisory Council on Public Welfare, "Having the Power, We Have the Duty," issued in 1966. This report was supported by the recommendations of the President's Advisory Commission on Rural Poverty in 1967, and of the Advisory Commission on Civil Disorders in 1968. Even if we opt for a different system in the end, whatever that may be, it is still necessary to bring about major reform for the residual load within the framework of public assistance. Here in this report we have many of the major steps that would be necessary.

In summary, along with steps to improve public assistance that are long term in their connotations, I would like to emphasize the importance of moving now toward mandatory national standards, a change in Federal-State financing; the use of declarations across the country in determining eligibility base on the sole criterion of need; inclusion in the public assistance caseload of all who are eligible for financial aid under Federal law; more cash incentives for those who become employed; and a strengthened program of social services available to all who might require them, irrespective of economic status. Substantial changes could be made if we simply made mandatory certain provisions of Federal law which are now permissive, and if we moved promptly to repeal the restrictive provisions in Public Law 90-248.

(The prepared statement of Mrs. Winston follows:)

PREPARED STATEMENT OF ELLEN WINSTON

Madam Chairman and members of the subcommittee: My name is Ellen Winston. My comments represent my own views based on experience as the former Commissioner of Welfare of the U.S. Department of Health, Education, and Welfare and prior to that the Commissioner of Public Welfare for the State of North Carolina. I welcome the opportunity to discuss some of the problems of our present welfare programs and some of the methods for effecting change.

We know the statistics on the number of the poor we now have in this country. We know the extent to which the public assistance programs partially meet the basic maintenance needs of some of them. We know the public assistance federal legislation which is both differentially and not fully implemented by the states. Hence there is no need to summarize the current situation.

Rather we need first of all to emphasize the fact that there are millions of poor who need help *now*, not next year, not after we have gone through the process of lengthy discussion and debate around adoption of some system other than public assistance for much of the income maintenance problem. The most obvious way in which to help the very young, the very old, and the disabled *today* is by providing more money for those now receiving assistance and extending financial aid to those who are eligible under existing federal law but not receiving assistance.

In addition, there should also be available, to those who wish them, services to help raise the level of living and strength family life, irrespective of financial status, such as a vastly expanded homemaker service program from the paltry 12,000 homemakers we now have to some 200,000; extension of day care to provide for 3,000,000 young children; intensified counseling and help in using already available community resources while seeking to expand the range of such resources. Such vitally important social welfare programs need to be bolstered by expansion of other programs readily within our immediate ability to provide, such as literary education, intensive skill training, and related services.

In the second place, we need to evaluate and program in detail what we shall require as a continuing public assistance program, and the expanded community services which will be necessary, so that there will be a net of provisions to undergird those persons who for any reason are the most vulnerable in our society. This includes an objective, practical, basically routine public assistance program whether this is the continuing method of economic aid for the poor or whether it is reduced through introduction of a new income maintenance program to those who have the greater economic needs or special crises which call for special help.

Historically, the Congress through the Social Security Act has made it possible for states to provide minimal income maintenance, and I use the term minimal advisedly, related to the fact that the federal government now matches up to $75 on the average per month for an aged or disabled individual, $32 for a child or a parent. The states have had total freedom in setting the level at which they would provide help to their needy citizens in relation to this potential. Obviously this inequitable approach cannot continue. We have rather generally glossed over the situation by noting that states with low per capita incomes could not provide as well for their citizens as states with higher per capita incomes without making excessive effort. Actually the data do not support this simple explanation. According to the Department of Health, Education, and Welfare in a release of May 1968, the national average amount expended per inhabitant for all welfare payments in fiscal 1967 was $34.80, ranging from $75.70 per inhabitant in Oklahoma to $10.50 in Indiana, states that ranked just the reverse or 36th and 15th, respectively, in per capita income in 1966. We also know that almost 60 per cent of the costs of public assistance are borne by the federal government but the more than 40 per cent from state and local funds represents a significant contribution.

It is questionable whether we would move to a system which would eliminate non-federal support, throwing the entire burden on federal tax sources, but obviously the inequitable results of the present system of state-federal fiscal relations must be reformed. Thus, the recommendation of the Advisory Council on Public Welfare for an entirely new system of federal-state matching to replace the old system of additional non-federal funds being required in order to capture additional federal funds is basic. The proposal was made that on a purely objective basis the federal government would specify for each state its equitable share of the cost of a program to meet national standards. The state's share would go in as the bottom layer of funds. The federal government would then commit itself to the additional funds required to maintain the established standards and would accept the risks of any additional costs that might arise during a given fiscal year. Such a system of federal-state fiscal relations would include not only public assistance grants but also administrative costs, medical care for those unable to pay for such care, and an increasing battery of social services designed to strengthen family life, to help individuals cope more effectively with our complex society, and to promote increasing participation in community life. A single formula is not only administratively desirable, but would also provide the federal leverage for standards in all aspects of the program, not just public assistance payments.

It requires only the most cursory review of published data with regard to public welfare programs, whether they be financial assistance, medical care, or social services to recognize the need for uniform national standards. With AFDC payments per needy individual which ranged from $8.50 in Mississippi to $61.45 in New York in March 1968 or, as another measure from 22 children per 1,000 population under age 18 in South Carolina in December 1967 to 110 in West Virginia, states of almost equal rank in per capita income (49th and 47th in 1966), the case for uniform national standards is clear-cut. It is not a question of having further to document the need for such standards, with perhaps minor adjustments to take account of the breadth and diversity of the nation, but rather a question of how soon.

Even with the present public assistance system, congressional action to remove the 1967 coercive and restrictive provisions and to require conformity up to the maximum financial provisions of the present law would have substantial benefits. Efforts to enact legislation to require states to meet their own standards of need in full have not been successful to date and the history of efforts to reverse certain 1967 amendments is well known.

There is much attention to reducing the public assistance case load, especially the aid to families of dependent children case load, as clearly the aged and the disabled are less vulnerable to criticism. Certainly there are thousands of persons in the AFDC case load who can with appropriate training enter the labor market, although the numbers are small relative to the size of the program. The poor mother should have opportunity for training, for education, for family planning services, for adequate day care for children that other more fortunate women in higher income brackets accept so that the economically deprived mother may make choices as to what is best for her family and her children at a given period of time. The all too few available research reports support the empirical judgment of persons close to the program that large numbers of women receiving AFDC would welcome the opportunity to move into a job situation in which they could either partially or totally support their families.

Basically AFDC is for many of the recipients a short-term program, taking care of families during a period of crisis who then move into independent status as their situation changes. In 1967, cases closed represented 42 per cent of the average monthly case load for the calendar year.

If we are actually to meet basic need in this country, in terms of nationally adopted standards, it is essential that need for financial aid be the sole eligibility criterion and that a simplified method, often referred to as a declaration or affidavit, be adopted as the basis for determining eligibility. Reform to initiate the simple criterion of need as the basis of the individual's filing an application, with appropriate test checks, would increase substantially the number of recipients of public assistance. In much of the debate there is the assumption that most or all eligible people are receiving aid. The Department of Health, Education, and Welfare estimated that as of June 1967, 8.5 million persons who were eligible under federal law were not receiving assistance. If we were to set national standards at the so-called poverty level, and supplement those earners unable to provide for minimum decency standards of living for their families, we know approximately what the increase in recipients of larger or smaller amounts of aid would be.

The affluent of our society have a tendency to question how assistance recipients both spend their current inadequate incomes and would spend any increased funds. In the first place, the mothers in AFDC families, taking into account the whole pattern of deprivation in which they exist, on the whole do a remarkable job in using the small sums available to them to eke out a daily living for their families. We do not ask how the old age insurance beneficiary or the recipient of an agricultural subsidy spends his funds. Why, then, this preocupation with the way in which a mother of five with a total AFDC grant of perhaps $240 a month spends her money and what she would do if that grant were raised to the poverty level or $368 per month? We know that for large numbers of individuals and families just having enough money for the costs of everyday living would provide all the special public help which they require. Basically the social services needed by the poor are the social services needed for the population in general, with special attention to accessibility and availability such as provided by neighborhood service centers.

We hear a great deal about the cycle of welfare dependency. We have almost no hard data to support or refute the contention of a high proportion of third generation families on assistance. We do know that by the time they reach 18 years of age about one out of six of our young people has at some time been the receipient of aid to families of dependent children. Most of them move into the larger society as wage earners and tax payers and support their own families, although there have been few follow-up studies to document their progress.

With more adequate income maintenance so that children can attend school regularly because they are decently fed and clothed, we should increase the proportion who move into independence. Under the present laws we tend to freeze the destitute into lifelong poverty. The 1967 legislation which permits a working parent receiving AFDC to retain $30 per month and one-third of the balance of any earnings is a very limited concession to the efforts of the very poor to better themselves. We do not put such strictures upon the beneficiaries of other types of income programs.

We have a blueprint for immediate reform in the report, "Having the Power, We Have the Duty," (1966) supported by the recommendations of both the President's Advisory Commission on Rural Poverty (1967) and the President's Advisory Commission on Civil Disorders (1968). Even if we should opt for a different system of income maintenance in the end, it will still be necessary to bring about major reform for the residual load within the framework of public assistance.

In summary, among the steps to improve public assistance are mandatory national standards; a change in federal-state financing; the use of declarations in determining eligibility based on the sole criterion of need; inclusion of all who are eligible for financial aid under federal law; more cash incentives for those who become employed; and a strengthened program of social services available to all who require them, irrespective of economic status. Substantial improvements could be made by certain changes from permissive to mandatory provisions in existing law and by repeal of the restrictive provisions in P.L. 90–248.

Representative Griffiths. Thank you very much, Mrs. Winston.

Mr. Tobin, may I ask you, under your plan, if you had a family group on a negative income tax getting some support and a 15-year-old girl in that family had an illegitimate child, would she file and draw on her own, or does she draw as the child of the father? Do you increase the allowance for that?

Mr. TOBIN. They would still be in the same family unit in which the 15-year-old girl was residing.

Representative GRIFFITHS. Supposing she married the 15-year-old boy responsible and they set up a separate group. Do they draw?

Mr. TOBIN. Yes, that was in our proposal; any married couple could be a claiming unit, regardless of age.

Representative GRIFFITHS. Exactly how much would they then draw? They have nothing, absolutely nothing, except the baby. What would they draw?

Mr. TOBIN. Well, we have these alternative schedules depending on the degree of general support you want to give under a plan. But there is an amount that is designated for each of the first two adults, or parents, in the family unit, and then for a child. On one schedule they would draw $800 for each of the two parents, and $500 for the child.

Representative GRIFFITHS. Suppose that the girl does not marry the boy, but continues living with her family until she is 18; then she moves out on her own. Can she draw?

Mr. TOBIN. I think we have an age minimum of 19 at which a child may become an independent unit.

Representative GRIFFITHS. And supposing the boy who is out on his own at 18, can he draw? The father?

Mr. TOBIN. Yes, he can be an individual unit also, if he is not in school. I do not think we have the minimum age at 18. I think we have it at 19.

Representative GRIFFITHS. OK, we will make it 19. Would they draw more if they lived together with the child than the sum of what each would draw individually?

Mr. TOBIN. No; it would be the same amount then.

Representative GRIFFITHS. Exactly the same amount?

Mr. TOBIN. I think so. Each of the first two adults of a unit is given an adult allowance, and the child is given the child's allowance. So whether they form one unit or two, it would be the same total.

Representative GRIFFITHS. When you have such a family tie, why do you not give them a larger amount?

Mr. TOBIN. Well, I would have to figure out a way to do that. Under your first example, they do get more in the sense that they can become an independent family unit before the age of 19 by being married.

Representative GRIFFITHS. Then would you think that this would have a tendency to encourage earlier and earlier marriage? There are an awful lot of girls under 18 years of age having babies.

Mr. TOBIN. I am not sure whether it would encourage earlier marriage or not. If it did in those cases, I would think that might be desirable.

Let me remind you also that under our plan, if there were actual transfers from the parents to this hypothetical unit of young parents and their child, those transfers above a certain minimal amount are supposed to be counted as income for the purpose of determining benefit. So there is a protection in the suggested scheme against their continuing to receive, let us say, a lot of support from the parents involved, and also claiming money from the Government as if they were a completely self-sufficient unit.

Representative GRIFFITHS. But somehow or other—and, of course, we have a lot of laws that really are penalizing marriage. Social security penalizes marriage. You do better if you are not married. So it seems to me that if you really want to help these people, and if you want a child reared in a home where there are two parents, then there should be some type of reward.

Now, I notice that you pointed out that you did not harm the family because the father was present in the home.

Mr. TOBIN. Yes.

Representative GRIFFITHS. But should we not do something really more than not harm them? Should we really not reward them?

Mr. TOBIN. Well, perhaps we should. I would like to think of how to do that, but at least the minimum that we agree on is that we should not be discouraging marriage and we should not be giving incentives as the present system does to desertion and nonformation of families.

Mr. MILLER. One minor difficulty is that as you multiply the objectives you want to reach, you make the apparatus more and more complicated. Now, where we have the man-in-the-house rule, we follow the notion of giving a bonus if there is not a man in the house. A family-centered policy might lead to a man-out-of-the-house investigation to see whether or not the father really stayed there all the time. It seems you have to be sometimes modest in what you expect the system to do, because the apparatus to handle all these other objectives really cannot be accomplished in any simple way. Every system builds in difficulties at the same time it pursues some objective.

Mrs. WINSTON. We do know, Madam Chairman, that if we were to make aid to the needy children of unemployed fathers mandatory, we would be helping to strengthen family life. This is one of the examples where, through lack of needed legislation, we promote the breakdown of families.

Representative GRIFFITHS. I just happened to find out how this business really works in Detroit by a single case. Maybe it is the only such case in the whole Nation, but I was astounded.

I knew a woman who had four children. Her husband worked for one of the automotive companies. His income was about $8,500 a year. When he discovered that as the children began to graduate from high school, she intended that they go on to college, he said, "I have had enough of this; I intend to have some fun, myself," and he left her. They got a divorce. She told me that he lived with a woman who had eight children drawing ADC and that he, the ex-husband, had told her personally, ADC is going to pay for that house.

I assumed this was ridiculous, and I called up the welfare. As a matter of fact, that was the way it was being done. He was living in the house. He was presumably renting it to the second mother. He lived in the house and the ADC was paying for the house, only it was going to be in his name.

Now, of course, in his case, I think it would have been very difficult to reward him. He was doing mighty well—you could not have made marriage to that woman with eight children more attractive to him. In some of these plans, you are going to have to make it better to be married than it is not to be married if you are going to have children raised in a legal family.

Mrs. Winston. Yes, up to a point.

Representative Griffiths. I have been sitting waiting now for 2 weeks for somebody to tell me that if any of these plans went into effect, we were going to get rid of some other laws or some other costs or something. I would really like to settle the point.

One person has suggested that we repeal the minimum wage. Under your plan, Mr. Tobin, do you think it would be possible that you do away with workmen's compensation, unemployment compensation, social security and old age assistance, or any other thing under your plan? If your plan went into effect, would it be possible to get rid of any of these plans?

Mr. Tobin. The ones you mention you would not want to get rid of, and I do not think you could get rid of—workmen's compensation, unemployment compensation, old age and survivors insurance. These are examples of plans which are designed to give income payments to people not just on the basis of need but largely on the basis of previous employment and previous contributions. Eligibility has been earned by the individual by previous work or by contributions to the system. You know, social security is not a welfare program, it is a national insurance system, including a national retirement system. We certainly could not get rid of that, because it serves a very important function, different from public assistance. We could, with a sufficiently generous negative income tax plan, supplant public assistance.

Representative Griffiths. I agree with you that social security should be a pension system, at least. But I get voted down all the time. Everybody else is trying to make it into a welfare system.

Mr. Tobin. I think we should move in the direction of making social security more a purely contributory, actuarially computed retirement system, putting income assistance based on need into other programs, such as the one I am suggesting. It would take a long time to do that kind of disentangling, but I think if you adopted that as the spirit you wanted in social security, we could move in that direction.

Representative Griffiths. I could not agree with you more. It is being paid for by the great industrial States but being made into a welfare system for the poorer States.

Mr. Tobin. But we do not want to move in that direction without doing something which takes the place of the welfare which is now being given under the aegis of social security. So I would not throw it out without something to put in its place in that respect.

Representative Griffiths. My time is up.

Senator Proxmire?

Senator Proxmire. Dr. Miller, you say in your prepared statement that the programs needed to produce a full employment program for the poor require the kinds of efforts on a national scale which are not politically or economically acceptable today. Then you go on to describe what you mean, and you say a very low general unemployment rate, a considerable subsidy to business, and the expansion of public employment in order to guarantee employment.

I think this is a very, very realistic statement, and I think this is our problem. This is what we have to work on and start improving and changing if we are going to achieve these things.

No. 1, how low a general unemployment rate do you feel we have to have to make this workable?

Mr. MILLER. Around 3 percent.

Senator PROXMIRE. In other words, substantially lower than it is now. We have to eliminate another half million or so unemployed if we are going to make it work.

Obviously, if we pass the tax hike-spending cut proposal that is up for a vote in the House, and everybody expects it to pass and the Senate will be looking at it, we are further away than we are at the present time. The expectation is that this will move us to 4, 4.5 percent unemployment, and we would have farther to go to achieve this objective.

Also, we would have a different kind of problem and a much happier world, but if the Vietnam war should end, which I understand involves about 3 million jobs or more, 1 million direct, and 2 million indirect, you would have a different kind of problem, but you would have the problem. You would still have a long way to go to reach this 3-percent unemployment; is that correct?

Mr. MILLER. I am afraid you are right.

Senator PROXMIRE. Now, when we move into the subsidy to business, what do you mean by that? How big a subsidy? How expensive will this be?

Mr. MILLER. The programs now on the board are going up to $3,500. I think in some cases it will have to be that high.

Senator PROXMIRE. I am talking about overall. What will be the cost of them, the budgetary cost?

Mr. MILLER. It will be close to $2 billion for a half million jobs.

Senator PROXMIRE. Do you think a half million jobs will be enough? Of course, it depends on the circumstances we described.

Mr. MILLER. If you have to take up where the public sector is being reduced, it will be much bigger.

Senator PROXMIRE. If we follow the policy all the economists are telling us to follow and exercise this drastic fiscal restraint, if we do, then you are obviously going to have to subsidize to a greater extent, and somehow solve what I think is the toughest economic policy problem I have ever seen. I do not know how we can go in both directions at once, but that is what we are told to do by economists. None of them seems to have an answer to it.

Then you talk about expansion of public employment. How much does the public employment have to be expanded?

Mr. MILLER. Again it depends on what is happening in other sectors. I think two different kinds of things have to happen there. One is an expansion of jobs which are pretty much like the jobs now, or like new career jobs. That might be a half million to a million. But I think a new kind of job has to be introduced, supported by the public sector but not necessarily run by the public sector. Along the lines of what I know Mrs. Griffiths is concerned about, there are going to be people who are not going to be pulled into regular jobs or quasi-regular jobs, even the kinds of jobs we are talking about in the private sector with Government subsidies. I think we have to look upon a new kind of job which is flexible, which accepts people who are not regular workers.

Senator PROXMIRE. Give me a couple of examples.

Mr. MILLER. Well, you set up a job in private enterprise, where you recognize that they are doing a useful production that is marketable and profitable. But these are irregular workers. They are not going to show up every day from 9 to 5 or 8 to 4. They may not show up 5 days a week. It is a high-cost product which is subsidized. The notion is that it is a long-term program, that hopefully, over 5 or 8 years, these men might become regular workers.

Senator PROXMIRE. Why should it be that bad? Did we not have an experience in World War II where we achieved a level of unemployment which I think all of us would agree was about as good as we could get, all those able to work, who wanted to work, except the fractional unemployed. We had a tremendous number of people in the Armed Forces, of course, and enormous proportions of our people were in the munitions industry. But most people who worked were productive, they came to work on time, worked 5 days a week, and so forth. Do you have to create jobs that are designed for people who are just this incompetent or irresponsible?

Mr. MILLER. I think it is a residual, small program of perhaps, at the most, 200,000. I agree with you on your position that an economy that really demanded labor would pull most of the people in. We seem to be so concerned about 100,000 or 200,000 men not working, but I think we can make a special effort here. The conditions of wartime, the special appeal and drama of war, the willingness of employees to lower their standards, cost-plus contracts—a whole variety of things, I think, went into an employer's willingness.

This is not a big program; I agree.

Senator PROXMIRE. I would like to ask Dr. Tobin to speak to this, too, and Mrs. Winston, if she would like—I have great respect for all of your ability. I know Dr. Tobin extremely well, and the marvelous record he had as a member of the council. Do you know of any study that shows how we can do this job and still meet the inflationary problem that is so apparent to us right now, today, at this moment, when we are told that we cannot continue to have a 3.5-percent unemployment rate and heaven knows not a 3-percent unemployment rate without inflation? We just cannot do it. Economists like to talk about the Phillips curve as the tradeoff between unemployment and price stability. Whether you are providing additional employment which both you and Dr. Tobin emphasized as a very important part of this, or whether you are providing a payment to people who do not work, but whose consumption will increase demand—it seems to me you have a very tough inflation problem.

Do you know of anybody who has dealt with this problem, or has done any thinking in this area?

Mr. MILLER. I no longer call myself an economist, so I feel freer to talk about it sometimes.

Two things, one of which is always talked about. That is the imposition of price and wage controls, with the price which is paid for that politically——

Senator PROXMIRE. You are not proposing that?

Mr. MILLER. I would not dismiss it out of hand. I think it is worth looking into, with the economy we have today, rather than a wartime economy.

The other is moving in the direction of looking at this as a much more complicated way of income than we have now, moving toward the notion of deferring income to a certain extent. Instead of wage increases being fully operative and paid now, some of this will be deferred, with interest accumulated over some period in the future. I think that it can be called upon at the time when the economy needs additional income, looking upon the income stream as something which does not have to be paid out on an annual basis, but over a 10- or 15-year basis.

Senator PROXMIRE. What you are going to have to do one way or another, if you are going to provide greater income for those who are unable to work or do not have an opportunity to work and more jobs and at the same time not strain the economy, is to have a higher level of taxation for those who do have jobs, to reduce their consumption so you bring demand and supply into balance at a lower level of employment. You have to be honest about this. There is going to be a tough taxation problem that I think the Congress is going to have a terribly hard time with.

Mr. MILLER. I think it makes it a little easier with the notion that there is deferred income, that at some time in the future, this can be called upon as income or as capital. I think we are enamored too much of the year in thinking about policies, in thinking about income.

Senator PROXMIRE. Well, you know, the problem is that each year we would have had this difficulty, it seems to me, of how to get below 3- or 3½-percent unemployment, which as you say we have to do, and still avoid inflation.

Dr. Tobin?

Mr. TOBIN. Well, I am afraid that the question you ask has no solution. I do not think anyone in this economy or in any advanced industrial democratic society knows a way to have both tolerable levels of high employment, or low unemployment, and price stability. The institutions of the economy and the society seem to be such that if you have the kind of low unemployment that all these countries want to have—Western Europe, the United States, Japan—you are also going to have some degree of creeping inflation. I think we are sort of fooling ourselves if we think that there is some way of having both of those goals achieved fully at the same time. I do not think we know any way to do it.

Senator PROXMIRE. My time is up, but I would just say I am not talking about a creeping inflation. I think almost everybody would settle perhaps for 1- or 2-percent inflation. We are now at a level of close to 4 percent, as you know. I would be willing to think hard about accepting that if we can get a much lower level of unemployment. The problem, however, that seems to convince everybody, including almost all of your profession, is that it is going to go much higher if we drive ahead and try to get unemployment to a lower level.

Mr. TOBIN. I am not sure we need to get unemployment by aggregate measure to a lower level than 3.5 percent in order to do the kind of job we have been talking about today. It is true that the higher we have the rate of unemployment on a national aggregate level, the more specific efforts we will have to take to place unemployed workers who are in the category of poverty and who are unskilled, untrained, less well educated. More specific efforts will be needed because less of that job will be done by the natural forces of the labor market. That does not mean it cannot be done. I think it can be done, but we will have to make more effort and spend more money to do it if we have 3.5-percent unemployment than if we have three.

Representative GRIFFITHS. Mr. Rumsfeld?

Representative RUMSFELD. As we have proceeded through these hearings, I think everyone has been aware that what we have is not perfect. We are seeking something better. But we are also aware that to those who would change what we have fails the responsibility to substitute something better. I keep coming back to one thing, and I would like to pose it to the three of you. There is no question that there is some appeals to much of what has been said during these hearings, and regarding the concept discussed this morning. It seems to me that we would agree that in all economic levels of our society, there are going to be people who are not usefully employed because of physical health. One of the problems is alcoholism—if an alcoholic is at the lower end of the economic spectrum, he is called a wino; if he is at the top end, say he is a member of the country club, we say it is someone who has not found himself. But the problem is not terribly dissimilar. Also involved are mental retardation, mental illness, personality irregularities. On the one end, such a persons is a social misfit, on the other, he is someone who is a bit eccentric. Then there are people in transition plus the very old, and the very young. I think we can set all of these aside and say they have to be provided for and dealt with by our society. These people are not really what we are talking about here, in my view. We are talking, of course, about everyone else who is not usefully employed, gainfully employed.

Now, we have discussed this question of what the changes in our society bring. What does automation do to our society? Does automation provide more jobs; do the technical advancements that are taking place provide more jobs or do they in fact provide fewer jobs and therefore, over a period of time, are we going to be having more troubles? Practically every person that is asked indicates that automation in fact does provide more jobs, contrary to what some have thought over a period of time. There is no question but that it changes the jobs and provides matching difficulties. But if automation does in fact, and what is going on in our society as far as technical advancement do in fact create more jobs, then is the problem in providing income or dollars, or is the basic problem and thrust providing jobs?

Now, I am not going to try to say we should walk down one road, but I am thinking more of focus, and I am particularly addressing this to Mr. Tobin. If jobs plus social services and those things that Mrs. Winston was referring to are the answer, then there is a matching problem—a training problem. It seems to me that is the basic problem and it is a problem of not just of a job, but a job that is purposeful and meaningful, because I think this is very important to an individual's attitude; also, it must be a position or a job that has some potential for advancement.

I bring this up because if we get locked into a discussion of income maintenance, I fear that it would be putting the focus in the wrong place. I was impressed particularly with Mr. Miller's remarks. I wonder why it might not be better possibly to set as a goal a purposeful job for all who wish it, whether it is in the public, private, or private nonprofit sector, with the kinds of things Mr. Tobin is talking about, in terms of income maintenance only during a temporary period. Otherwise, the focus, it would seem to me, Mr. Tobin, would be on the income maintenance rather than on what, if these assumptions I have made are valid, would be a more appropriate goal, namely, useful employment.

Am I off the track? Is that what you think, or is there some distinction you would like to draw?

Mr. TOBIN. No; I think I would very much agree with you. The ultimate objective is to have a society in which everybody—with the exceptions you began with, which are going to happen on a probability basis all the time—will have the earning capacity to provide himself and his family with a decent living. I think that is the basic objective of the war on poverty, eventually to see to it that our educational system, the general social environment in which people grow up, our training programs supplementing the normal educational system, will equip everybody with earning capacity. I do not see any reason to believe that this cannot be achieved.

Of course, there will always be some situations where people have exceptionally large families early in their life compared to the state of their earning capacity, education and experience. We will need plans of income maintenance of some kind to handle that kind of gap. But essentially I think you are right in stating the objective. But I do not think it is an easy task or one that is going to be accomplished very quickly. That is because of the inherited neglect of a large part of our educational system, the intrinsically great problems in making it perform in the way that does the job you are talking about. So meanwhile, I think we are going to have a fairly long period in which we do need an income maintenance system which takes care of the remaining gap between people's earning capacities and their needs, as well as taking care of the members of society who are just out of the job market either for reasons of personal disability.

Representative RUMSFELD. It seems to me that the "meanwhile" becomes rather important. To get from point A to point B, you have to step off and aim for point B. As I have listened to some of the discussion on a negative income tax, I have gotten the impression that some people are beginning to think of it as the goal—namely, sufficient cash income. I do not think we are going to arrive where we want to arrive if we point toward income maintenance as a goal. The goal should be something very different. I wanted to sort out whether you agreed and you indicate you do have a "meanwhile" in there.

Mr. TOBIN. Oh, yes. But the kind of negative income tax system we are talking about is a system that would phase itself out as the earning capacities of the relevant population grow. Surely no one, I hope, who is advocating this kind of reform of the income maintenance or income assistance system believes that adopting it is a reason for abandoning or not increasing our efforts do improve the educational system and these other basic factors in the provision of earning capacity.

Representative RUMSFELD. I would say that those who think that automation and what is happening in our society is reducing jobs obviously would come to a logical conclusion that, therefore, our society has to make some provisions, such as annual income to take up that gap. To that extent, also, people have argued that you would not need the various welfare services and the types of personal guidance and development programs, apart from job training programs, and it seems to me that if one argues that way, then he has to have concluded the former rather than the latter. I am not saying you have.

Mr. TOBIN. I would like to disassociate myself with anyone who feels that automation is going to make jobs unavailable. To the contrary, I think that for the foreseeable future, for a long time to come, working and jobs are going to be the main way in which purchasing power gets distributed in this country. Certainly, the reason that I, and I think most economists, would advocate a negative income tax scheme or guaranteed income is not because we think it is a necessary thing in order to distribute purchasing power because this cannot be done through the job and employment system. We favor it just because we are interested in the humanitarian objective of helping people have a decent standard of life in this society.

I understand what you mean now, so the answer is definitely that the basic thing is to improve earning capacity, and if that is done, I am sure there will be plenty of jobs, automation or no automation. This is a program which is meant to provide people to whom society has not given this amount of earning capacity an opportunity of living in a decent way.

Representative RUMSFELD. My time is up. We are on a rollcall.

Representative GRIFFITHS. Thank you for participating in the quorum.

I would like to ask you, Mrs. Winston, since you compared South Carolina and West Virginia—22 children in a thousand are picked up on AFDC in South Carolina compared to 110 in West Virginia; right?

Mrs. WINSTON. Yes.

Representative GRIFFITHS. At what amount was each child picked up?

Mrs. WINSTON. I cannot give you the actual grants that are made, which are very low in both States. We can put this in the record.

Representative GRIFFITHS. Just put that in the record.

(The following was subsequently supplied:)

In March 1968, the average payment per AFDC recipient was $18.55 in South Carolina and $25.60 in West Virginia.

Representative GRIFFITHS. Do you happen to know if there is a greater outmigration from West Viriginia or South Carolina?

Mrs. WINSTON. I would anticipate that it probably is greater out of South Carolina, but this, too, would have to be checked.

But I do not think that is basically the reason.

Representative GRIFFITHS. That is the next question: In your judgment, do greater welfare grants in industrial States draw people? Do they have any tendency to draw people into those States?

Mrs. WINSTON. We have not had any evidence, to my knowledge, that people move because of the expectation of getting assistance or getting higher assistance payments than they would in their home

States. We have several States and, of course, New York is a shining example which had no residence requirements over a period of years. There has been very minor effect upon the public assistance caseload that can be related to people moving for that reason.

Representative GRIFFITHS. If the Federal Government took over the welfare system completely and paid a uniform allowance, whether it was called a child allowance, a negative income tax, or whatever it may be called, and the money went into every State, exactly the same amount, do you think that it would have any tendency to maintain people in the areas where they now live?

Mrs. WINSTON. I do not think there is much question about that. It is old sociological theory that people move because there is both a push and a pull. And by making life more tolerable for people where they are, you reduce the push. I think there would be little question that can be related to people moving for that reason.

Representative GRIFFITHS. Of course, the real truth is that this will be one of the real arguments used against the Federal Government taking over, because there would be people who would prefer that the poor move and as quickly as possible and that they move into the major cities. So we continue to make more difficult the problem of major cities.

Mrs. WINSTON. Again, there is general opinion that there are some forces in some of our States which are interested in more people moving. I think on the other hand, we need to do an overall evaluation of this. For example, we do not have very simple data on the economic impact of public assistance. I turn to Mr. Tobin and his colleagues on this. If you increased the benefits which are paid to people—after all, these go into the economy immediately and turn over very, very rapidly—the State would derive more taxes through sales taxes of one kind or another. This has quite an impact upon the local economy.

Representative GRIFFITHS. I wonder if the local economies ever thought of this.

Mrs. WINSTON. Indeed they have, particularly rural storekeepers.

Representative GRIFFITHS. They do realize it?

Mrs. WINSTON. They realize this and how much of their own well-being is dependent upon those public assistance checks in the neighborhood. But we really have not followed this through.

Representative GRIFFITHS. Why in your opinion do not the rural poor protest?

Mrs. WINSTON. I think you have to take a good hard look at the rural poor and the ones who migrate out and the fact that you tend to have a building up of the very old and the young and the women whose men have moved. You have to look at the educational level. You have to look at a whole variety of factors that can promote protest in certain areas among certain groups as contrasted with others.

Representative GRIFFITHS. What, in your opinion, would be necessary in the matter of welfare payments or could welfare payments themselves do anything to strengthen marriage?

Mrs. WINSTON. I am glad you brought that point up, because I would like to make a comment in connection with your earlier questions. We have no national family policy in this country. If we had a fairly clear-cut policy around which we could develop legislation and against which we could test legislation, I think we would help to cut away some the underbrush. What we do now is simply take a step here and a step there, but without any solid, central, philosophical core.

Coming more specifically to the latter question about how it might promote marriage, certainly at this point—from the very beginning, really—we have used the AFDC program to discourage stability of the family. The man has had to get out, and he still does in most States, for his children to receive assistance. We again talk empirically because we do not have the research we should have. But where we provide for the children of the father who is temporarily unemployed—and those men go back to work on the average within 9 months—we are doing a good deal to support the continuation of a stable marriage. We not only promote desertion, which is the result of the policy that there is no employable father in the house, but we also encourage divorce in certain situations, because the man knows that his family will be picked up on AFDC in terms of their total need. So the weight of the empirical ethics, let us put it that way, is on the fact that if we had a basic family policy in which support was provided, we would at least not have the negative effects that we now have with regard to marriage. Hopefully, we would see rather strong positive effects.

We have in the more affluent sphere a building up of evidence that as people become economically secure, we tend to promote stability of the family. I think we might transfer some of our learning from the other side of the situation to this. At least, I think it is worth a try and we have not given it a try yet.

Representative GRIFFITHS. The greatest criticism that I hear on ADC, and I might say I hear this from school superintendents, is that teenage girls graduate or drop out of school and there are no jobs available. But they have available to them an excellent source of income at once. All they have to do is have a baby.

Now, if you substituted a system where that girl at 18 or 19 could draw money on her own anyhow, do you think that it would have any tendency to reduce the illegitimacy rate in this country?

Mrs. WINSTON. Madam Chairman, I think that over the years we have tended to make too much of a relationship between the availability of AFDC and the illegitimacy rate. There are other forces in our society that are leading to the increase in the rate of births out of wedlock. We find these births in all income groups. We still conceal them a bit better in the higher income groups than we do in the lower income groups. If my figures are correct, our highest rate is among women in their 20's, not among teenage girls. So I think the first point we need to make is that we really have no evidence that there is this direct relationship, although I know it is in all the discussion about the effects of public assistance.

Representative GRIFFITHS. There is no question that we are drawing more and more children onto ADC, is there?

Mrs. WINSTON. Oh, the number of children on AFDC is going up.

Representative GRIFFITHS. We are supporting about 5 percent of the children in America today on it, and in a brief time, it is going to be 10 percent, is it not?

Mrs. WINSTON. If we really did a comprehensive job in coverage of poor children, we would have a much higher proportion on AFDC than we now do. But you have to look at the fact that the AFDC payment in many States is very little. This is not really encouragement to have a baby simply for the purposes of drawing an AFDC payment.

I think another thing we have to look at is the proportion of the caseload which is due to births out of wedlock. This is relatively low. The major reason for the caseload is desertion. Then we know that only about one out of every five children born out of wedlock in this country is on assistance at any given time. It looks from all the evidence as though we overemphasize this particular relationship.

Representative GRIFFITHS. But still, it would be interesting to test it, to see whether or not, if a girl were given a certain amount of money at 18 or 19, this tended to reduce the out-of-wedlock births.

One of the other things I think should be pointed out is that while we talk about desertion and that children are taken care of under ADC, most people get the idea that it is the father deserting the mother and I would assume that in a large part of the cases, this is true. But nothing is said about the fact that in many cases, it is the woman deserting the man.

Mrs. WINSTON. I think this is a very small percentage. After all, over 90 percent of the cases are headed by mothers.

Representative GRIFFITHS. This is not so strange an idea in the areas where the social worker is dealing with the problems at the grassroots level. They tell me it is a remarkable phenomenon that women leave the husband or won't marry the father of the children, who seeks to marry the mother, and when they haul them into court, the husband wants to support the children, does not want them reared on ADC. This is not quite as uncommon as it is believed.

I would like to say one more thing, and then if you will, Senator Proxmire, I would appreciate it if you would take this hearing over.

During World War II, at least as far as I know, the factories of Detroit were filled with employees who did nothing. The Government was the purchaser. The companies were paid from public funds the employment wage plus a percentage, so that they hoarded labor to an extravagant degree. I happened to have been walking through a plant one day when one man bumped into another and he fell completely flat in the aisle. He was asleep. We have had really some instances in this country of testing out what would happen where the Government paid the price and there was not much unemployment.

Thank you very much. I want to thank all of you for being here. I intend to go vote against the tax conference report now.

Senator PROXMIRE (presiding). Good, I wish I could vote with you.

Apropos of that, Dr. Tobin, I want to follow up what I was last discussing with you. I either let you off the hook or you finished your answer in a way I could not understand. We have a serious inflationary problem now. We have had a serious inflationary problem when unemployment has gotten below 3½ percent. There have been few exceptions, but generally that is true except where we had price controls. If we followed a policy of providing a substantial payment to people who are not receiving that payment now, if we follow a policy of trying to reinforce that program by providing, making jobs available that are not available now, do you not have an inflationary problem of a greater degree than we have at the present time?

Mr. Tobin. Oh, yes. If we were to put into effect a more adequate welfare program, a negative income tax or a more adequate training and employment opportunity program for the poor people that we are talking about, that is going to cost money and as far as its economic effects on the general level of aggregate demand is concerned, it has to be offset either by taxes or by reduction in other Government expenditures.

Senator Proxmire. But the tax increase, the offsetting by taxes, seems to put you in the position again of to some extent increasing your problem of providing jobs. As I understand it, Gardner Ackley, when I wrote him last year and asked him the impact of a 10-percent increase in taxes, said it would in his view eliminate over 30,000 jobs. I think he was being very conservative. If you count with that a $6 billion cutback in expenditures and about a $12 or $13 billion cutback in appropriations which you would have to have to get that cutback in expenditures, it is my understanding that it would decrease 600,000 or 700,000 jobs or more. So if you increase taxes to pay for this, do you not have the problem of continuing a situation in which you have a high or relatively high level of unemployment in terms of trying to solve this problem? Can you do it without price controls, or what other mechanism is there?

Mr. Tobin. You can put in this program and you can make its effects fiscally neutral, neutral in its effect on inflation and on the general employment rate, by matching in a suitable way the increase in expenditures for welfare and for relief of poverty with other adjustments in the Federal budget, either on the tax side or the expenditure side. So if you are talking about a program on the expenditure side, then that can be neutralized at whatever level you are operating the economy by taxes or other economies in Government expenditure.

Senator Proxmire. I think that is undoubtedly correct. You can do it. My question is how big a tax program are you likely to have before you can achieve this equilibrium at a very low level of unemployment and at an adequate level of income maintenance?

Mr. Tobin. What I am trying to say is that the question of the level of unemployment on a macro-economic or economy-wide basis—whether it should be 3.5 percent, 4.5 percent, or 3 percent—that is one decision. That is a decision about the general thrust of monetary and fiscal policy in the economy. That is the type of problem you are faced with right now in the proposed tax surcharge and the $6 billion cut in Government expenditure.

Then there is another question, a distributive question, the question of the distribution of job opportunities and of income and wealth, helping the poor.

Senator Proxmire. The two questions are related, are they not? They are not separable?

Mr. Tobin. They are separable.

Senator Proxmire. Well, they are separable in a sense, but they are related in that if you have a level of 4.5 percent unemployment, as you might have next year, then you have a bigger problem of providing for greater payments under your negative income tax, greater payments to provide or greater subsidies to provide jobs either in the business sector or in the public sector.

Mr. TOBIN. It is more difficult to do something about poverty in a situation in which the general economy has 4.5 percent unemployment than it is today when the general economy has 3.5 percent unemployment. So the more you try to stop the inflation by deflationary or disinflationary fiscal or monetary measures, the tougher you make the job of the relief of poverty and of providing opportunities for people at the low end of the job lines and so on. That is true.

What I meant to say is this: Suppose that the wisdom of the Congress chooses some compromise between unemployment and inflation. You decide you want to aim at 3.5 percent unemployment or 4 percent. Whatever you decide, you can then accompany that decision with whatever degree of income maintenance program, properly financed, Congress thinks appropriate.

Senator PROXMIRE. Yes, I think you have made yourself quite clear. I think you can do it. As I say, the question is how high are your taxes going to have to be? You also have the nagging question that the Kerner Commission raises when they say we have to create a million private sector and a million public sector jobs. If you do that, I am still worried about how you can do that without having a tax that will eliminate jobs in some other sector and the jobs that you eliminate are likely to be the jobs for the same people, the same kind of people who need the jobs, need them the most.

As I understand it, if we had an elimination of another million jobs, the people who would lose their jobs are the last hired, first fired—the Negroes, the least skilled, the marginal workers, the people who are poor generally. Dr. Garth Mangum said the other day, the poor have always been our price stabilizers. They should not be. The purpose here is to develop a system where they will not be. But I think to say, well, all you have to do is have a little different tax adjustment here to solve it does not really meet the dimensions of the problem. I think it is awfully big.

Mr. TOBIN. If I thought the present proposals on tax surcharge and economy of government expenditures were going to make the unemployment rate 4.5 percent next year, I would not be for them.

Senator PROXMIRE. You were against them for a while.

Mr. TOBIN. I would be against a dose of that magnitude right now. I would be in favor of the increase in taxes by itself, provided we also have an understanding that in case of need, perhaps the excessive deflationary effects of the tax increase would be offset by the easing of monetary policy. I think that would be a better mix of policy. But I am not in favor of aiming at a much higher rate of unemployment than we have now.

Senator PROXMIRE. We had testimony by Dr. Thurow that every economic model he has seen shows that if you crank in the official actions being taken by the House right now into the model, it shows a recession in 1969. Dr. Gerhard Colm said that he though it would raise unemployment between 4 and 4.5 percent.

I would like to ask Dr. Miller to comment.

Mr. MILLER. I fundamentally agree with the point you are taking here. I think with this complex set of objectives that we have now, we have to move to much more selective sets of policies than we have had in the past. I think this is really what the debate is between the two of you, to what extent you rely upon typical aggregate measures and to what extent you look at measures in terms of their redistributive quality, what effect they have on the poor in society as a result of one or another measure.

Let me give you an example of what I think we should begin to think about. The British, when they wanted to do something about their export problem, constructed a tax system that provided a rebate for firms in export trade. It is essentially a tax on the service industries, an effort to stimulate the sale of manufactured goods abroad. Here a national objective is clearly defined and a selective mechanism is brought out to try to deal with the objective, in that case of stimulating export.

I think if we take a national objective of reducing inequality, which is what we are talking about most of the time in our examination of poverty, you want to examine policies which are deliberately and mainly aimed at reducing inequalities, so that you have a tax program which is not just across the board, but which may have given special rebates to employers for hiring employees they would not normally hire, to use mechanisms or adapt them so they will have a kind of intensive quality.

I think we have gotten caught up too much in the discussions of aggregate policy, hoping somehow we can heat it up here and drag it down here, rather than look at the particular distributive impact of the measures.

Senator PROXMIRE. I think that is very, very good and I think I understand that. But I think it also raises the problem that you can create a million jobs one way and if you raise taxes to pay for them, you may eliminate a million jobs another way. You may create a million jobs in the public sector and eliminate them in the private sector.

Mr. MILLER. I think we are getting more flexibility there, that we are developing mechanisms now which give us a choice of whether we want to expand jobs for the low skilled in the private sector or expand them in the public sector. It is not a question of one or the other.

Senator PROXMIRE. This is at the expense, by and large, of marginal workers. In general, most of us feel that the preponderant economic activity should be carried on in the private sector, that the market economy has a discipline that is very useful and should be encouraged. We may be moving away from that when we provide that the government should be a residual employer and have a tax which tends to drive people out of the private sector into the public sector.

Mr. MILLER. I do think present programs are leading so that we can achieve social objectives not only by reliance on the public sector, but by achieving social objectives through the private sector by way of subsidy. I think that is the direction in which we are going to lead.

Mr. TOBIN. May I say something?

We have 3.5 percent unemployment now. We know that is the national average and it covers a large diversity of unemployment rates. One of our problems is that unemployment rates are very much higher for certain groups in our population—the unskilled, the Negroes, other minority groups, teenagers and so on.

Senator PROXMIRE. Women.

Mr. TOBIN. Women and so on. When we talk about going from 3.5 percent down to 3 percent, and the reason we hesitate to do that just by cranking in more generalized purchasing power, is that it would create inflationary pressures. It would do so by increasing demand for labor all across the board, increasing the demand for skilled workers, machinists, electricians, physicists, economists, even——

Senator PROXMIRE. Especially.

Mr. TOBIN. All at the same time, and since they are already scarce in the labor market, additional demand for them creates inflationary pressure. If we could get down from 3.5 percent to 3 percent by specifically employing the people whose unemployment rates are excessively high and who could be, presumably, employed without putting upward pressure on wage rates, then we could move from 3.5 percent to 3 percent in a manner that no one could have objection to, because it would not create additional inflationary pressure.

Senator PROXMIRE. Let me agree on the structural problem of trying to provide training for people who are either now unemployable or their employment is scarce—this I think we can all agree on and we should work much more extensively than we have in the past. This is a long term one, though, is it not?

Mr. TOBIN. No, I think it could be a fairly short term one, too. We were talking about government programs to finance additional jobs and income for the poor. Your question, I think, was whether we have to offset the fiscal and economic effects of those programs by sufficient taxes to erase an equivalent number of private jobs. If so, you do not gain anything net, although you perhaps have a more equitable distribution of the jobs that exist. I think the answer to that is you would not have to offset it completely, because the reason you would want to offset expenditures of this kind is to prevent them from adding to inflationary pressure. You would not need to offset them completely, because to the extent that the government expenditures concentrate on pulling the marginal workers who are available in labor surplus into employment, you can afford to let the economy move to a higher level of employment and a lower level of unemployment.

Senator PROXMIRE. I would like to ask you some specific questions, Dr. Tobin, about this. I think this presentation of yours, your booklet, is excellent. It is so hard to write a detailed program of this kind without having people throw all kinds of rocks at it. I know it is the hardest thing in the world; once you get your specific proposal, you subject yourself to all sorts of criticism. I think this is an excellent job. It is exactly what we need, rather than talking about a negative income tax, to set it forth and show its examples, alternatives, and so forth.

But one thing you recommend, as I recollect, to begin with your low schedule, $400 per person per year, up to a $2,700 maximum for an eight-member family, a 40-percent tax rate. You want to work toward the high schedule, but that is the beginning?

Mr. TOBIN. What we really recommend is the high schedule and anything short of that is purely political expediency.

Senator PROXMIRE. You are being very politically expedient, then, because you say the course of action you think best balances these considerations is Federal enactment of plan L—that is low—with a tax rate of 40 percent. "The basic allowances of this plan would then, we hope, be supplemented by individual high-cost-of-living States along the line outlined above." Then you gradually move into your somewhat higher schedule, which is still quite modest.

You start out with a schedule that would permit $400 per year per person. Last year, the average level of assistance was $850 for an adult, so you are less than half of that. That is really modest. The District of Columbia, for instance, was substantially higher. So if you put this into effect, this L schedule that you propose, it would not be an answer to the problem of the person with a low income? You would still have to have a welfare program?

Mr. Tobin. You would still have to have a welfare program for many people.

Senator Proxmire. For almost everybody. You cannot live on $400 a year.

Mr. Tobin. But this would help a lot of people who have earnings of their own and this would supplement them.

But I certainly do not favor that schedule except as just a door opener, to get a program established and then get the levels brought up to at least poverty line standards. That is what I would want. That is what I would really recommend.

Senator Proxmire. I am very happy that you limit your negative income tax to a work supplement. I think it is absolutely essential. The Gallup poll indicated how dramatically important that is when it reported that everybody in every income category, even the very low, is against the guaranteed income tax, or a negative income tax. I am sure they do not all understand it. But they are overwhelmingly in favor of an opportunity for people to work. I think if you explained this to all the people in the country, they would recognize that what this is, fundamentally is, is an opportunity for a modest income to those who cannot work or are not eligible, because of, you know, for some reason for employment, but that you put very heavy emphasis, especially in your presentation here this morning, on training people and getting them motivated and so forth so they will want work. You put emphasis here on your 40-percent tax rate so they would have a real incentive to get a job, which they do not have now if they are on welfare. So this is really a work incentive kind of proposal rather than a simple payment for people to do nothing.

Mr. Tobin. That is absolutely right.

Senator Proxmire. For that reason, I think you need a new name. I think the reason the rent subsidy has suffered so badly for so long, although it is an excellent program, is because we have the wrong name for it. People all over the country are saying "you are subsidizing people's rents; I do not have much of an income and you do not subsidize my rent." If you could modify this or change it. It has a nice, pure, clean arithmetic appeal—I can understand how 1,200 economists are for it, but it would be hard to find 1,200 other people for it. You emphasize that it is a kind of study scholarship program, some catchy word that emphasizes the constructive and creative force that you have behind this. I do not say this in a trivial or facetious way. I mean it very seriously. These programs depend greatly on the label that is attached to them.

Mr. Tobin. I am very much aware of that problem and am open to suggestion. The best we have been able to think of is something like incentive income supplements, something like that.

Senator PROXMIRE. I would put the emphasis on the work. You notice how the people responded in that poll to work. In every category, people are for it. If you could work it out and develop it on that basis, it seems to me it would help.

I would like to ask Mrs. Winston, we now have a powerful tax incentive for people with high incomes, especially men with high incomes, to marry. Obviously, if you do, you tend to cut your income tax sharply. Could the negative income tax, in your view, be used to provide a similar incentive for people with more moderate incomes or with very little income, assuming that this is a happy and appropriate family policy?

Mrs. WINSTON. I think you would have to be sure in the first place that this really is an encouragement to marry, that these are the kinds of things people think of.

Senator PROXMIRE. Let me say it is discouragement for living in sin.

Mrs. WINSTON. It is a help if you legalize it; let's put it that way.

Senator PROXMIRE. That is right.

Mrs. WINSTON. We tend to give too simple answers to what are really very complex situations. I would like, if I might, to take up a little different point here and move to the actual incentive to work and to remain with one's family and to strengthen family life if we did something about the way in which we treat earnings in public assistance. Here we are really outside the tax structure, but we are getting to the same point. Now we say, "All right, we will give you assistance and then we will put a very heavy tax on anything that your earn." If we want to strengthen the institution of marriage, we need to reverse these and put the whole earnings in. Then approach the man or woman, for that matter, who is fully or partly employed, give the benefit of all earnings, and say, "If you cannot make it, we will supplement up to a given level."

Am I making myself clear on this point?

I think we have the whole thing reversed. Generally across the country, we take the position that if you have a full-time job or a relatively full-time job, you are supposed to earn enough to take care of your family. Only in a very few places do we supplement either partial or full-time earnings of people who cannot earn enough to provide a decent life for their families. This would be a real incentive toward some of these social objectives that you are getting at in your questioning.

I think again, to come back to the point that Mr. Miller has been making and that I made earlier about a family policy, that we need to clarify what the social goals are. Then some of these other approaches really begin to fall in place. Promoting the social goals, and the general emphasis here is that family life is a good thing, we had better have more intact families where there is adequate family income.

Senator PROXMIRE. As you pointed out so well, and Mrs. Griffiths did, too, we have had policies that tended to discourage family life of people with low incomes and who are on welfare.

I would like to ask Dr. Miller, you say at one point and call it a terrible circumstance that only one-quarter of the poor are receiving welfare aid in the United States. Mrs. Winston quoted a HEW study of June 1967, saying that 8½ million, or one-half of those eligible, are not receiving public assistance. So there is a difference. I take it your more comprehensive definition of the poor would include, for example, Wisconsin farmers who are making 80 cents an hour on the average, even though they are the most efficient dairy farmers in the world, and have incomes in many cases, I am sure, in the poverty class, receiving no public assistance. I am not sure whether it is a terrible circumstance they are not receiving it. I think it is a terrible circumstance their prices are so low. But do you feel it would be desirable that all the poor should be receiving welfare aid, necessarily?

Mr. MILLER. I think it is desirable that all the poor be nonpoor. I am more open on which method. I am also hesitant about agricultural policy, wondering what kind of reforms we need there. But I think the question really is to take a national responsibility to see that people have a decent level of living, whether we use the cash program or some other kind of effort to do it. Since we are so reluctant to move, and since I think it would be difficult to move effectively today on the job front, I think we have to move on the cash front.

Mrs. WINSTON. I do not think there is any real difference here. The point I was making is that we have this large number of people who are now eligible under the Social Security Act but who are being denied assistance because of the wide diversity and the many restrictive policies across the country. Then on top of that, we have the other millions who have income available to them which is below the poverty level but who are not yet covered for income supplementation under our existing social security legislation.

Senator PROXMIRE. Mr. Miller, you hit the point that the people are in favor of jobs, and you just said that you think we cannot move on the job front, we will have to move on the cash front. Politically, it is much easier to move on the job front, much easier for any Member of Congress to advocate a job program.

Mr. MILLER. That is just what you have been saying this morning.

Senator PROXMIRE. That is the trouble. Yet the job front from the economic standpoint ought to be a more—because the worker is a producer. He increases supply; he increases income but he is producing something, presumably of some value to somebody. So to the extent you can emphasize the work part of it, it is better economically as well as politically.

Mr. MILLER. I think I agree with you. I think one point has to be stressed, and that is not go away with the feeling that one program can solve all our problems. In Jim Tobin's analysis, he has made it clear that we would not want to encourage some groups to work. That is not a small group. You have to pay some attention to that one group.

I am for a job program. I think it is essential. I do not think it solves all our problems. But I feel somewhat along the same lines you do, that there have been some important shifts in this country beneath the surface in terms of what is politically acceptable. In other words, a full employment program has become more acceptable than ever before. I think there have been other important shifts taking place in this country. No one has mobilized these feelings into a political program of one kind or another. I think there are important things going on beneath the surface that requires pulling people together and making people aware that they believe in what they do believe. I think the country is more prepared to move than the country itself recognizes. I think that is a thing that is happening in the country today.

May I make one point?

That is the concept of the poverty line. We are dealing with a poverty line that is dated in terms of 1960, in terms of an average standard today which is about 40 percent higher than it was.

Senator PROXMIRE. You are talking about the $3,000 line for a family?

Mr. MILLER. Yes. The average family income today, if I recall it correctly, is about 40 percent higher than it was in 1960. I think it is important to see that the poverty line is always the relationship between the income of the poor and the income of some other standard. The poverty line now is falling much further behind the average level of living of the rest of society than was true in 1960. I think we are too fixed in the notion of a particular basket of goods and services rather than the relative position of other people in society.

Senator PROXMIRE. I think you make a very strong case for that. I see you ought to adjust it. But I can see how you get out of proportion. If you are poor because you are only making $20,000 a year and all your friends are making $100,000 a year, it gets ridiculous, of course. So you have to get to something besides a relative relationship to other people. You have to key it to what are the necessities of life. If you get beyond that, I think we are really in trouble.

Mr. MILLER. I do not think we have that kind of standard. We tend to act as if the poverty line is determined by scientific principles when it is actually largely affected by political and value judgments. We do not want to increase the poverty line as rapidly as the rest of society, but I think we have to come closer. We tend to solve problems of the past rather than the problems of the present and emerging problems. I think if everybody achieves $3,000 marked up for price increases, that is not going to really reduce the major tensions within our society today.

Mr. TOBIN. It will do a lot.

Mr. MILLER. Maybe so, but I do not think it will be enough. I think we have to be attuned to the new issues which we tend to discover constantly with chagrin.

Senator PROXMIRE. I think when you get above that level there are things that are more important than money. Although it is hard to imagine right now. There is a matter of dignity, of leisure, of opportunity in social and cultural ways.

Mr. MILLER. Participation.

Senator PROXMIRE. Well, gentlemen, and Mrs. Winston, thank you so much for a very helpful and fascinating morning.

The committee will reconvene on Tuesday in room 2212, Rayburn House Office Building, to hear expressions of great differences of opinion—Henry Hazlitt of New York City, formerly contributing editor, Newsweek; Robert Theobald, New York City, author of "The Guaranteed Income;" Daniel Thursz, dean, School of Social Work, University of Maryland in Baltimore, and Luther Tyson, director, Department of Economic Life, Board of Christian Social Concerns, Methodist Church, Washington, D.C.

(Whereupon, at 12 noon, the committee recessed to meet on Tuesday, June 25, at 10 a.m. in room 2212, Rayburn House Office Building.)

INCOME MAINTENANCE PROGRAMS

TUESDAY, JUNE 25, 1968

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON FISCAL POLICY OF THE
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10 a.m., in room 2212, Rayburn House Office Building, Hon. Martha W. Griffiths (chairman of the subcommittee) presiding.

President: Representative Griffiths, and Representative Rumsfeld, and Senator Proxmire.

Also present: John R. Stark, executive director; James W. Knowles, director of research, and Nelson D. McClung, economic consultant.

Representative GRIFFITHS. The subcommittee will come to order, please, and we will begin again the hearings on income maintenance programs.

Mr. Hazlitt, would you care to start with your testimony, please?

STATEMENT OF HENRY HAZLITT, NEW YORK CITY, FORMERLY CONTRIBUTING EDITOR, NEWSWEEK

Mr. HAZLITT. Yes, Madam Chairman.

I am Henry Hazlitt. I am the author of a dozen books, mainly on economics, and at present write a weekly column, syndicated internationally by the Los Angeles Times Syndicate. For the 20 years 1946 to 1966 I wrote a weekly signed column on economic questions for Newsweek magazine. For the 12 years prior to that I wrote most of the editorials on economic questions for the New York Times.

I wish to testify now on the proposals for various forms of a guaranteed annual income, including the proposal for a so-called "negative income tax."

The guaranteed income proposal in its most uncompromising form has been put forward by Mr. Robert Theobald. He "would guarantee to every citizens of the United States . . . the right to an income from the Federal Government to enable him to live with dignity." Everybody would be guaranteed this income, regardless of whether or not he worked, could work, or was willing to work. As Mr. Theobald has put it, having this income handed to him, would be an "absolute constitutional right," not to be withdrawn "under any circumstances."

The recipients, in other words, as I understand it, could continue to get this guaranteed income not only if they resolutely refused to seek or take a job, but if they gambled the money away at bingo or at the races, or spent it on prostitutes, pornography, whisky, gin, marihuana, heroin, or whatnot. They would be given "sufficient to

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live in dignity," and it would be apparently no business of the taxpayers if the recipient chose nonetheless to live without dignity, and to devote his guaranteed leisure to dissipation, drunkness, drug addiction, or even a life of crime.

Proposals for a guaranteed income have differed regarding what the exact amount should be. The general range suggested has been between $3,000 and $5,000 for a family of four. A social security board estimate has fixed the minimum "poverty line" figure at $3,335 a year for such a family. Several guaranted-income proposals have adopted this figure as the standard.

The first thing to be said about this scheme economically is that if it were put into effect it would not only be enormously expensive to the taxpayers who are forced to support it, but that it would destroy the incentive to work and production on an unparalleled scale. As one commentator has put it:

Those who believe that men will want to work whether they have to or not seem to have lived sheltered lives.

Who, in fact, let us ask ourselves, would be willing to take the smelly jobs, or any low-paid job, once the guaranteed income program is in effect? The guaranteed-income sponsors propose to pay, say, $3,300 to a family without any income, but to families already earning some income they would pay only the supplementary sum necessary to bring the total up to $3,300.

Now, suppose, say, that you are a married man with two children, and your present income from some nasty and irregular work is $2,800 a year. The government would then send you a check for $500. But it would soon occur to you that though you now had $3,300, you could have got this $3,300 anyhow without doing a stroke of work. You would conclude that you would be very foolish to go on working at your nasty job or series of odd jobs for $2,800 when you could get $3,300 without doing any work at all.

So the 30 million population now judged to be below the poverty line would stop producing even most of the goods and services that it is producing now.

The money cost of the guarantee, of course, would be enormously greater than any of its sponsors calculate, because these sponsors all asume that those who are getting less than the guaranteed income of $3,000 or $4,000 would nonetheles continue to work for the smaller incomes that they are already earning.

Not only would the scheme destroy the central incentive to work, not only would it drastically undermine even the incentives of those earning more than the $3,300 guarantee—because of the heavy taxes imposed on them to pay the guarantee—but the scheme is indefensible on grounds of fairness and equity. If "everybody should receive a guaranteed income as a matter of right"—the words I have just quoted are Mr. Theobald's—who is to pay him that income? The advocates of the guaranteed income gloss over this problem. When they deal with it all, they tell us that the money will be paid by the "government."

This is to talk as if the "Government" were some separate entity that gets its money out of some fourth dimension. The truth is, of course, that the Government has nothing to give to anybody that it doesn't first take from someone else. The whole guaranteed-income proposal is a perfect modern example of the shrewd observation of the French economist Bastiat more than a century ago: "The state is the great fiction by which everybody tries to live at the expense of everybody else."

None of the guaranteed-income advocates explicitly recognize that real "income" is not paper money that can be printed at will, but goods and services, and that somebody has to produce these goods and services by hard work. The proposition of the guaranteed-income advocates, in plain words, is that the people who work must be taxed to support not only the people who can't work but the people who won't work. If Paul claims a "right" to "an income sufficient to live in dignity", whether he is willing to work or not, what he is really claiming is a right to part of *somebody else's* earned income. What he is asserting is that Peter has a duty to earn more than he needs or wants to live on, so that the surplus may be seized from him and turned over to Paul to live on.

This is an inequitable and immoral proposition. It is also self-defeating. Any attempt to enforce it would destroy incentives and gravely diminish the amount of wealth and income produced. There would be less for everybody. There would be a smaller pie to divide among everybody.

I should like now to turn to the so-called negative income tax. This seems to me a misleading name for what should more accurately be called a tapered-off guaranteed income. The negative income tax tries to escape the complete destruction of the monetary incentive to work implicit in the straight guaranteed income. But it merely jumps out of the frying pan into the fire.

Under the negative income tax, a man or a family would receive from the Government a subsidy of 50 percent, say, of the amount by which the family income fell below the so-called poverty line of, say, $3,300 a year. This means that if the family had no income at all it would receive a subsidy of $1,650. If it already had an earned income of $1,650, it would receive a Government subsidy of $825. If it already had an earned income of $3,000, it would receive a subsidy of only $150, and so on.

To put the matter another way, instead of taxing the subsidized family's self-earnings 100 percent, like the guaranteed income proposal, the negative income tax would tax them only 50 percent.

I fully agree that a subsidy calculated in this way—that is, one that would be reduced by only $1 for every $2 additional that the recipient was able to earn for himself—would not be as completely destructive of incentives as the type of subsidy under which it would be pointless for the recipient to earn more on his own account. In fact, some 30 years ago I put forward a similar proposal myself in an article in the Annalist, a weekly then published by the New York Times. What I suggested was a relief payment that would be reduced by only $1 for every $2 of self-earnings by the relief recipient.

I abandoned that proposal, however, shortly afterward when I came to recognize that it led into a serious dilemma. This is precisely the dilemma of the negative income tax. Either it is quite inadequate at the lower end of the scale of self-earnings or it is unjustifiably excessive at the higher end.

The problem that the negative income tax evades is the problem of the individual or family with zero income. If that family gets only $300, the figure suggested in Prof. Milton Friedman's original proposal in 1962, nobody would regard this as nearly adequate—particularly if, as Professor Friedman also proposed, negative income tax were made a complete substitute for all other forms of relief and welfare. If the negative income tax payment for a family of zero income is set at $1,650, no advocate of the guaranteed income would regard it as adequate to live on in decency and dignity. So if the negative income tax were ever adopted, the political pressure would be irresistable to make it provide the minimum "poverty line" income of $3,300.

The basic subsidy would therefore be as great as under the guaranteed income. But if it were, then under negative income tax families would continue to get some Government subsidy until their incomes reached $6,600. But this is higher than the median family income for the whole country in 1963. In brief, this would be fantastically expensive.

In addition, it would raise serious problems of equity. When the subsidized family was earning $6,598 income it would still be getting a $1 subsidy. When it earned $6,602 would it fall off the gravy train entirely, and have to wait until its income fell below $3,300 before it could get on again? And what about the family that was earning $3,302 all along, and had never got on the gravy train?

Both the straight guaranteed income and its tapered-off form known as the negative income tax are attempts to escape the allegedly humiliating and administratively troublesome means test. But if the Government wishes to protect itself from massive chiseling and swindling, under any giveaway program, it cannot avoid a conscientious investigation case by case, and applicant by applicant. The guaranteed income and negative income tax proposals do not solve the administrative problem; they simply shut their eyes to it.

The guaranteed income and negative income tax are proposed by some of their sponsors as a complete substitute for all existing forms of relief and welfare. But does anyone seriously believe the present beneficiaries of social security benefits, or unemployment benefits, or medicare, or veterans' benefits, or training programs, or educational grants, or farm subsidies, are going to give up what they have already gained? The new handouts would simply be piled on top of everything else.

The welfare bill is already staggering. Federal aid to the poor, under that official label, has risen from $9.5 billion in 1960 to $27.7 billion in the fiscal year 1969. But if we add up all the welfare payments in the 1969 budget—farm subsidies, housing and community development, health, labor, and welfare, education, and veterans' benefits, we get an annual total in excess of $68 billion. Even this is not all. We must add a social welfare burden on the States and localities of more than $41 billion, making a grand total of $110 billion. This load has already brought not only very burdensome taxation, but chronic deficits and inflation that are undermining the value and integrity of the dollar and bringing social insecurity for all of us.

I have talked here only of what should not be done, and have left myself no time to discuss what should be done. But if I may take the liberty of stating, as I see it, the problem that faces your distinguished committee—I should put it this way: How can the Government mitigate the penalties of failure and misfortune without undermining the incentives to effort and success? I do not wish to underrate the importance of the first half of this problem, but it seems to me that the second half deserves much more earnest attention than it has recently received.

Thank you.

(See vol. II, app. 16, for additional material subsequently submitted by Mr. Hazlitt.)

Representative GRIFFITHS. Thank you very much, Mr. Hazlitt.

Mr. Theobald, you may put your paper in the record if you choose, and spend your time defending yourself against Mr. Hazlitt, or you may read your paper, or do whatever you choose.

STATEMENT OF ROBERT THEOBALD, NEW YORK CITY, AUTHOR, "THE GUARANTEED INCOME"

Mr. THEOBALD. I think I shall do a little bit of both, Madam Chairman.

Representative GRIFFITHS. All right.

Mr. THEOBALD. It seems appropriate to start my testimony by reminding us how far the issue of the guaranteed income has come in the last 5 years. In May 1963, I appeared before a Senate Subcommittee on Employment and Manpower and argued that "adequate income must be available to those unable to find conventional work in an automated world and to those unable to secure adequate incomes for other reasons." The arguments for this proposal, as developed for my book, Free Men and Free Markets, were read into the record of the hearings.

It was made quite clear at this time that such an idea was not acceptable and it was also obvious that there were few Senators or commentators who expected it to become feasible in their lifetimes. These political judgments were obviously wrong. We are clearly moving toward the introduction of a guaranteed income which is now supported, according to the latest Gallup poll on the subject, by over a third of all Americans and by some two-thirds of those in minority groups.

Even more significant for the future progress of the idea is the immense coalition stretching from left to right which unites interest groups which are normally implacable foes. The potential power of this coalition has most recently been demonstrated in the decision of the mayors to lobby for a guaranteed income and by the development of a Citizens Committee for a Guaranteed Income.

As is inevitable, the practical necessities of the situation are triumphing over outworn ideological stances. The society is coming to realize that it is intolerable to permit some people to go hungry, ill-clothed, and ill-housed when we have the ability, as a society, to create enough food, clothing, and shelter for all the population. In effect, therefore, we have already taken a commitment to prevent everybody in our society from starving.

This commitment, however, has grown like Topsy rather than been planned. The methods we have adopted are totally haphazard providing adequate resources to some but totally inadequate resources to others whose needs are identical. In addition, because we have never really faced the nature of our new commitment, the purpose of many programs has been distorted—the agricultural subsidies are a key example of this development. Proposals for a guaranteed income—for payment based solely on the size of the individual's existing income—are, therefore, basically attempts to tidy up an intolerably inefficient system.

Unless we are prepared to abandon our commitment to providing funds for those genuinely unable to provide funds for themselves, the argument most often advanced against the guaranteed income—and just reheated by Mr. Hazlitt—is totally devoid of merit. It is true that there will be limitation of incentive under the guaranteed income system. However, all the present proposals would have a less negative effect than the present welfare schemes which almost totally eliminate incentive. Despite much publicized reforms, most of those on welfare still lose $1 for every dollar they earn. In addition, the present administration of the welfare system operates in such a way that the person who manages to work himself off the welfare rolls—and then loses his job through no fault of his own—may find himself unable to return to welfare.

If we do finally accept our commitment to provide an income to all those who are in need of it, then it is clear that some variant of the guaranteed income will be required. But there are several organizational problems which have so far been largely ignored. In addition, it is essential to consider with very considerable care the relation between the proposal for a guaranteed income and the proposal for a guaranteed job. I will deal with these issues in reverse order.

As we look back at the development in our analysis of the microeconomic situation of the United States, two events stand out. First, there has been a total change in our attitude toward the existence of poverty. From an almost totally forgotten phenomenon, it has moved to the center of the stage: the presence of the Poor People's March reminds us that this growth in concern is still continuing. Second, there has been a major development in our understanding of the problem of unemployability: the fact that some people are quite simply unattractive to private and public employers at the socially desirable minimum earnings. We are now beginning to distinguish clearly between the problem of unemployment due to inadequate demand and that due to inadequate skills.

Indeed even those who are most optimistic about the present situation admit that there is a hard-core unemployability problem and that new measures are urgently required. Some are therefore arguing that the Government should become the "employer of last resort" for those who cannot fit into the present job/income system.

The proposal that the Government become the employer of last resort drew major attention when it appeared in the report of the National Commission on Technology, Automation, and Economic Progress in 1966. Garth Mangum, its executive director has explained the position of the committee in a recent essay in Social Policies for America in the Seventies.

In a country characterized by geographical differences, a wide range of educational attainment heterogeneity of race and national origin, and low tolerance for inflation, price increases become unacceptable long before a job is available for everyone able, willing, and seeking to work. If the latter promise of the Employment Act of 1946 were to be made real, even in a period of low general unemployment . . . the government would have to guarantee public service jobs to those experiencing long-term unemployment.

Garth Mangum justifies this proposal with reference to the Works Progress Administration experience of the 1930's and, in so doing, hides the truly revolutionary nature of the proposal. In the 1930's, there were many with high levels of skills and abilities who were ready and able to carry through any form of meaningful activity which was made available to them. Mangum and the Commission are now proposing that the Government create jobs for large numbers of people who are least capable of finding positions within normal private or Government employment.

The dynamics of such a program can be clearly foreseen. Government civil servants would be confronted with hundreds of thousands of individuals with low skills and inadequate education, with life histories making them unaware of the requirements for holding a job. From its inception, the program would be characterized by problems stemming from low morale and high absenteeism. Congress would react with outrage as it has done toward the similar problems of the poverty program. One can easily conceive of a highly restrictive series of rules which might state that anybody more than 15 minutes late for work would lose a day's pay and that in order to provide for administrative "efficiency" no person would be allowed to change his job within the program more than once every 6 months.

Kurt Vonnegut, in his novel The Piano Player, has traced the end result if such a first step would be followed through to its logical conclusion. He has shown that fewer and fewer people would be required in the productive activities of the society and that more and more people would be compelled to work in meaningless "jobs." Those with creative or functional work would be the new aristocracy in a society of controlled peons carrying out pointless activity.

Any alternative to this job-at-any-cost approach must deal head-on with the major, imminent problem of an incipient societal split between the creative people, those necessary to the functioning of the emerging socioeconomic organization, and those who will need to have new roles developed for them if they are to be meaningfully occupied. Any approach must provide not only an environment for creative activity but also the underwriting of the reentry into the socioeconomic system for those who have already been abandoned by it. The "guaranteed income," or "basic economic security," as I prefer to call it, meets these criteria fully. First, it will serve as the socioeconomist's approach to the social and cultural self-devaluation of the currently unemployed and those who will become unemployed as cybernation develops. Second, it will underwrite the activities of creative individuals and improve our methods of financing education for it will provide a basic income for all students.

Basic economic security (BES) is a general economic principle applicable to every member of the society. It underwrites his status as a full member of the society and should not, therefore, be seen as a mere economic mechanism which enables an individual to remain alive even though society has virtually ceased to recognize him as one of its members.

It is often wrongly assumed that BES would move people out of the functioning society. This assumption is based on a misunderstanding: A belief that there is a shortage of work rather than a shortage of jobs. The job/work/activity dilemma could already be perceived 6 years ago and has remained unchanged: I quote from my book "Free Men and Free Markets."

There should be no difficulty in finding useful work. Our scarcity is one of the market-supported jobs, not of work that needs to be done. We could resolve the present paradox that the richer a country may be, the more inadequately certain valuable social tasks are carried out. * * * We apparently cannot afford sufficient public gardeners, police, social workers, and schoolteachers, to name only a few of the occupations where there is generally agreed to be a shortage of workers.

It is, at this point, a pleasure to agree with Mr. Hazlitt and to leave out my demonstration of that fact and to move on.

I would like to recommend an approach which has received some attention, but in my opinion not nearly enough. The reason it has been largely ignored is that it involves fundamental reform of the present tax system. However, just as we can no longer brush away the fact that our present welfare system is a morass into which the poor are sinking, we will soon be forced to recognize that the present tax system, which has also grown like Topsy, must be reformed.

I would therefore like to propose to this committee that each and every individual within the United States should receive a direct payment from the Federal Government as a matter of right. This proposal, in effect, can perhaps best be understood by seeing it as a suggestion for widening the idea of "childrens allowances" to the whole population.

The treatment of all income would then conform to the following suggestion advanced by Kendall P. Cochran in an essay written for the book "Committed Spending" which is edited by me and will be published by Doubleday on July 24.

All income, from whatever source derived, must be subject to a progressive tax at the Federal level. Thus current practices, which give favored treatment to certain kinds of income, would be eliminated.

Cochran explicitly proposes the elimination of favored treatment for capital gains and interest on municipal securities, income splitting, deduction for State and local taxes, medical expenses, interest payments, casualty losses, most gifts to charity, and exemptions—the purpose of the latter will, of course, be covered by the guaranteed income payment.

It is obvious that if gross inequities are to be avoided in the shift toward a guaranteed income pattern, it will have to be introduced over a period of time and that a basic plan would have to be developed, adopted and sustained. We can perceive the sort of thinking and negotiations which will be required if we look at the process of creating the Common Market in Europe—the contrast with present methods of negotiating tax bills is striking and depressing.

The fact that the negative income tax plan might be carried through in the near future and that a fundamental reform of the tax system does not presently appear feasible should not prevent us from moving toward consideration of the latter issue. Let me remind you of the progress we have made in redefining the welfare issue in recent years: we can redefine the taxation issue if we make the same effort. If we should fail to do so, the negative income tax will undoubtedly land us in a more unfavorable position than exists at the present time.

Under these circumstances it is obviously impossible that I should provide the committee with exact figures. I have neither the resources, nor the access to computers, which will be required to work out the approaches which are technically—let alone politically—feasible. Indeed, I do not believe that the technical problems are critically difficult—there are plenty of technicians to work out feasible approaches once the problem has been defined. I would suggest, however, that the negative income tax may well be the initial step toward the twin goals of providing incomes to all as a matter of right and toward a more equitable tax system.

I would like to suggest to this subcommittee that our prime economic problem results from the fact that our present economic reasoning is based on fundamentally fallacious reasoning. The Council of Economic Advisers needs to reread John Maynard Keynes and to discover that he excludes from this analysis the very factors which are now most important.

Keynes argues in "The General Theory of Employment, Interest, and Money":

> We take as given, the existing quantity and quality of available equipment, the existing technique.

We have adjusted our economic system to an analysis which is outdated. We must now discover the new model which will enable us to understand and control the economy in the current social setting; to do this we will have to develop great social economists of the stature of Schumpeter.

The guaranteed income is a necessity for the society in an era of cybernation. Now that we are understanding this reality, we must go on to discover the longrun implications of such a fundamental change and work to acquaint citizens throughout the United States with the new realities.

Representative GRIFFITHS. Thank you, Mr. Theobald.

Dr. Thursz?

STATEMENT OF DR. DANIEL THURSZ, CHAIRMAN, COMMISSION ON SOCIAL ACTION, NATIONAL ASSOCIATION OF SOCIAL WORKERS, INC.; DEAN, SCHOOL OF SOCIAL WORKERS, UNIVERSITY OF MARYLAND, BALTIMORE, MD.

Mr. THURSZ. Madam Chairman, members of the subcommittee, my name is Daniel Thursz, and I am here today to represent the National Association of Social Workers. I am chairman of its commission on social action. My professional position is that of dean of the School of Social Work at the University of Maryland in Baltimore.

I welcome this opportunity to present for the National Association of Social Workers the case for the guaranteed annual income as developed over a period of a number of years by our association.

Let me, before getting to my prepared text, make a few comments, Madam Chairman, about my presentation this morning.

I would say one of the concerns that this committee has had is that it has been subjected to a whole series of true believers who have a simple answer to a complex problem. The problems of poverty in this country will not be handled by a single program, no matter how well developed. Our sad experience as social workers has been that every program carries with it certain limits; and no programs, as we see it, will be able to do the total job. My concern is that we at least accept the concept of responsibility which has been established in our country for many, many years. When we are told that to guarantee rights is a new concept in American history, I must point out that at least in the field of education, we, unlike many other countries of the world, have accepted the fact that the Nation as a whole has to accept the responsibility of guaranteeing to each child the right to an education.

And when people talk of morality, I would have to ask which is more immoral: To take from the affluent to help those who do not have the wherewithal to live, or to deny generation after generation the wherewithal with which to hope. Or, if you please, to punish, degrade, attack those to whom we give inadequate assistance?

In my own city of Baltimore, it was only 2 or 3 months ago that the welfare department was finally convinced that the checks for those on welfare might not have to be printed with a distinct color so that, as recipients cashed the checks, the stigma of being on welfare would be communicated quickly. I mentioned this because it seems to me that we are really fundamentally in the field of values, and we need to make some decision as to the sort of country we want to become.

Now, I do want to indicate what has happened to us as social workers, because the National Association of Social Workers is a professional organization with a membership of 50,000 individuals located throughout the country in 170 chapters. Our members are employed in governmental and voluntary, health and welfare agencies. A substantial proportion are employed in State and local welfare departments.

I presume that it is news when social workers attack the system for which so many work by saying that it is outmoded, inadequate, and cannot begin to do the job. I shall try to develop this view.

In essence, we believe that every individual in our society has a right to a certain and adequate income and that society as a whole benefits when this is realized. This goal can be achieved only through a combination of approaches. This combination includes:

First: The opportunity for employment, and I guess we are not as pessimistic as others are about the desire for people to work. Somehow, there are lots of other incentives in our society that prompt people to work, in addition to money.

Second: The improvement and expansion of social insurance. We realize that many Americans will be out of the poverty, above the poverty lines, if we use the social insurance scheme to provide them with adequate income.

Third: Some device for raising to an adequate income level those persons not in the labor force or those whose work experience is so insubstantial as not to enable them to qualify for adequate social insurance benefits.

Fourth: A reformed and reorganized public assistance program.

I will spell these approaches out in more detail in the course of my testimony. Before doing so, I would like to present a short description of the development of our association's thinking with respect to the setting of a floor of income for all Americans, because I think it has substantial bearing on how we reached the conclusion that our present income maintenance system must be modified, improved, and extended.

Let me now talk about the association and how our social workers came to believe that our social assistance program was not working as well as it should be. We believe that it would not be enough to restructure the program by which we provide some financial security to people, but we have looked to qualitative and quantitative improvements in the public welfare program. We have sought for many years for exemption of earnings of employed children, the elimination of residence requirements, but we were not successful. The key recommendation of the 1962 Public Welfare Amendments was directed toward rehabilitative services to ADC families by trained personnel.

I will add quickly that we were wrong in our support of the 1962 amendments, when some of us suggested that by adding trained social workers, we could move people out of poverty—the problem of poverty is far more complex and you can provide all the caseworkers you want to people; if the opportunity for employment is not available, if we do not do something with housing, if we do not do something with racial prejudice, if we do not do a whole lot of things which social workers do not control and which are controlled and handled at a different level of government, then casework will fail, and casework has failed from that point of view.

We supported employment programs and we preferred employment programs to money grants for employables. Circumstances then required us to settle for a program of Federal participation in work relief which was not implemented legislatively until the Economic Opportunity Act, outside of the Social Security Act, initiated the community work and training program.

Now, as recently as 1962, we held that there was nothing radically wrong with our public assistance system that more adequate payments, the provision of a category of general assistance, and the elimination of residence requirements and the addition of trained staff would not correct. Although some of us had reservations about the means test and investigatory procedures, most of us sought correctives through more enlightened and compassionate administration of the program.

We have now come to the conclusion that this simply is not enough and that our public assistance program must be relocated in the spectrum of programs necessary for an adequate system of income assurance, and present systems substantially reformed and reorganized.

At our 1967 delegate assembly of the National Association of Social Workers, a program was recommended as follows:

First: The expansion of the general economy and of public service employment is required, since work will continue to constitute the major source of income for most American families in the foreseeable future. Adequate minimum wage administration should provide a floor for all earnings.

Second: The improvement an expansion of social insurances— old-age, survivors, disability and health insurance, unemployment and workmen's compensation—in order to make the fullest possible contribution to filling the gap that now exists between income from work and decent income for all citizens.

I must point out that we now have almost a million persons who are on social security and at the same time have to go to public welfare departments to obtain additional relief, since the assistance provided by one system of the government is simply not enough to permit us to live. Why we need two bureaucracies, and two systems to provide support to the aged is really beyond my comprehension.

Third: An expanded and improved system for raising to an adequate income level those persons not in the labor force or those whose work experience is so insubstantial as not to enable them to qualify for adequate social insurance benefits.

I might say that on the question of the specific program, there was a substantial difference of opinion in our membership with respect to the negative income tax or the family allowance approach. The association has not taken a position in support of one program or another. In part, we are caught in the same dilemma as the committee is caught. We recognize some of the limitations of both programs.

Yet we are convinced that the present procedures—the use of a means test, the use of public welfare departments to provide income support and the situation where each of the States sets its own level—simply cannot go on. We see it as destructive not only of individuals involved but to society as a whole. However, we suggest there is a need now, before we finally settle on one program or another, to reform and reorganize the public assistance program so that no person's income will fall below a minimum standard of adequacy.

We would suggest again the elimination of residence requirements, relative responsibility except spouse for spouse and parent for children, and the categories of assistance. We suggest that such a public assistance program could be administered in a way that protects the individual's dignity, privacy, and constitutional rights.

We suggest that much can be done today to improve our present system while we gear up for a new program, whether it be a program of negative income tax or a program of family allowance.

Finally, I would like to point out that there is an enormous cost to our society of a permanent povertystricken segment of our population. The cost is not only economic. The cost, which can be called a social cost, is not only the degradation and alienation of millions of citizens and the violence and destruction that inevitably results from hopelessness amidst affluence. It also includes the wasted lives, the loss of productive and contributing taxpayers and consumers, the new, yet unborn generations of alienated youth and the possible loss of the most fundamental objectives of our American society.

There are enormous social consequences to inaction on the matter of income maintenance. I would submit that there are equally positive social consequences to action now to give to all Americans income support and income opportunity.

Our members for the past several years, throughout the country, have been publishing articles and doing some fundamental studies, evaluating various proposals for the various programs for guaranteed annual income. I would be most willing, Madam Chairman, to submit these articles as well as the full text of my testimony to your committee.

(The remainder of the prepared statement of Dr. Thursz follows:)

PREPARED STATEMENT OF DR. DANIEL THURSZ

* * * * * * *

Our Association has a long history of support for the Social Security Act and its old age, survivors', and disability, Medicare, public assistance, and Medicaid titles. Over the quarter century and more of the life of the Social Security Act, we have appeared frequently before Congressional committees to argue for a comprehensive non-categorical program of public assistance which would provide for:

(1) Adequate assistance payments;
(2) Elimination of residence requirements;
(3) Some retention of earned income;
(4) Elimination of relative responsibilities, except that of spouse for spouse and that of parents for minor children.

We have argued that these revisions in the public assistance titles would move toward making it a reasonably adequate program of supplementation of the basic benefits provided as a matter of right through Title II of the Social Security Act.

Long before the 1966 report of the Advisory Council on Public Welfare, we supported the key recommendation of that report, namely, that the sole basis for eligibility for public assistance should be that of need.

In 1961, our Association welcomed the invitation from the then HEW Secretary Abraham Ribicoff to assist him in developing a series of amendments to the public assistance titles in the Social Security Act, which eventually became the 1962 Public Welfare Amendments to that Act. Our approach, and that of the HEW and the Congress, was not a restructuring of public assistance, but qualitative and quantitative improvements.

Although we sought, as we had over a period of a number of years, some exemption of earnings of employed children and the elimination of the residence requirements, we were not successful. The key recommendation of the 1962 Public Welfare Amendments was directed toward "rehabilitative services to ADC families by trained personnel."

Some of us who were involved in that Advisory Committee argued that a program of public works and subsidized employment should be developed to deal with both the unemployed father on ADC and to obviate the necessity for application for public assistance for unemployed parents. We preferred employment programs to money grants for employables. Circumstances required us, however, to settle for a program of Federal participation in work relief which was not implemented legislatively until the Economic Opportunity Act, outside of the Social Security Act, initiated the community work and training program.

* * * * * * *

At our 1964 Delegate Assembly these growing doubts as to the viability of the public assistance program came to a head when there was adopted an income maintenance statement that indicated that the Association "favors a passage and implementation of Federal legislation that would insure (1) income as a matter of right in amounts sufficient to maintain all persons throughout the nation at a uniformly adequate level of living; and (2) the provision of payments in the most dignified and efficient manner possible."

At the same Delegate Assembly, we indicated that "we stand for the abolition of the means test in the archaic form in which it is applied in state and local administration of public assistance," noting further that this means test "nullifies the objectives of guaranteeing to every individual in our society the right to an adequate and certain income, and does violence to basic human values."

In adopting these policies, we recognized that we were now charged with spelling out in considerable detail how we believe we should go about assuring income as a matter of right in amounts sufficient to maintain all persons throughout the nation at a uniformly adequate level of living. We recognized further that while members of our Association supported this declaration as a matter of principle, reservations would develop as we began the outlining of specific details for achieving a program dedicated to this principle.

Over a period of almost two years, we developed what we saw as the elements of an adequate program of income assurance and then, to prepare the participants in our 1967 Delegate Assembly which would be called upon to pass on this program, we instituted a series of regional seminars at which this proposal was outlined and discussed.

This program for income assurance which was adopted at our 1967 Delegate Assembly is as follows:

(1) Expansion of the general economy and of public service employment is required since work will continue to constitute the major source of income for most American families in the foreseeable future. Adequate minimum wage legislation should provide a floor for all earnings.

COMMENT

We supported in 1967 extension and improvements in the Fair Labor Standards Act and are now supporting the Clark Emergency and Training Act of 1968 and the O'Hara Guaranteed Employment Act.

(2) Improvement and expansion of the social insurances—old age, survivors', disability and health insurance and unemployment and workmen's compensation—in order to help make the fullest possible contribution to filling the gap that now exists between income from work and decent income for all citizens. Such expansion should include more complete coverage, a substantial increase in benefits, extension of medical care to all, and, with respect to unemployment compensation, in addition the application of Federal standards and the lengthening of the period in which payments are made.

COMMENT

We support increasing social security benefits by 50%, to be financed by raising the wage base substantially and from the general revenues to cover the cost of prior service credits. Further, we support extension of contributory health insurance to the total population.

(3) An expanded and improved system for raising to an adequate income level those persons not in the labor force or those whose work experience is so insubstantial as not to enable them to qualify for adequate social insurance benefits. The two most promising approaches to this objective are the following:

(a) A federally administered universal benefit system, possibly using the income tax mechanism, under which all persons would receive payments designed to lift the income of all those below the poverty line to an adequate level.

(b) Children's or family allowances and allowances for the aged to an adequate level of income and based solely on such criteria as age, family status, and the like.

COMMENT

There is a substantial difference of opinion in our membership with respect to the negative income tax or family allowance approach. The Association, however, reserves its position as to the choice of programs which seem to have the best chance of being adopted in the reasonably near future, in order to make contribution toward the objective of a guaranteed minimum income for all.

(4) A reformed and reorganized public assistance program that would provide a Federal guarantee so that no person's income would fall below a minimum standard of adequacy and be based on financial needs as the only criterion for eligibility. Such criterion would eliminate, among other matters, residence, relatives' responsibility, except spouse for spouse and parent for dependent child, and the categories of assistance. Administered under considerations that would protect the individual's dignity, privacy, and constitutional rights, this program would serve as a significant interim measure until other programs could be developed and also as the ultimate guarantor that no one because of socioeconomic reasons or the lacks and deficiencies in other income provision arrangements shall be without a decent level of income.

COMMENT

The 1967 Public Welfare Amendments, particularly the AFDC freeze and the discriminatory requirement for work and training for mothers, demonstrated to us again that the means test approach in public assistance "does violence to basic human values."

In our judgment, current efforts to separate services from the determination of income eligibility, substituting declarations for case by case investigation are forward steps, which we want incorporated in the assistance program of the future. However, we would see such a program as much diminished in size, essentially a residual program, and designed to supplement an income provision system based upon rights.

As further background for this presentation, we are offering for the files of this Committee reprints of two articles that have been published in our Association's magazine *Social Work*, and a paper prepared for our 1967 Delegate Assembly by Dr. Alan D. Wade, who is now Dean of the School of Social Work at the Sacramento, California State College, entitled "Lifting the Poor Out of Poverty".

One of the articles which we are filing "A Way to End the Means Test" by Dr. Edward E. Schwartz, George Herbert Jones professor at the School of Social Service Administration, University of Chicago, develops what Dr. Schwartz calls a family security program which utilizes the Federal income tax system to provide a federally guaranteed minimum income which would be set at any one of three levels, varying from a minimum maintenance of $3,000 a year to a modest, but adequate level of $5,000 per year.

Another article entitled "Alternatives in Income Maintenance" my Arvin L. Schorr, Editor of our publication *Social Work* and HEW Deputy Assistant Secretary for Individual and Family Services, presents six distinctive approaches to income maintenance identifying their basic assumptions and controlling issues, and rejects or locates each approach within the system that will take shape over time.

We have not attempted to determine the cost of this four-part program we are suggesting, but are certain that during these hearings you have received from various witnesses, particularly the economists, the cost of instituting some kind of income assurance program. Such estimates may well have varied from a low of $11 billion to a possible high of over $30 billion. However, we do want to note that if significant and affirmative action is taken with respect to job guarantees, including a minimum wage of no less than $2.00 an hour, if the social insurance system is extended and improved in its old age, surviviors' disability and health phases, and if unemployment compensation is extended and improved, the cost to be carried by income supplementation devices such as the negative income tax or children's allowances and a reorganized public assistance system would be proportionately reduced.

There is an enormous cost to our society of a permanent poverty-stricken segment of our population. The cost is not only the degradation and alienation of millions of citizens and the violence and destruction that inevitably result from hopelessness amidst affluence. It also includes the wasted lives, the loss of productive and contributing tax payers and consumers, the new, yet unborn generations of alienated youth and the possible loss of the most fundamental objectives of our American Society. There are enormous negative social consequences to inaction on the matter of income maintenance. There are equally positive social consequences to action now to give to all Americans the income support and/or opportunity.

We welcome this opportunity to participate in this dialogue on guaranteed annual income and pledge the efforts and resources of our organization in the further extension of public discussion on the need for assuring all Americans a decent level of income.

Representative Griffiths. Thank you. Without objection, we will be glad to receive them.

(The documents referred to are included in vol. II as appendix 18.)

Representative Griffiths. Mr. Tyson?

STATEMENT OF LUTHER TYSON, DIRECTOR, DEPARTMENT OF ECONOMIC LIFE, BOARD OF CHRISTIAN SOCIAL CONCERNS, METHODIST CHURCH, WASHINGTON, D.C.

Mr. Tyson. Madam Chairman, members of the subcommittee, my name is Luther Tyson, I am the director of the Department of Economic Life of the Board of Christian Social Concerns of the United Methodist Church. My area of specialization in graduate studies has been the fields of the sociology of religion and social ethics. I am testifying on behalf of the National Council of the Churches of Christ in the United States as a member of its committee on the church and economic life.

The National Council of Churches is composed of 33 member Protestant and Orthodox Christian denominations, which in turn have an aggregate of 42 million members. I mention this merely to indicate what kind of organization the National Council of Churches is and not to imply that I am attempting to speak for all these denominations or their members. I am speaking on behalf of the general board of the National Council of Churches, which is its governing body. The general board is composed of representatives of the member denominations in proportion to their respective membership, selected by the denominations according to their own procedures. It numbers 255 members, and includes men and women, both clergy and laity.

The general board meets three times a year to set policy for the National Council of Churches. One way in which it sets policy is by acting on policy statements proposed after careful study by program units subsidiary to the general board but composed, like it, of denominational representatives of specialized competence.

It is in one of these, the committee on church and economic life, that the policy on which this testimony is based originated. For 2 years, a study committee of economists and other specialists worked on the subject of guaranteed income, and their recommendations formed the basis of the policy adopted by the general board after deliberation, debate, and amendment by the program board of the division of Christian life and mission, an intermediate representative body.

I cite this history to indicate that this policy was not arrived at hastily, impulsively, or inadvisedly. When finally acted upon by the general board, the vote was 107 for, one against, with two abstentions.

Madam Chairman, I think perhaps I will not read all of this. It is in your record. I would like rather to make some comments.

Representative GRIFFITHS. We shall be glad to have your comments, and your statement will be printed in the record in full.

Mr. TYSON. I note the question of values has been touched on by three of your speakers. In terms of specificity, the language of social ethics raises this question concerning guaranteed annual income: Why should a rich man's cat lap cream while a poor man's son suffers from malnutrition? Or why should the least advantaged in society function to stabilize the rate of inflation? Why should those persons be the safety valve of the economy?

Now, to raise this kind of a question is not an idle exercise in axiology. The answer is fraught with social and political consequences. It challenges our inherited values supporting our national economic policy.

I would like to limit my remarks to two major points. The first is that transfer payments must be seen as an investment in personality development and in household security. Very briefly, I will sketch a microanalysis of the value system of the ordinary household—that is, a family unit which produces motivated children who are capable of enjoying life, of exercising their social privileges, and of meeting their social obligations.

The fundamental proposition concerning the household is that its basic goal is a noneconomic function. Too often, we define these functions in terms of economy only, which then skews our analysis in terms characteristic of the economy. The primary function of the household is to transmit cultural values through socialization and to manage individual tensions within a small face-to-face group.

Now, the basic product of the household is the socialized individual, and it is the service of this individual which the economy needs in order to perform its primary function, the production of goods and services. So there is this economic dimension to the function of the household.

It generates within it motivation for economic performance, and it generates, manages, and disposes of wealth as resources for its primary output, the socialized individual. This is achieved through exchange in the occupational market, the consumers market, and the capital goods market. The goal of the economy of the household then, is to generate motivation appropriate to occupational performance through the mechanism of the socialization of the child and the management of tensions of family members.

Within this broad goal, we find certain kinds of functions within the household. Each one of these functions rests back upon a basic value assumption. Within the goal sector of the household economy would be included the willingness to assume an occupational role, the willingness to be employed, the capacity to earn, the balancing of skills, competence, training, and entry into productive work and the valuation of industry. This has often been called a work ethic, and this is certainly a needed input into an economic system.

It is generated primarily not in the economy—I emphasize this—it is generated primarily outside the economy in the socialization processes of the child. Now the household also generates motivation for a wide spectrum of activities other than economic, including learning, service, worship, and while the household is more than a resource for the economy, its product is a necessary and a basic need of the economy.

In pursuing this goal of the motivated person, the socialized individual, the economy of the household must adapt itself to the changing situation of the general social environment. This would include now primarily technological change.

This is not new. This has been going on, of course, for centuries. But it is at a new rate. A certain portion of the resources of the household must be allocated for continuous maintenance of occupational motivation, and if the household does not have this input whereby it can generate this continuous motivation, it will be lost and it is lost to the total system, it is lost to the economy. Then it cost a whole lot more to recapture it, to regenerate it. It takes years; it takes a generation.

The roles of the household economy in this adaptive function of being able to ride with change in society center around spending. This includes spending for health, being able to enter the job market and work daily and to have the health to do so. It also includes recreation, education, training, spending for the basic standard package of living, which includes personal savings; for the invisible costs of living—spending for status, which relates the household to other formal and informal associations in society and defines who the household is and what it is, and incidentally, the children in it—all of this based upon an attitude toward consumption and its evaluation.

The household is conditioned through interaction with other collectivities, which includes not only the standards of life, but includes discretionary styles for enhancing the life of the members of the household—religon, health, travel, leisure, and the realization of the basic values of the household structure.

A third function within the household centers in what is termed the integrative sector. It deals with the organization of the family's occupational roles. The roles in this sector of the household center around the improvement of occupational capacities through reorganization of the role of each family member—going back to school, for instance; taking job training as an example; consumption patterns and socialization techniques. It includes leadership for creating new occupational capacity or improving the old; it includes the valuation of innovation in family economic performance.

And such questions as who allocates household funds—these all enter into this particular function of how does the household spend its money in order to be able to meet this kind of change.

Now, within the household economy, the value sector functions to process motivation in the family. Roles are organized around the processing of appropriate motivation relative to economic performance, the developing of techniques in tension management, the integration of the techniques for the socialization and tension management by the division of labor among adults, or supplying supervision, nurture, and the whole question of valuation of motivation.

The point I wish to make is this, that these primary functions of the household require a continuous input of resources from the total social system. One of the most important ones is constant flow of income. And it is impossible, it seems to me, in the field of ethics to judge a family as being not motivated, as being unworthy when the very things we know from the behavioral sciences and from ethical analysis which motivate the family are not inputs into the family. And if we are going to really make secure the household in a rapid era of change, then these millions of families are going to need special transfer payments in order to be able to develop the very facilities necessary to process and to socialize persons in family structures.

The output, then, is the motivated person, and this is what we hope is achieved. Therefore, we do not get people locked into a social system of deprivation and poverty, but it is an investment in personality and into the household during periods of rapid social change.

The second point I wish to make centers around an ethical distinction between work and leisure. Because this constantly comes up in one form or another, sometimes disguised, when we are beginning to talk about incentives, let me pose a question. Does a person who is living from past investments represent a person who is working? Now, what is work? Work broadly defined means any human activity directed toward achieving objectives, whether or not any remuneration is involved.

Work narrowly defined is activity for the sake of specific economic gains. It is the exchange of labor for wages. Remember, narrowly defined, it is the exchange of labor for wages.

Now, then, a person who is able to make a claim upon a total social system because a father or a grandfather or a great grandfather made a good investment, is this person working? Then should this person receive income from the total social system? Is this a legitimate moral claim against the system?

Well, our society would say "Yes." Why? Because of a necessary function in the total system. One of the primary ingredients for a functioning economy is that of the supply of capital. This is one of its sources—out of savings—so therefore, there is a claim in perpetuity for income to be transferred into this household because of this prior function; in other words, the person is working.

But I submit that this person is working in the broadly defined definition and not in the narrowly defined definition, certainly not in a definition of exchange of labor for wages.

What, then, is leisure? Well, narrowly defined, leisure may be seen as idleness, and this is what so many people are worried about, what happens to the idle poor? I was pastor one time in a community where the median income was over $15,000 a year, and I was somewhat worried about the idleness of some other kinds of people in society. It is not just the poor who are idle.

This may constitute a major problem for a total social system, and you do not cut it off at the poverty line.

Narrowly defined, leisure then may be seen as idleness, sort of lolling around the pool. But leisure broadly defined is the creative use of the free time. This will most often include the pursuit of social objectives; for example, serving as a volunteer in hospital service.

Now, I submit that these two definitions begin to fade into each other, labor and work, if you use the two broad definitions. Broadly, leisure is the creative use of free time, and this will include the pursuit of objectives. Broadly defined, work means any activity directed toward objectives whether or not remuneration is involved. So we are involved here in trying to define a policy for determining family income for activities—one of which has historically been defined as economic work, and the other has simply been defined as a claim against the total system for being human.

Now, then, I want to use an example I began with to illustrate why I think there may be an ethical claim which can be made against a total economic system by those persons who are not narrowly in the work force. This person who supplies capital and then gets a claim against the total social system in perpetuity I have said performs a vital function in the economic system. What about that person who is laid off when we raise the tax rate by a 10-percent surcharge and takes $6 billion out of the Federal Government's budget? This policy will result in a 1-percent rise in unemployment, which will be around 800,000 projected, maybe in the next 12 to 14 months, which will also include several million persons, persons related to this head of the household. Are these persons performing, in the broadest sense, work? Are they in the broadest sense achieving an objective of the total social system? I submit that they are, because this is the safety valve activated by societal policy decisions.

Just look at a Phillips Curve. It describes our primary safety valve for handling creeping inflation.

These unemployed persons "take it." Are they not then performing a function in the general social system which generates a claim for transfer payments? I submit generally that a strong ethical case can be made for this particular point.

The last point I would like to make is the summary statement of the policy of the National Council of Churches. We read the literature for about 2 years and we discover that no ethical criteria had been established in the literature for adjudging income maintenance programs, and so these six were developed by the research committee:

First, such transfer programs should be available as a matter of right, with need as the sole criterion of eligibility; (2) it should be adequate to maintain health and human decency; (3) it should be administered so as to adjust benefits to changes in cost of living; (4) it should be developed in a manner which will respect the freedom of persons to manage their own lives, increase their power to choose their own careers, and enable them to participate in meeting personal and community needs; (5) it should be designed to afford incentive to productive activity, and should be designed (6) in such a way that existing socially desirable programs and values are conserved and enhanced.

Thank you very much.

(The prepared statement of Mr. Tyson follows:)

PREPARED STATEMENT OF LUTHER TYSON

GUARANTEED INCOME

The National Council of Churches is grateful for the interest of this committee in the subject of guaranteed income, and wishes to congratulate the committee on its forward looking approach to one of the fundamental aspects of the problem of poverty in our nation—the issue of income maintenance.

We note with interest that no less than four presidential commissions dealing with related subjects during the past two years have presented recommendations looking in the direction of some form of guaranteed income.

The Commission on Technology, Automation and Economic Progress, reporting in February, 1966, said:

"We feel strongly, however, that a better integrated and more comprehensive system of social insurance and income maintenance is both necessary and feasible at this stage of our history . . . The Commission recommends also that Congress go beyond a reform of the present (welfare) system and examine wholly new approaches to the problem of income maintenance. In particular, we suggest that Congress give serious study to a 'minimum income allowance' or 'negative income tax' program. Such a program, if found feasible, should be designed to approach by stages the goal of eliminating the need for means test public assistance programs by providing a floor of adequate minimum income."

In June of 1966, the Advisory Council on Public Welfare stated:

"For the nation as a whole, a floor under income constitutes a clear declaration of conscience and of practical intention to eliminate poverty . . . the greatest potential for strengthening income maintenance for the poor is through immediate improvement of the social insurance and public assistance program."

The President's Commission on Law Enforcement and Administration of Justice recommended in February, 1967, that:

"Efforts, both public and private, should be intensified to reduce unemployment and devise methods of providing minimum family income."

Most recently, in March, 1968, the National Advisory Commission on Civil Disorders asserted that:

"Our longer range strategy . . . is the development of a national system of income supplementation to provide a basic floor of economic and social security for all Americans."

The views of the National Council of Churches on this subject are contained in a basic policy statement on "Guaranteed Income" adopted by its General Board on February 22, 1968. That policy statement forms the basis for this statement. A full text of the policy statement together with a staff paper is attached.

The key sentence in the policy statement affirms that "*the National Council of Churches endorses the concept and desirability of a guaranteed income.*" We wish to share with the Commission in summary form the reasoning which underlies that conclusion.

Our first premise is a theological one, rooted in the Christian understanding of the plan and purpose of God in creation. We believe that the riches of nature and the fruits of human ingenuity and productivity are intended, in the providence of God, to be shared and enjoyed by all his children, not hoarded by some chosen (or self-chosen) few.

Through the centuries of mankind's history, because developed resources and technological skills were scarce, poverty for some was inevitable, although even during the ages of scarcity, the Church has maintained a consistent protest against unnecessary and immoral inequities between rich and poor.

Today, as far as our American society is concerned, we have clearly crossed the great divide from an economy of scarcity to one of abundance. We now possess the technological and productive capacity to eliminate dire poverty and want from this nation. Having the capacity to abolish poverty, we have the moral obligation to do so. As the General Board put it in another policy statement, adopted in 1966:

"Our burgeoning productivity makes possible, and our Judeo-Christian ethic of justice makes mandatory, the development of economic policies and structures under which all people, regardless of employment status, are assured an adequate livelihood.[1]

In this connection, we wish to take the occasion explicitly to disavow and repudiate certain pseudo-Christian arguments which are frequently put forward to condone continuing poverty and injustice. One is the contention that poverty is "good for the soul," a basis for self-discipline and hence spiritual growth. True, there is a place in Christian doctrine for *voluntary* poverty as a means of self-discipline and as a witness to humility and servanthood. But this has nothing to do with the kind of grinding, degrading, humiliating *involuntary* poverty which is the lot of over thirty million citizens of the world's most affluent nation. Nor does the undenied fact that a good many poor people have "risen above their poverty" in some sort of triumph of self-fulfillment and spiritual achievement provide any defense for the perpetuation of great pockets of involuntary poverty in a nation which has the resources to guarantee income at levels permitting minimum health and comfort. No one will deny any man the right to remain poor if he wishes, either for religious or secular reasons; but no one in an affluent society has the right to demand that other men remain poor "for the good of their souls."

A second false argument sometimes heard in religious circles is that the plight of the poor is God's punishment upon them for their sins. The self-righteousness of this argument on the lips of the affluent is a moral offense, and the falsity of it is apparent upon the most superficial review of the composition of the poverty population and the nature of the causes and circumstances surrounding their poverty. To be sure, the poor are sinners, as all men are sinners; but there is no causal connection, at least not on any wholesale basis, between the degree of their sinfulness and the depth of their poverty. Any lingering doubt on this point can be quickly dispelled by a cross-section review of the morals of the rich.

The most spurious of all the pseudo-religious defenses of poverty is the proof-texting which quotes the words of Jesus from the Gospels: "For you always have the poor with you." Even the most superficial reading of the passages in which these words are found reveals that Jesus was not uttering a socio-economic prophecy, but using a very immediate situation to teach a moral truth. And part of that teaching was that the Christian has a responsibility to do all that he can in behalf of the poor. In Christ's time this could legitimately mean charity. Today, in our view, it means primarily hard work in behalf of the elimination of poverty.

The second basis for the position of the National Council of Churches on guaranteed income comes from our appraisal of the present welfare system. In view of the abundant documentation which will be available to the Commission from the work of the Advisory Council on Public Welfare and other sources regarding the woeful inadequacy and the dismal defects of our present welfare set-up, we will confine ourselves in this statement to a simple quotation from our basic policy statement:

"As presently designed and administered, however, the public assistance programs fail to provide the answer and frequently violate the human dignity of

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[1] "Christian Concern and Responsibility for Economic Life in a Rapidly Changing Technological Society." A Policy Statement of the General Board, February 24, 1966.

the poor. Many of those in need are not covered by any of these programs. In most states, payments even for those covered are inadequate, often grossly so. Recipients commonly lose most or all of any supplementary income they may earn. They are subjected to humiliating tests, which in some cases place a premium on family disruption."

The above was written, incidentally, prior to the passage by the Congress in 1967 of further punitive amendments to the social security laws—amendments which make a bad system even worse.

The ultimate flaw in our present maze of welfare laws and categorical programs is that none of it is designed to elminiate poverty; but rather to perpetuate it. This is not to say that welfare programs have done no good. Doubtless they have kept a good many poor people from starving or freezing to death. The tragedy is that at the same time the system has been geared, by design, to such low levels of benefits that it has perpetuated the clients' poverty with all the accompanying frustration, hopelessness and despair.

We believe the time has come for this nation to find a better answer to the problem of hard-core poverty than the present patchwork of welfare. We believe some form of guaranteed income can provide such an answer.

A third consideration which underlies our support of guaranteed income has to do with a very fundamental appraisal of our present socio-economic order which so largely ties income to work and so highly prizes remunerative employment as the principal means of establishing human identity and worth.

We recognize the ambiguity of the evidence regarding the probable impact of automation on the nature and availability of employment. Although it is clear that in the short run the abundance of human needs and desires is sufficient to provide work in productive and/or service industries for all who can be trained, qualified and motivated to work, the longer run picture in this regard is more uncertain. Whatever the future may hold in respect to the availability of jobs, it is our opinion that a society of abundance should begin early to search for ways of making human life meaningful and human dignity assured which are not so tied as in former scarcity times to jobs and toil and paychecks. We believe that those who are charged with exploring the possibilities of guaranteed income should have such considerations in mind as they pursue their assignment.

This is not to say that we regard the guaranteed income as a panacea for all the socio-economic problems of families or of the nation, or as a substitute for programs of human resource development and full employment. On the contrary, our basic policy statement says: ". . . a greatly expanded program for providing meaningful jobs could bring many of the poor above the poverty line and greatly enrich our entire society. Such a program is urgent, both because productive activity enhances human dignity and because there are myriads of tasks that need to be done."

The point we are trying to make is that the value system which we have inherited from the era of scarcity puts an evaluation on the role of work, defined as compensated employment, which may prove inappropriate for the era of abundance into which we are now moving. We suggest that a guaranteed income, properly designed, may contribute significantly to the re-evaluation of the nature and meaning and significance of work in the transitional days which lie ahead.

In the meantime, we have faced, as every responsible discussion of the guaranteed income concept must face, the issue of the effect of such a plan on incentives to work. We are simply not prepared to buy the notion that minimum level income guarantees will seriously undercut work incentives. Some of the hardest working people we know have plenty of money and security. One of the most inhibiting factors to work incentive, on the other hand, is malnutrition and the frustrations associated with hard-core poverty. Furthermore, one can hardly conceive a system better designed to produce dis-incentive to work than those present welfare programs which tax all earned income at the rate of 100% by taking away from welfare grants dollar-for-dollar all that the client earns.

Our conclusions on the issue of incentive are summarized in the policy statement as follows:

"The charge is often made that a policy of guaranteeing family income would destroy the incentive to work. As noted above, for many of the poor, employment is not a solution. Nevertheless we recognize that motivation must carefully be taken into account by any plan for assurance of income. Many proposed income assurance plans are designed to encourage the earning of additional income, rather than discourage it as some present programs do. Furthermore, motivational research is revealing various sources for incentives besides the economic, such as prestige, power, and social usefulness. Indeed, access to income may strengthen motivation and liberate creativity."

Despite its rather intensive studies of the issue of guaranteed income, the National Council of Churches does not feel that it possesses either the resources or the competence to undertake to spell out and defend any specific plan for implementing the concept. This is a task for experts in economics and political science. The National Council policy statement does set forth some criteria which it believes should be observed as guidelines in designing any concrete plan for guaranteed income. These are stated as follows:

"(1) It should be available as a matter of right, with need as the sole criterion of eligibility.

(2) It should be adequate to maintain health and human decency.

(3) It should be administered so as to adjust benefits to changes in cost of living.

(4)) It should be developed in a manner which will respect the freedom of persons to manage their own lives, increase their power to choose their own careers, and enable them to participate in meeting personal and community needs.

(5) It should be designated to afford incentive to productive activity.

(6) It should be designed in such a way that existing socially desirable programs and values are conserved and enhanced."

In conclusion, the National Council of Churches expresses its intention to press for development and implementation of a feasible program of guaranteed income for the American people, its purpose to encourage and facilitate the widest possible public discussion of the concept of guaranteed income among the constitutency of the churches across the nation, and its eagerness to be of any reasonable service to the Committee in furtherance of its assignment and to those who may follow up on its work through implementing legislation.

Representative GRIFFITHS. Thank you very much, Mr. Tyson.

All of this time, we have been worrying about whether or not, if you gave people some money, it would lessen the will to work. I would like now to change the question.

Supposing we did give everybody some money. Now, you can start off by assuming that it is not going to be a really bountiful sum of money. It is going to be as small as we can manage. But we give it to them. What would the effect be, in your judgment, upon our curtailing all other programs that would help those people into a meaningful stream of employment?

That is, we would say, well, you have some money; there is no need for us to do anything for you. Do we not really begin, then, to create a permanent welfare class, without any real concern about it? Or would you think that would be true?

Would you like to answer?

Mr. THEOBALD. This is where I have disagreed very strongly with Professor Friedman. He has seen the guaranteed income-negative income tax as a method of eliminating all kinds of social service. It seems to me that we should only talk about eliminating all other forms of financial payment. It seems to me this is a meaningful goal.

What happens then? Once the guaranteed income is available as a matter of right, one fundamentally reforms the relationship between the social worker and the client. Until the client can react humanly with the social worker and object to bad treatment without fear of losing his welfare rights, there is not much a social worker can do for a client.

Representative GRIFFITHS. Well now, for instance, in Detroit, I believe the auto manufacturers have picked up 17,000 of the hard-core unemployed and they have really worked with them, trying to give them jobs. And these are very good jobs.

If you gave people a guaranteed annual income, would it not lessen the willingness of private industry to take on this type of operation?

Mr. THEOBALD. We have to either decide that the world is going to continue to be the same or that it is going to change fundamentally. I disagree violently with most of the intellectual establishment because they seem to believe the year 2000 is going to look like the year 1967. Herman Kahn's book, "The Year 2000," is a prime example of this pattern. I do not think that the world will be the same.

We have to find a way to bring up children in a world in which they perceive toil—which is doing something that you do not want to do—as unnecessary; and look at work—which is doing something meaningful for yourself and society—as necessary. If we continue our efforts to prop up the old system without moving into the new system, we will never adapt in time.

Any new social system will make the old system work less well. But we must decide whether we are going to try to create a new system before the old system collapses.

At the present time, we are putting all our effort into keeping together a collapsing system, and I think we should be aware of that fact.

Representative GRIFFITHS. Do I not detect that you have a very old idea in your own statement? Are you not really consigning all women to their homes to rear children?

Mr. THEOBALD. Madam Chairman, I come from a meeting of the American Association of University Women, where I spoke over breakfast this morning. I said to them that it is time women join the revolution of the powerless which includes, as I see it, the minority groups, the poor, the students, and, I would hope, women. I hope that we are moving both men and women into a future in which it is not necessary to travel the freeways twice a day to do your work. This is becoming an obsolete pattern in a communications era. So many of us could do our work sitting at home using the telephone and the teletype and the Telex instead of traveling.

What I am saying is that we need a new form of community in which all will relate to that community, where both men and women would be free with much more time to do what they want to do.

Representative GRIFFITHS. Then it seems to me that if this is your idea, as large a sum of money will have to be spent on training programs and other things in the world as you are going to spend on a guaranteed annual income, or maybe larger.

Mr. THEOBALD. I think this is Mr. Thursz's point that a guaranteed annual income is only a first step. Abraham Maslow has pointed out why. He has said that so long as you lack a guaranteed income, you cannot possibly think ahead.

A welfare worker on a platform I was once on said it is very difficult to think about the future if you are hungry. I think this is what we have to understand, that people cannot conceivably think about their own future or their children's future until, as Mr. Tyson has said, there is money coming in as a matter of right. Then they can start to develop themselves.

The reason people will not accept this view is because they adhere to a different psychological theory, that of Professor Skinner. He said we only respond to positive or negative sanctions or, as I prefer, the whip and the carrot, and that if we remove either the whip or the carrot, people will become beer-swilling bums. I do not share this point of view.

Representative GRIFFITHS. What do you suppose, Mr. Tyson, would be the effect of a guaranteed annual income upon marriage?

Mr. TYSON. It might make it more interesting; I am not sure.

Representative GRIFFITHS. I think it is possible that you should reward people for marrying.

Mr. TYSON. Madam Chairman, I think that with about a third of the labor force, a little better now, in the labor market being women, what would happen is that probably we would find an immediate kind of—it might really actually underwrite a certain kind of instability, and I do not want you to hold that against the concept.

The immediate effect might be this. Why should a woman be married to a person who refuses to support her and her children? We make so much, you know, of marriage, and it is the sort of nice, middle class thing to do. I approve of this; incidentally. I have performed a lot of them.

But in the long run, I believe that it will strengthen the family, it will strengthen the household. Now, then, what will this do as far as other programs are concerned?

I trust two concepts here. One is out of sociological theory, the emergence. You just never know what is going to be. You can do A, B, and C, and you get something you cannot predict. We have to be sort of open ended on it, and if we want guarantees on it, like income, you are not going to be able to say, I know with a predictive certainty what this consequence is going to be. But I believe that if we strengthen the family at the point of this income flow whereby you are able, then, to socialize personality, then you are dealing with the hard, basic causes of ingrained poverty, that persons under those circumstances will become creative working people, they will want to be.

But this cannot happen magically, somehow or other, through deprivation. We have somehow or another invented a belief that the more is kept from the family or the more it must prove its needs—the shoes are actually worn out—then, we have created motivation. When the family has no choice in the marketplace concerning education or training, then we guarantee to ourselves a system which is going to experience built-in failure.

I would be hopeful, really, that it will strengthen family life in the long run.

Representative GRIFFITHS. Mr. Hazlitt, what, in your judgment, would be the inflationary effect of a guaranteed annual income plus all these additional programs to bring people into the work stream?

Mr. HAZLITT. Well, we already have a great deal of inflation, even without the guaranteed income or the negative income tax. We have had a deficit in the budget for 32 out of the last 38 years. We have had a deficit in the last 8 years, we have a deficit in the present fiscal year which is the highest in the last 23 years.

And even after the new tax bill has been signed and so on, we still face a deficit of probably $5 billion or more for fiscal 1969.

Now, these deficits which have been running over a period of 38 years feed inflation. They have fed the inflation that we already have.

People today are taking as a matter of course the assumption that the dollar, having lost 4 percent or so of its purchasing power in the last 12 months, is going to lose at least that much in the next 12 months. This is one of the reasons, for example, why interest rates are at the highest levels in our history, because the people who lend money feel that when they get it back next year, it will have 4 percent less purchasing power and therefore, if they are nominally getting 7 percent, they are only getting about 3 percent, and so on.

I do not think it is possible to fix what the cost would be of the guaranteed income tossed on top, as it more or less would be, of everything else. Possibly there would be some reduction in direct relief, but I have cited a total of $110 billion a year that we are already paying now for various forms of welfare.

Of course, a lot of that is education, but even if you deduct education, veterans' payments, and so on, you still have a Federal, State, and local bill in excess of $70 billion a year for welfare payments alone.

The result of the inflation we have already had and the inflation we still face is that all of us, the aged particularly, are worried about what is happening to the dollars we have saved.

Now, Dr. Tyson seems to be worried because some people seem able to live on income from previous savings. A lot of people feel that the money that they have been able to put aside in their working years is not going to be enough to take care of them if we have a runaway inflation. I think that the result of this guaranteed-income plan, especially if the negative income tax is used as an entering wedge, will be to enormously increase the inflation of the past. If Congress adopts any of these proposals, it will lead us into the Latin-American type of inflation which we have seen over the last 20 years, in which the value of the currency falls 50 percent in a single year, and in which the value, say, of the three outstanding Latin American currencies—of the Argentine, Chile, and Brazil, to go no further—is less than one one-hundredth of what it was 20 years ago.

This is the kind of thing we face if we take up these proposals.

Representative GRIFFITHS. I would like the rest of the panel to answer next time. My time is up for the moment.

Senator Proxmire?

Senator PROXMIRE. Mr. Hazlitt, do you see no escape from the present welfare system, with its total disincentive to work? You said that years ago, you wrote an article for a New York Times publication in which you tried to provide a way of getting out of it, that you found you were in a dilemma, that it would cost so much that it would not work.

So can we do nothing about this?

Mr. HAZLITT. As an inflexible automatic system, it would not work. I remember some 10 or more years ago talking to some of the Social Security people here and suggesting this device as a way of dealing with the income of the people between 65 and 72 who were not then allowed to earn more than a certain small amount. I remember that the official I spoke with said the device sounded like a good idea. It has since been put into effect through a small range.

Now, these things can be done on a trial scale within certain limits. There are a lot of things, for example, that you can play with. You might try reducing relief payments by $1 for for every $2 earned, within certain limits. Or let us say a man, starting with zero income of his own, gets a relief payment of $60 a week. Then out of the first $20 he earned, he might be allowed to keep $2 out of every $3; out of the second $20 he earned, he could keep $1 out of every $2; and out of the third $20 he earned, he could keep $1 out of every $3.

Senator PROXMIRE. You think this might be a good principle? Certainly it is right at the heart of your philosophy, as I understand it, that you should have an incentive to work, and the present welfare system does not provide it?

Mr. HAZLITT. Precisely. We do not need to say "Look, the present relief system is bad in this or that respect; let us have an entirely different system. Several of the "substitute" proposals, for example—the tapering-off subsidy of the negative income tax—could be tried tentatively in the direct relief system. But if you adopted this in an inflexible, all-inclusive way, you would get into very serious problems.

Senator PROXMIRE. May I just interrupt at that point to refer to the presentation of Dr. Tobin of Yale. He has a fine little booklet on the negative income tax in which he spells out in detail what he is after, he describes it as more of a work incentive system, really. I think if they changed the name to work incentive system instead of negative income tax, they would get a lot further with Congress with it.

I cannot see anything wrong, and I think many people would agree that we should provide a guaranteed income or a supplement income of some kind to people who cannot work. I think maybe we can make that much progress.

Would you agree to that extent? They cannot work, they are just unable to work for physical reasons or mental reasons, or some other disqualifying reason.

Mr. HAZLITT. Congress has dealt with that problem, of course, as you know, Senator, over the last 30 years when it put in categorical relief for the blind and the disabled.

Senator PROXMIRE. It is not comprehensive, though.

Mr. HAZLITT. Well, no, but you could add other categories like mental reardation or things of that sort. More categories could be added.

But they should be watched. One of the things I think should be done, certainly, when we add more categories or types of relief, is to do it only on an annual basis, so that they have to be reviewed by Congress, and expire automatically unless reviewed. It is depressingly easy for more and more types of relief and welfare payments to get themselves built in, and to become permanent whether they are good or bad.

I have worked out here a small schedule just to show how a tapered-off subsidy of the NIT type works out.

If I were asked to propose alternatives to the guaranteed income, the chief one I would think of would be repeal of the minimum wage laws.

Senator PROXMIRE. As an alternative for the ——

Mr. HAZLITT. Guaranteed income.

Senator PROXMIRE. It has been presented to us by other panelists during these hearings as quite the reverse. They say if you have a guaranteed income, one thing you might be able to dispose of is the minimum wage.

Mr. HAZLITT. I think it is the other way around. The minimum wage laws are today the principal cause of existing unemployment. I do not know how much time I can take here to argue on this, but I will simply refer to the fact that I am certainly not alone in holding that the minimum wage law creates unemployment. Among eminent economists who have made this point are Profs. Yale Brozen, Arthur Burns, Milton Friedman, and James Tobin. The minimum wage creates much more serious unemployment among Negroes than among whites, and has created a terribly serious unemployment among Negro teenagers—among all teenagers, but especially among Negro teenagers.

Senator PROXMIRE. Well, the guaranteed income would certainly begin to provide a basis for eliminating that.

Mr. HAZLITT. It would protect them in their unemployment.

Senator PROXMIRE. It would mean that people would have a minimum income. The thrust behind the minimum wage is that a person simply cannot live on a payment of less than a certain amount. If you pay a person $1 an hour these days, in view of inflation and so forth, he cannot possibly support any kind of a family. He probably has trouble getting along himself.

If he has a minimum income that is guaranteed, then that aspect of the minimum wage, at least, is no longer valid.

Mr. HAZLITT. In that connection, this is just the illustration that I had in mind. We have at present $1.60 an hour as the minimum wage. Now, for a 40-hour week, this means $64 a week would be the minimum wage. So what we are doing is this: We are saying that anybody who cannot earn $64—that is to say, who is not worth that to a specific employer and therefore cannot get employed—we are saying that if he is only capable of earning $60 a week, he should not be allowed to earn it.

Senator PROXMIRE. The minimum wage is not comprehensive at all. It does not apply to intrastate commerce for small business, does not apply to many kinds of economic activity.

Mr. HAZLITT. The exceptions that are made make it less bad than if the exceptions were not there. But I am talking about the general principle that is being applied.

What do we do with such a man? We tell him that he is not allowed to work for less than $64 a week. So we are under obligation, then, to pay him at least that because we have denied him the rights to work for that—or the right to work for $63 a week, anyway.

Suppose, the negative-income-tax principle is in effect as applied to the direct relief system. Where a man had zero self-earnings per week, he would get a relief payment of $64, let us say, because the minimum wage was forbidding him to earn less. Therefore, his total weekly income after the relief payment would be $64. If he earned $2 of his own, he would get a relief payment of $63, making his total income $65. If he earned $30, $15 would be deducted from his relief payment. He would be down to $49 relief payment, plus $30 earned, which would mean a $79 total income.

Now, if he got $64 of self earnings, he would then have been on this system, so he would still be getting $32 of supplementary payments. So he would now be getting $96. This total income would go up until he got $128 a week. But then he would be getting twice as much as if he had been originally earning $64 a week and had never got on the relief rolls in the first place. This is the kind of dilemma you get into on these graduated proposals.

Senator PROXMIRE. As I say, I think you would have to modify the minimum wage, perhaps.

Hr. HAZLITT. There are modifications that can be experimented with, but I am skeptical about them.

Senator PROXMIRE. Let me ask this: As a matter of technical fact in response to the partial answer you gave to the chairman, why could not adequate taxation take care of any inflationary problem? I am not saying it would be politically feasible, necessarily, but you can make any transfer payments you want and stabilize prices by a tax system; is that not a simple economic fact?

Mr. HAZLITT. Well, the implication there is that we are undertaxing rather than overspending. I think what we are doing is overspending, and the cure is not raising taxes.

Senator PROXMIRE. But if you have a program that costs $30, $50, or $100 billion, in order to provide a minimum payment to people with low incomes, you can take care of the inflationary impact of this by simply increasing your taxes to meet it, is that not correct?

Mr. HAZLITT. It is only possible up to a certain point.

Senator PROXMIRE. I am not saying it is necessarily politically feasible, but I am saying that as a technical economic matter, you can do this?

Mr. HAZLITT. I do not think so, because if the South American countries today——

Senator PROXMIRE. But they do not do it; that is their problem They do not have an adequate tax system.

Mr. HAZLITT. Exactly. So we get to a point where expenditures get to a certain level and the politicians in power do not dare to levy an equivalent tax.

Senator PROXMIRE. You are shifting the answer. I am saying you have a tough political problem; that is something we have to face. But from an economic standpoint, you can make whatever payments you want as transfer payments provided your level of taxation is enough to raise the revenue to make the payment?

Mr. HAZLITT. I do not think you can separate the economic entirely from the political possibilities on that.

Senator PROXMIRE. I am sure you cannot, unfortunately.

Mr. HAZLITT. But I mentioned the fact that inflation today is worldwide; although the dollar is only worth 36 cents today as compared with the 1939 dollar, the dollar is still among the far more respectable currencies. The French franc went down the drain so many times that you cannot count them. And this is what happens invariably when you get your Government expenditures above a certain level. It is the tax system that breaks down, the collectability of taxes that breaks down.

Another thing you have to figure is this, that you cannot raise revenues in proportion to tax rates. As a matter of fact, if you go back and look at the 1964 debates when we were lowering tax rates, the argument of the administration then and of the Congressmen who voted for it was that if you lowered the rates you would get higher revenues and you would have increased prosperity.

Senator PROXMIRE. I voted against that, but I was wrong in that sense. I was right, of course, but I was wrong in the sense that revenues did increase.

Mr. HAZLITT. Any way, I do not think this problem is soluble up to an indefinite level. We are reaching the ceiling of the revenue that we can raise. We are getting closer to that all the time.

So all I am trying to say is I do not think the Government can just automatically assume that the more it hands out, the more it can take from somebody else. It has to figure what the whole effect will be on the incentives of the taxpayers.

Senator PROXMIRE. My time is up, but I shall be back.

Representative GRIFFITHS. Mr. Rumsfeld?

Representative RUMSFELD. Is it correct, Mr. Hazlitt, that you have indicated in response to Senator Proxmire's questions that you would be in favor of, on a modest basis, experimenting with the concept of a negative income tax for people over 65 and people unable to work?

Mr. HAZLITT. Well, that is already in the law within a certain range.

Representative RUMSFELD. I understand that.

Mr. HAZLITT. Yes.

Representative RUMSFELD. Obviously beyond what is in the present law.

Mr. HAZLITT. Yes. That is a small segment to which the proposal could be possibly adopted on a wider scale than it is now.

Representative RUMSFELD. Possibly adding new categories for mental illness, mental retardation.

Mr. HAZLITT. Possibly, yes.

Representative RUMSFELD. Social misfits and people who cannot work.

Mr. HAZLITT. Covering disability and blindness and so on, yes.

Representative RUMSFELD. Your comments on the minimum wage were interesting. I have noticed recently that some proposals have been introduced because of the fact that individuals have lost jobs because of recent increases in the minimum wage. These proposals have been introduced to try to see that they could retain jobs or by having the difference made up through Government payments. And even though the minimum wage is not comprehensive, the fact remains that matching people with jobs is difficult and when the minimum wages goes up, marginal decisions go the other way. I think it would be useful if hearings would be held in the Congress on this question so that we could understand with more precision exactly what the effect of it is.

Mr. Tyson, you opened with two or three questions. As I recall one of them—possibly you could read it—was "Why should the least advantaged function to stabilize inflation?"

Mr. TYSON. Yes.

Representative RUMSFELD. Would you read that?

Mr. TYSON. Why should the least advantaged in society function to stabilize the rate of inflation? Why should these persons be the safety valve for the economy?

Representative RUMSFELD. Right. Why should they have to be?

Mr. TYSON. What is the moral basis for this? We are talking about policy.

Representative RUMSFELD. Why do they? There is a difference between why should they and why do they.

Mr. TYSON. I do not know anybody who suggests that they should; they are.

Representative RUMSFELD. They are, and the problem is what is an alternative to it?

Mr. TYSON. What is the rationalization for making this the basis of policy, enacting policy which you know has this result?

Representative RUMSFELD. I guess the answer has come out in your questions and answers, and I must say I thought your comments on this were excellent. I do not know anyone who agrees that they should. The question is finding some alternative, which is, of course, one of the reasons for these hearings. Goodness knows that question is one that Senator Proxmire and others have pursued in these hearings and previously. It was on the minds of many involved in voting on the tax conference report. The Council of Economic Advisers gave statistics on it. It is not a happy prospect.

Mr. Hazlitt, did you note when Mr. Theobald said that income derived from whatever source must be subject to a progressive tax at the Federal level. Thus current practices, which give favored treatment to certain kinds of income, would be eliminated. He say that the author of the book explicitly proposes the elimination of favored treatment for capital gains and interest on municipal securities, interest payments, casualty losses income splitting, and so on.

What is your reaction to that?

Mr. HAZLITT. Well, of course, that covers a lot of territory. I would like to take up one of those items, and that is the elimination of tax exemption on bond income. Now, the U.S. Government, the Federal Government, for I do not know how long—I think it was under Franklin Roosevelt and goes back 35 years—Franklin Roosevelt said that the U.S. Government would not issue any more tax-exempt bonds. This was an act of self-denial. Meanwhile, however, the municipalities and the States have continued to issue tax-exempt bonds.

Now, the Congress has always had the power to ask for a constitutional amendment that would prohibit the issuance of tax-exempt bonds.

Representative RUMSFELD. I was asking a more basic question.

Mr. HAZLITT. I am just taking this one case as an example. The other thing that Mr. Theobald is proposing is that completely justified deductions should not be allowed. If a man pays out $10,000 in interest, that is a real outgo; it is not a fraudulent thing. He does not have it to spend.

Representative RUMSFELD. I do not think this says there is anything fraudulent. This is suggesting that these types of tax reforms would be—correct me if I am wrong, Mr. Theobald—but it is my understanding from reading it, that this statement says that these types of tax reforms would be a good thing for society. My question is do you see reasons why they would not be?

Mr. HAZLITT. I was just taking that as one example.

Suppose a man is not allowed to deduct the interest he pays on the mortgage on his house. Suppose he pays $1,000 interest on a mortgage and he is not allowed to deduct that. It is a real expense, because when he pays this, the income that is left to him is $1,000 less. Why ignore this?

Representative RUMSFELD. The answer to those who favor tax reform is that if you altered the exemptions in some ways, there would be the hope and the likelihood and, in fact, the political necessity for lower tax rates in the process. So it is not what the net take is going to be. This country is going to go on and we are going to need certain tax revenues. The question is where we take it, how we take it, what the tax rates are and how they affect our changing society.

Mr. HAZLITT. Removing these exemptions will bring about inequities.

Representative RUMSFELD. But would this bring about worse inequities than exist?

Mr. HAZLITT. If a man has a $6,000 income and pays out $1,000 in interest, he is paying out real money, and he has only $5,000 net income. Should he be taxed higher than another man who also has $5,000 net income but is not paying out anything? It would be unfair to the man who is paying the interest. This is what I am saying. It would introduce an inequity that Congress has hitherto tried to keep out.

Representative RUMSFELD. I have two quick questions.

Dr. Thursz, you said that there are "lots of other incentives that prompt people to work besides income." Could you list the "lots" for me?

Mr. THURSZ. I may be stuck on how many you want.

Representative RUMSFELD. Fifteen, twenty.

Mr. THURSZ. Well, surely, status is one. In addition, people work because there is satisfaction in the accomplishment of whatever that task is. We have many examples, right in this Congress, of persons who do not need to work for income. We have in the Kennedy family an outstanding example of persons who have worked diligently and hard, not for income.

It seems to me that at all levels, there is a psychological gain from work. We do live, and I would agree with Mr. Tyson, in a society that looks upon especially the male as a person who is expected to be gainfully employed. There are some psychological as well as social consequencies from not being employed. Especially when one is poor. I think somehow when one is rich, one can find other activities that might be considered work but do not bring about income.

I think the real problem that we face is the problem that we have skirted around. I do not think there is much disagreement among the panel as to what ought to be in terms of the person who is aged or disabled or the person who is mentally retarded or mentally ill. Nor is there much difference of opinion in this panel as to what ought to be the goal for the male. I think most of us would agree that an opportunity ought to be developed and he ought to be given training and help so that he can take a part in the work market.

Mr. HAZLITT. I think that such "reforms" would be grossly inequitable, for the reason that the permissible deductions were made after long study and debate on the part of Congress, and they have been continued year after year, after cross examination of witnesses as to what constitutes income and what is not income, what is a valid deduction from income and what is an invalid one. To disallow them all in one sweep is the most unwarranted thing one could do.

Representative RUMSFELD. I think he has not suggested that they be disallowed in one sweep, but that they be disallowed after long hearings and thought.

I must say I do not have the admiration for our tax system that some do, and I do not have complete admiration for the process which developed it, either. It seems to me it is a patchwork quilt which resulted from special pressures that have developed over the years and which resulted from the use of closed rules and that it does not serve the best interest of society. I think it is a terrible thing that his Congress of the United States has not undertaken broad tax reform.

I am not saying that these are what ought to be changed, but I do think that we can find a better answer rather than simply saying that these developed from careful thought on the part of Congress.

Mr. HAZLITT. That was my broad answer because you asked for a broad answer. Now, I started to discuss a specific exemption before broader questions were raised. That had to do with tax-exempt bonds. Congress could at any time submit a constitutional amendment to forbid the States and localities to issue any more tax-exempt bonds. But what is being proposed here is that the States be permitted to issue tax-exempt bonds and that Congress and the Federal Government simply disregard their tax-exempt status—pay no attention to it and tax them anyway. This would be breaking faith. It would not be due process of law. This is what I am talking about.

Of course, even if you stopped issuing new tax-exempt bonds, you would still have the old outstanding tax-exempt bonds on which people would be getting tax-exempt interest.

Representative RUMSFELD. I see.

Mr. HAZLITT. But the Government cannot just go back on its pledges. It must respect legal tax exemptions.

Representative RUMSFELD. Well, I do not happen to feel that the position that was in the recently passed tax conference report on tax-exempt bonds is a good one; but I do not see anything in this paragraph relating to tax-exempt bonds.

Mr. HAZLITT. Well, it referred to all the deductions now allowed. I think it referred to——

Representative RUMSFELD. Oh, by implication, it did. You are quite right. It said all exemptions.

Where I think there is a need for clarity is when we come to the question of the woman, the mother with children. There I think Congress has moved gradually away from a position it took in the 1930's. At that point, the entire program of welfare which exists today was a program designed primarily to keep mother off the labor force, at home, and which recognized—at least Congress attempted to recognize that it was an important contribution to society to have a mother be at home to take care of her children. That was 30 years ago and the situation of women has changed. But we have now come with the 1967 amendments to the opposite philosophical stance where we say in effect, all mothers ought to go to work. It seems to me that that is the area where some very important policy formulations have to be developed. Because when we talk about all mothers going to work, we need to examine the consequence in terms of the children, in terms of the labor market, in terms of what kind of jobs. One could argue that to put all mothers who are alone at home without husbands, with children, in the labor force would be destructive to the economy. One could argue that no matter what plans we work out, it might be destructive for children. Surely, there is no major saving of money to the Congress or to the people of the United States by taking all mothers on welfare and forcing them to go to work. To send them to work means the establishment of day care, of all sorts of arrangements, and the discovery of jobs that simply do not exist today, jobs that are for unskilled people who have to be home by 3:30.

So I have gone further on your question, but it seems to me that many mothers do want to go to work. Seventy percent of the mothers on welfare in New York City want to go to work. But the jobs do not exist.

Representative RUMSFELD. My time is up. I would just like to conclude this period of questioning by congratulating Mr. Tyson for, in his statement, indicating exactly what the vote was in his organization on this issue. We have heard many people before committees in Congress say they represent 42 million people, as you do, and leave it right there. I commend you for pointing out that your views represent a board of 225, of whom less than half voted. I do not mean that critically, because that happens in the Congress and it happens in political elections all over this country and it is a fact of life. But I admire the fact that you put it right on the front of your paper.

Mr. TYSON. It was a pretty good vote, wasn't it?

Representative RUMSFELD. One hundred and ten out of 225, with 107 for, one against, and two abstentions.

Representative GRIFFITHS. Mr. Theobald, would you answer Mr. Rumsfeld's question?

Mr. THEOBALD. I would like to make several comments:

First, it seems to me that Mr. Hazlitt is extremely naive, which is not a pattern I would normally attribute to him. Tax exemptions are a privilege. Some of them are given for a period of time and cannot be withdrawn. I would agree there are great problems. I said in my testimony that new tax patterns will have to be worked out. It is going to take time and effort, much more than merely hearings. It is going to take an enormous effort of Congress in conjunction with a great many technicians; we do not presently have the mechanisms to do the job. However, Mr. Hazlitt's apparent argument that once we have given somebody a tax privilege at some point, the privilege can never be withdrawn seems remarkably unreasonable, particularly as he argues that all privileges given to the poor should be limited to 1 year.

In other words, if the poor get a privilege it can be withdrawn at any point. If the rich get a privilege it should be their forever. That seems to me intolerable.

Let me deal with the effect of a guaranteed income on women for a moment. I think one of the things that is happening among young people is that marriage is becoming a contract which has to be a permanently meaningful contract to each of them. I think there is less and less willingness to accept permanent marriage vows simply because of societal pressures.

I think the guaranteed income will give freedom to women and this will lead to more meaningful marriages and also more willingness to break marriages when they are not meaningful. I do not think that this is a disastrous thing to happen.

The third point is that no one is suggesting the introduction of the guaranteed income, given our present revenue situation. No one is suggesting that the guaranteed income can be introduced given present patterns of expenditure. I think we must begin arguing about our priorities for the approximately $40 billion of annual increase in wealth in America.

What are we to do with the $40 billion increase in production? If we continue to allow the unions and big business to use power to get all of that dividend, it is obvious that nothing is going to be left for the poor under these circumstances, if we try to give anything to the poor, we are going to create inflation.

I would like for the last time—but I am sure it will not be the last time—to kill a myth. The prime economic myth in this country is that people are worth what they get. This view is based on an extraordinary piece of economic analysis which was conceived in the 1870's. It is based on the following assumptions, that all firms are small, that there are no labor unions, that there is no Government activity, and that information moves perfectly. All of those assumptions are necessary to prove that each person gets what he is worth. In today's world, this is nonsense. People get what they get because they have political power, because the society has given them political power. What we are talking about, Madam Chairman, when we talk about the guaranteed income is an issue of political power.

We have so far allowed the national dividend, which has now risen to $40 billion, to go to those who already have resources. Are we now willing to look at how we provide resources to those who have not?" The techniques we use are not as important as the overall issue. Do we believe the poor have rights? I think we must face this problem urgently because we are being pushed by the poor. We must begin to design a route which will lead to more resources for the poor, even if I, as a responsible economist, recognize that all the job cannot be done tomorrow. But unless we start planning it will never be done; because next year all the money will still be needed.

Perhaps I can state one final thing. We were told in the early 1960's that we could not afford the guaranteed income. Then the Vietnam war came along and we could afford $30 billion for this purpose. The money is there for things we decide to do.

The question is, our sense of national priorities. These hearings must in large part be about our set of national priorities and national values.

Representative GRIFFITHS. Thank you very much. You are also saying that if we establish such national priorities, we are going to level out the incomes in this country to a greater extent. It has been said that the minimum wage is really supported by unions so that they can then ask for more money for themselves. But if we determine that the productivity of the country is repaid in some way to the poor, then we are bringing their incomes up closer to that of the working middle class. Would that not be true?

Mr. THEOBALD. Yes.

Representative GRIFFITHS. So you can assume that you are going to have great resistance to it, because those who have the power are going to try to say if you give the poor this, then we are entitled to more. Right?

Mr. THEOBALD. Right.

Representative GRIFFITHS. And there you create the inflationary spiral?

Mr. THEOBALD. But this is what I meant when I said that unless we face the value issue, unless we educate the American people to the realities of this era, unless we recognize that in this era, not everybody can work, that there must be an income floor, there is no way to bring in a guaranteed income. The guaranteed income is not primarily a fiscal question, it is a question of restructuring power.

Let me, for example, state that I am convinced that we are going to have to move in the not too distant future to seeing a job as a responsibility once somebody says, "I want to do a job," he is going to be required to do it. Strikes, for example, will not be a tolerable form of activity in the sort of world we are moving into. Our society has become so complex that strikes no longer do what they are said to do, which is to affect the relative rights of labor and management; rather they affect the consumer and the public. This world is too complicated to tolerate strikes. In a sense, I am convinced that the society has to say to a worker, if he decides to do a job, that he has to do it; if he decides to leave and not do the job, that is his privilege but he must do the job if he stays.

The guaranteed income implies long-run social change, as well as a short-run tidying up of the welfare system. It is a change in the total social system in which we are going to live.

Representative GRIFFITHS. Thank you. I think that is a very good statement and I hope I live to see the day when we can not have strikes.

Now, let me say I would like to return to your statement that you feel that a guaranteed income will make a more meaningful marriage or that we are moving anyhow toward that. I agree that I think this is very possibly true. I think one of the greatest criticisms of the present welfare system is that it has broken up families, and it certainly has. We are rearing 5 percent of the children in America today on aid to dependent children, largely without fathers. In the very briefly foreseeable future, it is going to be 10 percent of the children.

Now, I would like to turn, Mr. Thursz, to your statement that the first thing you are going to have to consider in a woman's going to work is the welfare of the children. I will agree with you on that. But why do you want to concern yourself with what it does to the employment cycle of the world? Why is this a problem? If you are going to consider whether or not it puts other people out of jobs, then are you not really relegating women here again to a second-class citizenship?

Mr. THURSZ. You are quite correct, Madam Chairman. I would not. I am perfectly willing to make a decision on the basis of the family and the needs of children. I was reacting to the many statements that are made that these women ought to make a contribution to the economy. I was raising certain questions as to, first, the viability of such a plan, whether this really does represent a contribution to the economy; and secondly, I was expressing my own awareness of the limited nature and number of jobs available for women who have to carry on the responsibility of raising families. Again, if I can use Baltimore as an example, we have jobs available in Baltimore for women that tend to be beyond the beltway. The transportation involved requires approximately an hour and a half to two hours to get to these jobs. Most of these women live in the inner city. If we are really to help these women to work while continuing to assume what is their responsibility, the responsibility in most cases of being the one parent, and if we want these women to be back home at the point where the schools end.

Representative GRIFFITHS. Of course, we do not have to do that. Now you have set up day care centers and there is lots of money there for it—at least I hope we get it through—so you do not have to get women back home at 3:00, 3:30, or 4:00 o'clock. You are going to have the child taken care of. Isn't it true that one of the problems you face now in the welfare system is you have no father in the home, the woman does not work, she does have income. But she does not get up. The children never see a parent who works. They do not know of anyone who gets up to go to work. As a result, they do not get up to go to school.

I have been told that this was one of the things that the poverty program did in Detroit. They sent people around to wake women up to get them up to feed the children breakfast and get the kids to school. They felt it was a very worthwhile endeavor.

Mr. THURSZ. Madam Chairman, I would agree with you completely in your statement that the present welfare program is destructive to marriage and to the lives of the people who have to live under the system. I would submit that the guaranteed income program would do a great deal to foster marriage in the sense that it would not require the husand to desert, it would not require the mother to insist on being single in order to support her children. I would like for women to have a choice, to be able to go to work and to be helped.

Representative GRIFFITHS. But the reason that you cannot give them the choice is because you do not give them the choice. You give the choice to a social worker and there are too many social workers who are men who are already convinced that women should stay at home. They do not have the choice.

Mr. THURSZ. Mrs. Griffiths, I am delighted that the social worker's image now is a male image. We have made some good progress.

Representative GRIFFITHS. At least the supervisors are, and unfortunately, they seem to feel that women should stay at home. So that in reality, you are not giving the woman a choice. You see, we enacted a law that said that we were going to have equal employment in this country and what does the EEOC do? In the very first decision they hand down, they tell the newspapers that they can still advertise "male wanted" and "female wanted."

Mr. THURSZ. Madam Chairman, I would like to remove that responsibility from a social worker. I would like for the decision to be made by the person involved.

Representative GRIFFITHS. But it never will be if you give the administration the choice. How can you make it be the woman's choice?

Let me tell you that Mr. Cohen personally called me to tell me how amazed he was that 70 percent of the women in New York City really did want to go to work. Well, my answer, Mr. Thursz, is that the other 30 percent did not understand the question. Anybody would want to go to work.

How are you going to make it so that they have the choice and not the social worker or not the system?

Mr. THURSZ. Madam Chairman, I am suggesting, and I think our association has suggested that social workers are to be out of the business of giving money to people. If we accept one or the other plan for guaranteed income, it would effectively remove social workers from a decisionmaking task vis-a-vis the person who is getting a check, because the check would not come through a social work establishment, it would come directly to them in a dignified manner. Our goal is to give self-determination to these people, not social work determination, so that we are not in disagreement on this question. This is one reason why we support a guaranteed income scheme. Our hope would be that then social workers would be able—I think Mr. Theobald put it very well—to be involved in a relationship with a person not as one who is holding a stick or a carrot, but a relationship of confidence, where there would be the ability to come freely to a social worker and say, we do not want to take your advice. From the very beginning of the social work profession, we have said we are not in the business of making decisions for other people. But we have been forced, and perhaps we are guilty, too, as part of this system that developed in the thirties which matched income as well as counseling, we have been forced to take on the role of a parent or an authority which is not the role that the social workers are to play today vis-a-vis people who need income support from society and are entitled to it.

Representative GRIFFITHS. Thank you.

Mr. Rumsfeld?

Representative RUMSFELD. I know Mr. Hazlitt can defend himself much more eloquently than I, and certainly to a great many more people through his writings, but it is my understanding of his response to my question that he did not quite say what Mr. Theobald suggested he said. It is my impression that Mr. Hazlitt indicated that certainly he was not opposed to some changes in the present tax system, but that changes should be made only after careful thought, attention, and analysis as to what would be the effect on the "power," to use your word, Mr. Theobald.

For example, I have supported tax exemptions, and credits, I supported President Kennedy's proposal for a tax credit to encourage the expansion of plant and facility. I have recommended tax credits for pollution equipment to try to bring the private sector into this problem area. I have done this knowing all along that I basically disagree with the concept and do not like this patchwork tax system, but because we were not getting any basic reform, and therefore you have to try to recommend changes so that we can meet the needs of the society today.

As I recall, you favored the tax credit for plant expansion.

Mr. HAZLITT. Yes. Well, first of all, Mr. Congressman, I wanted to thank you for setting the record straight on what I said about the present exemptions and deductions. I did not say that they should be there forever because they were already in there. Congress has the right to reexamine these each year and should reexamine them each year and may make some changes. But I suggest these changes should be based on the merits of each particular exemption.

Now, I favored the tax credit, or at least a more rapid depreciation of plant and machinery. But I also would like to take this opportunity to say that I think that a very promising approach is made in Congressman Curtis' bill, who is a member of your committee, on what he calls the Human Investment Act, which is the granting of a 10-percent tax credit to employers who take part in a training program or retraining program for workers. I think this is—I would not want to endorse it flatly without further study—but I think it is something that looks on the surface like a very promising approach and ought to be very seriously examined by the Congress.

Representative RUMSFELD. I cosponsored that with Mr. Curtis and there must be 150 cosponsors in the House and Senate. There have not even been any hearings held on it. There are arguments on both sides. I happen to think it would be a way to get the private sector into the task of undertaking a greater portion of the training of the marginally unemployable. It is not going to solve the problem of the very hard-core unemployed, but it would leave the other Government programs freer to deal with the hardest of the hard core by taking more of the marginal, the ones that it is not currently economically feasible for corporations to train, and making it economically feasible to train them.

Mr. Tyson in his statement, Mr. Hazlitt, lists six guidelines.

Mr. HAZLITT. Yes.

Representative RUMSFELD. He calls them six guidelines. If it were possible to design something that met those guidelines, what would be your position with respect to it?

Mr. HAZLITT. Well, if you just take guideline No. 1: "It should be available as a matter of right, with need as the sole criterion of eligibility"—this seems to me the essence of the whole guaranteed income proposal, and I think this whole business of making an income available as a matter of right, whether somebody is making any effort to work or not, is something that should not be allowed as a criterion in the beginning.

Mr. RUMSFELD. Yes. This is what you get to in your last paragraph, where you say how can Government mitigate the penalties of failure and misfortune without undermining the incentives to effort and success? You are saying you do not wish to underrate the importance of the first, but you feel that the second half deserves much more earnest attention than it has?

Mr. HAZLITT. Yes.

Representative RUMSFELD. Mr. Theobald also said in his answer to Mrs. Griffiths that in this era, not everyone can work. I do not know what "can" means, but I do not think it means able in the sense you were saying. I got the feeling you were thinking in the broader sense. We had already dismissed and agreed on the people who are not able, meaning the ones who are physically handicapped or blind or mentally ill, and so forth.

It seems to me you were getting down to this issue that I think is basic to the question: Do you believe our society is developing in such a way that automation and technological changes are going to create a circumstance where a group of people will not be able to find jobs and that this underlies your feeling that, therefore, this society or any society should of necessity, to avoid having them just exist without any means of support, deal with them?

Now, I do not think Mr. Hazlitt believes that automation or technological changes are going to lead to a circumstance where we are going to, of necessity, have a group of people for whom there are just not jobs. From what I know of his feeling, he believes that automation and technology will lead to more jobs, and that the problem is not in fact providing for people for whom there are no jobs, but finding ways to match people with jobs that are being made available and with job training. Is that fair to both of you?

Mr. HAZLITT. Fair to me, yes.

Mr. THEOBALD. Can I respond thus? Let me start from an old economic statement, that employment has moved through primary level; agriculture and mining; and through the secondary stage; manufacturing; and now the bulk of employment is in services. I think we now have to make a sharp distinction between administrative services, such as banking, which are going to be taken over by the computer, and human services, which are not. I would suggest that our problem is that many human services are not suitable for being carried out as a job. I think I may need to challenge the view of our chairman by saying that perhaps some people would rather not go out to work but rather be permitted by the society to see rearing their children as work. I think if we would justify raising your children as work, so that people did not feel in a sense that they were bums simply because the main thing they are doing is working with their children——

Representative RUMSFELD. What do you do for a promotion?

Mr. THEOBALD. I think one statistical change would do much to straighten up economic policy. I suggest that we include in the national economic statistics the value of a woman's work in the home. I share your view that we should provide an opportunity for women to work. But I am not sure I share your apparent belief that it is better for them to leave the home.

Representative GRIFFITHS. I would like to say to you, Mr. Rumsfeld, I think that tax bills have so many loopholes in ratio to the number of the words in the bill.

Senator Proxmire?

Senator PROXMIRE. I would like to ask Mr. Theobald, in the first place, on the cost of this proposal you make, I realize it is hard for anyone to make a computation, but it would be most helpful to us if you could make some sort of an estimate. Dr. Tobin stated that one of his proposals, computed on the basis of 1962 prices, and of course, the prices would now be higher, would be $49.3 billion. Now, this provides for an income of $800 per person, with a somewhat smaller payment for children, a total payment, as I recall, of $3800 for a family of eight, and a 33⅓-percent tax rate. So that it means, of course, there could be a real incentive for people to work and to move away from this.

I assume with present prices and perhaps with a termination of the Vietnam war and with the fiscal restraint we are exercising, it could be bigger than $49.3 billion by quite a bit. This is really a tough problem for us.

Mr. Hazlitt, the points he has raised are genuine political problems to everybody in Congress. We have to find that money somewhere. We have to impose heavier taxes on those who are politically very powerful. How do you suggest we do move in this area?

Mr. THEOBALD. I quite frankly do not know the costs. I think this is a political-technical question. When a decision was made to create a Common Market in Europe nobody knew exactly how to get to the Common Market. If we are going to move on economic reform, we have to have a time schedule. It is not going to be done in 1 year. It is going to be a rough job. Indeed, I am not sure our society is capable of that reform.

It is quite critical that we start immediately to educate Americans to the reality of the world in which they are. I think we are doing a pretty poor job of it. The main thing I am presently interested in doing is to find ways to bring information about the real issues of the day to the American people and I am working with something called INFO 1968, which is designed to bring this year to people across the country information about education, human rights, income, health, youth and the whole question of urban living.

Senator PROXMIRE. Now, you know what a very, very massive, tough, difficult, uphill job this is. For that reason, it would seem to me to be best to the extent that you can that you take advantage of the present attitudes rather than try to climb hills that maybe we do not have to climb. This is why, when you said you find that a third of the people favor something like a negative income tax or guaranteed annual wage, the same Gallup poll revealed that people overwhelmingly favored a job, favored the Government as an employer of last resort or residual employer. This was in every income category. This seems to me something you can really work on and make substantial progress on, especially if you provide that those who cannot work, which I think almost all would agree with, would be provided with some sort of income. Why not take advantage of this situation to move in the direction of residual employment, especially since, from an economic standpoint, it seems to me more satisfactory; that is, those who produce are certainly less of an inflationary burden than those who simply consume and produce nothing.

Mr. THEOBALD. I suppose my slick answer is that I have never been interested in the possible, I am interested in the impossible. There is a reason for this.

Senator PROXMIRE. You are afraid you would succeed.

Mr. THEOBALD. Yes, I am indeed afraid I would succeed. I think the guaranteed job route is a route which leads us back into slavery and I use that word without apology.

Senator PROXMIRE. On, now, come on; really?

Mr. THEOBALD. Yes, really.

Senator PROXMIRE. Slavery?

Mr. THEOBALD. "Slavery." I am using that word quite deliberately.

Senator PROXMIRE. In what sense?

Mr. THEOBALD. Because we will be confronted in the guaranteed job route with the very people who cannot otherwise find jobs. This is by definition the goal of this program. The Government as an employer of last resort assumes that if people cannot be fitted into existing public or private jobs, then there should be a place where people can go and get a job. What will be the characteristics of these people?

Senator PROXMIRE. We had an experience with this to a limited extent in the great depression, where we had the WPA having people do all kinds of things.

Mr. THEOBALD. You are not making the critical distinction between a period in which the problem was a demand problem and a period in which the problem is a skill problem. In the great depression, it was a demand problem and there were many people whose energies could be used to do many jobs. Here we have a skill problem. The guaranteed job program says we will pick up all the people at the very bottom of society. What are they going to do? May I refer you to my published statement.

Senator PROXMIRE. They will work and in your statement, you say this is the kind of thing at which we should work not only more intensively, but more intelligently. This is something I think you can get great support for in the Congress. Place more emphasis on education. We know how this pays off in so many ways.

Mr. THEOBALD. Let me say why I believe what we must not say to a person, "You must hold a job and as a consequence of holding that job, you get an income." Rather, we must decide as a society that we have a profound societal responsibility to provide an income and to help find an activity which will be meaningful to the individual. I am not suggesting that we give the person who is now employed an income and then provide no human services. Many of these people can be moved into activities but first they must find notivation. The Government, as an employer of last resort, will not motivate them.

Senator PROXMIRE. You say we have a profound societal responsibility to find them meaningful activity. If we do that who is going to mop the floors in this building, who is going to wait on tables?

Mr. THEOBALD. Robots.

Senator PROXMIRE. Who is going to do all the other things that are not pleasant, not fulfilling for most people?

Mr. THEOBALD. I am afraid where we probably do not agree is that I believe we already live in a science fiction world. The time it will take for us to get ready for the fact that we do not have to do unpleasant jobs and to teach our children to live with a science fiction world means we must begin to change now.

Senator PROXMIRE. But we do not live in that kind of science fiction world now. There are unpleasant jobs now, probably will be for the next 10 years.

Mr. THEOBALD. The guaranteed income helps to abolish unpleasant jobs because it makes it necessary to pay for jobs that are unpleasant at rates above the guaranteed income level. As the rate for unpleasant jobs rises, the market mechanism acts to develop machines to do unpleasant jobs. At the moment, our market mechanism is working against us.

Senator PROXMIRE. I see your objective. This is something that maybe eventually is going to work out. But meanwhile, we have this very hard, tough problem; we have the people who are overwhelmingly against your proposal but for a proposal that does lead to a better life, does lead to a better opportunity. I would feel inclined to push that faster and harder and expect that maybe the Theobald world will develop sometime for our grandchildren or great grandchilren.

Mr. THEOBALD. The time to find out that you have not enough gas to fly across the Atlantic is when you are less than half way across. What I am afraid of in your proposal is that will get us "more than half way across the Atlantic" because we will not realize the need for social change.

Representative GRIFFITHS. I think that both programs have something of this built into them; that is, that a guaranteed job might result, as you say, in slavery, but a guaranteed income might also result in a permanent welfare class, that much more emphasis must be put on the fact that the guaranteed income is not going to replace very much in the way of expenses, that you are going to have to have much more money added to this as you bring people into a meaningful existence.

Now, I will let you continue.

Senator PROXMIRE. I take it, Mr. Thursz, that you would agree that we should not insist on a dollar-for-dollar loss for a person who is on welfare and gets employment?

Mr. THURSZ. Yes, sir. I agree.

Senator PROXMIRE. On the basis of your very real practical experience in social work and with, I presume, the city councils and so forth, what can we do to achieve this? It seems to me it has been developed by almost every witness who has been here.

Mr. THURSZ. I am very concerned that even at the present time, the program is not funded so it can take place. While the 1967 amendments make this possible, the funding is such that in very few States today is there any implementation of the incentive provision. I think that this is crucial. It makes absolutely no sense to tax somebody 100 percent as they begin to go to work. This has been one of the major failings of our system. I think the desire to keep mothers at home is partly to blame. But I do think that this is a good step ahead, one of the few good things in the 1967 amendment.

Senator PROXMIRE. You should simply emphasize that on the Federal level. It would seem if we do not, the States and localities will, because of the terrific political pressure they are under, insist on the 100-percent tax.

Mr. THURSZ. Yes, they would. Senator, I am intrigued by Secretary Cohen's proposal of, at least as a transitional step, establishing the so-called welfare program on a national basis, operated nationally without the request that States match funds, et cetera. I think we have come to the stage where we could really do this and this would be a further step ahead. Because as long as we depend on certain State actions to implement what is national policy, largely funded from national coffers, we find ourselves sabotaged along the way. I think that Secretary Cohen's proposal for a Federal welfare program, administered by the Federal Government, in the same way as the Post Office is administered, hopefully more efficiently, will be an answer.

Senator PROXMIRE. I would like to ask Mr. Tyson—first, congratulations on addressing yourself to the problem which I think is so fundamental of what we are going to do about the unforunate use we have made of our poor people, the marginal workers, as our price stabilizers. That is a question that the economic profession has not addressed itself to, the Congress has not, and we continue to follow our policy on the basis of votes we have had in the last few days. Can you identify any present day society in which the poor people are not the price stabilizers? Even the English, as advanced as they are, that is the policy they have established in the recent months. They have adopted a tough fiscal program that has increased unemployment for the marginal workers. Where can a free society look, or at least a society where you do not have a rigid control of manpower such as you have in the Communist state?

Mr. TYSON. I believe there has been some experience with this in Scandinavian countries, where they have guidelines for bargaining.

Senator PROXMIRE. Wage-price guidelines?

Mr. TYSON. We have tried to do this in our society, doing it purely voluntarily, this, of course, being in basic agreement and accord with our value presuppositions. I understand, for example, that in Sweden, there is a statistical index for productivity and this is then related to industries, broken down in particular industries.

Senator PROXMIRE. Are you familiar with their level of unemployment?

Mr. TYSON. At the present time?

Senator PROXMIRE. In Sweden over the past few years?

Mr. TYSON. It has been fairly stable.

Senator PROXMIRE. Can you put it on a comparable basis?

Mr. TYSON. Two percent, 2.4 percent.

Senator PROXMIRE. If they figured it the way we do, it would be 2 or 2.5 percent?

Mr. TYSON. In Swedish experience, we have had anywhere from 1.1 or 2 on up. The 1958 high was 2.5.

Senator PROXMIRE. Their statistics are quite different, they are based primarily on unemployment compensation.

Mr. TYSON. It is hard to make these comparisons, but they do have an index on productivity which is related to particular industries and then these guidelines on bargaining within this range. The public expectation here, and we are coming back to a primary factor as far as prices, the public expectation is that you bargain within these ranges.

Senator PROXMIRE. Could you say in Sweden, within the basis of your knowledge and experience, that the poor are not the price stabilizers? Because the unemployed are by and large frictional—after all, there are some people between jobs. You always have young people out of school taking the time to find the job they want, and so on.

Mr. TYSON. I would say it is a far more successful system, and trying to think of the reasons why, I think it is in this guideline area of bargaining. Also, there is a public attitude toward unemployment which is different from our own attitude.

Senator PROXMIRE. Is this true in West Germany, too?

Mr. TYSON. West Germany, France.

Senator PROXMIRE. What about the public attitude toward unemployment that makes it possible for them to keep it lower?

Mr. TYSON. It is an expectation, I think, on the part of the citizenry that public policies will be such as to maintain low levels of unemployment, that politically, it is not tolerable. I think in France; it is something that may be happening in France.

Senator PROXMIRE. They have had more inflation, too, have they not, than we have?

Mr. TYSON. Right, but this becomes politically intolerable and it is a social control over public policy.

Senator PROXMIRE. They try to cope with their inflation by the relationship between productivity and wage increases in a more disciplined way than we have?

Mr. TYSON. Yes.

Senator PROXMIRE. So they would not have the kind of cost push.

Mr. TYSON. Their wages have been under greater control there than they have been here.

Senator PROXMIRE. On page 4, you have a very, very incisive indictment of our present welfare system. At the same time, it seems to me that Dr. Thursz' suggestion that we should try to reform it and build on it rather than throw it out and replace it seems very practical to me. Do you think it is hopeful? Do you think we just have to be pretty radical about this?

Mr. TYSON. There are certain aspects of it. If you mean, are we going to get rid of some sort of supportive social service institution, my response to that is no.

Senator PROXMIRE. Should we even want to? Does not the social worker perform a tremendously useful service?

Mr. TYSON. Right.

Senator PROXMIRE. Should we not have more and better trained social workers?

Mr. TYSON. Correct.

Senator PROXMIRE. If we follow a strictly guaranteed income payment or income maintenance payment, are we not likely to lose the value of social workers?

Mr. TYSON. I do not think this will affect the value of the social worker. It will simply give him a new job definition that perhaps he has been seeking instead of budget making.

Senator PROXMIRE. How do you keep him from just being a busybody? If people get their income, why should somebody stick his nose in telling them what to do with it?

Mr. TYSON. These are supportive mechanisms of counseling which we always need. They may turn into outpatient clinics for mental health. I can see psychiatric social workers doing this particular kind of function, instead of being primarily policemen in a system to be sure only people are on it who need to be on it.

Senator PROXMIRE. If you are a mayor in a city today or on the city council, you have a tough problem of trying to raise enough money to meet your budget and it gets to be one of the toughest problems in the world. If you have an income maintenance system, it seems to me one of the first areas you think of cutting would be your welfare worker. After all, the welfare worker now is necessary in part to justify in part at least holding welfare costs down.

Mr. TYSON. I think you have indicated some pressures that would develop in the welfare system if this occurred, but I think the welfare workers themselves are redefining roles and job definition to take this into account. Certainly we would no longer see the kind of detective work that has been associated with this man in the house business. But you would redefine your functions. They would be supportive functions for supporting the kind of internal organization of family where it on longer would be within the income maintenance brackets. It would be vertically mobile; this would be one of the strong societal inputs into the system, so people would not be locked into a minimum income bracket but move vertically through it. We might see it as one of the primary resources for vertical mobility.

Senator PROXMIRE. My time is up. I want to say I think this is an extraordinarily stimulating panel. I think it is a great thing to have people with such divergent views here expressing them to us. It has been a fascinating and most useful morning.

Representative GRIFFITHS. Thank you very much.

Thank you, Senator Proxmire.

I want to thank each of you for being here. It has indeed been fascinating.

The committee will adjourn until tomorrow morning at 10 o'clock in room S-407 of the Capitol.

(Whereupon, at 12:30 p.m., the committee recessed to reconvene at 10 a.m. Wednesday, June 26, 1968.)

INCOME MAINTENANCE PROGRAMS

WEDNESDAY, JUNE 26, 1968

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON FISCAL POLICY
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10 a.m., in room S–407, the Capitol, Hon. Martha W. Griffiths (chairman of the subcommittee) presiding.

Present: Representatives Griffiths and Rumsfeld, and Senators Proxmire and Percy.

Also present: John R. Stark, executive director; James W. Knowles, director of research, and Nelson D. McClung, economic consultant.

Representative GRIFFITHS. In view of the fact that the House convenes this morning at 11, and I understand Dr. Burns, that you are obliged to leave early, may I ask you to begin with your statement?

STATEMENT OF EVELINE BURNS, PROFESSOR EMERITUS, SCHOOL OF SOCIAL WORK, COLUMBIA UNIVERSITY

Mrs. BURNS. Thank you Mrs. Griffiths. Perhaps I should begin by identifying myself for the record.

My name is Eveline Burns, I am professor emeritus at the School of Social Work at Columbia University, but I am appearing today in behalf of the Citizens' Committee For Children of New York, of which I am a member and which I think you know, Madam Chairman, is very much concerned about the welfare of children.

I must also apologize for the fact I do not have a written statement, because the appearances were arranged rather too late.

The citizens' committee, as you might know, is interested in children. We started off by being interested in all kinds of services for children, and the further we went in our efforts, the more devastating to childhood did we realize that poverty can be. Therefore we have been increasingly concerned about childhood poverty.

We note, for example, that in 1965, one-sixth of all the Nation's children under 18 fell below the current accepted poverty level. This means a total of 12.5 million children in all. And you will recall this poverty level is one which roughly can be described as saying it allows for an expenditure of about 75 cents a day per head for food.

Another 6.6 million children are barely above that line. We noted, as we looked at the different programs and their impact on children, that children are at a disadvantage in our income maintenance programs. They are at a disadvantage in a number of social insurance programs; more particularly, for example, the child in even a moderate sized family under old age and survivor's insurance, where the family benefit is cut off by the maximum limit, and this means that the larger the family, the less adequate can the payment be.

But more than that, we notice that in regard to one of the major threats to childhood economic security, namely, family breakdown, with which I think your committee has already been concerned, this is not protected by the more favorable social insurance programs, but is provided for only by the very unsatisfactory aid to families with dependent children program, unsatisfactory both in its conditions and in the levels of income which are provided for the family.

More than that, however, we have observed that a major threat to the security of children is the risk of being a member of a fairly large family or a member of a family where the father, even though he is employed, is employed at earnings which are too low to permit the maintenance of the entire family above the poverty line.

We were very much impressed with the fact that when one looks at this total of 12.5 million poor children, about half of them come from families where there are five or more children in the family, and furthermore, about 5.5 million of them are in families where the father or the mother worked throughout the entire preceding year. In other words, this suggests that there is a special kind of problem of childhood poverty at the present time which none of our programs are providing for, this risk of being a member of a family which is too large to be supported by the father's earnings.

This led us to look at the children's allowance program as a possible instrument for dealing with all types of childhood poverty. We had a conference last fall; which I believe you have just received a copy of the proceedings.

Representative GRIFFITHS. Yes, thank you. An excellent report.*

Mrs. BURNS. We tried there to explore its implications and went into it as open minded as we could. We came to the conclusion that this was an instrument which should indeed be seriously considered in among our programs. I gather that other witnesses before you have described the children's allowance system, and I shall not take the time, therefore, to go into detail except to say that this is a program which provides cash payments to the parents or parent in a family. It is paid in some proportion to the numbers of children, and with no reference to whether or not the family is in need as demonstrated by any kind of means test condition.

We liked it because it gets money into the families in proportion to the number of mouths to be fed, which is not the case in even some of our social insurance programs. It is administratively simple because there is no means test; because it is universal families are not deterred from asking for the payments to which they are entitled. There are no complicated tax forms for the family to fill in, as is the case with the negative income tax, and it is not divisive. Too many of our programs today tend to divide the community into two groups, the people who pay and the people who get. In this case, it is a universal payment; all parents would get it in some proportion to the numbers of their children.

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*"Children's Allowances and the Economic Welfare of Children," the report of a conference, Citizens' Committee for Children, of New York. June 1968. Copy in committee files.

I would like, however, to spend the rest of my time dealing with some of the objections to this program. One objection that I see very frequently made is that it will not deal with the whole poverty problem. Obviously, it will not. It certainly will not do anything for childless adults. But as one looks at the currently popular negative income tax proposals, one observes that even those are not going to do very much across the board for all adults and all children. So far as I know, practically none of the proposals, except possibly Professor Tobin's, fill as much as 50 percent of the poverty gap, and he does not propose to fill 100 percent of the poverty gap. Consequently, in one sense, it seems to us the problem you face is one of priorities. If you have a limited amount of funds to devote to the purpose of raising incomes, are you going to try to do a little bit for everybody across the board, or are you going to concentrate and do much more for one group?

We at the Citizens' Committee for Children, with our great concern for children, feel that it is children who should have the priority. We would rather see more done for children than a small amount done for everyone. We have chosen children.

We also, however, frankly admit, of course, as I think everyone would, that no one measure alone is going to deal with the whole poverty program. Children's allowances are not a panacea, any more than the negative income tax or any other one program is a panacea. And I am sure other witnesses before you have drawn your attention to the variety of other special kinds of measures that have to be taken—training, job opportunities, and so on, making birth control available to families, and a whole series of related positive programs.

Another objection is that the children's allowance is said to be an inefficient method of dealing with poverty. This is one of the favorite cries of our economists at the present time. It is indeed true that the children's allowance will make some payments to people who are above the poverty line. But I would draw your attention to the fact that even the negative income tax, once it has incentive features built into it, inevitably involves payments to people above the poverty line if it is going to be in any way minimally adequate in terms of the size of the negative income tax. So even the negative income tax is not, in the economists' terms, wholly efficient.

Furthermore, we have observed that there are various ways of dealing with these alleged inefficiencies. For example, the benefit to the higher paid family, the family with higher earnings, can be very substantially reduced, first of all by removing the present exemption for dependents and the minimum standard deduction, something which in any case would be desirable, because if ever there was an inefficient method of providing help to families, it is doing it through the exceptions and deductions under the income tax system, which gives absolutely no help to the people who need it most and the most help to the people who need it least, because the exemption and, the deduction come off the top marginal bracket, of course.

So first of all, we say this alleged waste or inefficiency whereby some of the funds, a sizable portion of them, would go to higher income people in the first instance; can be reduced by abolishing the exemptions and standard deductions.

Second, you can make the allowance taxable, and third, there are various additional tax choices, some of which were proposed by Dr. Brazer, who has a paper in this report of ours but who, I gather, was not able to appear before you.

Representative GRIFFITHS. Yes.

Mrs. BURNS. He has been thinking of some rather ingenious ways of trying to recoup by additional charges on the income of higher income people, and has estimated that you can very substantially cut down the extent to which the rich benefit.

The third objection is that it is going to encourage population growth. All I can say about that is that all the evidence we have indicates that there is no evidence one way or the other. We asked Dr. Whitney, in the report that you have, I think, received, this children's allowance report—Dr. Whitney is a very well-known demographer—to survey the evidence for us as to what was known in other countries, since we do not have this system, about the effect of children's allowances. He came to the conclusion, and I would concur in it because I made some preliminary studies some years ago, that there is no evidence that this does indeed have the population stimulating effect.

Another objection is that parents will not spend the money on their children. Again, I would say that all the evidence, and this was concurred in by the four foreign representatives who were reporting to our conference on the experience in their own countries, all evidence indicates that a very large majority of parents are deeply interested in their children and do not squander allowances and money they get in riotous living of one kind or another rather than spending it on their children.

The other big problem, of course, that you have to face is the problem of costs. Now, on the question of costs, I take it that any of us who are seriously thinking about doing something about poverty have got to accept the fact that costs are going to be extremely large. Everything has to be paid for and we are not going to make any real dent by the income maintenance programs on poverty of every kind, on the problems of poverty, unless we are indeed prepared to contemplate very sizable expenditures, whether that is negative income tax, whether it is any kind of social dividend or demogrant, whether it is something like the children's allowance—it is going to be costly. You will find in this volume we prepared a series of estimates of the different costs of the different programs, but I do not want to take time at the moment from the other members who are testifying. If later, you wish to have some of this information, I can give it to you. All I have to say is that one has to remember, it is very fashionable today to talk about cost-benefit analysis. We can only grasp the real significance of cost by looking at it in terms of the benefit. And you have to make up your mind, how many people do you want to benefit? How many children do you want to bring out of poverty? All the children are going to cost a great deal. A smaller number of children is not going to cost as much. And we have a range of costs depending on the variety of children's allowance plan one selects.

But the real point is we are not going to get anywhere in this business, it is almost, in my way of thinking, social hypocrisy if we say we want to do something about poverty, but we are not prepared to spend any money on it.

I would like, if I may, Madam Chairman, to rest the general analysis this way, and you probably will want to ask me something about bits of it later on.

Representative GRIFFITHS. Thank you very much, Mrs. Burns. Mr. Dumpson?

STATEMENT OF JAMES R. DUMPSON, DEAN, SCHOOL OF SOCIAL SERVICE, FORDHAM UNIVERSITY

Mr. DUMPSON. Madam Chairman and members of the subcommittee, I am James R. Dumpson, dean of the School of Social Service of Fordham University and former commissioner of welfare of the city of New York. While I intend to be brief, let me thank you and the committee for this opportunity to share with you our views on this one aspect of economic security. In my judgment, there is no issue of domestic social policy more urgent at this time than the reform of income transfer programs. Dr. Burns and I appear before you jointly on behalf of the Citizens' Committee for Children of New York and my statement should be read together with hers. Representing a group of active and interested citizens, lay and professional, who are dedicated to the welfare of all children, we have seriously considered the question of strategies for income maintenance.

We are convinced that programs in health, education, housing, and social services generally cannot succeed unless we attend to the problem of family and child poverty that grips millions of Americans. We also feel very strongly that children's allowances are a much undervalued option for dealing with this problem and not sufficiently considered in the United States. We are determined that people understand this alternative. We are convinced that given such understanding children's allowances will rank high among the programs to be enacted once we are prepared as a nation to implement our oft-stated national commitment to the importance of the physical, social, and emotional well-being of all of our children.

You have heard earlier in these hearings from former Assistant Secretary Lisle Carter who has spelled out a rationale for children's allowances. Professor Morgan of the University of Michigan has told you of Dr. Brazer's approach to a recoupment scheme which Dr. Burns just referred to which could make children's allowances economically viable.

I should like to speak from my special vantage point of a former commissioner of welfare for the city of New York. For 7 years, as head of the largest welfare department in the country, I carried responsibility for the welfare of thousands of children living in temporary care arrangements, or in permanent arrangements which were never meant to be permanent, as well as for thousands of other children living with one or two parents on inadequate incomes, I have developed considerable conviction about what must be done and I should like to share my views with you very briefly.

Very simply, something must be done to break the cycle of dependency, deprivation and poverty. We will never achieve this aim with demeaning, inadequate financial grants. We will never achieve this aim if help which is given is seen as a matter of charity. We will never achieve this aim if the manner of giving and the nature of what is given separates one group of children from another.

I am convinced that the stigma attached to our present public assistance program, a stigma that is inherent in its old English poor law tradition and its conflict with dominant American values makes it impossible to reform that program to meet the needs of those who are and those who will be financially dependent. It is a system that incurs and perpetuates contempt for those who are poor. It is a system that confuses cause and effect; that demands a different code of morality for its beneficiaries than is demanded of those who are not its direct beneficiaries. It reflects a public policy which denigrates the child and his parents, an approach to aid which makes a child feel that he and those around him are less adequate. Somehow, no matter how we feel about the sins of the fathers—or should I say the mothers—in national self-interest we must find the way to rear a new generation of children who do not perpetuate the dependency, and therefore the suffering of their parents and I would ask us to remember that illegitimacy is not created by relief. HEW surveys have shown that four-fifths of all out-of-wedlock children are not receiving public assistance. But let there be no question or mistake about it. Dependency in our Nation is a second-class status. It erodes and corrodes the spirit and body of those who are dependent. Our present public assistance program—and that happens to be the major income transfer program for millions of children and their parents—perpetuates the suffering, the human erosion and human corrosion of those who are dependent. I tell you this from my intimate knowledge of the poor and the recipients of public assistance. This is not a happy or attractive status for millions of Americans. Equally important, it is not a state of affairs that America dare continue to support or perpetuate.

A children's allowance program with an adequate benefit level in this sense is a takeoff program. It promises a floor of income which can be counted upon as a right. It assures the nutrition upon which adequate intellectual and physical growth depend. It offers the clothing, the shelter, the school supplies without which a child cannot do what a child must do at school, in play and with his family. In short, a children's allowance is a device for assuring a floor, an underpinning for all children. It offers an opportunity for a child's parents to achieve adequacy as parents, to achieve a measure of self-direction—control over the decisions that every parent has a right to make about his or her own family. It is a major step in removing the stigma of financial dependency, in reenforcing a positive constructive self-image of poor children and their families. It can remove financial dependency as one of the causes of repeated out-of-wedlock births and thus permit us to identify and focus on measures to deal with the many other causes of out-of-wedlock births in this country. By introducing a guarantee of adequate, equitably provided income for those who are in financial need, we may even relieve the nondependent of any contempt they hold for the poor and any guilt that accompanies that contempt. This, in essence, is what I, as a former welfare commissioner in the Nation's largest city and a former director of child welfare in that same city, see in the program proposed.

Obviously, fiscal considerations, differences in regional standards, and a variety of program complexities may not make such a program enough. However, a guaranteed children's allowance would make enough of a difference so as to remove from the poverty status large numbers of those who are now well below the line and will have high payoff as a program of income maintenance. The details will not be repeated here by me because you have heard them from others. But, I must comment that the experience of 62 countries cannot be ignored.

There is another aspect of children's allowances, also mentioned by Secretary Carter, which we at Citizens' Committee see as particularly important. I call attention at this time to the universal character of the program. This is a moment when people are talking much about the poor and programs for the poor.

I must confess some concern with divisiveness in this country, with a view that government is only for the unfortunate and the suffering and even with a view that only those who are technically poor in terms of the categories of the Office of Economic Opportunity or the Council of Economic Advisers are our concern. The truth is that there is inadequacy in many groups and at many levels and that the basic underpinning has value at many levels. And the notion of something shared by all children, available to all of them because they are children both reflects our national commitment and responsibility and is a move against the divisiveness which is of some concern to all of us.

I need hardly tell you that we give high priority to jobs, a guarantee of job with adequate salary for every adult available for and able to work; to reform of the social insurance system; to an adequate supply of housing that people can afford, and to high quality integrated education. Our committee has worked intensively in these areas and I need hardly tell you of the high priority we give to the elimination of all forms of racial discrimination in every area of our national life and of all expressions of racism which contribute to financial dependency of large groups of Americans. We urge major reform of public welfare in the direction of mandated affidavits, nationally mandated minimum standards, separation of the issue of need from the issue of general social services. These reforms have been spelled out by others and, indeed, are in the general direction of the recommendations of the Department of Health, Education, and Welfare. However, we believe that the reforms would be incomplete and that a major gap would exist unless at an early date this country were also to enact a children's allowance program, and a significant one at that. The exact figure must, of course, be worked out in further research and in balance of a variety of considerations. Tentatively, we are talking of something like $50 a month per child, not as a firm recommendation, but a sum we mention today as a way of signifying that we believe that a significant allowance is what is necessary rather than a mere token one.

For those who do not need the money, a combination of taxation and a recoupment scheme of some sort is necessary and others more technically prepared than I have discussed this before you. But for all children there must be this grant, a check to arrive once a month, to unify our child population, to signify our national responsibility for them, and to provide that floor under development out of which a responsible, participating, and unified citizenry may emerge.

Thank you.

I shall be glad, of course, Madam Chairman, to answer when you are prepared to ask them.

Representative GRIFFITHS. Thank you very much, Mr. Dumpson.

Congressman Ryan?

STATEMENT OF HON. WILLIAM F. RYAN, A U.S. REPRESENTATIVE FROM THE 20TH DISTRICT OF THE STATE OF NEW YORK

Representative RYAN. Thank you, Madam Chairman. I am privileged to appear before your Subcommittee of the Joint Economic Committee this morning, and particularly to join at this table two such distinguished experts, and I might also add, distinguished New Yorkers.

I am pleased that our former New York City welfare commissioner, now the dean of the School of Social Work at Fordham, is here, and Dr. Eveline Burns, who has made a major contribution to the deliberations of your committee.

I should like to commend you, Madam Chairman, for your foresight in calling these hearings and giving us an opportunity to discuss the question of income maintenance. I can really think of no idea in recent times which has moved from the wilderness of theoretical speculation into the arena of serious policy discussion with the rapidity of the guaranteed income concept. These hearings constitute an important forum for discussion.

It has been widely recognized that income supplementation, which is presently carried out largely through public assistance, is a national problem, and, as such, should be dealt with nationally. Standards should be national, and the burden of costs should be distributed nationally.

The present total national expenditure for public assistance is $5.1 billion annually.

The average AFDC benefit ranges from about $8 per month per person in Mississippi to about $51 per month per person in New York, Wisconsin, and Minnesota. Surely, this disparity is not reflective of the differences in the relative cost of living in these States. The result is that one State is being forced to pay for the social outcasts of other States, who are, of course, indicative of a national social problem.

New York City's welfare load in fiscal year 1969 will cost $1.346 billion, of which $516 million is paid by the Federal Government. The remainder is the burden of the city and State governments—city, $399 million; State, $431 million.

In preference to the present welfare system, therefore, there should be national welfare standards, with a much larger share paid by the Federal Government. This was the conclusion of the report of the National Advisory Council on Public Welfare issued in June 1966, now 2 years old.

However, I believe that ideally there must be a shift entirely from conventitonal welfare programs to a Federal income maintenance or "guaranteed income" approach. There are several basic reasons for this approach. In the first place, under an income maintenance system the only criterion for assistance would be need. There would be no artificial requirements. Secondly, the income supplement function would be divorced from social services. Thirdly, income maintenance would provide income supplements to the working poor, families below the poverty line who are now excluded from welfare benefits. Fourth, the application process would be greatly simplified and dignified, and administration would be improved. Fifth, there would be a much greater incentive to work.

Some of these advantages might accrue from a greatly modified national welfare system. However, the achievement of all of them could only be obtained under a guaranteed income plan.

Recent guaranteed income proposals derive from two rather different philosophical underpinnings.

The first, represented by Robert Theobald, who testified yesterday, suggests that the "work ethic" is an anachronism in a society as wealthy as ours and that persons should be guaranteed the necessities of life, so that they can dedicate themselves to higher pursuits. Then work will be done only because it is personally satisfying.

The second approach believes guaranteed income is *less* destructive of the work ethic. It contains financial incentives for the recipient to work which the present welfare system lacks. It is further appealing because it can operate more efficiently and economically than welfare, and because it greatly reduces violations of personal liberties, which are now all too characteristic of the present welfare system. My own sympathies are with the latter position.

As the sponsor of the first, and thus far the only, bill to have been introduced in Congress to provide a system of income maintenance, H.R. 173331, I have a great interest in seeing this discussion move forward. Let me summarize H.R. 17331 briefly for the purposes of the discussion this morning:

H.R. 17331 establishes a maximum annual payment based on approximately two-thirds of the personal exemption plus minimum standard deduction for each member of the family. Translated into dollars and cents per month, this equals $50 for the head of the family plus $39 for each dependent. A family of four with no other income whatever could expect $2,004 per year. Additional payments will not be made beyond the sixth dependent, so the maximum payment for a family of seven or larger is $3,408.

My bill proposes a 50 percent "tax" on work earnings. Benefits are reduced by 50 cents for each dollar of work earnings. A higher "tax" as now exists under most public assistance programs, destroys the financial incentive to work. A lower "tax"—for example the 33 percent which has been proposed in some gauranteed income plans, would either necessitate lower base benefits, or would permit persons well above the poverty line to receive benefits and greatly increase the cost of the program.

The system would be administered through a Bureau of Income Maintenance located in the Treasury Department. Persons wishing to apply for benefits would make application by submitting quarterly income statements. They would receive monthly maintenance payments based on the deficiency of their earnings. Since there would be a reasonable time lag for administration, the May check might be based on income during the January-February-March quarter.

The administrative procedure for checking the accuracy and honesty of applications would be similar to the Internal Revenue System now in force for checking positive tax returns. All applications would be scrutinized for internal inconsistencies, errors, and suspicious claims. But only a small fraction—perhaps one in 15 or 20—would be subject to full investigations on a random sample basis. This spot check system would prevent most willful cheating and would replace the present demeaning practice of routine intrusions into the private lives of all welfare recipients.

The level of benefits proposed in my bill—a guaranteed minimum income of approximately $2,000 for a family of four—is still below the poverty line. However, they are above the AFDC average benefits in all but 12 States.

At this level of benefits the gross cost would be $8.1 billion to the Federal Government. However, since this program would replace about 80 percent of the existing $5.1 billion welfare costs, there would be a saving of approximately $4 billion in total Federal and State welfare costs. Since the Federal Government pays some 60 percent of the welfare costs, the Federal saving will be about $2.4 billion, and the States will save $1.6. On balance, therefore, the program will cost the Federal Government some $5.7 billion—$8.1 billion minus $2.4 billion—and save the States $1.6 billion in existing welfare costs. Thus, the net cost will be $4.1 billion.

At this level the income position of nearly 80 percent of present welfare recipients will be improved. More significantly, nearly all of the 22 million Americans, who now live in poverty but do not receive public assistance, will get some income supplementation.

Ideally, the poverty gap should be closed entirely. However, to close it solely by means of a guaranteed income system would cost in the neighborhood of $25 billion yearly. The principal reason for the geometrically increasing cost in the problem of "leakage" to the nonpoor. If the maximum benefit for a family of four is $2,000, as my bill proposes, and work earnings are "taxed" at the 50-percent rate, then all benefits will cease when total income reaches $4,000 per year.

However, if the maximum benefit for a family of four is placed at $3,000, then every family of four with income of less than $6,000 will be eligible for some benefits; and there will be a great deal of "leakage." Even to increase the maximum benefit from $2,000 to $2,400 for a family of four will double the cost of the program.

As I pointed out, one difficulty with a base benefit of $2,000 is that 12 States now have higher average AFDC benefits. The assumption of my bill is that in these States the Federal income maintenance benefit would pay the first $2,000, and the welfare program would make up the difference between that and whatever level it is now paying. So that if a welfare standard for a family of four in a given State is $2,400 a year, the Federal income maintenance program would pay the basic $2,000, and the welfare program would pay the last $400. The recipient in those few States would be no worse off. And, of course, in the majority of States, where welfare benefits are below the standards of H.R. 17331, the recipients would be considerably better off. Where the Federal income maintenance benefit is supplemented through welfare, section 1604 of my bill provides that, as earnings increase, welfare benefits are to be reduced by two-thirds of earnings, until welfare benefits are eliminated. Further earnings reduce income maintenance benefits by two-thirds of earnings, until the position of the recipient is identical to that of a recipient who was never receiving welfare, at which point income maintenance benefits are reduced by 50 percent of further earnings. This formula is necessary to harmonize the income maintenance system with supplementary welfare in those States where it will continue.

Let me mention several significant advantages of the income maintenance system envisioned in H.R. 17331, as compared with the existing welfare system.

Perhaps the most important is the establishment of a national standard of assistance based on the sole criterion of need. This would eliminate the confusion of diverse State criteria and levels of benefits. It would save those parts of the country which now have the heaviest welfare burdens the most money.

In New York City, with nearly one person in nine on welfare, a substantial portion of this welfare cost would be saved to the city and State, making it available for other needs.

A national income maintenance system would reduce the migration to the cities by rural residents ill-equipped for available city jobs.

It would remove the indignities and intrusions into personal matters which now characterize the welfare system.

It would provide an incentive to work for people receiving benefits.

It would free social workers to perform needed and wanted services and eliminate the welfare bureaucracy's police functions.

I think that it has been nearly universally agreed that the present public assistance system is not working. However, it should be clear that an income maintenance system or a guaranteed income—although it can improve upon the income supplementing functions of welfare—is not, and cannot be in and of itself a solution to the poverty problem.

Let me take a few moments to describe what I believe income maintenance *is*, and what it *is not*:

It is, clearly, a system of income supplements for two groups—individuals and families with no income, and also the working poor. A family of four with no work income, under my bill, would receive $2,000 annually. A family of four with $2,000 work income would receive $1,000 in benefits for a total income of $3,000. Thus, work incentives are built into the system. It is important to keep in mind that this is a program for persons capable of working. Otherwise, it makes no sense to build in work incentives. For the aged, it makes much more sense to establish a higher basic benefit under a federalized old age assistance program. The disabled would be offered an option to continue on aid to the totally and permanently disabled, or to shift to income maintenance.

I might point out that this program is not a substitute for jobs; indeed, it cannot work unless expanded manpower programs are available so that those who want to work can find training and employment. Nor is it a substitute for unemployment compensation. A subsistence benefit is of marginal use to a regular wage earner who is suddenly thrown out of work for a temporary period. Increased unemployment benefits are necessary to take care of him.

Income maintenance is rather a residual program for the chronic low-income family, the underemployed, the mother with dependent children, and other categories of persons only able to work part-time or sporadically.

Let me make it clear that this is not a program to pay people not to work. That label is much more applicable to the existing welfare system, which in most cases taxes work earnings at 100 percent. An income maintenance system, on the other hand, would have built-in financial incentives for a recipient to better his total income position *by working*. That is why a parallel job program is such an important complement to a workable income maintenance system.

There is in section 1605 of my bill a provision designed to permit low-income seasonal workers to benefit from the income maintenance system without taking unfair advantage of it by deliberately not working part of the year. Section 1605 provides that, if total annual income exceeds 150 percent of exemptions plus minimum standard deduction, any benefits which were collected during any part of the year must be repaid at a 50 percent rate. In the case of a family of four, this is $4,500 yearly. Thus, if a migrant agricultural worker with three dependents earned $3,000 during the summer months, but was idle during the rest of the year, he could keep the $500 income maintenance benefit. However, if a skilled worker with three dependents earned $5,000 during an 8-month period and collected benefits during the other 4 months, he would be required to pay back $250.

Since I introduced H.R. 17331 on May 16, I have received the benefit of wide comment and analysis from interested parties. I'd like to share with the committee some suggestions which I am seriously considering incorporating into the next draft of the bill when I reintroduce it.

First, it has been suggested that the husband and wife should be entitled to $50 monthly each, instead of $50 for the head of the family and $39 for each dependent. I agree that this would be more equitable.

Secondly, there should be a limit on assets. For example, benefits might be reduced by 10 percent of assets over $10,000.

Third, full-time students should not be eligible for benefits.

Fourth, there should be deductions from stated income for medical care and exemptions of earnings by children under 16 and gifts up to $100 yearly.

Fifth, there should be a statutory escalator provision adjusting the level of benefits upward according to a new low-income consumer price index which would be established in the Department of Labor.

Finally, let me raise for discussion one possibility of which I am not fully convinced but which might cast an income maintenance program in a different light. That is the question of a mandatory work program which would provide that any adult in a recipient family, which has received at least 75 percent of the maximum benefit for a period of 9 months or more, may be required at the discretion of the Federal Government to accept employment in a public employment program, retraining program, or basic education program where such programs are available in the immediate geographic area. Otherwise, benefits would be reduced by 10 percent per month till they are exhausted. The work program would have to pay at least the minimum wage. Participants in the basic education program would continue to receive income maintenance benefit payments. Persons over 60 years of age, mothers with small children, and the disabled would be excluded.

In certain areas such as small towns with only a handful of beneficiaries, the administrator might decide that it simply would not be worth the expense to establish a training program.

This kind of work training program puts the burden of establishing an acceptable job program or basic education program on the Federal

Government before beneficiaries can be disqualified. Needless to say, regulations would have to be drawn very narrowly to prevent administrative abuse.

In summary, a Federal income maintenance program is a sound proposal which can be enacted in the near future. Few proposals have been received with such intense interest and discussion as this one. I believe that income maintenance is a key part of a multiple strategy for breaking the cycle of poverty. That strategy needs to include job creation and training: it needs to include higher benefits under social security for the elderly and the disabled; and it also requires expanded programs in areas such as intensive education and health an social services.

A system of income maintenance to replace the present inefficient and inadequate welfare system must, in my judgment, be a central part of that strategy.

Representative GRIFFITHS. Thank you, Congressman Ryan. Mr. Hicks, may I ask, in view of the limited time, that you confine your remarks to about 8 minutes?

STATEMENT OF W. B. HICKS, JR., EXECUTIVE SECRETARY, LIBERTY LOBBY, WASHINGTON, D.C.

Mr. HICKS. Yes, ma'am.

First, I would like to apologize for not being here on time, but I did not understand the nature of the appearance. I thought that I would be the fourth witness to be heard individually.

Representative GRIFFITHS. I see.

Mr. HICKS. In the interest of time, I shall simply summarize the nature of our objections to guaranteed annual income proposals.

Our first objection is that we feel it is unfair to the working taxpayer of the Nation to expect him to carry an additional burden of welfare costs. We do believe that this is a welfare system, no matter how it may be described.

Our second objection is in the economic area. We feel that there is no question but that the establishment of a minimum income for all citizens, regardless of their productivity, will only have much the same effect that minimum wages have; that is, it will force other wage levels up correspondingly. A person will not put out the extra effort to earn extra money so long as he realizes that he could earn the same by not working. So what we feel it would do is add to the wage-price spiral of inflation and that this, in turn, will reduce the effectiveness of the guaranteed annual income to the point where it will be necessary to raise that level by law in order to make it effective, and this in turn will lead to a new boost in the wage-price spiral of inflation; that the ultimate end of this can only be an inflationary expansion to the point where the economy just bursts at the top.

We have another objection, of course, which is on its effectiveness. Insofar as helping people to make themselves productive, we feel that it fails to meet the needs of those persons who need specialized programs of training, of health care—that is, if we are to assume that it will replace existing welfare programs—and that it will not encourage work by those who are able to support themselves.

In sum, we feel that it is bad from the viewpoint of the taxpayer who has to pay for it; we feel it is bad from the viewpoint of the recipients; and we feel that it is bad from the viewpoint of both in the arena of the national economy and the inflationary spiral as it exists today.

Thank you.

(The prepared statement of Mr. Hicks follows:)

PREPARED STATEMENT OF W. B. HICKS, JR.

Mr. Chairman and Members of the Committee:

I am W. B. Hicks, Jr., executive secretary of Liberty Lobby. I am here to present the views of our 15,000 member Board of Policy, on behalf of nearly 200,000 subscribers to our monthly legislative report, *Liberty Letter*. The Board of Policy, consisting of patriotic Americans in every state, has specifically voted to oppose the institution of any kind of "guaranteed annual income" scheme.

Liberty Lobby opposes the basic concept of government income maintenance programs, and we would strongly oppose any attempt to enact legislation putting the idea into effect, whether in the form of cash payment, negative income tax, or other socialistic program.

The several proposed plans, while differing in detail, have the same basic approach and goal. The philosophy behind them is that every citizen, no matter how indolent, has an inherent right to be supported in a comfortable manner by the taxpayers. The goal is a massive redistribution of wealth, of a degree as yet unheard of in the United States. "Poverty" will be ended by the simple expedient of allowing unproductive people to live as well as if they were working, and contributing to the American economy. Every citizen would be promised that, no matter what the reason for his failure to support himself and his family, he will continue to receive from the government payments keyed to a predetermined schedule.

We feel that these hearings will serve a useful purpose if they bring the dangers inherent in the "guaranteed annual wage" to the attention of the American people. For, in spite of fact that the possibility of this travesty on the American tradition of hard work and individual initiative actually becoming law seems remote to most of our people, many highly influential Americans have indicated that that this will be the area in which the next major push toward a socialist America will take place.

Reliable columnist Paul Scott reports that the President himself was directly responsible for the inclusion of a guaranteed annual income recommendation in the report of his National Advisory Commission on Civil Disorders. Significantly, the President has appointed a Commission on Income Maintenance, the announced purpose of which is to develop a plan guaranteeing each American family an income of at least $3,000 per year, and then promoting public support for the plan. Ben W. Heineman, the Commission's Chairman, has stated that: "One of the commission's main objective will be to sell the idea of a guaranteed annual income as one of the best ways to fight poverty and head off further racial troubles in the large cities. This won't be done overnight."

The idea of the guaranteed annual income is actively supported by at least two of this year's major Presidential contenders. It has become one of the main demands of the so-called "civil rights movement," which seems to get most of what it wants.

Our first major objection to the guaranteed annual income, and this applies equally to all of the various schemes under consideration, is that it is simply unfair to the productive people of the United States. It amounts to a massive confiscation of the earnings of hard working taxpayers to support people who, in many case, are able-bodied and capable of working, but who prefer to live as parasites on the backs of productive Americans.

This committee would find it instructive to carefully consider the words of Dr. Robert Theobold, one of the principal formulators of the guaranteed annual income scheme. Dr. Theobold has made it perfectly clear that he feels that any guarantee plan enacted by Congress would be only the first step. He has stated ("The Guaranteed Income, P. 233):

"We will need to adopt the concept of an absolute constitutional right to an income. This would guaranteed to every citizen of the United States, and to every person who has resided within the United States for a period of five consecutive years, the right to an income from the federal government sufficient to enable him to live with dignity. No government agency, judicial body, or other organization whatsoever should have the power to suspend or limit any payments assured by these guarantees."

This kind of thinking, while it might be repudiated by more politically minded proponents of the guaranteed income, is a logical extension of every one of the income maintenance plans under consideration. And the Committee should keep in mind the fact that it will be the low and lower-middle income taxpayers who will suffer most from the adoption of this massive socialism as the public policy of the United States.

Our second objection centers around the question of cost. This Congress need not be reminded that the United States is currently running the largest deficit in peacetime history. The institution of a guaranteed annual income scheme bound to lead to an inflationary spiral, as the minimum income pushes the entire wage structure upward. Workers will demand more to work and, poverty being relative, the break-off point for government income supplements will correspondingly rise. There will be no stopping this spiral until it bursts our entire economic structure.

No exact statement of the cost of the proposed income maintenance programs can be drawn up, but some of the estimates are highly revealing. For example, James Tobin, a former member of the Council of Economic Advisers, has proposed a version of the negative income tax scheme, under which the "break-even" point at which all federal supplements would stop could go as high as $7,500. He estimates the cost of this plan at $14 billion per year. And, significantly, this would not eliminate the need for existing public welfare expenditures. Tobin has stated that an "adequate program" of income maintenance, sufficient to eliminate most present public assistance expenditures, would cost as much as $25 billion per year. These figures, it should be emphasized, come from an economist who supports the guaranteed annual income, and not from an opponent seeking to defeat the scheme by overestimating its costs to the taxpayers.

Thirdly, we feel that it is apparent that the establishment of any one of these income maintenance plans will do violence to the principle that individual initiative should be encouraged. We believe that, in the limited cases where welfare is justified, the idea should be to help the recipient back onto his feet, encouraging him to become a productive, taxpaying member of society.

A "pay without work" plan would have a diametrically opposite effect. It would encourage its recipients to remain on welfare—and, make no mistake about it, the income maintenance plans under consideration today are nothing more than welfare programs with impressive sounding names. The recipients of a guaranteed cash payment or of a negative income tax would thus lose any incentive they may have had to improve their positions in life. The poor, supposedly the beneficiaries of this socialist breakthrough, are thus seen as being as much victimized by the socialist theorists as are the taxpayers themselves.

We recognize that the force of this argument applies with slightly less force to the negative income tax variation, which would give its recipients only a percentage of the difference between their earnings and what is set up as an "acceptable" break-even figure. Under Milton Friedman's scheme, a family would lose only $1 of its government benefits for every $2 it earned. However, it is clear from our experience with conventional relief programs that this will not be adequate to prevent recipients from refusing to work at all. Experience has shown that many, if not most, welfare families will settle for $3000, for example, even if allowed to keep half of an additional $1000 earned by working.

Finally, we totally reject the argument advanced by some advocates of an income maintenance plan that the adoption of such a plan would eliminate the need for additional welfare expenditures. Such a contention is based on the false assumption that poor people are poor simply because they have too little money, and that poverty could therefore be eliminated by giving them as much money as is felt necessary.

In fact, there are basically two distinct classes of poor people, the problems of neither of which will be solved by a guaranteed income. First, there are those poor people who are in need of public assistance through no fault of their own. These, the untrained, the blind and the mentally ill, for example, have need of specialized programs, which can best be provided on the state and local level. Any income maintenance program would be meaningless in solving their problems.

Then there are those poor people whose poverty is directly related to their own unwillingness to work and take advantage of the opportunities open to them under the American free enterprise system. These loafers will, judging by local welfare experience, happily accept their government payments under an income maintenance program, and spend them on unnecessary items such as liquor and automobiles. When the "guaranteed income" is gone, they will be back for more conventional welfare assistance.

At this point, Professor Friedman might be prepared to tell them that they are out of luck. But as a fact of political life, we know that the additional assistance will be provided. The taxpayers will therefore be burdened with not only the huge cost of the new income maintenance program, but with most of the existing expenses of maintaining costly welfare programs.

For these reasons, we believe that the socialistic idea of guaranteed annual income should be squelched before it reaches the point where legislation on the subject is given serious Congressional consideration. The American taxpayer is tired of seeing his earnings confiscated and given to people who refuse to work, and he will not tolerate the expansion of this principle to the extent contemplated by the income maintenance schemes under consideration here.

Thank you.

Representative GRIFFITHS. Thank you very much, Mr. Hicks.

I would like to thank all of you. I think your statements have been excellent.

Dr. Burns, in Canada, I understand that there is approximately as much illegitimacy as there is in the United States, but that in addition to this, there are many women living alone with their children, where the father or husband has left the family. Do you think that this is because of the child allowances, or do you think that this is endemic to our whole social system today? Do you think there is something else that explains this?

Mrs. BURNS. I am not quite sure I get the full purport of your question. I would not be able to answer yes or no on the question of whether there is as much illegitimacy in Canada.

Representative GRIFFITHS. I live next to the border of Canada. Some of our very enterprising reporters have gone over and done a long series of articles on illegitimacy in Canada. They discovered that Detroit alone did not have the problem, and that ADC did not raise any more problems of illegitimacy than child allowances in Canada, of women living alone with children.

Mrs. BURNS. There is a suggestion that the fact that women living alone with children—is your suggestion that this is being fostered by the child allowances?

Representative GRIFFITHS. I want to know. Do you think this is what is causing it, or do you think something else is happening in the social structure?

Mrs. BURNS. I think something else is happening in the social structure.

Representative GRIFFITHS. What, for instance?

Mrs. BURNS. I think there are two things, slightly different. One is that it is true that the figures for out-of-wedlock birth, for example, are going up in the population as a whole. The second thing I would suggest is that we have really never before known how many broken families there are. We are all very much concerned, I am sure you are as well, about this tremendous rise in the aid to families with dependent children program, which is indeed a shocking social fact. But I think part of that is that we do not realize, we did not realize until in 1935, the Social Security Act formally committed the Nation to accept responsibility for families with these particular characteristics. Until then, we never knew how many there were. One of the troubles is that now we have defined the kind of families for whom we accept responsibility and we begin to discover to our horror that the broken family is indeed a major cause of poverty which we have hitherto rather neglected.

The children's allowance is indeed one way of helping to meet this problem. It does not entirely resolve it, because after all, the children's allowance does not give a payment to the mother; it gives a payment to the child, in respect of the children.

So I think this disturbing state of affairs—we will put it this way—the apparent growth of this type of family is something that goes way beyond whether or not you have children's allowances or whether or not you have aid to families with dependent children, except for the fact that once you have these programs, for the first time, society realizes how many cases of this kind there are.

Representative GRIFFITHS. I would like to ask both you and Mr. Dumpson to respond to the question. In one of the columns this morning, there were suggestions that the best way to handle this problem of welfare would be to send the money back to the States and let them handle the projects. Would you agree that this is the way to do it or not?

Mr. DUMPSON. Certainly, Madam Chairman, I would not. I would be violently opposed to that. I think, as Congressman Ryan has pointed out, dependency in this country is a national problem. The States are not equipped to think in terms of national problems. Rather, they think in terms, understanding, of needs, conditions, and priorities for the State. One need only look at the great variance in public assistance benefits in the States that are not attributed to variations in cost of living. I could identify for you certain rather disturbing incidents that have happened in individual States based on State policies that do not recognize the mobility of the American population, which is a requirement of our economy, or national goals and priorities insofar as human need and human resources are concerned. If we think in terms of national interests and the rights that accrue from national citizenship we had better not leave to the States the definition of welfare standards or the monitoring of those standards.

Representative GRIFFITHS. As a matter of fact, we are holding these hearings because, for all practical purposes, the States have broken down. They are the administrators of welfare, and they have done a very poor job.

Mr. DUMPSON. I could not agree with you more, Madam Chairman. That is why I am interested, as far as children are concerned, in looking at a national prorgam that centers responsibility at the Federal Government level and that looks at children as children of the American society rather than children of the individual 50 States.

Representative GRIFFITHS. We have had one complaint that the poor are never told what they are entitled to, and since you ran the welfare department in New York City, why do you not tell them. I think they are entitled to know.

Mr. DUMPSON. I think they are entitled to know, Madam Chairman, and I think if there is anything that the Welfare Rights Groups have contributed to the administration of public welfare, I think they have taught us as public welfare administrators, that we have not done our job properly, that we have not informed them of their entitlements under the law; unfortunately, they have had to force administrators to meet that responsibility.

We did not do it for a variety of reasons. One reason is that many administrators and their staffs have felt that the poor, those who were recipients of service really did not have anything to contribute to the administration of welfare; that they knew what was best for them; and that we would give them what we thought the law said they should have. We have since been forced to change that mentality, happily, and entitlements, I think, are going to be published in the 50 States, or certainly will be if the welfare recipients have anything to do with it.

Representative GRIFFITHS. Frankly, I think if Congress has anything to do with it it will; I do not think that these people should not know what they are entitled to.

Do you think that if there were an income maintenance program, there would be any percentage of the recipients who would require no other services?

Mr. DUMPSON. Madam Chairman, my conviction is that a large number of people who are dependent on public funds for support, given adequate income maintenance, will be as self-directing as those of us who are not dependent. There will still be a number of people, however, who will need services. I think that number of people is not confined to the financially independent group. I think there are a lot of us who are financially more affluent than the financially dependent, who will need social services at one time or another in our experience. So by separating income maintenance of whatever form from social services or social support, we may even reduce the number of people whom we now think need social services of a variety of types. We will identify them, whether they are in the dependent or nondependent groups. We will also, therefore, provide self-directing opportunities to those who are now financially dependent through an income maintenance scheme.

Representative GRIFFITHS. I am hunting for a way to save money, and you are the first person to suggest that there might be a chance to save some.

Mr. Ryan makes the point that a national system of income maintenance would stop the move to the cities. Do you agree, Mrs. Burns?

Mrs. BURNS. Well, I think it would help, but it is not that I believe so much that people move in order to get higher welfare benefits; we have very little hard evidence one way or the other about that fact. The general impression seems to be that this is not why people move. They have moved in order to get better opportunities somewhere, more jobs. Then they get to the cities or to the metropolitan communities and they find that in a number of cases, the jobs are not there; then they have to seek welfare.

However, I think an adequate universal guarantee would mean that more people would be able to stay in their own communities. They would not be, so to speak, compelled to move out for whatever reason, whether for jobs, or, as some people believe, allegedly for higher relief payments. But I do not think the second is the real reason why people come.

If people were assured of a minimum guarantee in their own communities, they might be more inclined to stay there, and, therefore, not intensify this terrible problem we are having in the cities at the present time of being the place to which people come, because the idea is somehow or other that this is the place where more jobs are available.

Representative GRIFFITHS. I would think that if this would be one reason for voting for a national income maintenance program, a very good reason. But since I have had experience with this, I have learned that the moment you say that it would stop the immigration to cities, I feel sure that it will actually lose votes for the whole program.

Mrs. BURNS. I would not say it stops it, you see. I say it may hold it down to more manageable proportions.

Representative GRIFFITHS. Because the real truth is that a lot of communities are now solving their problems by making it impossible for people to live in their areas so that they go into the cities and get more money. This unhappily is not looked upon by this Congress as a national problem. So I think we are back about where we were 125 years ago, and we are building up to the same sort of explosion.

Mrs. BURNS. Do you not think, Madam Chairman, it is also partly a question of one's belief about incentives? Some programs will reduce—I stress the word reduce—the flow to the city, not cut it off entirely. I think this is tied up with a question of incentive. I would very much disagree with Mr. Hicks, or at least I would not share his fears so much. I think I have more faith in the American society and its social system than he has. I am inclined to feel that at any level we are talking about in regard to a minimum guarantee, it is low enough to leave a very sizable margin, thanks to our level of productivity, between what you can get on a guarantee and what you can get from participating in production. In other words, we can realistically say to people, if you can participate in production, you can indeed enjoy a higher standard of living.

Second, Mr. Hicks, I have the greatest faith in the American advertising industry, which from this point of view is our major safeguard. It exists to keep people absolutely dissatisfied with what they have and always wanting more. I think we have not reformulated our concerns about incentive and our thinking of it in regard to contemporary American society. I suspect there will be, indeed, a relatively small number of people who will be happy to live on $2,000 or $3,000. I am quite sure that number is going to be very small because of these features that I refer to about our economy.

Now, if this is so, then to the extent that the cities can indeed get over the idea that these are places where, if you go there, you can get jobs better yourself, some people are indeed going to move.

Representative GRIFFITHS. My time is up.

Mr. Rumsfeld?

Representative RUMSFELD. Mr. Ryan, I would be curious to know if you have discussed or if you would discuss for us, the problem of the differences in cost of living in various parts of the country. You know well the difficulties we have in the postal system today. The Federal Government pays postal workers the same across the country. They are standing in line for these jobs in areas with a low cost of living, and in areas of high cost of living, the turnover is tremendous and there is a great waste in training. So it is a real problem. Does your program account for that?

Representative RYAN. I think that in refining this proposal, it might be appropriate to consider some kind of geographic differential. However, it should not be such as to encourage migration. When we are talking about a minimum income, $2,000 does not go very far in any part of the country. It is just a minimum amount wherever one lives.

Furthermore, it seems to me that, if this program were administered as a national program, it would improve the economy of all regions of the country.

I also said in my statement that when I reintroduce the bill, I might include some kind of escalator clause adjusting the level of benefits to the cost of living.

Representative RUMSFELD. Do you recommend that a cost-of-living escalator be with respect to national standards?

Representative RYAN. In respect to the income maintenance benefits.

Representative RUMSFELD. Now, you also state, as I recall, that you feel national standards should govern public assistance eligibility.

Representative RYAN. Yes; I am talking in terms of the national assumption of the welfare obligation of this country. But I am also suggesting that we should move from the conventional welfare system, whether administered by the Federal Government or the States, to a program of income maintenance. On the criterion of need, benefits would be made available according to a formula, and I have suggested one formula which I have projected at a cost of $4.1 billion net.

Representative RUMSFELD. That is based on what level of unemployment? What is your standard base? How do you figure that?

Representative RYAN. We figured that out calculating the number of people who would be beneficiaries times the benefits. It is a complicated formula.

Representative RUMSFELD. Is that not going to change, for example, just with the recent tax increase?

Representative RYAN. I do not think it is going to change with the tax increase. It is going to fluctuate in terms of the economy.

Representative RUMSFELD. That is what I am talking about.

Representative RYAN. Whether or not we really try to promote a full employment economy—the more we do to create jobs, the less we are going to pay out under this system

Representative RUMSFELD. But the trouble with that is that the tax increase, coupled with budget cuts, is going to create greater unemployment.

Representative RYAN. That is a matter of dispute among economists. I happen to agree with you. It is one of the points I raised in connection with the debate on the surcharge package. There will be fluctuations; nevertheless, if we are really going to face up to the question of eliminating poverty in this country, not only should we think in terms of an income maintenance system, but we will have to think in terms of a full employment economy, which is going to create jobs. We must answer the question: How are you going to create jobs for people willing and able to work and how are you going to train them?

Representative RUMSFELD. I would like to congratulate you, Mr. Dumpson, on your candor with respect to how we could improve our Government programs. It was a very refreshing statement.

Mr. DUMPSON. Thank you.

Representative RUMSFELD. Mr. Hicks, Mr. Ryan has come up with a price tag. I notice one of your objections is cost. What if his proposal, instead of ending up with a net additional cost of $4.1 billion, was an absolute washout with present welfare costs, so that there would not be any increase in cost? Would that make it more acceptable from your standpoint?

Mr. HICKS. From the viewpoint of the objection that we feel exists in terms of cost; yes, sir. If the hypothetical situation worked out as suggested. However, we cannot see how this can logically happen. Let us face it, poverty is a matter of relativity. The advertising industry, much lauded here previously, has in fact created a lot of poverty in this country from the viewpoint that people do feel themselves worse off when, in fact, they are relatively better off than poor people have even been in any society in any civilization that has ever existed. I think that any person who works in welfare can tell you that the possession of a television and plenty of transistor radios and a princess telephone and an automobile are considered basic needs by the average poor person in America today, items which would not have been considered a basic need of poor people in the 1930's.

Representative RUMSFELD. Let me ask you this: You draw a distinction between those who have legitimate needs—you mention the blind and the mentally ill, for example—and loafers, anyone who is able to work and is not working. What if you included along with the blind, the physically disabled, the mentally ill, and the mentally retarded, the other category that some of the experts have dealt with; namely, the person who just socially cannot adapt, the person who is a misfit no matter what his economic status, people who need help and are going to get it one way or another, and it is clear that we are not going to have full employment in this country; we know that. When we have a tax increase, alter Federal spending, when there are changes in the economy because of inflationary factors, we are directly affecting and using the very bottom of the economic spectrum to adjust our economic situation. We know that.

I do not think you would feel, and I certainly do not feel myself, that there is any particular reason why that group of people should in fact be used to moderate the cycles in our system without any compensation.

Now, would you feel that is a valid group to add to the other groups—the blind, etc.—you included?

Mr. HICKS. I think there are more acceptable solutions, sir. For one thing, you overlooked one Government program that has had more impact on making this type of person unemployable than the tax increase or any of the other Government programs that have ever been put into practice. This is the minimum wage. Why are so many people unemployable? Because there are so many jobs, so many tasks to be done in our society that cannot be done at a wage that fits within our minimum wage laws.

Representative Rumsfeld. I quite agree. We have discussed in other hearings the fact that there is no question but that if you unrealistically lift the minimum wage, you are going to drive people out of jobs which, under the new minimum wage, are not economically feasible. There is no question of that.

Mr. HICKS. In the House barbershop, for example, I went the other day and asked about getting a shoeshine and was told that they had not had a shoeshine man there for a period of 3 weeks; since the riots, in fact.

There was nothing wrong with shining shoes. I cannot get my shoes shined except in one place on Capitol Hill—one barbershop. All the other barbershops do not have any shoeshine men. Why? Because there is no reason for a person to shine shoes for a living.

I have shined shoes myself in the past. I do not see what is wrong with it, if it is the only thing you can do and it is a service which people need. But somehow, our governmental schemes for solving these problems always end up costing the taxpayers more and producing nothing.

Representative RUMSFELD. Mr. Dumpson, in your statement, you say that something has to be done to break the cycle of dependency and poverty. I think most can agree that that is important. I think we can also agree that the present system is not working very well.

Then you say we cannot achieve this aim with demeaning and inadequate financial grants.

You say that we will never achieve it if the manner of giving, and the nature of what is given, separates one group of children from another.

You also say we will never achieve this aim if the help which is given is seen as a matter of charity. That is a statement which keeps popping up in these hearings. Could you expend on it a bit? You are pretty positive about it, obviously. You use the word "never." I would like to be convinced. I would like to hear what you have to demonstrate that that is an accurate statement.

Mr. DUMPSON. You see, as Commissioner of Welfare, with a staff a large number of whom perceived their function as dispensing charity, I was aware that staff frequently made decisions to give or withhold on the basis of individual personal judgments. Charity became a personal experience; it denied the concept of right; it was demeaning to the recipient. Let me give you an illustration of what I mean.

In New York City, we had no limit on rents, no limit as to what a family would pay for rent. It was a rent allowance as required by the market. We had a number of families who were evicted because of nonpayment of rent, because the rent allowance was inadequate in the grant. When I would go to the staff and remind them that we had no policy that required imposition of a ceiling as long as it was determined to be reasonable by a trained housing consultant the staff member would say to me, Commissioner, I only pay $85 a month rent and I refuse to authorize a request for $120 or $150 a month rent to a "relief family."

That is the personal judgment, the intrusion of an individual's personal value, that comes as part of the "charity concept" of giving to people. If it is a matter of right with an objective criterion, in which personal judgment, personal prejudices, if you will, about what the poor should or should not receive at a given moment, are removed, as in a guaranteed income program, and as in children's allowance scheme where no one can say, "this kind of child, born out of wedlock is somebody that I object to"; or "my personal values are against illegitimacy and I will withhold"—"I do not care what the law says or what the policy says"—it is the personal criterion that I believe is implicit in the concept of charity that I would like to eliminate. If by charity one means social justice or love of neighbor then this is another concept of charity, and certainly I would support that one. But, I am rejecting personal judgment as *the* criterion for giving or withholding of financial assistance to those in need.

I am talking about charity where we are back in the 18th century with what we in social work refer to as the "Lady Bountiful attitude" who goes and gives what she wishes to give in terms of her value system, in terms of her priorities as to eligibility, as to the kinds of people, the norms of behavior that she approves. It is this that I refer to, and we will never achieve the elimination of poverty in my judgment, and none of income maintenance programs will ever be successful or effective as long as that personal judgment element is part of the giving.

Representative GRIFFITHS. Senator Proxmire?

Senator PROXMIRE. Mrs. Burns wanted to comment, I believe.

Mrs. BURNS. I just wanted to suggest that Dean Dumpson is probably saying that the real problem is that this kind of charitable attitude reflects itself upon the recipient, that these people begin inevitably to feel themselves as less worthy, less deserving, rather as outcasts. I think one of our big problems with the continuing relief population, and more particularly with the aid to families with dependent children, is this feeling of the women themselves that they are somehow outcasts, that in the end, it saps all their initiative and all their feelings of self-respect, because they feel they are so thoroughly disapproved of.

I think both Mr. Dumpson and I would feel that one of the really important things is to deal with this feeling of hopelessness, of inability, of unworthiness on the part of the people that we support at the moment through the public assistance system. That is what is wrong with the charitable approach.

Representative GRIFFITHS. Thank you.

Senator Proxmire?

Senator PROXMIRE. Mr. Ryan, I want to join our chairman in commending you on an excellent statement. This is the most persuasive program we have heard in our hearings. I think it is so good because it is so practical. Your emphasis on the cost of the program, spelling out in detail what you think the cost is and giving us a chance to consider whether that is accurate or not, your very emphatic concern with providing work incentives and improving the incentives over the present situation. Many of us agree that there is now a very strong negative incentive against working. Then your recognition that this would not solve all of the problems. Income maintenance is a part of it, a beginning part of it, an important part of it, but only part of it.

I would like to ask you first, in connection with this, why do you argue that, as a second reason for the program, the income-supplement function would be divorced from social services? Is there not a danger that if you divorce the income-supplement service from social services, that you do lose a very positive and useful function in our society, and that you do not have a way of getting the social services to operate effectively where they should?

Representative RYAN. I do not think they have really operated effectively under our present welfare system.

Senator PROXMIRE. I do not think they have, either, but I wonder if you want to divorce them?

Representative RYAN. I think Commissioner Dumpson's statement sort of hit at that. I would say the income maintenance benefits ought to be provided on a criterion of need as a matter of right. Clearly, in our society, we can going to provide more and more social services, and we should, whether they are health services such as we are developing on a community basis, or whether they are social services that are provided through housing programs. But once a social worker becomes involved in the question of income, what allowances are going to be paid, for instance, under the present system, whether or not there are going to be allowances for clothing for school or Easter outfits, or whatever the issue may be, then that is an invasion of the personal privacy of the individual and reflects on his dignity. So I would think it is an advantage to keep them separate.

Senator PROXMIRE. But I wonder if you want a divorce or a marriage counselor. What I am saying is here perhaps you want to find some way in which you can harmonize what the social workers can do in a constructive and positive way to offer advice and help to people who may or may not want to take it.

Representative RYAN. I think you can.

Senator PROXMIRE. At least it will be available to them. If you had been elected mayor of New York when you ran in the last election——

Representative RYAN. Perhaps I am fortunate.

Senator PROXMIRE. Perhaps so. You are a good Democrat and they elected a good Republican, so it is unfortunate. But supposing at that time, or shortly after you had been elected, we had enacted something of this sort on a more substantial basis. And supposing under these circumstances, you, being faced with a problem of holding down your budget, were challenged by your city council, who would tell you, well, your social workers, how important are they now? We have an income supplement system, these people have an income; we have to keep our budget down as stringently as possible, we will just have to economize here if we are going to keep our taxes within reason. Would you not feel a vulnerable position if you are going to preserve the constructive operation by social workers?

Representative RYAN. I do not really think so. I think in the first place, under this program, the city of New York would save half a billion dollars which would be available for other needed services.

Secondly, I would advocate a real extension of neighborhood social services in terms of health services, mental health clinics, and services and counseling available through our public housing, urban renewal, and neighborhood conservation programs.

Senator PROXMIRE. I am sure you would advocate that. I just wonder how powerful that would be, how strong it would be to continue that program.

Representative RYAN. I have no doubt that this could be put into effect and continued. One of the problems with the current welfare program is that so much of the time of the trained social worker is not really spent at all in counseling or in helping the families, but is spent in the redtape of administering the program.

Commissioner Dumpson can go into that from a great deal more experience than I can. But my experience with so many social workers in the department of welfare is that they spend an inordinate amount of time on paperwork and never put in sufficient time and talent, which they have, in counseling the families, working with them. So I think it is an advantage to take that area out of the concern of the social worker.

The social worker can and should help in terms of counseling people in consumer economics. These programs are being financed under OEO and should be expanded in order to help people get the maximum value for the dollar which they obtain through the income maintenance system.

Senator PROXMIRE. Let me ask you another part of the proposal you have. You would cover all the poor, including, as you say, the working poor. Presumably, this would cover the dairy farmers in Wisconsin, whose income is now 50 cents an hour. It would cover a lot of small businessmen whose incomes are very, very low. But this would be a nightmare to administer, it seems to me, because there are many, many arguments that if you could devote sufficient auditing talent, some of the farmers would be paying higher income taxes than they pay. You would have to devote a lot of auditing talent, presumably, to literally millions of farmers and millions of small businessmen all over the Nation if you are going to provide an income supplement to many of them who show on their income taxes an income far below $2,000 a year. Can you work this out practically?

Representative RYAN. I think you can. I think this is just a matter of administration.

Senator PROXMIRE. It is a matter of administration, but——

Representative RYAN. We have a very complicated internal revenue system in this country. Through a spot check system, I think this can be accomplished without getting into the details of the dairy industry, with which I do not profess any particular familiarity.

Senator PROXMIRE. It is rather easy for a person who is not self-employed, who does not have a farm or small business or something of that kind. Certainly with the wage system we have and the requirement for reporting for big business and big employers, that would not be so difficult. But it seems to me that you might have quite a tough problem for many, many persons who are self-employed.

Representative RYAN. Is it really any different from the problem the Internal Revenue Service faces in checking and auditing returns in any event?

Senator PROXMIRE. Yes; because it is much bigger. A very substantial majority of our farmers pay no income taxes because their incomes are so low. All of them would have to be brought under it. A very large number—I do not know if it is half or not, but I would not be surprised if it were—of the small businessmen in this country, of the more than 4 million small businessmen, pay no taxes. Now, maybe some of them should. I am just wondering how big an administrative problem you have here.

Do you have a comment?

Representative RYAN. We are constantly improving the efficiency of our administrative setup. I should think with the use of a spot check system and a computerized system, we could reach this problem.

Senator PROXMIRE. Mrs. Burns, do you want to comment?

Mrs. BURNS. Yes, I would like to comment on that, because this aspect of it, Senator, of the negative income tax, has always seemed to me to be one of the real difficulties and one of the reasons why I personally would prefer, if we want to do anything about guaranteed income, to use what we call the demogrant. That is to say like a children's allowance, where you pay a certain sum of money to people under any circumstances merely because they are people. As you know, many other countries do it for children and Canada and a few other countries do it for the aged. The stated sum is paid automatically. Hence, you do not have all this trouble at the beginning of determining how much you shall pay to each individual family, because what you do at the end is you have your grand reckoning up, as one might say, between the citizen and his government. You can count the allowances you have received like any other income. Then you determine where you want to draw the line: How many people are to pay tax, how many are not, and what the rate of progression would be.

You then have, it is true, the same old problems the income tax system still has in collecting money, but I think it is a much easier job to do this once a year, rather than periodically determining how much money, how much income these people are going to have, particularly in cases where declared anticipated income differs from the realized income; particularly when it falls short of anticipated income.

Senator PROXMIRE. That is a very intelligent observation.

Congressman Ryan, is the 50-percent tax rate low enough? It seems to me it is so important in this program because of the bias of the people in this country and the bias of the people in Congress for a work program. Dr. Tobin, of Yale, suggested 33⅓ percent. In fact, he has a carefully worked out plan which would provide for 33⅓-percent tax.

I know it is very difficult and increases the cost when you do reduce the tax rate, but if we can get it down below 50 percent, or perhaps graduate it so that people with the very low incomes would have more of an incentive to work and taper it off as their income became higher, so you would have more than 50 percent for those in higher incomes. Something of that kind, it seems to me, would be more acceptable to Congress, would enable you to change the name of this, which I think is very important, to a work incentive program rather than a negative income tax. I think you would have a lot better chance of selling it to the Congress and to the people as a work incentive program.

Representative RYAN. I appreciate the point you are making, Senator. I touched on that in my statement. What I tried to do with the 50-percent tax was to strike a balance. I said a lower tax, for example, the 33 percent that has been proposed would necessitate lower base benefits, or would permit persons well above the poverty line to benefit and therefore increase the cost of the program. I suggested 50 percent in an effort to arrive at what seemed to me not an unreasonable cost for a program which we are trying to sell at this time to the Congress of the United States. I think we can sell a program to the Congress which is a $5 billion program—not this year.

Senator PROXMIRE. I think you did a good job of selling this morning.

Representative RYAN. Not this year, but it is coming.

Representative GRIFFITHS. I would like to ask a couple more questions, and then the Members of the House, I am afraid, will have to go and we will leave this to the Senate.

I would like to say that I think many people feel that this is a program, if such a program were set up, to help black people. As a matter of fact, how many white people would gain income from this as opposed to blacks?

Mrs. BURNS. They are certainly in the majority among the poor, far in the majority.

Senator PROXMIRE. You say white people are in the majority?

Mrs. BURNS. Yes.

Representative GRIFFITHS. Would it be something like 20 million whites, as opposed to 10 million blacks?

Mr. DUMPSON. Over half of the poor in the United States are non-black.

Representative GRIFFITHS. Of course, the largest number of the poor are white. Would you mind saying, what do you think is the reason that white people simply accept the situation and raise little or no objection?

Mr. DUMPSON. Madam Chairman, I really do not know, except that I suppose it is impossible for a person who is white to really know the experience of being nonwhite in America, like what it means and feels like to be considered as less entitled, less an individual.

Representative GRIFFITHS. Of course, is not one of the answers that they have accepted the theory that it must be that they are personally wrong?

Mr. DUMPSON. Yes.

Representative GRIFFITHS. Whereas black people realize that there has been discrimination against them.

Mr. DUMPSON. Yes; and I think this is what the Kerner report was getting at when it used the term, "racism," which too many people associated with the more bizarre aspects of racism that we used to think of in the 1930's. Racism to me now means a mentality that says that the black man is an inferior being and moves from that orientation in all relations with him and all perceptions about him. This is, I think, the definition of "racism" that the Kerner report advanced.

I think this is part of what you are getting at when you ask why. It is almost an unconscious, subtle kind of self-image of self as white that says other than white is inferior, second class, and then all these other things pertain therefore to that status.

Representative GRIFFITHS. But black people have not really totally bought that, whereas poor white people apparently have bought the idea that if you are poor, it must be something you yourself are responsible for.

Mr. DUMPSON. That is right, and that is why I would like to come back to something the Senator said about separation of services from income maintenance.

One of the dangers of associating, of interlocking services with income maintenance, whether it is children's allowances or whatnot, is that it carries with it the idea that if you are in need of money from a source other than your own, the reasons for your need are your own personal inadequacy. Frequently, as I know as a former commissioner of welfare, a great many, the overwhelming majority of people who are dependent on public assistance are dependent because of factors outside of themselves. It may be discrimination in employment; it may be discriminatory union practices. It may be the absence of adequate low-income housing, it may be poor schooling, inadequate education, unavailable health services or poor health services; or the attitude that says if you are dependent you are less a person. It may be a variety of factors outside. The minute you put income maintenance and social services in the same structure, you are saying you need this money because we have to help you personally become adequate. That is one important reason for separating them.

The other is that I happen to believe in universal availability of social services. I am not dependent upon public assistance, but tomorrow morning, I may need a family counselor. I may need a child guidance clinic. I may need a variety of social services that have nothing to do with the absence or presence of income.

Then finally, we have found from bitter experience that developing and administering social and health services for a particular economic class, particularly if that class is the economically needy, means that those services are poor services; to wit, look at the municipal hospital services of New York City?

Senator PROXMIRE. Poor in the sense of inefficient?

Mr. DUMPSON. Inefficiency and standards. Once you focus a service system to an economic class, you can bet your bottom dollar that that service system is going to be inefficient, poor quality and low standards, because it is associated with a low status group.

Representative GRIFFITHS. Poor white rural and smalltown America is also discriminated against, and bears also the challenge of the weather. This may be the thing that makes some poor, or the price of crops. But second, they are dependent also upon the power structure in small towns, the fact that those in power refuse to lend money to people with good ideas that could bring industry or could create job activities in those towns. So that discrimination comes in a lot of forms in a lot of areas.

Permit me to thank all of you for being here. Mr. Ryan, I am sure, and I have to go because we need to vote, but Senator Proxmire and Senator Percy will be here. We need to cast a few votes for HEW and try to stop a few cuts.

Senator PROXMIRE (presiding). Mr. Dumpson, along the line that I was questioning Congressman Ryan, how would you feel about putting more emphasis on this as a work incentive program, calling it that, orienting it in that directon, and take advantage of the public attitude expressed last Sunday by the Gallup poll report that two-thirds of the people, people in every single category, $10,000 and above, $7,500 to $10,000, the poor—everybody favored this and by a big margin—white, black, all people. Members of Congress, I think, favor this kind of thing. Why not recognize, as I think so much of the emphasis by Dr. Tobin the other day and by Congressman Ryan this morning was, that this is to a considerable extent a work incentive program, intended to get away from the deadening welfare effect that people will not take jobs because they will lose their welfare check. Can we do that?

Mr. DUMPSON. If we are doing that as a strategy for interpreting to the American people why this is necessary, I will buy it.

Senator PROXMIRE. I think that is an honest way to do it, because I think that is what this is.

Mr. DUMPSON. I do not use "strategy" there as an invidious thing. But I would like to point out two things: You said you felt that the overemphasis on the employment route as a way of eliminating poverty has not been effective. The opportunity for full employment in the real sense of those terms, I think, is a pipedream.

Second, there are large groups of people, to wit, children, millions of children, for whom a work incentive program as a basis for support is absolutely meaningless. I think the time has come for the American public to face up to its responsibility to children.

Senator PROXMIRE. There is no question in my mind, no question I am sure in the mind of most Members of Congress, that those who cannot work, whether they are children or have some handicap——

Mr. DUMPSON. They are the overwhelming majority, sir.

Senator PROXMIRE. In that case, you can make a very strong case. I do not know of any responsible group that would oppose a program of assistance for people we know cannot work. I think a children's allowance, a program for children, is irresistibly appealing. I wonder if we could use this to slow down the other approach?

Mr. DUMPSON. My own knowledge of the development of programs or categorical programs in the country has been that we have almost gone the demogrant route. We have aided populations of the Nation by aid to physical disability, or what have you. I think I am really saying, or what Dr. Burns is saying, is let us start with that top priority group in our population, namely, children. If you can achieve a universal guaranteed income—maybe I part ways with Dr. Burns here this morning—if we can achieve that tomorrow morning, let us do it. I think we cannot. But until we can, let us go the way that recognizes the rights of children to decency.

Senator PROXMIRE. Mrs. Burns, before you go, did you have something you wanted to say?

Mrs. BURNS. Unfortunately, I have to leave at 11:30. I do not think it would put an obstacle in the way of achieving a more adequate guarantee. For one thing, if you look at what is happening to our social security system, which has now been in force over 30 years, you have to agree that in 1935, it would have been quite impossible for a hearing like this to have taken place in Congress. That responsible people would have been sitting around talking about guaranteeing income to everybody or guaranteeing income to children—it was just incomprehensible and inconceivable. What has happened is that as the social security system has been in force all this time, as we have come to realize more about the magnitude, the nature or the causes of loss of income and the inadequacy of present approaches, more and more we are moving toward some kind of a guaranteed income. It is because we have seen that whereas before 1935, we felt the American enterprise system was going to be destroyed if we gave rights to benefits through the social insurance system, we have lived with it since then. We have discovered it is all right. It works. People get used to the idea and see it is all right.

I think if you had a children's allowance system which departs radically from the other programs in that you do not have to be insured to get it, you do not have to prove need to get it, you get it because you are a child—we should begin to accustom the American people to the idea that it is indeed an efficient and economical way of getting money payments into families, and that we can use the tax system to recoup as much as we want from the people whom we do not, so to say, want to help. I think this would accustom people to the idea because, as I said to you earlier, my own feeling is for the long run—if you ask me what is my longrun objective, it is not all this fussing around with negative income taxes and declarations before and throughout the year, and so on. I think the better way would be to say how much we think people should have and pay it to them regardless of income; maybe we want to begin modestly; but give people a right, a payment, and then have an end-of-year reckoning through the income tax.

As I said earlier, Canada and other countries do this for their aged. I would like to see us begin with children, because they are the neglected group.

So I do not think this would put off more adequate alternative systems of a universal guarantee in the end for everyone.

Senator PROXMIRE. You and Mr. Dumpson have made a very eloquent appeal for children's allowance, but I think what we need is some specifics on it. I understand the 62 countries that Mr. Dumpson referred to in his statement that have it, in most countries, it is grossly inadequate, pitifully inadequate.

Mrs. BURNS. Except in France.

Senator PROXMIRE. Except in France. If we had an adequate, comprehensive children's allowance, how much would that cost?

Mrs. BURNS. I had some figures here just now.

Senator PROXMIRE. You might indicate how much per child it would provide.

Mrs. BURNS. You see, Senator, there are all kinds of children's allowance systems. They differ according to the level. Supposing you said you wanted to pay $25 a month to each child.

Senator PROXMIRE. You are experts on this. You tell us what you think would be adequate. Is $25 per month per child adequate? It does not sound like it.

Mrs. BURNS. No, let us take the figure we were talking about, $50 per month per child. This is a rough estimate, because you probably would want to pay less as the number of children in a family increases.

Senator PROXMIRE. That sounds like the income tax exemption, which is $50 a month, $600 a year.

Senator PROXMIRE. What would be an adequate amount?

Mrs. BURNS. We took for the purpose of argument, say, $50 per month per child. That would cost, by the time you have removed the exemption, which we think you should do at the same time, and by the time you have taxed the allowance, you could reduce the cost to about $28 billion.

Senator PROXMIRE. You say you remove the exemption. In other words, if you had an adequate income and you had children, you would get no exemption on your income tax for your children?

Mrs. BURNS. That is right. You see, all families under this system would get the children's allowance. So all families would then lose the right, according to what we would suggest, would lose the exemption and the standard deduction. The allowance would be taxable. And furthermore, some of these proposals which are included in that report which I think has been sent to you of our conference on children's allowance have provided for additional recoupment features so that the cost, if you use one of the proposals Dr. Brazer suggested, would drop to about $12 billion.

Senator PROXMIRE. If you did what again?

Mrs. BURNS. If in addition to the two things, dropping the exemption and taxing the allowance, and you put in further refinements in the income tax which Dr. Brazer has a series of suggestions on, you could, by one of his proposals, reduce the cost to about $12 billion.

Senator PROXMIRE. The further refinements would not mean a fundamental change in something that has nothing to do with children's exemptions, would it?

Mrs. BURNS. No.

Senator PROXMIRE. If you reformed the income tax to provide for a reduction of the oil depletion allowance, for instance.

Mrs. BURNS. No, we leave all those other horrible things to somebody else to figure out. This is just a refinement which would relate specifically to an additional tax you would have to pay, related to your children's allowance—a certain percentage, in other words, that you would be adding to your tax once your income exceeded a certain level.

Senator PROXMIRE. I notice on welfare payments for children, they vary by age in some jurisdictions. A smaller child might be somewhat less expensive than an older child. They eat less for one thing. Would you allow for that?

Mrs. BURNS. Senator, at the present time, there is a very large number of alternative proposals available. For example, you could say that you do not pay it for the first child—Britain, for example, does not pay it for the first child. You can say that you pay more for the older child than the younger child, which is what Canada does. You can say conversely that you pay less for the older child than for the younger child, because there are more children in the family. At the moment, the Citizens Committee is investigating a number of these alternative possibilities.

Mr. Brazer, for example, has a grant at the present time to explore the variety of alternatives, but in each case, what you have to remember is each alternative will change the numbers of children you will bring out of poverty. So what you have to do is a balancing up job. You have to say if we did it this way, this would happen. Another way would be to say we just reduce them all down the line with the numbers of children regardless of ages. There are all kinds of possibilities.

In each case what we are trying to do, and we shall hope to send the material to you when we get it done, is to work out how many children would you move out of poverty if you had this kind of system and what would it cost? How many children would you move out of poverty if you had another kind of system. We feel that the idea is sufficiently important at the present time so that the next stage, to get it into effective consideration, we must be able to present people with a series of alternative plans. It is up to you, our Representatives and Senators, to decide how many children you want to bring out of poverty. You can do it with this plan or this plan, and it is going to cost this amount or this amount.

Senator PROXMIRE. Senator Percy?

Senator PERCY. Thank you very much, Senator Proxmire.

Mr. Chairman, I would like to commend our chairman, Mrs. Griffiths, for having these hearings. I am deeply distressed that I have not been able to be here more frequently. But I think we will all benefit tremendously by reading the hearings. I am particularly pleased to be here for Mr. Dumpson, Mr. Hicks, and Mrs. Burns.

I understand you have to leave, Mrs. Burns.

Mrs. BURNS. I am very sorry, sir.

Senator PERCY. I am very sorry, too. Thank you for being here.

I would like to see if I can draw out from the two of you in your differing points of view a common set of facts. In the testimony Mr. Hicks has given, he has divided the poor into two distinct categories—those who are unable to work, such as the blind, the crippled, the maimed, and the like—and those who have a disinclination to work.

Would we agree, first of all, on the number of impoverished people in this country? Mr. Dumpson, would you care to throw a hard figure out and give us the number of people that you think are, by our standards, impoverished?

Mr. DUMPSON. Somewhere, Mr. Senator, between 30 and 35 million people.

Senator PERCY. Mr. Hicks, how would that compare with your judgment on what you would consider impoverished people?

Mr. HICKS. Well, No. 1, as I said earlier, before you came, Senator Percy, poverty is a matter of relative standing.

Senator PERCY. Well, by your standards, then.

Mr. HICKS. By my standards I would like further to point out that I do not necessarily feel that all the persons who are blind or who are incapable of working for some reason or another necessarily fall into the category of impoverished people. So I really do not have any way of distinguishing the figures. I would have to accept, I suppose, that a cutoff level has been drawn from the point of view of annual income in order to arrive at Mr. Dumpson's figure. So, statistically speaking, I could not argue with that except to say that perhaps some of the persons who fall into that category—in fact, probably a great number of them—are persons who have relatively great amounts of wealth. They own property, they may have sources of income that are not taxable and, therefore, I am sure that statistically speaking we reflect many more poor in this country than actually exist.

Senator PERCY. Well, let us say, then, that there are conservatively at least 25 million impoverished people in this country. You have divided them into these two categories of those who have a disinclination to work and those who, for causes beyond their control can't work—the blind, the maimed, the crippled; and I think you have included also those who lack an education.

Mr. HICKS. Yes, sir.

Senator PERCY. How many would you say fall in each of those categories? Do you have any rough proportions in your mind?

You get the impression from some people that large numbers of people are poor because they just do not want to work, they are lazy. Now, by your standards, how would you divide up this 25 million people?

Mr. HICKS. I have no way of saying, sir, and for this reason we did not approach this whole question from a statistical point of view, simply because we did not have the kind of statistics available to us on which to do it, No. 1, and No. 2, we do not feel that that is necessarily significant.

We have, in fact, even accepted the proposed cost figures of the proponents of guaranteed annual income as being valid. We have not attempted to say that these are wrong or right or anything else. We have just accepted them for that reason.

Senator PERCY. Would you have a feeling that a very large number of people are impoverished because of their own laziness or disinclination to work, wanting to ride on the back of someone else if they can get a free ride?

Mr. HICKS. Yes, sir; I would.

Senator PERCY. Would you say it constitutes half or 25 percent of the impoverished in this country? Is it significant or is it insignificant?

Mr. HICKS. I would say of the impoverished people I know, it constitutes better than one-half.

Senator PERCY. Do you know many poor people?

Mr. HICKS. Yes, sir; I do.

Senator PERCY. Do you think they would be representative?

Mr. HICKS. I am not sure. That, I have no way of knowing.

Senator PERCY. Mr. Dumpson, you have spent your life in this field. What proportion of the poor that you have worked with—and you have worked with a vast cross section—do you feel are impoverished because they are lazy?

Mr. DUMPSON. Mr. Senator, I would hate to put a percentage to it. But I would say it would be less than 1 percent. Let me give you the warrant for even that estimate. If one takes the public-assistance population of the United States, that represents only one-third of the poor people within this 30 or 35 million that I have talked about; the figures verified by public welfare departments throughout the country indicate that roughly 94 percent of those receiving public assistance are children under the age of 18, the adults caring for those children, the blind, the crippled, and the aged.

Now, if I translate that same formula to what I know most intimately, New York City's public welfare system, that 94 percent in the categories holds. Then one asks, What about the 6 percent? Are those willing to work, the lazy and so forth?

My answer is "No" because half of that, 3 percent, are working full time and receiving supplementation to low income. That brings us to 3 percent.

Of that 3 percent, in a study that we did in my own department back in the early 1960's, we found that that 3 percent so-called employable, able bodied if you will, had more than two disabilities to employment. They were functional illiterates or had been in prison and were rejected because of a prison record or they had been involved with alcoholism or narcotic addiction, or one or more of the other social disabilities that rule them out of the potential labor market. So I come back to less than 1 percent of those who are poor who I think Mr. Hicks might properly say are unwilling to work. And among these are a good number who lack the energy to work due to unmet nutritional needs. These are my experiences. These are the statistics I have been working with.

Senator PERCY. I think Mr. Hicks has been very fair in putting in category 1 with the blind and the mentally ill, also the untrained. A man who cannot read or write cannot even be a gas station attendant.

For those who are untrained, Mr. Dumpson, is it your feeling again that these are essentially lazy children or parents who did not want their children to get an education, or is it something in society beyond the control of the untrained today that brought about their condition of inability to adapt to a sophisticated economy and to make their way on their own? Is society to blame or is it, again, laziness, disinclination to do anything by the individual?

Mr. DUMPSON. It certainly would be, in my judgment, Senator, the social system, and particularly the inadequacies of the educational system that have (*a*) not provided the motivation, that have not devised the curriculum that addresses itself to the needs of the society in the 1960's and 1970's. It reflects in large parts of our country the discriminatory practices in education—that means that segregated education, of course, that means inadequate, low-quality education. For the most part, I am saying that the causation be in the socioeconomic deficits of our system, outside of the individual, and over which the individual has little or no control.

If we want to address ourselves to the so-called functional illiterates and why they are there, it means reorganizing the educational system rather than looking at the individual as a person who just does not want to avail himself of educational opportunities.

Senator PERCY. Many people who oppose social welfare use such terms as "socialism"—that is sort of a nasty word in a free economy and society. They leave the impression that much of poverty exists because of laziness and all of those characteristics which conjure up mental images in the minds of the white and black population that work and go out and do their job and earn their money and support their own family. When they conjure up such an impression, it creates a resistance factor then in society to social welfare work.

Do you feel that those people perform a disservice to society when they constantly castigate the poor in terms of the lazy and those who want a ride on someone else's back?

Mr. DUMPSON. Yes, I do. I think some do it unwittingly, lack of information, with the absence of facts. As to the term "socialism" when used as an epithet to discredit a program in our political system, I am reminded of the fact that, when the Social Security Act was enacted by Congress, there were a series of court cases, and I believe sections of that act had to go to the Supreme Court. One of the charges made against the Social Security Act of 1935 was that it was "socialistic." I doubt that even those who characterize large sections of the poor as being lazy and indolent, and so forth, would be willing to give up the social security system as we now have it.

Senator PERCY. Could I make a short statement and then ask Mr. Hicks another question?

My own experience in social welfare work is miniscule compared to yours, Mr. Dumpson. You know I have come to you through the years for advice and counsel and help, but I came as a student, trying to learn. I have gone around the country to other such people as yourself who have spent their lives in social work. I have been essentially an employer, 25 years in one company. We had 13,000 employees, and I employed great numbers of people from the west and the southside of Chicago. Thousands of people have come up from Alabama, Mississippi, Georgia, who could not read or write, many of them with no training and no skills, into a highly sophisticated business. So I have had some experience.

My own impression is very much as yours: a very, very small number of people do not want to work. They do not want to work for many reasons. Maybe they are ill, maybe they have been malnourished as children. I am sure Mr. Hicks, if he has the flu, has a disinclination to want to go to work. Some of these people, I think, have the flu throughout their lives. They just do not seem to have the getup and go. It is not necessarily laziness. It is that they have been raised on beans and they have not had milk and they do not have resistance to disease. They get a cold and it lasts all winter.

We have tried as an industry to work with these people and have tried to overcome the curse of society on them that has created this condition.

I do not know if your figure of 1 in 99 is right or not, but I would say, even if it is 2 in 98 or 3 in 97, it is certainly not in the category of 50–50.

I would like to ask Mr. Hicks, who is here as our guest—and we appreciate his being here—if he wishes in any way to modify the impression that he left that maybe half of the impoverished are just lazy?

In what proportion, in your own experience, would you now put those whom we need to help and those for whom there is just not anything you can do to help because they are not going to work no matter what you do?

Mr. Hicks. Perhaps I suffer from the impressions of the average American voter, born through reading the newspapers and observations in my personal life rather than the great benefits that must accrue to someone who is in social welfare work and is able to observe these statistics from a much closer viewpoint.

No. 1. If we assume that Mr. Dumpson's figure is correct, then surely there could be no objection to including in any welfare or guaranteed income proposal an exclusion for those who are capable of working where jobs exist for them but they do not work. If they only constitute 1 percent, surely they would not harm the system by being excluded.

But I do not accept those figures, because, as I say, I suffer from the impressions that the average American voter gets from reading the newspapers and from my own personal observations. I could go on at great length with my own personal experiences with the poor people in this area, because I am an employer, have been for 10 years in this area. But I would just use one example.

We have had what purports to be a cross section of the poor come to Washington—women, children, able-bodied men of various races. I do not pretend that the problem of poverty or laziness is confined to one race. We see feature stories in the newspapers concerning the efforts of one local citizen to help these people better their lot out at Resurrection City, like going out voluntarily, at no cost to the inhabitants, and digging a ditch to lay a sewer line which is necessary if they are to have showers in their community. He works all day in the hot broiling sun by himself, surrounded by able-bodied men, if we are to believe the newspaper reports, who absolutely refused to lend a hand, who in fact when he asked them why they will not help him, they say, "We came up here from Mississippi to stop digging ditches, we are not going to start digging ditches now."

Now, digging a ditch is not a glorified position like being a corporation executive, but I get the very distinct impression that the reason why so many of these poor will not dig a ditch is because they feel they are entitled to a desk and a white-collar job regardless of their equipment for it or their training for it or their ability.

Now, it does not take much training to dig a ditch. Yet these people who were in bad need of showers admittedly refused to aid this volunteer of their own race who was there trying to help them by even filling up the ditch behind him.

Now, I do not see how this is of any help in proving Mr. Dumpson's point at all. I think it in fact would tend to prove that my position, whether it is wrong or right, is the position of the American people and politically it has to be reckoned with.

Senator PERCY. First, on digging the ditch, I am happy to say that I was out one Sunday morning at Resurrection City and spent a couple of hours out there with my son-in-law who wanted to see the people from West Virginia. I was very happy to find a volunteer from Chicago digging that ditch. They were down about 5 feet at that point and he had five other associates from the camp working right there with him digging the ditch. Apparently, they must have been shamed or inspired to go back to work. So the experience that you have related is not totally true.

I have been very disappointed that the people in the campaign did not see fit to clean up Resurrection City themselves and it had to be done at public expense. I think this is a great mistake that they have made. But I am not free from mistakes in my life, either.

Did I infer from your statement that there is any modification in your figure of 99 percent or 1 percent? Do you want to change that in any way? We have agreed there are about 25 to 30 million impoverished people. Mr. Dumpson very clearly, through his research, says 99 percent are impoverished through inability to get work, from causes beyond their control. You have left the impression that it is 50–50. Do you want to change that in any way?

Mr. HICKS. I would like to change that in that I have stated that I feel many persons are included in the impoverished who do not feel themselves to be impoverished.

Senator PERCY. I thought you did concur finally that there are about 25 or 30 million.

Mr. HICKS. I just could not argue the point, sir. I do not know.

Senator PERCY. All right.

Mr. HICKS. But I am sure there is a great variation on this. So I would not want my feelings on the great number, the percentage, to be translated in terms of 15 million lazy people in this country. I would not want to stand on that.

Senator PERCY. Do I take it you would disagree with the family allowance suggestion made by Mr. Dumpson, that there be a children's allowance provided and that this would be totally in disagreement with the spirit——

Senator PROXMIRE. Would the Senator yield? In the first place, I want to compliment the Senator from Illinois and both witnesses for a most fascinating colloquy. I think the Senator from Illinois' questioning has been extremely skillful. It has been one of the best examples I have seen in the 11 years I have been in the Congress of a very fine and competent job of bringing out very pertinent information.

I interrupt the Senator only to say that I have to leave and that he is now in charge. He deserves the promotion.

Senator PERCY (presiding). This is when the Republicans seize control. We have been waiting for this. Thank you very much, Senator Proxmire.

Could I learn now whether or not you do oppose children allowances and take the position and put the Liberty Lobby on record against children allowances?

Mr. HICKS. I could not do that, sir, because we have not taken a vote which, to my knowledge, would directly reflect the feelings of our board of policy membership on this question.

Senator PERCY. Well, do I interpret your testimony as being opposed to any form of, as you call it, socialistic system of allowances? I think if I read it correctly, you said any form of negative income tax, guaranteed annual wage, or whatever it may be.

Mr. HICKS. That is right, sir; yes, sir.

Senator PERCY. Do I interpret you, Mr. Dumpson, as saying you believe in some form of income maintenance and you want it to take the form of children's allowances?

Mr. DUMPSON. Unqualifiedly; yes.

Senator PERCY. Do you or do you not oppose, then, Mr. Dumpson's proposal for minimum maintenance, sustenance, for a family based on number of children?

Mr. HICKS. I cannot, sir, because our board of policy has not, to my knowledge, cast a vote directed to this particular point.

The problem here is that we do have a form of allowance for children already in existence in the country in the form of the income tax exemption.

Senator PERCY. Right. And ADC.

Mr. HICKS. Yes; and existing welfare programs, right.

Senator PERCY. Do you support ADC?

Mr. HICKS. We have taken no vote on that, either, sir.

Senator PERCY. In principle, would you say your inclination would be to support it or oppose it? Do you think there is anything wrong in principle with ADC as a system?

Mr. HICKS. I would think that I would find much to object to in the technical ways in which it is administered and its lack of connection with offsetting controls that would do something to discourage the high rate of illegitimacy in this country as opposed to encouraging it.

Senator PERCY. As Mr. Dumpson suggests, we have an allowance for children; do you feel that this would provide further incentive for more illegitimate children?

Mr. HICKS. No, sir; not more illegitimate children.

Senator PERCY. Well, more children?

Mr. HICKS. More children; yes, sir. I do think there is a great political danger in such a program in that there are many, many people who are very concerned about population explosion in this world who might wonder if it is the proper thing to do to put a premium on childbearing. I do not know, but, as I say, our board has not expressed itself.

Senator PERCY. I might have misunderstood you, then. I thought you had said that one of your objections to ADC is that it gives an incentive to illegitimacy rather than discourages it.

Mr. HICKS. Yes, sir, ADC does. But I am saying that the child support program as proposed here this morning, as far as I can see, would not encourage illegitimacy any more than it would encourage the having of legitimate children, in other words.

Senator PERCY. Mr. Dumpson, I think you and I would agree that there are many things wrong with ADC. I think it has much area of improvement that needs to be worked on. But I wonder if you could comment from your own vast experience whether or not illegitimacy is really created as a result of our welfare system. Do women really have more babies in order to get more money? Do they really feel this incentive system that is presumed to have been established in welfare is adequate incentive to have families of 8, 9, 10, 11 children?

Mr. DUMPSON. Senator Percy, when I wanted to be very flippant in dealing with this canard as Commissioner of Welfare, I used to say it seemed to me people had forgotten some very basic lessons in biology when they equate the conception of a child with a desire for additional income under the dehumanizing conditions that the policies and administration of public assistance require in many localities. I do not believe that there is any relationship between our ADC program and the increase in out-of-wedlock births.

I would like to point out that by count four-fifths of all of the children born out of wedlock are not on the ADC program. The increase in out-of-wedlock births parallels the increase in out-of-wedlock birth for those not on ADC. But when one looks at the public assistance levels, the payment levels, just out of sheer commonsense, it seems ludicrous to me to think that a woman would be willing to conceive a child for something like $2 or $3 more a month and to go through the kind of intrusion into her privacy for the rest of the minority of that child just because she wanted to get $2 or $3 more a month by the addition of a child.

I am convinced out my own experience, to say nothing of statistics, that there is no relationship between the ADC program and the increase in out-of-wedlock births. That is not to say that I do not deplore the increase in out-of-wedlock births, whether it is on ADC or off ADC.

Mr. HICKS. May I comment on that?

Senator PERCY. Yes, sir.

Mr. HICKS. There may be a misunderstanding of what I understand to be the basic conception of ADC in this area. It is not that I would contend that a person would purposely have an illegitimate child as an income-producing mechanism. This, as you point out, is ridiculous. It is just that the having of children, to a person who has no income, should be discouraged. Now, if a person feels that a child can be supported and there is no discouraging factor there—thanks to the help of ADC—and I might say that ADC applies its effects. They are no doubt felt differently, for example, between the State of New York and the State of California. I think the State of California has a much more ambitious ADC program than any other States, so naturally there would be different effects. But this element of lack of discouragement from having a continuous series of illegitimate children, thanks to, in part, the fact that the person knows that these children will be supported in large part at State expense, not only prevents the use of birth control by such people, but it also, I think, in some part discourages attempts to remarry. These are the arguments, rather than that people actually produce babies as an income mechanism.

Senator PERCY. I am glad to have that clarified.

I have just two additional areas that I would like to explore for a moment. In your own testimony, Mr. Hicks, you mentioned that the first category, the class of poor people—the untrained, the blind, the mentally ill, for example—have need for specialized programs which can better be provided at State and local level. I certainly support the principle of doing as many things as we possibly can at those levels. I am worried, though, about the ability of poorer States, ability of some States and localities that have a very high proportion of poor, and I am worried about the heavy load some of those areas might have when it is a national problem, because people move. If they do not get an education in some Southern State and they cannot get a job there, their inclination is somehow to come North and they end up on the welfare rolls, not prepared for society there.

Could you give us some idea, considering the millions of impoverished people, how in your judgment, the States and local governments can support sufficient specialized training and welfare programs?

Do you feel that the income-producing capability of our States and our local communities today, with the pressures that they have had for mental health, highways, law enforcement and everything else, is adequate to do a good enough job in this area? Because you have dealt the Federal Government completely out of this field, a field in which they are now deeply involved.

Where are we going to get the money at the State and local level? Let us assume in principle we all agree, let us do it locally if we can. How are they going to do it? Where will they get the money from? This is a very specific policy position you have taken which is in sharp contrast with AFL–CIO, Chamber of Commerce, NAM—anyone else who has really studied this program—that you can be very specific on, I hope, because it is in your approved statement here and must have been approved by your board.

Mr. HICKS. Right, sir.

In connection with this, of course, we do feel that far too great a percentage of the taxable income of this Nation is coming to Washington, leaving far too little available to States and localities for use in programs of this sort. It is sort of illogical to say that money can only come from Washington, because in fact we all know that the money can come only from the people of the United States and their productive enterprises that are not located in Washington. They are located in California, New York, Texas, in all the States that somehow seem to be short of money. The answer is simply to not funnel so much of the income of these States to Washington but allow them to keep it within the State and use it in the State on the necessary social services.

But there are intermediate answers. There are such things as Federal grants with no strings attached to States in this area; that is, where the program is not spelled out in detail to which a State can apply the money. That is one.

But actually, in this objection, we hoped to cover two areas: not only the need for the State to have control of their programs in the localities, but also the danger posed by the guaranteed annual income proposals to the general operation of these types of welfare programs even on a local level administered by Federal officials. Because we are certain to find, I am sure, that if a guaranteed annual income is provided through the use of computers, refunds on income tax—in other words, if it is a depersonalized service administered from Washington or from IRS headquarters around the Nation, there are going to be many millions of poor people who have need of social services who will never be discovered simply because there is no reason for them to approach a social service in a locality to obtain money.

I would say that Mr. Dumpson—I am sure Mr. Dumpson would have to agree that most of the needy cases, persons who need medical attention, who need mental health care that are discovered by social workers are discovered because the people or some member of their family came to the agency for money. Once you remove the need for them to come to the agency for money, you have broken your contact with them and these services will never be administered in many cases.

Senator PERCY. Could I get back to my question? Let us assume that you are either the mayor of New York, Washington, D.C., or Chicago. Under the principles that you have enunciated, more should be done locally. In fact, you are not going to look to the Federal Government at all for any of the welfare services that are to be provided and that you yourself have stipulated they are to be provided. How are you going to get the money today? I am not talking of general principles or theory or start the country all over again and this is the way it ought to have been done. Today, you are the mayor of one of these large cities. How are you going to finance the programs that are required and do it locally?

Mr. HICKS. Well, you want to know how. I would say today the thing to do would be for the Congress to pass a law appropriating to the State governments a portion of all the Federal income taxes that are paid by the inhabitants of those States. That would be my answer, with no strings attached.

Senator PERCY. I think that is a good answer. There I think you have hit on something that is widely supported, certainly by the Republican Party. I have cosponsored a bill for block grants. But it is still the Federal Government granting it back to the States and communities. In other words, you are not dealing the Federal Government out. You are saying they should be a collection agency, but should refunnel the money back to the States and local agencies in order to carry these programs out. So we are not as far apart as might appear. It is just a procedural system. You are not saying the Federal Government has no role. You are saying they should not have the direction of every aspect of the program, we should have more local control. All they should do is raise the money and refund it back to the people. The one thing we do efficiently down here is collect taxes and raise taxes. We do not spend it quite as well. We can spend it better back home, administered back home by Mr. Dumpson and others.

But I do not think if the Cook County public aid program depended on raising money in Chicago it would do anything other then degenerate. We would have anarchy practically on our hands, because the mayors face the problem the minute they start raising taxes in the city. This drives business out of the city, the affluent leave the city. You leave nothing but the poor in the cities.

So really when you get down to this thing, what you are saying is you have to have Federal collection, it has to come out of the Federal collection, but administered locally. That is a vast difference from what you have said here, that it should be done at the State and local level.

Mr. HICKS. Sir, I did not say you had to do this. You asked me specifically what could we do today. By "we" I assumed you meant the Congress of the United States. This is what we could do today.

Senator PERCY. Right.

Mr. HICKS. I do believe that the percentage of the wealth of the American people that is being sent to Washington in the form of Federal income taxes could be greatly reduced if the Federal Government did not try to solve all these problems from Washington and let this extra income then be taxed by the States and localities. Admittedly they cannot do it now. But people cannot make ends meet now. No wonder they object to increased local taxes. Why can they not make ends meet? Because the Federal Government is taxing them more and more and more. If the Federal Government would slow down its spending and its taxing, then I think we would see an entirely different situation in the States and the localities.

Senator PERCY. Of course, as you well know, a vast proportion of our Federal taxation goes for defense—past wars, present wars, the present Defense Establishment. The amount left over for the welfare programs is a percentage which is a rather modest proportion of our total budget. You would not want to leave the impression that most of this Federal revenue goes for social welfare programs?

Mr. HICKS. No, sir; I realize it is a relatively limited amount. I guess when you take social security into account, probably it is in the vicinity of $25 billion a year that goes for some form of social welfare in the Nation.

Senator PERCY. But that is not general revenue at all. That is just an insurance fund. The Federal Government is just a collecting agency.

Mr. HICKS. It is not held separately, though. The general income of social security is expended for other purposes.

Senator PERCY. Yes.

Mr. HICKS. We are aware of that. But no, the answer is to eliminate expenditures even in defense, where they can be eliminated.

We can certainly eliminate foreign aid. The needy of other nations should by no means be so important to us that we would neglect the needs of our own needy citizens. But we are still continuing to spend money on foreign aid. We are appropriating half a billion dollars for IDA, half a billion dollars for the Inter-American Development

Bank. We are spending money like water up here in Washington that does not need to be spent, that if we did not collect those taxes the localities could do a much better job of taking care of their citizens.

Senator PERCY. My last question relates to the areas of the distinction between a guaranteed annual income and working toward some form of insuring that everyone who wants to work can find useful employment in this country. I ask it because I think Liberty Lobby is one of the best known lobbies in Washington. Do you feel strongly that we have no right, or no responsibility, to provide a guaranteed annual income—and I am not myself sure we have that responsibility? Do you feel that there is a difference, though, between trying to create a society where everyone who really wants to work, has a job, and a society with a guaranteed annual income?

Mr. HICKS. Yes, and furthermore, we think there are specific things that Congress could do in this area. We have said on many occasions before committees of the Congress, for example, that there should be a greater, a higher, level of exemption from income taxes. This would prevent persons who are capable of earning only $4,500 or $5,000 a year from having to pay any income tax. It is ridiculous that a person would have to pay income tax at that level of wages. Yet some do.

We have called for it in a lowering or elimination of the minimum wage laws. We feel that the minimum wage is by and large the greatest responsible factor for unemployment in the Nation, particularly in the area of untrained teenagers and persons of low mental capacity who really are not capable of holding down a job that pays $1.40, $1.65, who knows where the minimum wage will go next.

These are just a couple of examples. But we certainly are in favor of seeing everyone in this Nation who wants to work have a productive, satisfying task to do which contributes to others in somewhat the same proportion as he receives wages from it.

Senator PERCY. Being realistic, although I do not know much about politics, but I would just assume that it would be difficult to roll back the minimum wage laws of our State legislatures as well as our Federal Government now.

I agree with you that there is a real possibility that these laws have created a condition of unemployment. Would you then favor—and I am trying realistically to find an answer to that problem. Would you favor, for instance, having business receive a supplement, being the difference between what a man is really worth—let us say an unskilled, uneducated man, worth maybe $1 an hour—and the minimum wage, providing that the company guarantees that it will then train and educate that person so he will be worth at the end of the training period the full minimum wage? I have a bill in to implement such a program. I have now surveyed over 8,000 small businessmen and have had 1,200 replies back from them. An overwhelming majority indicate that the minimum wage is a problem for them in their small business, but they would provide substantial additional employment if they had such a proposal, but they cannot afford to do it now, their profit margins are too narrow.

Mr. HICKS. Well, rather than make a snap judgment on how this would fit in with the policy positions taken by our board of policy, I would rather disassociate my remarks from our official position. But as an employer, it seems to me that such a proposal, provided that it did have a time limitation on it so that it would not constitute a subsidy on a continuous basis of the employee——

Senator PERCY. Oh, yes.

Mr. HICKS. Would be attractive to many employers. I think it would be attractive to me as an employer.

Senator PERCY. Mr. Dumpson, would you want to make any closing comment before you leave? We are very, very grateful to both of you for being here.

Mr. DUMPSON. I want to add just one phrase to Mr. Hicks' and your comment about full employment, that full employment be guaranteed with full recognition of the interest and capability and potential of the individual. I am going back, Mr. Hicks, to what you had to say about the shoeshine boy.

Yes, there is dignity in all labor. But if that boy or that man has a potential for other than shining shoes, then I hope there would be an opportunity for him to move up into employment opportunities, either under private enterprise or under government, that would take into account that capability and that potential.

Mr. HICKS. I could not argue with that.

Senator PERCY. Mr. Hicks, would you care to make any closing comment?

Mr. HICKS. Only that we welcome the opportunity to appear before this committee. We do feel that it is essential that our point of view have an opportunity to be presented to Members of the Congress. We think it is essential both from the viewpoint of keeping the record straight for future generations and also from a political point of view. I think we honestly feel that we represent the point of view of the average American voter and we hope we have fairly presented that today.

Senator PERCY. The final meeting of this committee on this subject will be held tomorrow in this room at 10 o'clock. The subject, "Guaranteed Income, Case For and Against." The Honorable Tom Curtis, ranking minority member of this committee, and I might add parenthentically, a candidate for the Senate from the State of Missouri now, will appear, and Mr. Ronald Hays of the Committee on Economic Maintenance of National Catholic Charities.

I wish to thank you both very much for being here and for your valuable contribution to our proceedings. The hearings are adjourned.

(Whereupon, at 12:25 p.m., the committee recessed, to reconvene Thursday, June 27, 1968, at 10 a.m.)

INCOME MAINTENANCE PROGRAMS

THURSDAY, JUNE 27, 1968

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON FISCAL POLICY OF THE
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10:05 a.m., in room S-407, the Capitol, Hon. Martha W. Griffiths (chairman of the subcommittee), presiding.

Present: Representatives Griffiths and Rumsfeld; and Senators Proxmire and Percy.

Also present: John R. Stark, executive director; James W. Knowles, director of research, and Nelson D. McClung, economic consultant.

Representative GRIFFITHS. The subcommittee will come to order.

Gentlemen, I want to express my appreciation for your being here. Thank you very much.

Mr. Hayes, will you begin?

STATEMENT OF RONALD C. HAYES, INCOME MAINTENANCE COMMITTEE, NATIONAL CONFERENCE OF CATHOLIC CHARITIES (DIRECTOR, SOCIAL SERVICES DEPARTMENT, MICHIGAN CATHOLIC CONFERENCE, LANSING, MICH.); ACCOMPANIED BY MSGR. LAWRENCE J. CORCORAN, SECRETARY, NATIONAL COUNCIL OF CATHOLIC CHARITIES

Mr. HAYES. Madam Chairman, members of the Subcommittee on Fiscal Policy, I have with me Monsignor Lawrence Corcoran, who is Executive Secretary of the National Conference of Catholic Charities. He will be able to assist me and answer any questions you may wish to ask.

Representative GRIFFITHS. Thank you, Monsignor, for coming.

Mr. HAYES. The case I present today for a guaranteed minimum income represents the current thinking of the Income Maintenance Committee of the National Conference of Catholic Charities of which I am a member. This committee was created over a year ago to study the various proposals for guaranteed income maintenance. Our committee has attempted to examine the issues involved primarily from the vantage point of philosophy and theology and toward the goal of social justice. We have done a great deal of study and expect to finalize our recommendations for the National Conference of Catholic Charities within the next few months.

By guaranteed annual income we mean a federally assured income provided to all who are unable to work, unemployed because of lack of employment opportunities, and who are employed but receiving an inadequate income. Such a program would establish in Federal law a guarantee that there shall be a minimum income below which no family's income shall fall. The purpose of a guaranteed minimum annual income is to assure that everyone may live in decency and dignity and with relative economic independence. It should eliminate the financial problems of poverty. There are aspects of poverty which money alone will not correct, such as the whole range of health and social services, vocational counseling, and consumer education. While a guaranteed income might remove the need for many of these services, this is not its primary purpose. We look to the guaranteed annual income for minimal financial stability and security for those unable to obtain this for themselves through gainful employment, for maintenance of income when other resources fail or are not feasible for certain individuals, and thus for protection against poverty.

Varieties of social legislation and assistance programs have been developed in this country during the past 30 years. These programs have failed to bridge the gap between the affluent American society and the 60 million individuals who are poor or exist on a near-poverty income level.

To peoples of other countries, wealth and opportunity are synonymous with the word "America." To 60 million Americans, these words are hopes and promises—as yet unfulfilled. These 60 million Americans are the poor or deprived who are an integral factor in the national poverty statistics. Despite their economic level and their cultural and environmental experiences, these individuals are creatures of God, creatures who are not enjoying the goods created by God for all men. These are the victims of social, economic and technological progress.

Formerly a poor person was regarded as having determined the quality of his life—he had chosen to be poor. His poverty was an indication of his lack of ambition and laziness. This attitude viewed man as the sole creator of his destiny. This attitude was reflected in welfare programs which "self-righteously" gave less than necessary to recipients so that they would be motivated to move out of their dependence. In depriving these recipients of an adequate subsistence, welfare programs seemed to impugn their human dignity and human freedom. On this level of operation, poverty was regarded as a purely economic issue.

The current attitude toward poverty involves not only economics, but politics, morality and, hopefully, justice. The poor are now increasingly recognized as individuals who cannot always cope with the obstacles imposed by their environment. These are the victims of prejudice, bigotry and incompetent educational programs. Though a man is willing and able to work, he is poor in spirit as a result of hopelessness and frustration.

Thirty years have passed since the enactment of social insurance programs providing old-age, survivors' and disability insurance; unemployment and workmen's compensation to persons with an employment record. Also, public assistance programs have been in operation which were designed to meet an individual's need and maintain him at a level consistent with good health and decency. And still an amazing amount of dependency continues. Amendments to adequate social insurance programs in the course of time have either seriously limited the effectiveness of these programs or caused the beneficiaries to endure further indignities in their time of dependence. States are loathe to enact laws which modify realistically the amount of payments consistent with the rise in the cost of living. A struggle continues in some States to raise the level of public assistance to a minimum level.

The old welfare system is obsolete and in need of a change. The new understanding of poverty and of the poor has resulted in programs designed to help people help themselves out of poverty. The Economic Opportunty Act of 1964 states, "It is therefore the policy of the United States to eliminate the paradox of poverty in the midst of plenty, by opening to everyone the opportunity for education and training, the opportunity to live in decency and dignity."

For over 60 years this Nation has enjoyed a strong, healthy economic growth. Total employment has tripled and the Nation's output of goods and services—in constant dollars—rose about 9 times. The personal consumption of the typical American has increased more than 4 times. In 1966 the gross national product reached a seasonable adjusted rate of $759.1 billion, an 8.5-percent increase over 1965. The rise in 1967 was to an estimated $784 billion. Indications are that if this rate of productivity continues to rise, it can reach a high, in 1968, of $842 billion—an increase of 7.5 percent. The figures reveal the growth and development of affluence in this country—an affluence that does not extend to all citizens.

To understand better the problem of poverty let us first establish a poverty level. Opinions vary about the income necessary to maintain an "adequate standard of living" for an urban family of four, but in 1965 Mollie Orshansky of the Social Security Administration Office of Research and Statistics determined the poverty threshold for this family constellation to be no less than $3,130. This same family group would be considered near-poor or in the low-income—but not poverty—level if they had less than $4,075 as an annual income. For farm families the poverty line is 30 percent lower. The median income of four-person families in this same year was $7,490, nearly two and one-half times the poverty nonfarm threshold of $3,130. The poverty criterion for a nonfarm individual was $1,540 and the low-income criterion was $1,865.

In March 1967, more than 60 million Americans had incomes so low that they were considered poor or near-poor by the Social Security Administration basic poverty index. Approximately 60 percent of all poverty is due, directly or indirectly, to unemployment, underemployment, part-time employment and, when employed, substandard wages.

Over two and a half million households were on the poverty roll even though the head of the household was gainfully employed at a full-time job. Included in these households were 6 million of our Nation's children. For these families the probability for staying poor is high. "Low incomes carry with them high risks of illness, limitations on mobility, and limited access to education, information, and training. Poor parents cannot give their children the opportunities for better health and education needed to improve their lot. Lack of motivation, hope, and incentive is a more subtle but no less powerful barrier than lack of financial means. Thus the cruel legacy of poverty is passed from parents to children."

Though there has been, and continues to be, improvement, the number with incomes above the poverty index yet below the low-income level remains almost unchanged. No upward adjustment was made to take account of the higher standard of living that a rising real income makes possible for the majority. The Nation's poor are fewer in number but the difference between what they have and what the rest of America enjoys is greater. In 1964 the poor were farther way from the mainstream of American good living than those in the poverty inventory in 1959. The gap widens as our Nation's productivity increases each year. The record of progress is not encouraging for all. The nonwhite population, though now in better straits, continues to experience poverty at a rate more than three times that of their white fellow Americans. For nonwhite youngsters in large families, the prospect of a childhood free from poverty grows dimmer. This is the plight of the employed poor.

Approximately 40 percent of all poverty is suffered by those who are not, or who, because of physical or emotional disability, should not be employed. Our senior citizens comprise 25 percent of this group.

In 1967 persons 65 and over formed less than 10 percent of the total population, but comprised 16.2 percent of the Nation's poor. The current ratio of the poor older person has risen to 18.2 percent. Senior citizens remain the most poverty-stricken group in the Nation. More than half of elderly poor live alone, and the majority of them are women. In almost all situations the only constant sources of income—if any—were benefits provided by the Social Security Administration. In December 1964, the average payment to an aged beneficiary was $79 a month—$948 a year—$592 a year less than the established poverty index. Overall analysis estimates that 35 percent of all social security beneficiaries in 1965 were living in poverty. An additional 38 percent would have been poor except for their benefit checks. Only about one-fourth could have lived above the poverty line in the absence of the social security benefit. Social security benefits alone are not adequate to fight the war on poverty. The proportion in poverty of this group is more than 2½ times as high as among those 18 to 64.

Over 15 percent of those in poverty cannot be brought to economic productivity. They are the chronically ill, the handicapped, disabled, and the mentally ill. Included in this figure are women who are sole parents and should not be required to work full time.

The recent Public Welfare Amendments—1967—elaborated and expanded the old program. Aid to families with dependent children (AFDC) provides assistance whether the father is absent from the home or is in the home. There is still incentive for fathers to work. Where AFDC was needed as a result of unemployment, the average time the family has needed assistance has been 9 months. When the need is due to incapacity or loss of the main wage earner, the average time a family requires assistance is 3 years. At any given time, about 1 million families with more than 3 million children receive assistance under this program. At the present time payments total approximately $2 billion, 55 percent coming from federal funds.

The present program does not demoralize the family life of the recipients to the degree as had been under ADC. However, with an average income of $142 a month for a family of four, poverty still dominates the scene of their existence. Though participants in this program are granted extended social and medical services, the cry for a decent income persists.

Our Nation's rural population continues to dwell in poverty. The risk of poverty for the farm dweller is twice as great as that prevailing among the rest of the population. These rural working poor need, not only a higher minimum wage, but benefits of collective bargaining and of economic protection programs which are currently nonexistent.

The foregoing are a few examples of the plight of our 60 million individuals who exist in poverty or who, though employed, live on an economic level which deprives them of an honorable, dignified existence.

The 1967 Public Welfare Amendments can serve as a foundation for improving and expanding public welfare services. In Federal programs in which the States share responsibility, this responsibility should be on an equitable basis across the Nation. Unless basic human needs for food, clothing, shelter and health care are adequately provided for, it will be impossible to develop an effective service system.

The poverty roster today seems to record our past failure to end the scourge of poverty. We must differentiate and provide for the diverse groups among the poor.

Poverty can be reduced appreciably by improvement of existing social welfare programs for income support which are designed to meet the needs of the elderly, of mothers of young children and of others who cannot work. Job training and equal employment opportunity should be available to those who are willing and able to work. Extension of educational facilities to today's young people will not only tend to ease the current poverty gap but will be an economic and social assurance for them as the adults of the future.

We believe that all citizens are entitled to a decent level of living with adequate housing, clothing, food, education, medical care, and social service. It is important that every effort be made to insure that as many people as possible are employed; but when there is no job for them and when they cannot be trained for an available job, then the Government is obligated to both work toward helping that person to become economically independent and to provide him with the means for a decent and dignified living in the meantime. It would appear that some methodology for providing a guaranteed minimum income would be a good answer.

We are not prepared to propose a particular methodology since we are still in the process of studying various possibilities. Our inclination at this point is to favor some experimentation with several methodologies as we phase into a national program for the provision of a guaranteed minimum income.

We cannot overcome poverty until we insure that all families have a decent level of income. It will take a great deal of other programs and services, also, to insure family independence, sound use of money, and the relief of other problems related to poverty conditions, but a minimum decent income will be essential.

The present systems of income maintenance in the United States do not guarantee a minimum income at a level that would permit reasonable subsistence and decent living. I believe this is so because people who work are not generally concerned with the unemployed, because our culture has provided many of our citizens with a kind of "self-evident" notion that those who do not work should not eat, and because most U.S. citizens are simply not aware that there are millions of people through no fault of theirs who are hungry and impoverished in the United States.

It is evident that material need is widespread in our country and that we still lack an effective, impartial, and humane system to meet the need. A guaranteed annual income has been proposed as a generic approach to overcoming this deficiency. As study and debate of the guaranteed annual income increase, certain issues and problems emerge. These must be faced openly and incisively. Many perplexing questions must be answered and many doubts settled. The following are some of the issues.

1. *An issue of major proportions is the very basic one of entitlement*

We submit that every human being has an inalienable right to a decent minimum of subsistence and that this right emanates from his nature and worth as a living person. The following quote is relevant:

> Every human being is a person. By virtue of this he has rights and duties flowing directly from his very nature which are, therefore, universal, inviolable and inalienable * * * Every man has the right to life and to the means which are necessary for the proper development of life; these are primarily food, clothing, shelter, rest, medical care and finally the necessary social services. A human being also has the right to security in cases of sickness, inability to work, widowhood, old age, unemployment or in any other case in which he is deprived of the means of subsistence.

This was written by one of the giants of history, Pope John XXIII, in the encyclical "Pacem in Terris." He specifies these rights as universal and inalienable; and it doesn't seem disputable.

Accepting that premise—if many "qua man" as inalienable rights to these basics of life, we then ask upon whom falls the grave duty to make that theoretical entitlement become a fluid reality? In other words, who is obliged to deliver the goods when title claims them? His colleagues and neighbors? Yes. By their good will and benevolence? No. The "good will—condescension" attitude has too long pervaded our American scene. It has been wrapped up in the word-concept, "dole," distasteful but still rampant. Many European countries erased the dole idea years ago.

Recently a prominent American in public life said:

> Welfare should not be considered as an inalienable right of the poor but something of a gift granted by people who earn their own way to those who cannot or will not work.

A statement like that sets back 30 years the poor of our Nation. Such a fallacy in positioning the origin of subsistence rights—though still somewhat popular—should be followed by a quote like this one:

"You are not making a gift of your possessions to the poor person. You are handing over to him what is his."

This was spoken by Pope Paul VI in the encyclical, "Development of Peoples." The basics of life to the needy are never a gift nor a dole but "what is his;" they belong to him; the poor person has title to them. Another statement pertinent to his question is from the Vatican Council:

The right to have a share of earthly goods for one's self and one's family belongs to everyone.

How else do you say "entitlement"? There is no other way.

Returning to our question—Who must deliver the goods to the entitled persons? Neighbor citizens formally organized in a government offer the only practicable and therefore proper resource. It is here that commutative justice—one to one—transfers individual obligations to distributive justice for delivery of entitlement by a nation for all. The individual and the common good demand this merger in social justice.

We must now ask, how do we move the entitlement theory of distributive justice into daily practice? Obviously this must be by law. City or State laws, however, do not have the overall capabilities to accomplish this and many States would renege for a hundred excuses. In a country, the common good of the whole national family is at stake. Only Federal law can deliver a fair share of his belongings to every man.

As a matter of record, the entitlement concept—for persons qualified under the law for public welfare—is at times explicit and implicit in the Social Security Act; furthermore scattered Federal and State policy releases have tried to apply the entitlement theory. Recently the report of the National Advisory Council of Public Welfare urged that all welfare programs receiving Federal funds be administered consistent with the principle of public welfare as a right.

That's a nice principle. However, unknown, unasserted, unenacted, and unstatutized rights are de facto no rights at all on the kitchen table. The theory of distributive justice will remain an abstraction until translated into statutory right and then to doorstep application.

2. *A second major issue derives from the "work-ethnic" of the American culture*

This attitude is expressed in such phases as "if you don't work, you don't eat," and "an idle mind is the devil's workshop." This attitude is inclined to a prejudgment of all persons who do not work as being lazy, indolent, parasitic, and therefore evil. A nonworking person is suspect of not wanting to work, and the burden of proving otherwise rests upon the person. This finds practical expression in the effort to keep public assistance grants at an amount lower than the lowest paying job.

This "work-ethic" attitude springs from the early stages of the industrial revolution and has paralleled the development of our economically oriented culture. It identifies work with an occupation which is materially productive, and assigns to it the highest value. Thus a plantworker and an industrial executive still receive higher remuneration than employees on equivalent levels in other occupations. By way of a quasi-extension of work acceptability, other occupations are assigned a value, such as physicians, lawyers, nurses, teachers, social workers, and politicians. Some of these, such as teachers and social workers, are reluctantly encompassed in the acceptability orbit as evidenced from the fact that their salaries, in spite of their extensive educational background, are often less than the wages of industrial workers.

It has long been apparent that everyone cannot and should not work at a production-type job. This becomes more apparent as we observe the increase in the "labor-force" and the vast changes being wrought by automation-cybernetics. It can no longer be desired that all should labor in the strict sense of the term. We can anticipate that the greatest talents and potential of all citizens will contribute to a society of great creativity and human fulfillment. A broad variety of skills, talents, energies, and knowledge will be acknowledged as valuable in the new American culture, deriving in part from automation-cybernetics. We need not fear that a lack of labor will doom our productivity. This will continue. Rather the greater problem will be the development of prudent uses of leisure time.

3. *A related issue is the fear of abuse in a guaranteed annual income system*

Many fear that this will encourage debilitating idleness, undermine ambition, and destroy initiative. It should be pointed out that a guaranteed income is not proposed as a correction for dishonesty, delinquency, and corruption. Other programs are needed to remedy these problems, although families with sufficient income to live in decency and dignity can be expected to produce less delinquency and crime. Further, there is reason to expect a guaranteed income to precipitate less dishonesty and abuse than our present welfare systems produce.

Where it is possible to build into a guaranteed income system a plan for work incentives, this may be desirable as a practical and strategic measure. Such an approach, however, may detract from the basic premise upon which a guaranteed income rests: that all families are entitled to a sufficient income to live with decency and human dignity. By their very existence they have a right to live in decency. It is generally accepted that people have a right to live. We believe that human living is not just breathing and moving. A basic weakness of our society today is that we have not established standards for decent and dignified human living. The lack of attention to those who are impoverished, hungry, and discriminated against is a problem which knowledgeable citizens with respect for human dignity must correct. It is necessary that the people know about these conditions and it is important to promote respect for human dignity.

Representative GRIFFITHS. Mr. Hayes, will you stop for just a moment? Senator Percy is going to have to leave.

Senator Percy, would you like to ask some questions?

Senator PERCY. I would hate to interrupt.

Representative GRIFFITHS. We would be pleased for you to do so. You go ahead with questions if you would like to.

Senator PERCY. I am sorry I must leave for Chicago, but I do have a few things in mind.

You were here yesterday, Mr. Hayes, during the questioning of Mr. Hicks of the Liberty Lobby and Mr. Dumpson from Fordham University. Would you care to comment from your own experience whether or not the figure of 25 to 35 million impoverished in America is approximately correct?

Mr. HAYES. I would say that is approximately correct and in general, the statistics Mr. Dumpson gave I would accept. I believe the March issue of the Social Security Bulletin brings the poverty figure to 29.7 million in the strict definition of poverty—I believe it is $3,335 for a nonfarm family of four. It raises the figure including the near-poor by another, it seems to me, 15.2 million. If you include the institutionalized and certain other categories of people who are actually poor in some cases, it is more.

Senator PERCY. The Liberty Lobby divided those people into two categories, first those who could not work because of the physical handicap or lack of skill and training and secondly, the lazy, the indolent, those who did not want to work. From your own experience with the National Conference of Catholic Charities, approximately what proportion of people would fall in the first category, and then the second, the simply lazy who just, as I said yesterday, want to ride on the back of the public, which is the impression given out by so many people that that is why there are poor people.

Mr. HAYES. I would have to venture a guess as you asked me to from my own experience. I certainly would not expect the category of the lazy to be any more than 3 or 4 percent.

Senator PERCY. So you would concur with Mr. Dumpson, then, that we are really talking about the impoverished of this country being in that condition because essentially of conditions being beyond their control for 97 percent of that category and the lazy or those who do not want to work are a very minuscule proportion, 2 or 3 percent.

Mr. HAYES. I would not expect that so-called lazy proportion to be any greater than in any other category.

Monsignor CORCORAN. Could I say something?

In my own opinion, we would be best advised to speak of those who for some reason or other are not inclined to work or might not want to. Lazy is a judgmental term, and so is indolent. Lots of reasons go into their not wanting to work, and I think we could try to find out what those reasons are.

Senator PERCY. I think that is a very good point. As I tried to point out yesterday, the poor tend to be susceptible to disease on a much greater scale. They are often malnourished as children; their period of having even a common cold runs much longer. Their death rate is much greater than middle-income people. Just as I do not feel like getting up and going to work when I am ill, many of those people are in that condition months on end. Yet it might appear to society as though they are just too lazy to go to work.

Another impression that has been given out is if we got into the condition of guaranteeing income for people, it might provide an incentive to have more children. Do you think there is any truth in the common comment that women have children in order to get more ADC money? Have you ever seen any evidence to support that statement so frequently made by people in political oratory?

Mr. HAYES. No; not at all.

Senator PERCY. Do you feel most people who are able to work, physically able to work, would want to work, and would prefer working to being on some welfare roll?

Mr. HAYES. My experience would suggest that that would be overwhelmingly true.

Senator PERCY. So that in your experience, if some more assured means of income maintenance were worked out, would you feel that we would be destroying incentive, initiative, enterprise, and in effect rewarding people as much if they did not work as if they did, providing there were safeguards?

Mr. HAYES. No; I think that social science studies show to the contrary. It would not destroy incentive.

Senator PERCY. Would you feel that a first step toward field of trying to find a better way to conduct our welfare programs more consistent with a sense of dignity, might be greater assurance of employment for everyone who can work, and doing everything we can to see that the skills and education are assured and guaranteed to anyone who does not have, and try really to open up work opportunities as the first major step? Because now we do not have assured work for everyone who wants work. We know right now we have tens of thousands of youths in this community, Washington, who want to work who cannot find work.

Mr. HAYES. Yes; I believe such a plan is preferable. We indicate that later in the paper and I believe a plan such as the one you referred to yesterday is a possibility for introduction of legislation, I presume, that from your statement sometime soon, would be the type of thing that would be very effective.

Senator PERCY. I would simply like to commend our chairman for these hearings and express my deep regret that I have been unable to attend all of them. But I assure her I will read every word of them, and study them. I think we can almost go back to a Republican statement, if I can recall it correctly, that we might use as a guide here. I think it was in a position paper used in a committee which in 1959 was set up by Dwight D. Eisenhower. I happened to be the chairman of it. We had Governors, Senators, and Congressmen on it. Mr. Gabriel Hauge, economic adviser to the President then, helped develop a phrase which I think fits in very closely to what you are talking about: that we should strive in American society to place a floor under the pit of human disaster and raise the ceiling over individual expectancy. I really think that is what we are trying to do and I think this will be very much a bipartisan effort as we work to find a better way to make our welfare programs in this country more productive for the Nation and most importantly, to the individuals themselves.

Thank you.

Representative GRIFFITHS. Thank you, Senator Percy, for being here, and thank you for your contribution.

You may return to your paper, Mr. Hayes.

Mr. HAYES. Thank you.

4. *One of the most crucial issues is the relationship of guaranteed annual income to employment*

While recognizing the deficiencies of the "work-ethic" and the necessary cautions attached to a work incentive plan, practically everyone would agree that work, broadly conceived, is beneficial for many reasons. It accounts for the production of goods and services and it provides a livelihood for families. Of great importance also is the fact that it contributes to human development by providing for the perfecting of skills, for a sense of accomplishment and for a sense of personal fulfillment. These are noneconomic, but very important values.

A guaranteed income program, therefore, must be related to employment opportunities. Even more, it might well be harmonized with a guaranteed employment program. Any consideration of guaranteed income must give serious attention to this companion guarantee.

The importance of this consideration is multiplied by the expectations of the general public. People are probably far more ready to accept the idea of guaranteed employment than they are to accept a guaranteed income apart from any consideration of work.

A dual guarantee might be the ultimate solution: guaranteed employment opportunity for those able to work and guaranteed income for those who cannot or should not be employed.

5. *Another major issue which must be resolved is the question of full participation by all members of society in the decisions affecting their lives*

There are many dynamics of social change operating today and drastic change is taking place. Within this current of social unrest and change, it would seem to be more crucial than ever to involve as many people in our society as possible in the decisions and actions for change. The motivation, the drives, the incentives, and the needs are there for the full participation of all of our citizens in these societal changes. Our next failure with the poor and the dispossessed will occur when we make the decisions for them on the burning social issues of our time. An effective plan for avoiding this error of self-righteousness is a guaranteed minimum income. Economic independence is essential before the disadvantaged will be able to participate fully and equally in the decisions of the communities and society in which they live.

There is a crises confronting the United States which stems from the demand of the powerless to control their own lives. The basic debate must not, therefore, be permitted to drift into concerns about the details of how we set up devices to provide incomes to the poor; this is primarily a technical question. The fundamental question is whether we will, or will not, concede the right of each man to participate in the decisions which determine his destiny. It would seem that a democratic society cannot escape this responsibility.

6. *Serious attention must be given to the cost of a guaranteed income system*

We are not prepared to estimate the financial outlay for the various plans which have been proposed. This will vary from plan to plan. It would be advisable to develop demonstration projects which would test the different plans and provide a basis for determining cost.

Fundamentally, the question of cost is a question of commitment and conviction. If we as a nation are committed to the elimination of poverty and opening opportunities fore decent living for all citizens, and if we are convinced that a guaranteed income system is the best way to accomplish this, then we will be willing to commit our resources to finance it.

While there must be much more study and experimentation before the solutions to poverty are found, it is primarily in the methodology where the weaknesses or strengths of the program will be reflected. We propose the following criteria as guidelines in the further development of a guaranteed minimum income:

1. It should be available as a matter of right, with need as the sole criterion of eligibility.

2. It should be sufficient to insure that recipients have a decent and dignified living.

3. It should be available to all families including those who are employed but do not receive adequate incomes.

4. It should provide for adjustments for differences and changes in the cost of living.

5. It should provide for freedom of the recipients to manage their own incomes and to participate in meeting their personal and employment needs.

6. It should be developed as part of a broader economic independence program which would also assure—

(*a*) Work for the employable, to the extent possible;

(*b*) The creation of as many jobs as possible by government and private enterprise;

(*c*) Training with marketable skills for all who can be trained and employed;

(*d*) Auxiliary services such as vocational counseling, educational programs for home budget management, et cetera, to assist in the further development of economic independence and individual initiative.

7. It should not discriminate against families because of marital status or size of family.

By way of example, some application of the criteria to some of the proposed methods of guaranteed annual income might be helpful.

One of the most publicized methods is the negative income tax. This would probably fit most of the criteria. No clear indication has been given, however, on how this would fit together with a guaranteed employment plan. This might not be sufficiently intelligible to low economic groups, and might not even reach some persons. It would demand strong supportive services to bring it to many persons who do not now submit an income tax form, and to assist many others in executing a form.

Another plan is that for children's allowances patterned after the Canadian plan. In Canada, these are not intended as to eliminate poverty but to equalize wages according to the size of the family. All families, rich and poor, receive the allowances. In addition, it is a questionable practice to predicate the income of a family on children, making the child the breadwinner, so to speak.

Some have suggested enlarging the public welfare program as the basic plan for guaranteed annual income. We have already spoken of the welfare program—it does not provide sufficient income, it is not sufficiently accepted as a right, does not provide freedom for the recipients to manage their own incomes, and does not enable recipients to manage their own lives.

Perhaps the most serious obstacle to the establishment of a comprehensive income maintenance system lies in the attitude of people. This must be given extensive consideration. Much study, explanation, and discussion will be necessary for a long time to come. We hope that these hearings will be a major contribution to this study and debate. We have the same hope for the President's Commission on Income Maintenance.