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- 1973 Reducing Inequality: Comparisons Among Alternative Anti-Poverty Programs and Proposals. Ann Arbor: University Microfilms.
- 1974 Strategies Against Poverty in America. Cambridge, Massachusetts: Schenkman, in press.

#### AN EVALUATION OF THE CASE AGAINST NATIONAL INCOME INSURANCE

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In an earlier paper I outlined a proposal for a national income insurance plan and discussed the strengths of the approach (Williamson, 1974c). Income insurance is a special case of the negative income tax or more generally of the guaranteed income. Negative income tax proposals of any kind are open to a variety of criticisms from both the left and the right. The national income insurance plan is no exception. In the present paper an attempt is made to anticipate and deal with the major arguments against the plan. Many of these arguments are equally applicable to other guaranteed income proposals. For this reason the paper is in large measure an evaluation of the major arguments against the guaranteed income approach to income maintenance.

#### THE PROPOSAL

This section is a description of the national income insurance plan as previously outlined. The plan is so named because it would provide social insurance benefits whenever individual or family income fell below a specified level.

Initially the program would provide a guaranteed income equal to 25 percent of the median family income adjusted for family size in the same way the Social Security Administration's poverty index is adjusted. All other income would be taxed at a rate of 50 percent until the breakeven point was reached. Above the breakeven point the current tax schedule would be used. Assuming that such a program were introduced in 1975 and the median income were \$12,000 for a family of four, the guaranteed minimum income would be \$3,000 and the breakeven point would be \$6,000. Those with other sources of income of less than \$6,000 would receive a net payment; many with incomes just above \$6,000 would pay less tax than under the current tax system.

There would be no employment requirement for those unable to work due to family responsibilities, poor health, or age; but other recipients would be required to obtain employment in the private sector, to accept one of the guaranteed jobs that would be created by the government, or to participate in some form of alternative service (e.g. job training, adult education, VISTA, something like the old WPA's writers' project, etc.).

The program would originally add less than \$10 billion to the federal budget. Half of this would be raised by a payroll tax similar to that presently used to finance the social security program. The rest would be financed out of general federal revenues. A similar procedure has been proposed to finance Kennedy's national health insurance plan.

Central to the national income insurance plan is the provision for increasing the magnitude of the guaranteed minimum income. The level would be uniformly incremented from the original 25 percent to 50 percent of the median income ten years after the introduction of the program. The cost would increase to approximately \$80 billion per year (Williamson, 1974c).

#### THE CASE AGAINST THE PROPOSAL

The plan would fuel the fires of inflation. Any program with a built in cost of living increase tends to exert some inflationary pressure; the procedure called for in this plan which bases increases on changes in the median income would exert even greater inflationary pressure. In the not too distant past such a criticism would have been dismissed with the reply that appropriate fiscal and monetary counter measures could be used to keep the resulting inflationary pressure within reasonable limits. But the events of recent years suggest that inflation is more difficult to deal with than had been thought only a few years ago. The evidence that inflation has become a world problem makes an analysis which focuses on the inadequacy of measures taken by any one government somewhat suspect.

In defense of the national income insurance plan we can argue that the low initial guaranteed income and the provision that the level of this guaranteed income be incremented gradually are measures designed to deal with the inflation issue. The

impact of the original program would be minimal. The increase in the level of the guaranteed minimum income over the years would be sufficiently gradual to allow time to take measures to keep inflation to a politically acceptable level. In a period of high inflation one such measure might be the suspension of the provision for incrementing the guaranteed minimum income or a temporary shift to a more gradual method.

The procedure which has been suggested for incrementing the guaranteed minimum income is only one of several possible alternatives. It establishes two basic precedents. One is that the magnitude of the guaranteed minimum income be increased in some way each year so as to take into consideration increases in incomes generally. The other is that the gap between those at the bottom of the income distribution and the median income be gradually reduced.

A less ambitious alternative which might prove politically more feasible during a period of high inflation would be to increment the guaranteed minimum income so as to keep it at some specified percentage of the median income. This would lead to a gradual improvement in the standard of living provided, but it would not reduce the gap between the guaranteed minimum income and the median income. On the contrary, the dollar gap would gradually increase over time.

A still less ambitious alternative would be to include a provision for incrementing the level of the guaranteed minimum income so as to take into consideration increases in the cost of living. This would protect recipients against a decrease in standard of living due to inflation; but it would not lead to any improvement in living standards. Since the guaranteed minimum income in the initial proposal is substantially below the poverty line, this alternative would not achieve the objective of assuring at least a minimally adequate standard of living for all Americans at some point in the not too distant future.

Another response to the inflation argument against the national income insurance plan is to note that the existence of a program which would provide a guaranteed income adjusted for increases in the median income would reduce the need for keeping inflation low. A major reason often mentioned for keeping it low is to protect those living off a low fixed income. But many of these people would do better under the national income insurance plan with a moderate level of inflation than they would without it even if inflation were kept substantially lower.

One widely held theory is that any guaranteed income plan which would provide even a minimally adequate standard of living would be so inflationary as to be politically unacceptable. We do not at present have the evidence that would be needed to conclusively prove or disprove this theory. The national income insurance plan

represents an effort to start at a level which admittedly does not provide a minimally adequate standard of living, but to gradually improve this standard in an effort to test and hopefully disprove the theory.

The plan would seriously undermine work incentives. The work incentive question can be raised with respect to any guaranteed income proposal. The potential impact is greater for proposals which do not include an employment requirement. But even when there is an employment requirement, the economic security provided is likely to reduce work incentives for at least some workers. The existence of such a program would facilitate life styles based on frequent movement into and out of the labor force. It would reduce anxiety about economic security in the future and thus reduce the incentive to put money away for retirement or disability in old age. For those already retired such a program would reduce the incentive to live frugally and seek support from relatives in the effort to avoid public dependency.

While there is some concern about the impact of a guaranteed income on the behavior of the aged and substantial concern about the impact on the behavior of the poor, it is likely that the greatest concern would be with its impact on youth, particularly the disenchanted, non-dues paying children of the middle class. This group in growing numbers is partaking of AFDC and food stamps without reluctance. A common pattern is to obtain temporary employment and after saving some money to quit work until these funds are exhausted. The security of knowing that there would be a government job waiting would undoubtedly increase the number of persons adopting this life style. Any visible trend in this direction would prove very unpopular with middle America. Even a modest movement in this direction which was given extensive media coverage could lead to intense resentments among those who are committed to work and the work ethic. A marked cleavage would develop between those who chose public dependency and those who chose self-sufficiency. This in turn would lead to the demand that the program be rescinded or severely cut back.

Another aspect of the incentives debate is the potential impact on the work effort of those in the middle and upper income categories who would be bearing a substantial share of the program's cost. Persons in the higher income brackets would be subjected to an increase in their tax burden. This would reduce the economic incentives for hard work. From the perspective of the functional theory of stratification (Davis and Moore, 1945), the argument would be made that a reduction in economic incentives could result in a shortage of qualified persons willing to fill these positions of high responsibility in our society. However, available evidence from studies of the effects of high income tax rates on those in the upper income brackets suggests that any reduction in work effort

would be minimal (Sanders,1951; Break,1957; Barlow, et al.,1966; Green,1967: 113-137).

The national income insurance plan was drawn up with the work incentive issue very much in mind. Initially the program would call for a very modest guaranteed minimum income. It would be a rare individual who would find living on the guaranteed income provided a viable alternative to a job that paid a decent wage. Also the plan includes an employment requirement. As has been mentioned, this does not eliminate possible disincentive effects, but it serves to discourage those who would prefer not to work at all. The program would be financed in part by a payroll tax similar to the tax used to finance the social security program; this would reduce the extent to which it was viewed as a welfare program. As the guaranteed income was increased, the potential for an impact on work incentives would also increase. But the provision that the increase be gradual would allow time to take steps to deal with any serious disincentive effects that might develop.

While there is no conclusive evidence that a program which provided a minimally adequate standard of living would not also involve substantial work disincentives, there is evidence which suggests that the work incentive problem would not be as severe as some would have us believe. Macarov(1970:220-226) has done an extensive review of the literature on work incentives and concludes that the poor will continue to work as long as there is a reasonable increase in disposable income for this work effort. There have been many studies of work motivation among manual workers and money is repeatedly found to be a very important motivator (e.g. Kornhauser, 1965; Dubin,1958). This data has been used to argue that a guaranteed income would reduce work incentives. But this same evidence is also consistent with the conclusion that there would be very little disincentive. All we have to assume is that the worker would get money over and above the guaranteed income from his employment. This would be the case with the national income insurance plan.

The strongest evidence that presently exists to argue against the work disincentive hypothesis comes from the recently completed New Jersey-Pennsylvania negative income tax experiment (Rees,1974). This study involved providing a negative income tax program for several hundred low income families over a period of three years. They found some reduction in work effort, but the reduction was small to the point of being quite insignificant, particularly among men. The impact was more substantial among women in families with a husband present. Caution is in order with respect to generalization from such a short term experiment, but it does provide the most compelling evidence presently available on the incentive issue.

All negative income tax proposals include a relatively high marginal tax rate on earned income below the breakeven point.

Proposed tax rates range from 33 percent (McGovern,1972) to 90 percent (Theobald,1963). The 50 percent tax rate associated with the national income insurance is not unusually high. However, the high marginal tax rate is certainly another aspect of the incentives debate. The most relevant data on this issue again comes from the New Jersey-Pennsylvania negative income tax experiment. That study finds that tax rates of up to 50 percent do not substantially reduce work effort (Rees,1974). This is consistent with previous studies of the effect of high marginal tax rates on work incentives for those in high income groups (Sanders,1951; Break,1957; Barlow, et al.,1966; Green,1967).

The plan does not assure movement from dependency to self-sufficiency. The employment provision is an effort to encourage self-sufficiency, but the provision calling for a government supported guaranteed job leaves open the possibility that many workers will develop poor work habits knowing that if they are fired from a job in the private sector, there will always be a government job available. Unless these government jobs were administered rather strictly, it is possible workers would develop work habits that were not at all suitable for jobs in the private sector. These poor work habits might well be passed on from one generation to the next. Were evidence to emerge that the program was fostering dependency, particularly intergenerational dependency, the program would become highly vulnerable to curtailment.

To minimize this source of vulnerability efforts would have to be taken to encourage long run self-sufficiency. One alternative would be through forms of alternative service (it will be recalled that this is an alternative to taking a guaranteed job or private sector job) which provide the job training and education needed for attractive jobs in the private sector. Another alternative is to create guaranteed jobs which provide experience and skills which are in demand in the private sector. While such measures would be appropriate, it is important to bear in mind that national income insurance is not being proposed as a replacement for the manpower and educational programs which are presently used to prepare people for self-sufficiency. Such programs would be retained and continue to meet a very definite need.

The plan would prove disruptive to the economy. In addition to the problems of inflation and reduced work incentives, both of which are potentially disruptive factors, it is likely that many who are presently in the low-wage "dirty-work" jobs would quit. Some of these workers would undoubtedly qualify for exemption from the employment requirement due to disability, age, or family responsibilities. Others would find the security and working conditions of a government guaranteed job more attractive.

Many industries depend on paying low wages in order to remain competitive, particularly with foreign producers. The existence of a viable alternative for the existing pool of low-wage workers would lead to the collapse of many producers dependent on this labor source. This would be disruptive in many ways. It would contribute to the unemployment problem and put pressure on the government to increase the number of government supported jobs available. Many of the services and products presently supplied by low-wage industries would increase in cost or be replaced by higher priced more capital intensive alternatives. This would contribute to inflation.

The provision that the national income insurance plan start at a modest level is an attempt to deal with this problem. The gradual rate at which the guaranteed minimum income would be increased allows time for measures to deal with any disruption that might occur.

Any provision for automatic yearly increments in the guaranteed minimum income is politically unfeasible. It is no accident that there is no provision for automatic increments in social security benefits. Congress wants the power to decide when increments are made. Such increments are often used by incumbents as vote getters in election years. Congress also wants to take into consideration the general state of the economy. There would be pressure to limit increases in the guaranteed income if there were evidence that the program was substantially contributing to inflation, unemployment, or the collapse of certain industries.

The provision in the national income insurance plan for automatic increases in the guaranteed minimum income might well make it politically unfeasible. But if this provision were eliminated in the effort to increase political support for the plan, its potential long run impact on the distribution of income and political influence would be drastically curtailed. The dependence of the plan on there being a provision for automatic yearly increments in the level of the guaranteed minimum income and the likely strength of the opposition to such a provision is probably the greatest weakness of the plan.

A possible fall back compromise that would not entirely emasculate the program would be to replace the provision for an automatic yearly increment with a provision calling for increments to be voted on yearly by Congress with the goal of increasing the guaranteed minimum income from 25 to 50 percent of the median income within approximately 10 years. During periods of severe inflation the decision might well be to only make adjustments for increases in the median income; thus the guaranteed minimum income might stay at 30 percent for two or three years and the goal of a guaranteed minimum income equal to 50 percent of the median income might take 15 rather than 10 years to achieve.



The plan does not make provision for the needs of special segments of the population. For example, a person who is blind and poor may require a higher guaranteed minimum income than a poor person who is not blind, all other things being equal. A case can also be made for variation in the guaranteed income due an individual based on age (Rainwater, 1973).

A major assumption underlying all guaranteed income proposals is that a flat benefit level should be adequate for most of those who are poor. But those who advocate such programs also admit that there would be special cases, particularly related to disability and medical problems, when a person would require more than the standard benefits. To this end some form of residual welfare program would have to be retained.

While it is true that the proposed national income insurance plan does not take into consideration variation in special needs, the program would go further toward meeting the needs of the entire low income population than does the existing public welfare system with its arbitrary variations in payment levels between states and categories of the welfare population.

The plan would encourage high fertility among those with the lowest incomes. Since benefits would be a function of family size, there would be an incentive for the poorest families to have many children. At a minimum there would be a reduction in the incentive to take measures to limit family size. This might lead to a marked increase in the relative proportion of the total population living in poor families or to the growth of a vast "welfare class".

The fertility argument against guaranteed income plans is based in part on the belief that many women presently on welfare are having illegitimate children in the effort to increase their welfare benefits. Feagin(1972) has carefully reviewed the available evidence and rejects this conclusion. A related misconception is that welfare families are large, whereas in actuality the average AFDC family includes only 2.6 children (Williamson,1974a).

Another source of indirect evidence on the fertility issue is the data as to the effect of family allowances on fertility. A family allowance is a payment to a family based on the number of children in the family; the payment ceases when the child reaches adult status. The United States is one of the few Western nations without a family allowance program. Available evidence suggest that family allowances have little if any impact on fertility even when the conscious effort is made to use the allowance as a fertility incentive (Schorr,1966:65-84; Vadakin,1968:95-101). In most countries the family allowance benefits are quite modest and they are only available as long as there are children in the family. These factors limit the utility of this data source for

making estimates as to the possible fertility impact of a more substantial guaranteed income program.

Our understanding of shifts in fertility trends is far from complete. From past experience it is clear that economic factors can be important. It is entirely possible that the introduction of a guaranteed income plan, particularly a generous plan, could spark a reversal of the recent downtrend in fertility among the poor. But the indirect evidence that is presently available suggests that any impact the national income insurance plan might have on fertility would be insignificant.

Initially the plan would not provide even a minimally adequate standard of living. If we use the poverty line as a measure of adequacy, this criticism is quite valid. One reply is that the plan would increase the standard of living for many while decreasing it for relatively few. If this plan were introduced, it would replace several existing welfare programs including AFDC. In some states families would suffer a reduction in living standard unless a state program were introduced to supplement the federal program, but most of those who would be forced to live on \$3,000 per year are living on less than that today. Another reply is that while several negative income tax plans have been proposed which would assure a more adequate standard of living, their cost generally makes them politically unfeasible. The national income insurance plan would not provide an adequate living standard initially, but within ten years it would provide a standard of living which would be substantially more adequate than that which would be provided by any proposal which is politically feasible today.

The plan would force the poor to do society's dirty-work jobs at very low wages. Gans (1972) argues that one of the functions of poverty for the nonpoor is to assure that society's dirty work gets done cheaply. Any guaranteed income program with an employment requirement has the potential for being used to force the poor to do unpleasant menial work for low wages. The alternative service option in the national income insurance plan is an effort to deal with this problem. If a variety of alternative service options are available to the recipient, the choice made is less likely to be perceived as forced labor. The availability of these options also serves as an incentive to those creating the guaranteed jobs, an employment option which will be competing with the alternative service option, to make these jobs attractive. The guaranteed income component of the plan will make it possible for recipients to move from one region of the country to another; this will further broaden the range of available job options.

Considerable stigma would come to be associated with participation in the program. The stigma would be greatest for those who chose to participate in the guaranteed job program or one of the alternative service options which was restricted to national income insurance recipients. The stigma would be greater

for these categories of recipients because their recipient status would be the most visible.

It is not possible to accurately predict how stigmatized the program would come to be. But public opinion data do exist which suggest that both guaranteed income and guaranteed job programs would be considerably less stigmatized than is the AFDC program (Williamson, 1974b). The following aspects of the national income insurance program should contribute to reducing the stigma associated with being a recipient: (1) the recipient would be able to hold a job in the private sector and receive an income supplement check in the mail in the same way pension and social security payments are received; (2) the program would be financed in part by a payroll tax thus contributing to a definition of the benefits as having been earned; (3) there would be no corps of caseworkers making unannounced visits associated with the program.

The payroll tax to be used in financing the program is highly regressive. Half of the funds for the program would be generated using a tax scheme modelled on the present social security tax. But as Pechman (1969) points out the social security tax is highly regressive. In 1968 the burden ranged from 7.6 percent for those in the under \$2,000 per year income category down to 1 percent for those in the \$50,000 and over category (Herriot and Miller, 1971). Since 1968 the payroll tax has substantially increased making the burden even less equitably distributed.

The major reason for proposing a tax comparable to the present social security tax to pay for part of the program is that it would contribute to the definition of the program as "income insurance" rather than as "welfare." This distinction is not minor. The American public is much more receptive to programs such as social security and national health insurance, which are viewed as benefitting all segments of the population, than to programs designed for or restricted to the poor. The poor stand to gain much more from programs that are designed for a wide spectrum of the population than from programs that are for the welfare population only.

The inequity of the proposed tax scheme could be substantially reduced if all sources of income (not just earned income) and if total income (not just the first \$12,600 per year) were subject to the tax. The inequity could also be reduced by a gradual increase in the proportion of the burden financed out of general federal revenues. The provision that 50 percent of the burden be paid out of general revenues at the outset serves to facilitate such a shift.

The plan would do very little to alter the inequality in the distribution of wealth in America. Most of those who would favor a more equitable distribution of income feel that the extent of the inequality in the distribution of wealth is an equally if not more

important issue. The income insurance plan would have a substantial impact on the distribution of income, but very little impact on the distribution of wealth. Other strategies including higher inheritance taxes and the elimination of various loopholes in the present inheritance tax system would be more effective for reducing the extent of the inequality in the distribution of wealth. A possible modification of the proposal to deal with this criticism would be to include as taxable income an imputed income equal to 5 (or 10) percent of all assets above a specified level, such as \$50,000.

#### CONCLUSION

In this paper an effort has been made to answer the major arguments against the national income insurance plan. Where evidence exists that can be used to evaluate the validity of these arguments it has been cited. Unfortunately this evidence is often quite indirect. As an advocate of income insurance and of the guaranteed income approach to income maintenance more generally, I would like to be able to conclude that all the major arguments have been considered, have been found wanting, and can now be dismissed. But such a conclusion is not warranted on the basis of existing evidence. Many unknowns remain to be worked out after a guaranteed income program is introduced. If such a program is introduced on a modest scale and gradually increased in scope, the opportunity to effectively deal with the problems that arise will be maximized.

To those who favor the guaranteed income approach but are unwilling to support the introduction of a program which does not assure a substantial guaranteed income at the outset (say a guaranteed income of at least 50 percent of the median income), I have two notes of caution: (1) The price of ideological purity could be an indefinite postponement of the introduction of a guaranteed income. It is all too easy for those who are not poor to urge those who are to wait until a more ambitious plan is politically feasible. (2) If an ambitious guaranteed income program were introduced at the outset, the risk of serious social and economic disruption would be high. The problems created might be sufficiently severe to force a rescinding of the program and to result in discrediting of the guaranteed income approach for years to come.

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