

Lessons for Future Public Policy and Research

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Social experimentation with random assignment is unique to the United States as an approach to public policy research. As far as I can determine, no other Western countries have conducted social experiments with a randomly assigned group. In the United States, we have now had sufficient experience with this form of policy research that it is appropriate to take a hard look at its conduct and its usefulness in the governmental process.

This paper examines the income maintenance experiments and their implications for social policy and for future research. Each topic is introduced by a section on their lessons for the history of applied social science. To organize the material I have adopted the approach recommended by Richard E. Neustadt and Ernest R. May.¹ They urge policy analysts to draw on the historical record to answer three questions: What is known? What is unclear? What is presumed?

Before proceeding, it is necessary to add a comment about the point of view I bring to this analysis. As a former government official involved in the development of Nixon's Family Assistance Plan, I have come to the conclusion that the Plan was a mistake. I believe the mistakes made in developing and advocating the Family Assistance Plan were a result of its heavy dependence on the idea of the negative income tax, which was riding high in the public policy research and analysis community at the time Nixon's plan originated.

As regards the second main topic considered in this paper — the research implications of the negative income tax experiments — I have a

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bias in favor of large, systematic demonstration research projects to test possible new policies, conducted on a basis that involves the random assignment of participants to treatment and control groups. However, I have considerable reservations about the negative income tax experiments. I believe demonstrations of new *service-type* policies are more likely to produce useful results for government policymakers than demonstrations to test universal *income-transfer* initiatives.

Lessons and Implications for Social Policy

When a new policy is tested, ideally we would like to know about its macroeconomic effects and its microeconomic effects. But economic effects are not the whole story. A public policy change like the negative income tax would be expected to have social and psychological effects as well. For recipients, it could increase or diminish self-esteem, work or school motivation, health, and happiness. Likewise, it could affect the happiness — call it a feeling of altruism or a sense of security — of a community, a neighborhood, or the society as a whole. In the past, these social and psychological dimensions of the effects of policy change often have been left out in the conceptualization and planning of social experiments. In addition, we are likely to be interested in the political and institutional effects of a potential new policy being tested in a social experiment. How would a negative income tax affect the managerial capacity, finances, and relative roles of different levels of government and different types of public and private agencies and organizations?

The negative income tax experiments were launched in the late sixties at a time when economics was riding high as the lead discipline for applied social science in government in the United States. As a result, it is not surprising that economic effects, specifically labor market effects, were highlighted in the design and execution of the experiments.² This emphasis is reflected in the discussion which follows, using the Neustadt-May approach in examining the history of what is known, unclear, and presumed from the experiments.

What Is Known?

When the debate about the Family Assistance Plan was at its peak in the U.S. Senate in 1970, officials in the Nixon administration, in a move that is still debated, issued a "preliminary" report on the results of the New Jersey negative income tax experiments. This report described the effects of the plan tested in New Jersey on work incentives for adults in two-parent low-income families. This issue of the work-incentive effect of subsidies to working-age, able-bodied adults has deep roots in social

policy in the United States. Observing the British Poor Laws in 1766, Benjamin Franklin summed up his reaction: "In short, you offered a premium for the encouragement of idleness, and you should not now wonder that it has had its effect in the increase of poverty."³

The conclusion of the 1970 preliminary report on the results of the New Jersey experiments was that Benjamin Franklin was wrong. There was no work-disincentive effect in the early New Jersey returns. Senator John Williams, Republican of Delaware, at this juncture called on the General Accounting Office to "audit" these results. Its finding was that this report by the Office of Economic Opportunity was "premature," which clearly it was.⁴ Later findings showed that there was a labor-supply cost to the experiments. This work-disincentive effect was found to be greatest for women heading single-parent welfare families in the Seattle-Denver experiments, although it also showed up for men in two-parent families in both the New Jersey and Seattle-Denver experiments. Gary Burtless and Robert H. Haveman concluded: "The Seattle-Denver experiment has played a useful role in overturning the notion, especially popular among economists and idealistic reformers, that lower marginal tax rates are automatically associated with a greater stimulus to work."⁵

The Seattle-Denver experiments also showed that the negative income tax plan they encompassed tended to have an adverse effect on family formation and to encourage family breakup.⁶ These findings, along with the labor market findings and their cost implications discussed below, weakened the case for this type of welfare reform, especially during the Carter administration.

What Is Unclear?

Even if we know about the labor market effects of a negative income tax, this does not necessarily mean that we can generalize about these effects as they apply to a new and widely publicized national scheme. The reason for this is that we do not know how the adoption of a "guaranteed-income" program would be interpreted by the eligible population. This is the issue of external validity. We are interested in this connection in how such a universal, broad-gauged policy change would affect the tastes of society as a whole. It is in these terms that the Coyle-Wildavsky paper for this conference discusses the cultural dimension of policy change. Would a negative income tax be seen as governmental support for added leisure?⁷ Such an outcome could accentuate the labor disincentive effect, which as just noted was found to have occurred in the New Jersey and Seattle-Denver experiments.

At an April 1974 Brookings conference on the New Jersey experiments, Peter H. Rossi presented a paper on the non-labor-force responses to the experiments.⁸ Rossi said it was paradoxical that,

despite the heavy reliance of sociologists on the collection of primary data and the extensive use by psychologists of experimental designs, it was economists who "played the major role in designing and fielding the income maintenance experiment."⁹ The result, said Rossi, is that we know very little from the experiments about the noneconomic effects of a negative income tax on individuals, although these effects were often presumed by the sponsors of the research.

On a general basis, Thomas Pettigrew has expressed concern about the neglect of the psychological dimension in poverty research.¹⁰ He has commented, for example, on the psychological concept of "learned helplessness as an unintended, but important, possible consequence of transfer payments." A similar point is reflected in the current social policy criticism of conservatives like Charles Murray, who writes about how the dependency effects of welfare programs have undermined the self-image of recipients.¹¹

What Is Presumed?

The most important presumption (for purposes of this paper) made by the sponsors of the experiments is reflected in the point made by Rossi, that the sponsors assumed that if the negative income tax "worked" in the labor market, the case for it on other grounds was a strong one. In doing this, the sponsors of the experiments failed to take adequate account of fundamental political and strategic issues related to the idea of a negative income tax. I discuss these issues in the section that follows.

Implications for Social Policy

The main effect of the income maintenance experiments was to educate government participants as well as the media and interested citizens on the policy issues raised by the idea of a negative income tax. Controversies arose in the Nixon period about the work-incentive effects of the experiments, and in the Carter period about their cost and their effect on family breakup. The educational process that ensued was expensive and sowed seeds of doubt about an idea that originally had been seen as a bold solution for many of the nation's social ills.

The economic conundrum of the negative income tax is demonstrated if we set the income guarantee at an "adequate" or "near-adequate" level for families and then want to have a marginal reduction rate in the 50 to 60 percent range. The added cost of such a plan, if its coverage is comprehensive and its rate structure a smooth curve (that is, un-notched), is bound to be very large — on the order of \$20 billion to \$25 billion. Unless the society had been ready to devote

such large additional amounts of money to a redistributive scheme for the working-age, able-bodied poor, the negative income tax approach was not in 1969 (and is not today) a feasible national policy option.

Presidents Nixon and Carter both gave evidence of understanding this issue, at least intuitively. From the outset, Nixon stressed that the Family Assistance Plan was not a guaranteed income. The work requirement was to be serious and enforced. His plan also included a substantial amount of money for public service jobs for eligible family heads for whom suitable jobs were not available elsewhere. President Carter went even further in his welfare reform scheme, which like Nixon's embodied negative income tax features. He advocated a guaranteed (or close to guaranteed) job for eligible heads of welfare families for whom regular employment was not available.

The essence of the Nixon position, the Carter position, and even more so the Reagan position, is: *Money alone is not the answer*. The negative income tax approach, grounded in neoclassical economics, was never a comfortable one for most politicians.

One wonders in this context why the experiments were undertaken. Were they a delaying tactic supported by political officials who resisted this approach to welfare reform? Or were they an effort on the part of proponents of a negative income tax to put their idea on the agenda and prove that it would work? I think it was the latter. If I am right, then the issues are: Who should set the agenda for policy research? And, how should this be done? Experiments are expensive both in budgetary terms and in terms of their opportunity cost for the social science policy research community. *I believe social experiments should be restricted to situations in which three conditions apply. Politicians need to be: (1) genuinely interested in dealing with an issue; (2) uncertain about how to do so; and (3) willing to consider the approach that is the subject of experimentation.* In my view, the negative income tax experiments did not satisfy these conditions. There are ways, as discussed below, in which these conditions can be satisfied by social experiments in the welfare policy field.

To summarize, three strands of opinion have dominated the welfare reform debates over the past 20 years. One is the income strategy favored by the policy analyst and a few liberal politicians.¹² A second strand in the welfare reform debate is the block grant or devolutionary position favored by conservatives, with Ronald Reagan in the forefront both as a governor of California and as President. The third position, the employment approach to welfare reform, has both liberal and conservative adherents. A jobs component was featured in both the Nixon and Carter welfare reform plans. The employment approach is also central to the so-called "workfare" component of Reagan's approach to welfare reform.

As the negative income tax or income strategy lost its lustre, new departures on the employment front have increasingly dominated policy debates. Under Reagan, employment approaches to welfare reform are now the subject of new social experiments in many states. We need to step back and look at the background of Reagan's position in order to consider these new work/welfare experiments.

Since the early seventies, the Reagan approach to welfare reform has specifically rejected the negative income tax concept of setting the marginal reduction rate for welfare benefits at a level that will stimulate work effort. In 1981 Reagan was successful in reducing the effect of the \$30 plus one-third deduction for aid to families with dependent children (AFDC), first enacted in 1967.¹³ In the Omnibus Budget Reconciliation Act of 1981, Reagan also tried to require states to assign all eligible AFDC family heads (employable adult recipients with children over six years of age) to "workfare" jobs, provided child-care was available. Although Congress would not go along with a compulsory and universal "workfare" requirement, provisions were included in the 1981 budget act allowing the states to test the work-for-your-welfare approach as well as other employment approaches to reducing welfare dependency. Over two-thirds of the states are now taking advantage of this new authority under the heading of "workfare." This term has come to have a broader and more liberal meaning in the 1980s, applying not just to the work-for-your-welfare idea, but also to new approaches that require employable heads of welfare families to participate in job placement, training, and educational services, as well as community employment programs.

The Manpower Demonstration Research Corporation, based in New York City, is conducting eight state-based demonstration studies with random assignment on variations of the "workfare" approach. Altogether, more than 35,000 people have been assigned either to a control group or to new programs for job counseling, job preparation, and community work experience. The results of these demonstrations so far have been promising, although the earnings and work increases achieved are not all that large and there is variation among the states in these terms.¹⁴ In effect, the states are serving as testing grounds for the employment approach to welfare reform, on a basis that I believe satisfies the three conditions described above and that involves a delicate political balancing act by liberals and conservatives. The question raised by these state workfare initiatives is whether a skillful blend of new employment-oriented program features and procedures can avoid the dilemma of welfare reform described by Henry Aaron in 1984. Looking back at the work requirement of the welfare reform debates of the seventies, he wrote:

The acknowledgement of the need for a work requirement created an insoluble dilemma, however. With a sufficiently coercive administrative system, potential welfare recipients could be required to accept existing low-quality, low-wage jobs in the private sector. If enough private sector jobs did not exist, public sector positions could be created at low cost. If a work requirement discouraged enough people from applying for welfare, costs might even be reduced. But the coercion that would be necessary to make such a requirement work violated notions of fairness and rights. Alternatively, the public sector could create jobs with sufficiently attractive working conditions and wages to reduce greatly the need for coercion. But the size of the program would be unprecedented, and its cost would be prohibitive, particularly since many workers in unattractive private sector jobs would find it expedient to switch to superior public sector jobs. Trapped on this political Moebius strip, welfare reform went nowhere.¹⁵

Although all the results are not in yet, the work/welfare experiments show promise of offering a way out of the trap described by Aaron on a basis that the public and politicians would be likely to favor.

Lessons and Implications for Policy Research

What Is Known?

Bette and Michael Mahoney described the New Jersey negative income tax experiments as "an experiment in experimentation."¹⁶ To the credit of the researchers involved, we learned from those experiments that it is possible in the United States to conduct large-scale, rigorous, honest demonstration research projects with the random assignment of participants to treatment and control groups. We also learned that such research is expensive and that it takes a long time to conduct. The New Jersey experiment was first proposed by the Office of Economic Opportunity in 1967. It was conducted from 1968 to 1972. Reports were issued late in 1973 and in 1974, by which time Nixon's Family Assistance Plan had already been abandoned. The Seattle-Denver experiments were started in 1970 and involved over three times as many participants as the New Jersey experiments. They took over a decade to complete.

Both experiments can be said to have worked in research terms. This is a real achievement when one considers the hurdles that must be cleared in mounting and conducting social experiments in complex real-world settings: selection bias, contamination, obtaining informed consent, establishing good working relations with program operators, collecting full and accurate data, locating respondents (especially controls), and avoiding sample attrition are examples.

What Is Unclear?

Despite the fact that the experiments worked from a technical point of view, it is not clear that they achieved their purpose as an input to government policymaking. Actually, this question has two parts: (1) Did politicians (broadly defined to include elected and appointed officials and the representatives of major organizations) use the results of this demonstration research? and (2) Did the results of the research achieve the aim of the sponsors, which was to advance the idea of a negative income tax?

One interpretation is that the results of the experiments were used, but not in the way the sponsors of the research intended. I believe that the very fact that the experiments were being planned and conducted had an educational effect in the early Nixon years and on balance advanced the concept of a negative income tax (although mistakenly). However, later on in the Carter period the results of the experiments tended to undermine the negative income tax idea. These negative political results of the experiments — that is, negative for a negative income tax — may have destroyed the chances of enacting comprehensive welfare reform with a welfare reduction rate set at a level that would not undermine the work incentives of recipients.

What Was Presumed?

As already mentioned, the historical record suggests that the sponsors of the experiments saw them as a way to dispel the belief that a negative income tax "would bring about a large increase in idleness among those who would otherwise have worked."¹⁷ Heather Ross, working first at the Council of Economic Advisers and later at Health, Education, and Welfare and at Brookings,¹⁸ developed the original plan for the demonstrations. However, even in this period, there was considerable uneasiness about these experiments. When the time came to announce the start of the experiments, officials (particularly Sargent Shriver as head of the Office of Economic Opportunity) had second thoughts. Shriver decided to proceed, but to do so on a low-key basis.¹⁹ The initial contract for the New Jersey experiment was financed using previously appropriated research funds, and its announcement was withheld until after Congress had recessed for Labor Day in 1967.

In my view, it is perfectly appropriate for the sponsors of social science research and for the lead researchers to believe in the programs they are testing. This is actually easier if their research involves random assignment, which has the effect of insulating demonstration researchers against manipulation. Random assignment keeps us honest, and in

this way reduces the problem of bias toward the tested plan on the part of both research sponsors and researchers. The problem was not that the negative income tax experiments, as defined in a limited way, were poorly done, although there were important difficulties along the way. The problem lies in an often neglected area for social policy writing, involving the connection between the research process and the political process. The final section of this paper addresses the implications of the negative income tax experiments for public policy research.

Implications for Policy Research

The fact that the findings of the income maintenance experiments undercut rather than supported the case for a negative income tax is not a bad outcome. While it is no doubt of little comfort to the originators of these experiments, this outcome speaks well for the integrity of large-scale social experiments. Nevertheless, I believe that on balance these particular experiments were not well advised. The main reason for this conclusion involves the conundrum of the negative income tax. The cost of covering millions of additional people under an income maintenance scheme presented a policy choice that simply was not in the cards in the latter part of the 1960s, even if the labor-supply analysis from the experiments had revealed no adverse or even a positive work-incentive effect.

There was also the related psychological dimension or stigma of adding large numbers of new people to the welfare rolls; this subject was not addressed in the design and conduct of the experiments. Taking into account their underlying political values and aims, I believe the sponsors of the negative income tax experiments allowed their research agenda to get ahead of their political agenda. Unless large amounts of additional money could have been obtained for a new and expanded welfare reform system, we were — and still are — better served by a multi-track welfare system. One track — AFDC — in many states has a near-“adequate” benefit and a high welfare reduction rate to serve non-working family heads. A second track that particularly aids the working poor is the food stamp program, which in essence is a mini negative income tax that has a relatively low reduction rate and is now almost fully fungible. Various supplements (school lunches, Medicaid, housing subsidies) augment this assistance in ways that expand the political constituency for aiding the nation’s most controversial dependent population.

In my view, such a multi-track system of different strokes for different folks is intellectually preferable to a negative income tax, absent the willingness on the part of the society to make a major new resource commitment (in the range of \$20 billion to \$25 billion) to income

redistribution to the poor. Farmers, grocers, doctors, hospitals, builders, realtors, and educators (for school lunches, compensatory education, and college scholarships, for example) all have a stake in helping the poor under current conditions — or at least they perceive that they do.

In this context, one function of the negative income tax experiments was to teach these lessons. Unfortunately, however, this is not a cost-effective teaching strategy. I conclude that the experiments were unwise, but that the idea of social experiments with random assignment which they introduced is a good one. In particular, I believe one of the main implications of the negative income tax experiments for policy research is that experiments of more selective service-type policy initiatives are to be preferred over demonstrations of universal income-transfer schemes (for example, cash, health insurance, housing). The problems with testing universal income-transfer schemes are twofold: (1) the underlying value issues are bigger and more difficult to deal with than in the case of tests of variants of social service programs; and (2) the effect of a new policy on behavior is more likely to be pervasive and important in the case of a universal and highly visible new program like a negative income tax than in the case of service-type programs. Subsequent experiments in the field of social policy, notably those conducted by the Manpower Demonstration Research Corporation as described in the paper for this conference by Barbara Blum, have benefited greatly from the earlier experience of the negative income tax experiments.

Another critical research implication of the experiments, brought out in papers and discussions by Lee Rainwater and others at this conference, is that once we decide to embark on a social experiment we should *seek to learn more* from such endeavors than we did in this case. The dominance of economists in the negative income tax experiment had important consequences. In leaving out sociologists, psychologists, and political scientists as major players, the sponsors of the experiments, in effect, left out variables from the research equation that are important both to politicians and to society as a whole.

In sum, the fact that the negative income tax experiments worked is important for the future, despite my conclusion that the subject for experimentation was in this case not well advised. The planning of demonstration research involves both art and science. The negative income tax experiments, as the first such effort of this type, led the way in developing both the capacity and the sensitivity necessary to the more effective use of social experimentation as an input to the governmental process.

¹Richard E. Neustadt and Ernest R. May, *Thinking in Time: The Uses of History for Decision Makers* (New York: The Free Press, 1986).

²Vincent J. Burke and Vee Burke, *Nixon's Good Deed, Welfare Reform* (New York: Columbia University Press, 1974). See especially pp. 14-24.

³As quoted in Gertrude Himmelfarb, *The Idea of Poverty* (London, Boston: Faber and Faber, 1984), p. 5.

⁴Daniel P. Moynihan, *The Politics of a Guaranteed Income: The Nixon Administration and the Family Assistance Plan* (New York: Random House, 1973) pp. 509-512.

⁵Gary Burtless and Robert H. Haveman, "Policy Lessons from Three Labor Market Experiments," in R. Thayne Robson, ed., *Employment and Training R & D, Lessons Learned and Future Directions* (Kalamazoo, Mich.: W.E. Upjohn Institute for Employment Research, 1984) p. 111. See also Burtless's paper for this conference.

⁶The paper by Glen G. Cain in this volume suggests that these effects may not be as strong as was first suggested.

⁷"Comment" by Richard P. Nathan, in Joseph A. Pechman and P. Michael Timpane, eds., *Work Incentives and Income Guarantees: The New Jersey Negative Income Tax Experiment* (Washington: The Brookings Institution, 1975), p. 199.

⁸Peter H. Rossi, "A Critical Review of the Analysis of Nonlabor Force Responses," in Pechman and Timpane, eds., *Work Incentives and Income Guarantees*, pp. 157-182.

⁹*Ibid.*, p. 161.

¹⁰Thomas F. Pettigrew, "Social Psychology's Potential Contributions to an Understanding of Poverty," in Vincent T. Covello, ed., *Poverty and Public Policy: An Evaluation of Social Science Research* (Boston, Mass.: G.K. Hall, 1980).

¹¹Charles Murray, *Losing Ground: American Social Policy, 1950-1980* (New York: Basic Books, 1984).

¹²In the latter part of the seventies, some conservative politicians, notably Caspar Weinberger following Milton Friedman, advocated the negative income tax approach, basically as a way to consolidate and control welfare spending.

¹³Two years later, Congress diluted this Reagan victory by continuing the \$30 deduction, but not the one-third deduction, beyond four months.

¹⁴Judith M. Gueron, *Work Initiatives for Welfare Recipients* (New York: Manpower Demonstration Research Corporation, March 1986).

¹⁵Henry J. Aaron, "Six Welfare Questions Still Searching for Answers," *The Brookings Review*, Fall 1984, p. 14.

¹⁶Bette S. Mahoney and W. Michael Mahoney, "Policy Implications: A Skeptical View," in Pechman and Timpane, eds., *Work Incentives and Income Guarantees*, p. 197.

¹⁷*Ibid.*

¹⁸Robert A. Levine, "How and Why the Experiments Came About," in Pechman and Timpane, p. 17.

¹⁹*Ibid.*