

## ON LIMITING THE DOMAIN OF INEQUALITY: THE LEGACY OF JAMES TOBIN

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James Tobin (1918-2002) is best known as an outstanding “Old Keynesian” economist whose contributions were recognized by the 1981 Bank of Sweden Prize in Memory of Alfred Nobel. His keen devotion to the reduction of poverty, inequality, and discrimination is less well known. This commitment extended beyond academic research: at the Tobin memorial at Yale in April 2002, the political scientist Robert Dahl recalled how he and Tobin had spent the “Freedom Summer” of 1964 in Mississippi in the hope that the presence of the two Yale professors would afford some protection to the student volunteers in the civil rights movement, after three volunteers had been murdered by segregationist extremists. Tobin was acutely aware of living in the country’s richest state and in one of its ten poorest cities.<sup>1</sup>

Tobin recalled that “When a distinguished colleague in political science asked me about ten years ago why economists did not talk about the distribution of income any more, I followed my *pro forma* denial of his factual premise by replying that the potential gains to the poor from full employment and growth were much larger, and much less socially and politically divisive, than those from redistribution. One reason that distribution has returned to the forefront of professional and public attention is that great progress was made in the postwar period, and especially in the 1960’s, toward solving the problems of full employment and growth” [1970, 263]. The first two sections of “On Improving the Economic Status of the Negro” [Tobin 1965], following the introduction, were titled “The Importance of a Tight Labor Market” and “Why Don’t We Have a Tight Labor Market?” When oil price shocks raised the U.S. inflation rate in the 1970s, Tobin urged a tax-based incomes policy to reduce inflation, rather than a recession induced by tight monetary policy, because the hardship of recession would fall most heavily on low-skilled workers [forward to Colander, 1986].

Beyond working for Keynesian macroeconomic policies that would diminish poverty by encouraging economic growth and low unemployment, Tobin presented an ambitious program for social policy. In “It Can be Done! Conquering Poverty in the U.S. by 1976” [1967], Tobin held that R. Sargent Shriver’s goal of eliminating poverty by the Bicentennial could be achieved, not by reliance on the programs of Shriver’s Office of Economic Opportunity (programs to improve health, education, vocational training, and community development) but rather by macroeconomic policies for general prosperity combined with means-tested cash transfers such as a negative income tax. As a recent member of the President’s Council of Economic Advisers,

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Tobin was recalled to Washington in December 1963 to work on the 1964 *Economic Report of the President*, editing the chapter (principally written by Robert Lampman) that outlined the War on Poverty [Tobin, 1996, 231]. Tobin [1965; 1966; 1967; 1968; 1970] went beyond the Great Society's War on Poverty to propose large-scale means-tested cash transfers to reduce poverty without interfering with market determination of relative prices, a position which he shared with Milton Friedman [1962, 191-92]. He wished to pair this with "non-market egalitarian distributions of commodities essential to life and citizenship" [1970, 276] such as education, food stamps, and basic housing, a position that contrasted with Friedman's Chicago School approach and that was emphasized in Tobin's Henry Simons Lecture at the University of Chicago, "On Limiting the Domain of Inequality" [1970].

Tobin, Pechman, and Mieszkowski stated that many eligible poor people did not receive local welfare because "recipients are subject to numerous indignities by the procedures employed to enforce the means test and other conditions to determine who is eligible for help and how much. ... 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" [1967, 1]. This view of public assistance resembles that of Frances Fox Piven and Richard Cloward [1971] of public welfare as a system of social control. The deliberate imposition of indignities and stigma to discourage resort to public assistance was in keeping with the Poor Law Report of 1834 [Checkland and Checkland, 1974].

Furthermore, Tobin, Pechman, and Mieszkowski noted that "The means test is in effect a 100 percent tax on the welfare recipient's own earnings; for every dollar he earns, his assistance is reduced by a dollar" [1967, 1] (as Tobin [1965, 892] also noted). Until 1967, Aid to Families with Dependent Children (AFDC) featured such an effective 100 percent implicit tax rate [Besley and Coate 1995, 190n], a prohibitive disincentive to work that risked trapping recipients in the welfare system. Tobin [1965, 891-92] suggested instead a lower effective tax rate in the form of reducing assistance payments (Tobin, Pechman, and Mieszkowski [1967, 27] recommended a rate of 40 percent) so that the working poor would receive some public assistance until they earned three times the basic income guarantee. Tobin, Pechman, and Mieszkowski [1967, 26] recognized that while those already receiving AFDC or other assistance with an effective tax rate of 100 percent would have an incentive to work more under the proposed negative income tax (NIT), other recipients of NIT "work and earn less when the government makes them better off and raises their marginal tax rate from zero or 14-20 percent to 33 or 50 percent." The net effect on incentives to work has been highly controversial in studies of the outcomes of the New Jersey Negative Income Tax Experiment [Pechman and Timpane, 1975] and the Seattle and Denver Income Maintenance Experiments (to which the Fall 1980 issue of the *Journal of Human Resources* Vol. 15 was devoted), leading to a literature on how to design income-maintenance programs when it is not possible to observe how much work-effort would be provided in the absence of an income guarantee.<sup>2</sup>

In contrast to Herrnstein and Murray [1994] who attributed persistent poverty to inherited differences in intelligence, Tobin emphasized institutions, notably adap-

tation of behavior to the 100 percent marginal tax rate implicit in the existing welfare system. Tobin's standpoint recalls that of John Stuart Mill, who rejected racial or ethnic explanations for the poverty of the Irish peasantry, focusing instead on land-tenure laws that gave neither landowner nor tenant incentive to invest in raising productivity.

Like Tobin, Milton Friedman (with Rose Friedman [1962, 192]) and Rose Friedman [1965] stressed the importance of replacing a fixed minimum with a combination of a guaranteed minimum income and a continued incentive to earn income, a proposal previously mentioned by Stigler [1946], although the Friedmans recommended a lower guaranteed minimum income than that proposed by Tobin. Milton Friedman estimated that "A program which *supplemented* the incomes of the 20 percent of the consumer units with the lowest incomes so as to raise them to the lowest income of the rest would cost less than half of what we are now spending" (with Rose Friedman [1962, 194]).<sup>3</sup> The problem is that the poor do not have enough purchasing power, not that the relative price of housing or some other good is incorrect. Cash transfers are preferable to in-kind transfers because the recipient is able to choose how to spend the transfer. As Tobin explained,

While concerned laymen who observe people with shabby housing or too little to eat instinctively want to provide them with decent housing and adequate food, economists instinctively want to provide them with more cash income. Then they can buy the housing and food if they want to, and if they choose not to, the presumption is that they have a better use for the money. To those who complain about the unequal distribution of shelter or of food, our first response—and Simons'—is that they should look at the distribution of wealth and income...

This answer rarely satisfies the intelligent egalitarian layman. He knows, partly because he has learned it from economists, that there are pragmatic limits on the redistributive use of taxation and cash transfers. These instruments are not as neutral in their allocative effects as Simons appeared to believe; they may seriously distort choices between work and leisure...

The layman therefore wonders why we cannot arrange things so that certain central crucial commodities are distributed less unequally than is general income... The idea has great social appeal. The social conscience is more offended by severe inequality in nutrition and basic shelter, or access to medical care or to legal assistance, than by inequality in automobiles, books, clothes, furniture, boats. Can we somehow remove the necessities of life and health from the prizes that serve as incentives for economic activity, and instead let people strive and compete for non-essential luxuries and amenities? [1970, 264-65]

Where Tobin diverged from the Friedmans and the Chicago School was in his advocacy of “specific egalitarianism,” which he defined as “non-market egalitarian distributions of commodities essential to life and citizenship” that are in inelastic supply: “In some instances, notably education and medical care, a specific egalitarian distribution today may be essential for improving the distribution of human capital and earning capacity tomorrow” [1970, 276-77]. He recognized medical care and housing as difficult practical cases whose supply is inelastic in the short run but responsive to demand in the long run. Speaking of “socialized medicine,” Tobin argued that “Although this prospect may shock many people today, including many at the University of Chicago, it would not have shocked Henry Simons” [1970, 274], quoting Simons [1948, 68] on the “remarkable opportunities for extending the range of socialized consumption (medical services, recreation, education, music, drama, etc.)” As examples of specific egalitarianism, Tobin wished to preclude purchase of substitutes by military draftees (as had been common during the American Civil War) or the sale of votes (as in England’s “rotten boroughs” before the Reform Bill), because votes are in intrinsically short supply and “A vote market would concentrate political power in the rich, and especially in those who owe their wealth to government privilege” [1970, 269-70]. In contrast, Milton Friedman worried about recipients of negative income tax or of old-age pensions being allowed to vote, lest the system “be converted into one under which a majority imposes taxes for its own benefit on an unwilling minority” [1962, 194-95]. Tobin worried about the political power of the rich, Milton Friedman about the political power of the poor.

Looking back, Tobin concluded sadly, “I am afraid that it’s a mistake to declare wars against social and economic conditions or national crusades for societal reforms. The goals are elusive, the troops unruly, the enemies amorphous. Wars on poverty, energy dependence and drugs have proved to be incapable of sustaining the degrees of commitment essential to their prosecution, even by the Presidents who declared them. William James longed for moral equivalents of war, but evidently Americans can’t do better than football” [1996, 232]. Tobin lamented that “The majority is losing interest in full employment and economic growth, and appears quite willing to let youth and poor and minorities bear the brunt of anti-inflationary policy” [1977, 477]. The Nixon Administration’s Family Allowance Plan, twice passed by the House of Representatives, was blocked in Senate committee by a coalition of conservatives opposed to a guaranteed minimum income and liberals opposed to work requirements [Moynihan, 1973]. With Tobin as an advisor, the McGovern Presidential campaign proposed income redistribution through the income tax, an attempt characterized by Tobin, Brainard, Shoven, and Bulow as “the 1972 debacle” [1973, 585]. The political tide turned so much against a guaranteed minimum income that in 1996, after two Presidential vetoes of bills that would have also ended health benefits for the poor, AFDC was replaced by block grants to states for “work-first,” time-limited Temporary Assistance to Needy Families (TANF) [Blank, 1996]. Even reauthorization of TANF has become problematic [Blank and Haskins, 2001; Peterson, 2002]. Prevailing neo-conservative rhetoric recalls the argument of the proponents of the New Poor Law of 1834 that family allowances and other public assistance are merely “a bounty on indolence and vice” discouraging work, encouraging breeding,

and raising tax burdens [Persky, 1997; Checkland and Checkland, 1974]. This trend away from redistribution extends beyond the United States: the Progressive Conservative Party campaigned for a guaranteed annual income in the Canadian federal election of 1974, yet when the Progressive Conservatives won provincial office in Ontario in 1995, their “Common-Sense Revolution” cut benefits and sharply limited eligibility for a million recipients of social assistance.

Despite these political setbacks and the continuing chilly political climate, there is still a valuable message of hope in Tobin’s insistence that alleviation of poverty, inequality, and racial discrimination “can be accomplished within existing political and economic institutions” [1964, 878] by a combination of general egalitarianism (cash transfers guaranteeing a minimum income while maintaining incentives to earn more) and specific egalitarianism in health care and education. The historical record suggests that poverty can be reduced by redistribution. Whatever the failures in achieving the social and cultural goals of policymakers, Christopher Jencks [1992, 70-91] has shown that, contrary to the claims of Murray [1984], anti-poverty programs successfully combined with economic growth to reduce the US poverty rate from 19 percent in 1965 to 13 percent in 1980, to reduce infant mortality among blacks from 4.2 percent of live births in 1965 to 2.2 percent in 1980, to increase non-white life expectancy from 64.1 years in 1965 to 69.5 years in 1980. Even with regard to social and cultural goals of policymakers, Jencks points out that rising rates of illegitimacy and divorce have been general throughout society, not just among recipients of public assistance.

Contrary to the belief of Herrnstein and Murray [1994] that redistribution cannot alleviate poverty and inequality because the underlying causes are inherited genetic differences, to the belief of Murray [1984] that redistribution only worsens the material conditions of the poor because of perverse incentives and a culture of dependency, and to the belief of radicals that effective redistribution is impossible in a capitalist society, Tobin [1964; 1965; 1966; 1967; 1968; 1970; 1996] believed in the power of government to guarantee a basic standard of living, to limit the domain of inequality, and to implement redistributive programs whose incentives would be far preferable to the implicit 100 percent marginal tax rate of earlier welfare programs. He always offered such proposals as a complement to Keynesian policies promoting economic growth and full employment, not a substitute. A tight labor market was the first condition for reducing poverty and inequality. The evidence surveyed by Jencks [1992, especially Chapter 2] indicates that even the redistributive programs of 1965-80, which did not go nearly as far as Tobin proposed, considerably improved the material conditions of the poor. Tobin made a cogent and deeply-felt case for acting to alleviate poverty and limit the domain of inequality. The political climate is currently hostile to that case, as it is to Keynesian policies for macroeconomic stabilization and full employment. That is no argument against the desirability of such policies. James Tobin is, rightly, renowned as a macroeconomist and monetary economist, an outstanding “Old Keynesian.” In evaluating his message to the economics profession, it should be remembered that his macroeconomics was part of his wider commitment to bringing economic analysis and reasoned argument into battle against unemployment, instability, poverty, and inequality.



## NOTES

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1. See Tobin [1996, 252] comparing incomes in New Haven and the rest of its county.
2. See Besley and Coate [1995] and references given there.
3. See Tobin, Pechman, and Mieszkowski [1967, 23-27] and Tobin [1968, 103-105] for estimates of the budgetary cost of different negative income tax plans.

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