

GOALS AND OBJECTIVES OF INCOME MAINTENANCE PROGRAMS

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Enlightened public opinion in general and government policy in particular have come a long way from those days when it was believed that the market mechanism, if left alone, would provide for a maximum of social welfare.

The normative branch of economics—welfare economics—recognizes that public policy should interfere with the operation of the market mechanism, but only with the aim of making it more efficient. In this sense, then, welfare economics is concerned primarily with *economic welfare* rather than with social welfare at large. It operates on the underlying norm of *market efficiency* in the narrow sense. Economists have generally been more than reluctant to make pronouncements on the goals or objectives of any policy aimed mainly at redistribution of income. This was held to be the legitimate field of the politician, or of other branches of the social sciences, and not a proper subject for economic science.

An emerging subdiscipline of economics which recognizes the need for control of those processes not regulated by the price mechanism is called the “welfare economics of interdependence,” or “grants economics.” Grants economics is concerned with equity and other goals as integral parts of economic inquiry. It says that the aim of public policy is not only the attainment of economic welfare but social welfare at large. It postulates that a variety of economic instruments available to the public decision maker should be used not only to improve market efficiency or to obtain economic stability but also to promote growth, equity, system maintenance, and integration—or what may be termed *general efficiency norms*. The discussion that follows will deal with income maintenance primarily within the terminology associated with this subdiscipline.

Apart from the mainstream of economic inquiry, the theory and policy of public finance has always recognized the need to redistribute income over and beyond the pattern resulting from market operations. The government has considered policies designed to enhance income in time of adversity, an important part of public policy, particularly since the 1930's. However, the package of social security

legislation developed in the past thirty-five years seems to arise more from a philosophy of providing income in situations of temporary inability rather than from a general policy of income maintenance outside the logic of whatever the market mechanism may allocate to a particular individual. Examples would be found in unemployment support, clearly a short-run measure, as well as in old age pensions or social security. The latter might be considered intermediate-run measures in the sense that they do not span the entire life of the individual.

Today we notice an increasing shift to a philosophy of "income augmentation" for the long-run betterment of the social welfare of the population. The extreme philosophy of income augmentation is found in the variety of proposals for a guaranteed income or a negative income tax, which have gained increased currency among serious economists and public policy makers.

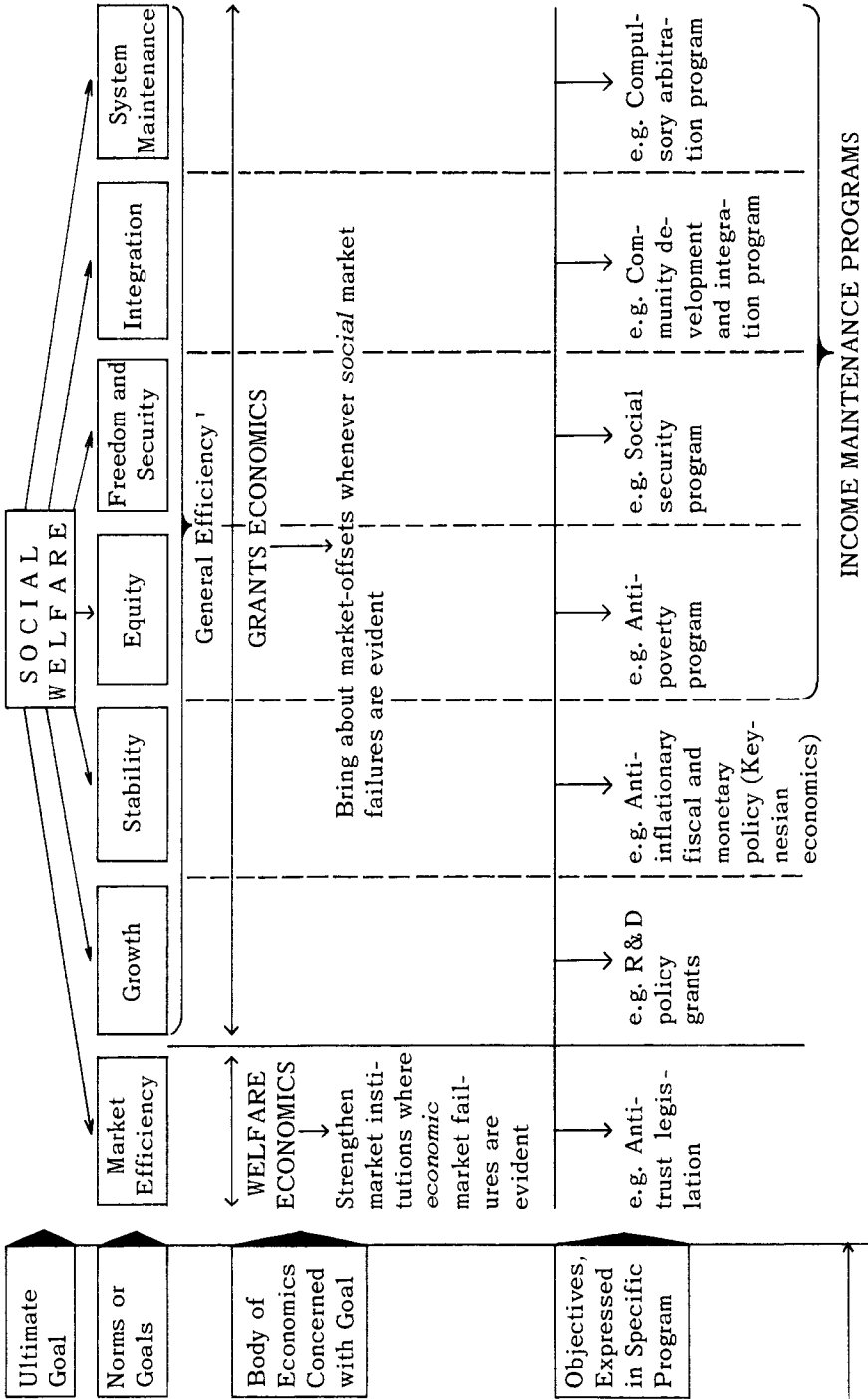
THE POLICY SETTING FOR INCOME MAINTENANCE

If we consider a *norm* or *goal* as an end toward which effort or ambition is directed, then we may define an *objective* as the instrumental or operational expression of that goal. Income maintenance is a specific objective which results from a variety of social goals. The transfer of income from one income class to another, or from one social group to another, arises not only because of considerations of equity or justice, but also because of considerations of system maintenance, that is, the desire to keep an alienated subgroup of the population within the pattern of relationships. It also derives from the norm of integration, that is, from the desire to decrease the percentage of people who are alienated in total society. Income maintenance therefore is an instrumental variable designed to take care of a variety of other broader social norms or goals.

Table 1 illustrates one possible structure of relationships underlying public policy making. *Efficiency, growth, stability, equity, freedom and security, integration, and system maintenance* are some of the most dominant norms that come readily to mind. Generally speaking, efficiency is associated with the operation of the market mechanism. Growth generally—but not always—emanates from the most efficient allocation of resources. In this sense, one might say that the market or exchange economy is concerned with efficiency, while the grants economy relates to growth, stability, equity, freedom and security, integration, and system maintenance.

The basic difference between the exchange economy and the grants economy is the nature of economic flows: Under exchange, Party A transfers an exchangeable to Party B, in return for which

TABLE 1. THE RELATIONSHIP BETWEEN NORMS OR GOALS, OBJECTIVES, AND PROGRAMS



1 "General efficiency" denotes the extension of the economic logic of allocation to broader purposes of society than narrow or market efficiency.

Party A receives an exchangeable of equal market value. Under grants, A transfers an exchangeable to B, without receiving in return a corresponding economic exchangeable. This is not to deny the possibility that A may receive some type of satisfaction or a nonmarket benefit, such as prestige or status, but these are not generally classified as exchangeables.

Most economic relationships are of a mixed nature, including both exchange and grants elements. Furthermore, many public policy measures convey either an explicit grant or an implicit grant to *some* groups in society. An example is found in fiscal or monetary policy, where special exemptions convey unequal benefits to different income or social classes; or in the rezoning of land from agricultural to commercial uses, which provides an implicit grant to landowners and speculators.

The norms of efficiency and stability are familiar in public policy. Going on to equity as a norm for a public policy, we may mention antipoverty programs as a specific expression of a social equity norm. Freedom and security, in turn, are norms underlying the present operation of the social security program, while the desire to promote more harmonious relationships between various groups of the community is expressed through various community development and integration programs. Finally, compulsory arbitration programs, agricultural price support programs, or programs designed to reduce the level of alienation among the urban poor, might be cited as measures of system maintenance.

The label "income maintenance programs" has generally been associated with antipoverty and social security programs. Accordingly, they are primarily directed toward the goals of equity, freedom, and security. Integration or system maintenance might have been considered as incidental benefits.

When a broader view is taken of individuals in the total system, we must recognize that social security programs do have a system maintenance and integration effect. They protect the system from being saddled with large numbers of unemployed individuals or destitute families. Thus they act as a "social stabilizer," preventing the violent disruption of production and consumption that is usually associated with a revolution. This thought is also implicit in Kenneth Boulding's view of the role of income maintenance policy (in his book, *Principles of Economic Policy*):

All modern nations accept the principle that there is some minimal level of real income below which its individuals or households cannot be allowed to fall. This led at quite an early date, to the development

of "poor laws" or public assistance programs. These provide a certain "floor" of subsistence which is in a sense a "right" of every individual. . . . In no country does there seem to have been strong pressure from the electorate for the specific plans that were put into operation. Political pressure and dissatisfaction of course there was, but it took the form of broad movements rather than specific pressures—the Social Democratic Movement in Germany, the Socialist Movement in England, the various radical movements in the United States—perhaps it is not unfair to interpret the social security program that developed as an essentially "conservative" program to forestall pressures for something more radical. From this point of view the programs have been highly successful; they have contributed a great deal towards "the deproletarianization"—integration of the mass of the people into the general economic fabric—and have greatly increased the degree of general acceptance of existing institutions. If we no longer live in a revolutionary era, social security must be given a good deal of the credit (or blame, if one is concerned about the soporific effects of security).

The need to include integration and system maintenance among the goals of income maintenance programs becomes evident when a basic rationale for social welfare is considered. The need for social action is apparent, particularly because individual preferences seem to be inadequate to provide, through private savings, for contingencies of retirement, unemployment, or accidents. This calls for political decisions which result in legislation requiring social security contributions in the form of a tax rather than in the form of voluntary contributions.

This interference with individual preferences would generally be considered as a decrease in individual welfare by the pure welfare economists. However, the limited planning horizon of the individual, as well as the interdependence between the well-being of a particular individual and other individuals, make a case for social intervention.

Interdependencies are quite evident in the case of the family itself as well as the larger group. The principle of individual decision making that assumes an independence of individual preferences becomes somewhat tenuous when one individual's mistakes affect the well-being of his family, his community, or the nation at large. Furthermore, under the assumption of interdependence, there is no theoretical rationale for even requiring an individual to suffer the consequences of his own actions. Accordingly, the need for a variety of integration and system maintenance norms arises in connection with a variety of income maintenance programs.

TRADE-OFFS BETWEEN MARKET EFFICIENCY AND GENERAL EFFICIENCY

Social security programs have lost that analogy to insurance where

the contribution made by the individual covers the expected risk. They have become essentially tax-transfer or grants programs. This is evident from the size of the benefits which have only a very tenuous relationship with the cost incurred by the individual through the social security tax. Thus we see the dual nature of income maintenance programs. On the one hand, they provide for needs irrespective of the past exchange or work behavior of the individual. On the other hand, they provide for contingencies in the course of work behavior as well as for transfers along the life cycle of the individual.

We may note a clear distinction between the exchange analogy inherent in the insurance view and the grant or transfer analogy identified with the universal "demo-grant approach" to income maintenance. The former attempts to associate the specific techniques of implementation with the concept of exchange and private insurance. This entails the analysis of criteria which qualify an individual to receive certain benefits. The demo-grant approach, however, does not analyze the particular need aspect of the recipient. It treats social security as a right of membership in society at large. Therefore, it does not require a means test for eligibility and other types of procedures which generally humiliate the recipient.

Larger grants can be expected when social security, and other related measures, are viewed essentially as tax-transfer programs rather than as insurance programs. The grants approach might therefore be considered less efficient than the welfare approach. But social security programs based only on the welfare approach, while alleviating some aspects of poverty for the individual, may fail to achieve integration or system maintenance for a group of recipients at large. The humiliation involved in detailed probing to ascertain eligibility is likely to have bad psychological effects in a culture which emphasizes individual work and the Protestant Ethic. The choice between the demo-grant and the welfare approach therefore involves clearly a trade-off between market-efficiency and equity considerations, as well as between market-efficiency and integration and system maintenance aspects. From this it is evident that there is generally an inherent conflict in the norms or goals, and that complex trade-offs between the various goals is a general feature of public income maintenance policy.

The problem in arriving at the magnitude of income maintenance programs is rarely, however, a simple trade-off between different norms competing for a *fixed* budget. Generally speaking, a higher commitment to equity and other norms entails a more costly program than a commitment to market-efficiency norms alone. This does not prove, however, that one is more desirable than the other. In order to

evaluate the contribution of either approach to social welfare, total benefits must be contrasted with total costs. Some trade-off between these two norms must be made. How valuable is it in terms of the aspirations of the total society, that a certain degree of equity is obtained, as compared to a certain degree of market efficiency? Society may, in fact, have an overriding preference system that favors neither of the two. An analysis of the objectives of social security, therefore, must take note of this trade-off between conflicting values without which the social security system is not satisfactory on either score.

Those who value market efficiency as an overriding goal are bound to be dissatisfied with the present social welfare system simply because they see inherent inefficiencies in the system. Those, again, who are concerned with the need and suffering of the indigent and the unemployed would favor going far beyond the present level of social welfare allocations. It comes as little surprise, therefore, that the social security system as a whole does not gain any ardent advocates on either end of the value scale. However, experts in the field have little problem in recognizing that, given the dual or multiple nature of the underlying objectives, the present system may not be so bad after all.

Even though experts recognize the merits of the present system in achieving *some* goals of the American society, others would argue that the system does not go far enough in meeting equity and related general-efficiency goals. As long as millions remain in stark poverty, alienated and befuddled by the optimistic claims of the spokesmen of the high-mass-consumption society, if not angry with what they perceive to be their deprivation of civil and human *rights*, something must clearly be done to achieve social balance.

EFFECTS ON THE RECIPIENT OF WELFARE VERSUS GUARANTEED INCOME

The present system of social welfare—termed briefly the welfare system—is characterized by several features which account for its strength and its weakness. First, the system is geared more toward intertemporal or intergeneration redistribution than to a genuine effort to meet basic needs. Second, for those aspects of the program that are specifically geared to the downtrodden, a means test generally results in a sense of stigma and degradation on the part of the recipient. And third, the level of payments is generally not adequate to support anyone at a tolerable level of living without his having to work or obtain additional income.

No doubt these features have been built purposely into the welfare system and give it its particular character. We may distinguish

an alternative system which has not been implemented to any great degree yet, but which we shall identify with the term guaranteed income system proper. Such a system is, first, more directly concerned with a need per se without such stringent requirements for work behavior on the part of the recipient. Second, no means test is required and hence the humiliation involved in accepting a transfer under the guaranteed income scheme is very small if it exists at all. And third, the amount transferred will in some cases be adequate to maintain an individual at a basic level of subsistence without his having to work.

A shift from the welfare system to a guaranteed income system therefore entails not only a rearrangement in programs, but also a rearrangement in the values of society. This entails an attitude toward the needy which is not as intimately tied in with the attitude toward work and saving—the Protestant Ethic—and therefore involves fewer criteria for eligibility. Furthermore, if such an income maintenance scheme is generalized so that everyone receives a certain minimum income, the stigma is eliminated entirely.

If we assume that one individual's well-being is intimately tied in with another individual's well-being, the receipt of grants income gives rise to mixed feelings on the part of the recipient. On the one hand, his well-being increases because with this change in income he is able to buy more goods and therefore his consumption standard rises. On the other hand, the very necessity of having to accept it, via an intermediary, or having to accept it at all, entails psychic costs. In short, this type of mixed reaction can be divided into four components of reaction or utility, namely those associated with:

1. An increase in the recipient's income.
2. A reduction in the community's income.
3. Receipt of the grant via an intermediary social worker.
4. Other sentiments of the recipient in connection with the grant.

Each of these components can have a positive or negative effect on the recipient's well-being. Generally, the first component is positive, because his income goes up and therefore his command over goods and services supplied through the market increases. The second component, however, may be relatively small as the grantor-grantee relationship is depersonalized: Since the grant comes from the community at large, the grantee is not likely to know the person who gave up a part of his income through taxes in order to finance the income transfer. Therefore he is not likely to feel a sense of disutility from contemplating the income loss of the grantor as may be the case in a small community characterized by personalized relationships. Furthermore,

the social worker—who under the welfare system often has power to curtail, expand, or continue the grant—has a pronounced effect on the recipient's feelings. Interpersonal relations between the social worker and the recipient may contribute to positive feelings in case of favorable relations, or negative feelings if the grantee resents the "paternalistic attitude" of the social worker. Finally, the fourth component reflects the grantee's general attitude toward having to receive grants. In a culture emphasizing work, the fourth component is likely to reflect the recipient's sense of humiliation and stigma associated with the means test and related policing procedures. It is therefore generally negative.

Under the present welfare system the third and fourth components are generally negative, decreasing the positive effect of the income transfer in the mind of the recipient, and leading possibly to further alienation of the individual and disintegration of the social system.

Under a guaranteed income system, in contrast, the third component would become zero—as the receipt of income is automatic and without the interference of a social worker—while the fourth component is likely to be very small if it exists at all. *The aims of guaranteed income plans, therefore, are not only to eliminate poverty through more adequate income transfers but also to reduce, if not eliminate, the sense of humiliation associated with present welfare programs.*

Operationally, these guaranteed income proposals have been tied either to the present or alternative tax system—hence their designation as negative income tax (which means positive income transfer) schemes—or to a basic income allowance for which each member of the family is eligible. The former approach, it appears, derives an equity norm from the progressivity and the structure of implied grants (tax filer's exemptions and standard deductions) of the present tax system (for example, the Friedman negative income tax plan) or from a family's poverty line based on some concept of subsistence living (for example, the Lampman plan). Under the first plan, the taxpayer receives annual payments equal to some percentage (negative tax or positive transfer rate) of his unused exemptions and deductions. Under the second plan, a family in poverty would be entitled to transfers equal to some percentage of its "poverty income gap" (that is, the difference between its present income and the level of income required to move out of poverty).

The second approach—identified with the plans of Tobin and Rolph—also denotes a tax schedule which specifies the amount by which each dollar of grant income is reduced for each dollar of ex-

change income earned through work. (This approach is similar to a tax credit in lieu of personal income tax exemptions.)

All of these proposals derive transfer amounts by an impersonal formula and some equity rule for minimum income support, thus reducing the disutility aspects of having to receive grants via a personalized intermediary and with an associated stigma. The more recent proposals by the President's Commission on Income Maintenance, as well as President Nixon's Family Assistance Plan, are derived essentially from a similar set of norms. The Family Assistance Plan, however, combines explicitly an efficiency criterion with the national equity norms of the Plan, that is, the need to register for employment and to accept an offer of training and work if available. Thus, at least implicitly, it takes into account both market efficiency and general efficiency norms in proposing a variant of a guaranteed income scheme.

IN CONCLUSION

Present welfare programs as well as some of the guaranteed income proposals contain provisions which are the result of conflicting norms. This conflict in underlying norms is not a reflection of irrationality of public decision making but of the nature of a complex society: Market efficiency has to be tempered by general efficiency—stability, growth, system maintenance, integration, and so on—if social welfare is to be improved. This gives rise to complex trade-offs between norms. The trade-offs inherent in the proposals for a guaranteed income appear to reflect a greater weight for equity, integration, and system maintenance norms than is inherent in the welfare system. This shift will not only reduce the instance of poverty—for which the present welfare system is clearly inadequate—but it is also likely to decrease alienation and increase integration within the American society.

The current trade-off between market efficiency and general efficiency norms is not very popular with those who see themselves passed over by the welfare system in particular, and the whole public grants economy in general. If the public decision makers recognize their responsibility for the attainment of a variety of goals and objectives—as the current measures of income maintenance reform seem to suggest—the first steps will have been taken to solve the social problems of our day. If public policy, however, takes a narrower view of its obligations and goals, the social appletart may have to tumble even further, before the social and economic signals resulting from dis-equilibrating forces are read in unmistakable terms.