

421

INCOME MAINTENANCE PROGRAMS

HEARINGS
BEFORE THE
SUBCOMMITTEE ON FISCAL POLICY
OF THE
JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES
NINETIETH CONGRESS
SECOND SESSION

—————
JUNE 11, 12, 13, 18, 19, 20, 25, 26, AND 27, 1968
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Volume I: PROCEEDINGS
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Printed for the use of the Joint Economic Committee



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INCOME MAINTENANCE PROGRAMS

TUESDAY, JUNE 11, 1968

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

The Subcommittee on Fiscal Policy met, pursuant to call, at 10 a.m., in room 1310, Longworth House Office Building, Hon. Martha W. Griffiths (chairman of the subcommittee) presiding.

Present: Representatives Griffiths, Bolling, and Rumsfeld.

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

Representative GRIFFITHS. The subcommittee will come to order.

Criticisms of welfare are as old as welfare—perhaps older. In general, criticism takes the form of assertions that welfare is not doing enough or that it is doing too much. Such criticisms are directed toward the values implicit in welfare programs. On rare occasions—unfortunately much too rare—another kind of criticism emerges. This criticism runs to the effect that, whatever the welfare system is trying to do, it is not doing it very well.

In recent years, criticism of this second sort has been mounting. It is argued that the present system is neither economic nor equitable because programs are badly coordinated, many people are denied access to assistance on arbitrary grounds, levels of assistance vary widely from one area to another, attempts are made to maintain distinctions among individuals which are expensive to administer and lack much in obvious fairness, the administration of the systems entails a costly and oppressive surveillance of beneficiaries, and assistance is given in ways that tend to assure continued dependency.

The Subcommittee on Fiscal Policy is holding these hearings from a conviction that this is high time to initiate a public review of the objectives and operation of the welfare system. We are also concerned to demonstrate that it is possible to conduct a rational discussion of welfare design. Given that we are now deeply involved in maintaining incomes and there are no reasonable indications that we will not continue to do so, what is a sensible way to do the job? It is not that the subcommittee is unconcerned about values—we are devoting the last 3 days of the hearings to these issues; rather, we do believe that it is important first to get straight on the economics.

The economics of programs are questions of objectives and the best way to achieve them. In one view, the objective of welfare programs is to alter the distribution of income through transfers from those who have to those who have not. The economic way to effect these transfers

is that way which entails a minimum of distortions in resource allocations—that is to say, the least interference with free choice by households in consumption and labor supply.

However, to my mind, there is a better view of the primary objective of the welfare system. In this view, the end of the welfare system is to go out of business. Unless welfare is a self-liquidating enterprise, it is a failure. Insofar as possible, welfare programs should reinforce individual responsibility and human resource development programs. They should seek to move people into a dignified and rewarding participation in the economic life of the Nation and to give people the opportunity and incentive to make personal provision for contingencies which all families must anticipate.

Experience with the present system has been disappointing. In the original conception of social security, old-age assistance was to wither away as people qualified for pension under old-age and survivors' insurance. It has not withered despite the subversion of old age and survivors' insurance by welfare concepts. Full employment is a means for dealing with poverty; yet two decades of experience with the Employment Act of 1946 finds us still with many who can work who are not self-supporting.

Many, of course, cannot be self-supporting because they are too old or too young or because they are disabled. These we should take care of. But the welfare system should not attempt to compensate for inadequate fiscal and monetary policies and for human resource development programs which leave many human resources undeveloped. What is the job of the welfare system? Who should receive simple transfers of income? And how should these transfers be made so that they do not undermine dignity and incentives to earn income? These are the questions which we are exploring in these hearings.

This morning we have as a panel to discuss these questions with us Lisle C. Carter, Jr., formerly Assistant Secretary of the Department of Health, Education and Welfare for Individual and Family Service, presently with the Urban Coalition; Mitchell Ginsberg, administrator of the New York City Human Resources Administration; Morris Hursh, the Commissioner of public welfare of the State of Minnesota; and George K. Wyman, commissioner of the New York State Department of Social Services.

Gentlemen, we are glad to to see you and to welcome you before our subcommittee.

We shall begin with Mr. Carter.

**STATEMENT OF LISLE C. CARTER, JR., COMMISSIONER OF THE
NEW YORK STATE DEPARTMENT OF SOCIAL SERVICES, AND
FORMER ASSISTANT SECRETARY OF HEALTH, EDUCATION, AND
WELFARE FOR INDIVIDUAL FAMILY SERVICES**

Mr. CARTER. Madam Chairman, members of the subcommittee, thank you for inviting me to appear before you to discuss the existing welfare system and to look at directions which this system and other income maintenance programs should take in the future. It is my understanding that I am invited to testify not as a representative of the Urban Coalition but as an individual based on my previous service

as Assistant Secretary of Health, Education, and Welfare. In any event, let me say for the record that the views which I shall present are my own and not necessarily those of the Urban Coalition.

I want to commend you for holding these well-planned public hearings on welfare and income maintenance. This is a subject which is much discussed today but very little understood. There are an awful lot of myths and misinformation about existing welfare programs, and about the poor, which can only get in the way of serious efforts to examine the contribution which income maintenance programs can make to solve the problem of poverty. There needs to be informed and wide public debate. This is the only way in which significant changes in social policy requiring commitment of substantial resources are likely to be made and sustained.

For this reason I think it is unfortunate that so much of the discussions affecting policy in this area have been carried on behind closed doors between a relatively small number of Members of Congress and representatives of the executive branch. It does not matter whether the results of these discussions are sometimes beneficial, as in the case of the medicaid program, or retrogressive, as in the case of the 1967 public assistance "freeze" and compulsory work program. Whatever may be the case with relatively small, incremental changes, where major policy or program changes are made without full debate they are not likely to find broad acceptance, and I say this without regard to which side one comes down on in the particular issue.

I for one regret the restrictions that have now been imposed on the original medicaid program, and at the same time feel strongly that the "freeze" in the aid to families with dependent children and the compulsory work amendments must be repealed before discussions of improvements in the program can be taken seriously. But I believe that in both cases there should have been full and open debate before such far-reaching amendments were enacted.

Before turning to my views as to what should be done it may be helpful to outline briefly the context of our consideration.

There are four major federally supported public assistance programs generally grouped together as welfare aiding approximately 7½ million persons. There are another 600,000 persons supported by local general assistance and relief programs. Of the Federal recipients, approximately 3 million are recipients under the three adult programs—aid to the blind, aid to the permanently and totally disabled, and old age assistance.

The rest—almost 5 million persons, of whom somewhat over 1 million are adult—receive aid to families with dependent children, or AFDC.

Trends in adult Federal assistance programs show a decline in recipient rates, with one exception. The declines in adult categories are largely attributable to the development of other sources of support and protection, specifically a broadening of social security benefits. The slight rise in aid to the disabled is generally attributed to the case-finding effects of medicaid. The number of AFDC recipients, however, has risen sharply. The increase in fiscal year 1967 over 1966 was 319,000, and, for fiscal year 1968, it is stated that in this fiscal year, it will rise over 400,000.

Despite these dramatic rises in the number of AFDC recipients, the program does not come close to reaching all those poor families who are categorically eligible—that is, children in families with a parent dead, absent from the home, disabled or, in some States, unemployed. For example, in 1965, 55 percent of those categorically eligible for AFDC did not receive assistance, and the number has risen since then.

What is perhaps even more significant is that these 8 million welfare recipients represent only approximately one-fourth of persons living in poverty, as it is currently defined. While the welfare population is a heavily dependent group—the aged, children and youth, the handicapped—the poor population at large has a different character. If we exclude the 5 million aged poor, the bulk of the 27 million nonaged poor live in families with a breadwinner who works at a job all or part of the year.

In 1965, 70 percent of nonaged poor families were headed by men of whom nearly 50 percent held full-time jobs and 86 percent worked at least part time. Thus, the typical poor family is not only headed by a man, but a family in which the man holds down a full-time job. The typical poor family, in other words, resembles the typical American family.

These able-bodied poor and their families have historically been excluded from public assistance programs. Thus, it should be clear that the present system is not broad enough to include a wide range of persons of great need. It should be equally clear that the present system also fails to meet adequately the needs of those who do participate.

Dissatisfaction with welfare, and especially with AFDC, is universal. For the people on welfare, it is demeaning, incentive destroying, and inadequate. The nonwelfare poor seem to have mixed feelings—both resentment and pride—because they do their best to make it and do not get any help from anyone. And many of the nonpoor seem to feel they are supporting the unworthy and undeserving in a shiftless way of life.

Society, on the other hand, is relatively generous in its financial aids to those it deems deserving, and proffers this aid without taint or stigma. Veterans' allowances, social security payments, income tax benefits, unemployment compensation and the like are regarded as rights to which beneficiaries are entitled, earned through the performance of service or through actual purchase, or because of some special status. There is no such legitimacy attaching to public welfare payments in the minds of most Americans.

The priorities of the Federal Government are reflected in the existence of categorical programs for the aged, blind, disabled, and dependent children, and the level of support for each. It is no coincidence that the aged, blind, and disabled have generally received higher cash assistance than those in the families with dependent children, because these groups are to some extent considered worthy. Children have been less well treated because some of those who are—or might be—eligible for assistance are needy for reasons which are apparently less acceptable to the majority of citizens or their representatives. These reasons mostly have to do with parents and not with children; for example, inability to earn a decent wage, unemployment, absence of the father for whatever reason—death, divorce, desertion; or because the children themselves were born out of wedlock.

Studies have shown that welfare recipients also tend to feel that receiving welfare is a privilege which requires them to relinquish some of their individual rights in order to obtain support from society. Welfare programs tend to place recipients in a different class both in their own eyes and the eyes of the larger community. Welfare seems to reinforce the alienation and the low self-esteem that is common among the poor. Even the services offered to recipients of welfare reinforce their isolation in the narrow restrictive manner in which they are offered.

While it is obvious that having the program as we now know it is much better for the millions on welfare than having no program, steps must be taken to eliminate some of the more offensive elements of public assistance programs and to broaden the program realistically to include the many more who need assistance.

There are several basic reforms in the existing programs which I believe to be essential. None of these are original with me.

First, we need a national standard for minimum payments. Payment levels in most States are very low, in most cases below the minimum subsistence levels States themselves define, and below the poverty level. For a woman on AFDC who has three children, for example, 14 States provide \$1 per person per day or less to meet all needs. It is obvious that a level of payment must be set and payments made on the basis of a national standard.

Last year the administration proposed that States be required at least to meet their own minimum subsistence standards, and this first step toward a national minimum standard was rejected even though it permitted, in my view, too much variance among the States.

As a second necessary reform, I believe that persons should be eligible for welfare on the basis of need and on no other basis. Arbitrary considerations about who should and should not be permitted to participate in the program should be banned. Eligibility would be established by a simple declaration of need for support. Use of declarations would imply that we trust poor people as much as we trust the non-poor to declare annually accurate statements of income for tax purposes. The system could be monitored as the tax system is—by random sample checks. This would have the additional virtue of simplifying the legion of bureaucracy which constitutes the welfare system.

As another improvement I would like to propose that we separate welfare services from money assistance. Some persons need the services which the welfare program offers while others need only the money. We should get away from treating those who are on welfare as cases. The services provided by welfare should not be forced on those persons who neither desire nor need them.

A final point is that adults in AFDC families are or have been allowed no earned exemptions under the program as it now stands. This lack of incentive to work is a serious shortcoming of the welfare system. Until quite recently the mother who supplemented her AFDC payments with some meager earnings would find her grant diminished by that amount. Now a third of her earnings may be exempted in calculating her monthly payment—but it is questionable that this is adequate.

I might say parenthetically here, Madam Chairman, that one of the most offensive things about the compulsory work program amendment is that, before these amendments, a mother who wanted to work—and

14 percent of them worked despite these disabilities—had to suffer a dollar-for-dollar reduction, had no provision made for her children, no provision made for training or adequate placement on a job, yet it was assumed that they were not working because they did not want to work. Yet the Congress, when it finally got around to passing these incentives to work, also felt that poor people could not be sufficiently trusted and therefore had to pass the compulsory provisions as well.

Now, there are several other valuable changes which I have not cited that could be made, such as the involvement of recipients in program operation and policymaking. While all of these changes which I have discussed would make for a more efficient and humane welfare program, it is my view that the current program—or even the program with the changes I have proposed—is not designed to and cannot fill the income gap between the poor, the near poor, and the affluent in our society. It is too stigmatized and has too many built-in handicaps for this kind of expansion. What is needed is a combination of approaches which will be flexible enough to meet the differing needs of individuals and families at different times in their lives.

In my view we ought to be considering ways of maintaining welfare as a residual program while continually shrinking its population. There have been many suggestions put forth as to how this can be done—negative income tax, guaranteed public employment, expanded social security benefits, and children's allowances are among them.

In my view, no one of these programs by itself is the complete answer. All of these proposals as well as others will be described and discussed by the experts who will testify before you. I would like to, however, offer to you for your consideration my view as to the most desirable combination of approaches.

First, we should have a program of guaranteed public employment. Such a program would offer opportunities for useful work to those whose skills do not qualify them for jobs on the market now. For much of our history we have relied on the relatively secure unskilled or semiskilled job to provide the base from which poor families could advance to a better level of living as their children got more education, and so forth.

Those jobs no longer exist in any significant numbers. Therefore it should be the responsibility of the public sector to replace this entry door to the main society. Jobs could be created to fill the wide variety of unmet needs in areas such as education, health, public safety, social service, sanitation, and other municipal services. The National Commission on Technology, Automation, and Economic Progress estimated that there are 5.3 million potential jobs in this area.

However, even with an effective public service employment program, we still will not have closed the difference between a worker's productive capacity and the cycle of his family needs.

The United States is the only Western country which has not recognized this discontinuity and provided for it by means of a children's allowance. Canada, for example, has provided for such an allowance for more than 20 years.

Simply stated, a children's allowance provides payments to all families with dependent children for the purpose of promoting the welfare of children and strengthening family life. A children's allowance pro-

gram has several virtues, other than the above-mentioned one, which makes it particularly relevant to the characteristics of the poor in the United States.

First, it would directly benefit the group which as we have seen is most needy; that is, families with children where the man is in the house, working, and still unable to provide enough for the family to live on.

Second, a children's allowance would benefit this group without providing disincentives to work. This is because the children's allowance is not reduced with earnings. As most of the poor in this group live in families in which the head is employed, the absence of disincentive is particularly important. A children's allowance program might, in fact, provide a positive incentive to work. With an assured income from a children's allowance and no tax until total income exceeds the poverty line, a poor family can lift itself from poverty with only a modest earned income.

Third, children's allowances will benefit the near poor and, indeed, children at all income levels where the family income is strained because of the stage of life where children are, illness and so forth. In particular, it will have the effect of easing the strain that young families at almost all income levels feel in the early years of marriage. Because money going to the nonpoor would in this manner play a specifically constructive role in family development, we do not regard it as wasted, even though it does not meet our primary objective. Moreover these payments should help to reduce tensions between poor and near poor, because it provides benefits to both. I should not need to belabor that in these times we should look with favor on anything that reduces divisiveness in our society.

Fourth, a children's allowance also would be amenable to simple and dignified administration.

Finally, a children's allowance will increase the capacity of low- and low-middle-income families to provide achievement opportunities for their children in their developmental stages.

To a limited extent, national policy already recognizes the differential between wages and family need by supplementing family income through our system of income tax exemptions. The problem, though, is that the family who has the lowest income and therefore pays the lowest tax gets only a 14-percent allowance, which is \$98, whereas a person who is earning enough to pay a 70-percent tax gets a \$420 benefit. And, of course, those who are not earning enough money to pay any tax get no benefit from our children's allowance at all.

I would favor much expanded social security coverage. This would leave a radically improved public assistance program as a last resort for those who fall between the cracks of these other programs.

But before any major income maintenance programs are enacted—or even seriously proposed—the American people will have to know a good deal more about them and the need for them. At the present time there is no more than a handful of people in this country who understand questions you will be discussing or who have given them any thought at all.

Throughout this week many different points of view as to how to assure minimum income to our citizens will be presented to you. While I favor the approach I have outlined, the most important fact is not

to lose ourselves in debate among various plans, but to get the American people to recognize the great need which exists and the requirement to commit substantial resources to eradicate the need. Yet the time is very, very short and we must find ways to convey effectively the urgency and extent of the need. I believe these hearings will serve as a most useful contribution to this end.

Representative GRIFFITHS. Thank you, Mr. Carter.

STATEMENT OF MITCHELL GINSBERG, ADMINISTRATOR OF THE HUMAN RESOURCES ADMINISTRATION OF NEW YORK CITY, AND FORMER COMMISSIONER OF THE NEW YORK CITY DEPARTMENT OF WELFARE

Mr. GINSBERG. I am Mitchell Ginsberg, until recently commissioner of the New York City Department of Welfare, and now administrator of the human resources administration in the city. I am speaking as an individual.

I particularly appreciate the chance to appear before this subcommittee at this time. I think the timing is excellent, because I do think we have reached the position where there is substantial agreement about what is wrong with the existing welfare system and that there is little, if any, more need to beat that dead horse. It is time now to do what can be done to improve the existing system and to move toward a new system.

I think you will find a striking similarity between what I will say and what Mr. Carter has just finished saying, not because we worked together on this in advance, but because I think you will find throughout these hearings that a substantial number of people who have been working in these programs have by and large reached consensus on the major directions that ought to be taken, although there remain some differences among us as to specifics. I would hope, however, that those differences would not be a reason for the failure to take action.

What are some of these areas of agreement?

First of all, I think there is a fair consensus that a welfare system designed for the 1930's, designed for a time when unemployment and poverty was pretty much across the board and even at those times was seen as a relatively temporary phenomenon, is simply not effective in the particular situations that we have now in the 1960's and that we face in the 1970's, when unemployment and poverty has become very much limited to particular groups in our population. So the system designed for the first simply cannot work, it seems to me, when you have these totally different conditions.

To oversimplify it somewhat, the public welfare system was set up with two objectives: to keep people alive at a minimum decent level and to keep people off welfare rolls and to help them become self-supporting. I would suggest to you that using those two objectives the system has by and large failed in both respects. This does not mean that the system does not have a useful service, and does not say that keeping people alive is not important, because without this system there are probably many who would not be alive today. But it continues to fail to meet its objectives.

I think you have to have some understanding of who is on welfare. By and large, the major part of the caseload is made up of the aged,

the very young, and the disabled—people who cannot reasonably be expected to work either at the present time or in the foreseeable future—and that the rest of those are by and large the people who have come on the welfare system because of the failure of other systems—the failure of health, of employment, of education. The welfare system itself and by itself cannot hope to solve all these kinds of problems.

Mr. Carter has already referred to the fact that only perhaps a fourth of the people eligible from an income point of view are currently receiving welfare. Furthermore, I think there is widespread agreement that the welfare problem in this country is a national problem. It is national in scope, it is by and large national in origin, and it will require national solutions. The notion that any city or indeed any State can develop a meaningful program that will really help solve these problems is to me a real myth.

Then I think we are in agreement that the categorical approach, the dividing people up among categories and providing assistance based on whether you happen to be in one category as against another, simply makes no sense. There is no justification for the Federal Government refusing to support families where there is an adult male in the family, when one of the basic objectives of the program is supposed to be to strengthen family life. I have never been able to understand how a program that is designed to strengthen family life achieves that objective by forcing a man out of the house in order for the family to get some assistance. It is one of the major paradoxes of the program.

It has also provided a major disincentive to work. It has provided a 100-percent tax. Until recently, the people on welfare were the only people in the country who suffered a 100-percent tax because of the fact that when they found employment, what they received from welfare was reduced dollar for dollar. There is no need to tell you what effect that has on incentive.

Then I think it is clear that the practices followed, whether meant to or otherwise, were designed to encourage dependency. We have said to them again and again, "We don't trust you, you don't count; we know you are trying to take advantage of us and if only you were something like us, you would have made it on your own and you would not have been living off welfare." When you start with that approach, it seems to me self-defeating that people would be able to move toward some kind of self-support and independence.

By and large, I would say people in welfare programs have been isolated from other programs. The truth of the matter is that poverty programs have had little or no effect on the welfare population. One of the reasons for that is that welfare recipients are tough to work with and tough to achieve results for. So you tend in poverty and other programs to look for people with whom you are likely to have quicker and more constructive results so you can show how well you are doing. This has inevitably meant, in my judgment, that by and large the welfare population has also suffered.

What can we do about it?

I share with Mr. Carter the feeling that no matter what is done, in the long run, we will not come up with a viable system that will provide—to quote the committee—the "opportunities for achieving a fair and economic welfare system through improvements that can

and must be made now in the present program of categorical assistance."

I just don't think that is a realistic objective.

I think the legislation passed in the last Congress went exactly in the wrong direction. It turned back again toward the system developed in the 1930's and suggested or required remedies that clearly have not worked. Aside from the humanitarian aspects of that legislation about which I feel very strongly, it will not work; it will not do the job it was designed to do.

Well, what can we do?

It has to be understood that there is no one solution. The notion that any one program is going to make the difference is to me a delusion. In the existing program, I would suggest the following steps, and again, the similarity with Mr. Carter will be noted:

One, the establishment of national minimum standards. No single step seems to me to be as important as that one step, to try to narrow or eliminate the wide gap between different States and also to provide some assistance and help to those communities that have tried legitimately to provide at least a decent minimal aspect of assistance. As a result, these communities have had some increase in people coming to find a way to live when they cannot survive economically at home.

Secondly, as I have already indicated, to eliminate the categories and to provide assistance based on the only real and legitimate criterion, which is economic need.

Third, to extend the program to aid unemployed parents. It is simply insane in my judgment to have a program that prevents assistance to intact families. I found myself some months ago literally in the position where the wisest thing I might have done is to go to 6,000 or 7,000 families in New York City and urge the father to desert, because only if he did so could we guarantee that the children would receive assistance under the newly restricted AFDC-UP rules. It also would increase the quota eligible for aid to families with dependent children in New York State when the "freeze" takes effect. When any commissioner has to give serious thought to urging 6,000 to 7,000 fathers to desert their families, I think that speaks for itself.

Fourth, the importance of some kind of income incentive, it seems to me, is very clear. Congress has made a step in that direction. I would suggest that the figure which was chosen—the first \$30 a month and then 30 percent of the balance—is simply too small. We have had a program since September 1 in New York City on an experimental basis, unfortunately limited to AFDC and AFDC-UP, where we permit the family to keep the first \$85 and 30 percent of the rest until a family income reaches \$4,980.

As of now, we have had 2,500 families that have come into this program where the father or the mother—in most cases, mothers—have sought and found employment. In each one of these cases, it is literally true that the income of the families has been increased and the costs to the Federal and State and city governments have decreased.

For each family that comes under this program, the supplementation they receive is substantially less than when they were fully on welfare.

I would suggest that when you look at these figures, and I have quoted them in my written testimony, you will find that a substantial number of people who have never worked before or who have not

worked for a minimum of 5 years have now sought employment. I think it is evident that if you provide training, if you provide an economic incentive, and if you do something about satisfactory day care—none of which we have done enough about—you can move toward employment of people on welfare without the self-defeating coercive aspects of the new social security legislation that was adopted last year.

The next thing I would urge is the simplified declaration or affirmation of need. The evidence of what we have done is so clear. We require our workers to spend 95 percent of their time on investigations. Then we call them caseworkers, whereas, the truth of the matter is that they don't have any time, overwhelmed as they are with investigatory requirements and with paperwork, to do the job. We expect our workers to say to a client on Monday, our job is to investigate, to check up, to make sure you are not taking advantage of us, and then to show up on Tuesday and say, but now we really want to help you; in what ways can we be of assistance to you? This is an impossible situation. Again, it does not work.

We have had a demonstration project in New York City just about a year where we have used a limited form of an affidavit or declaration. Not simple enough, from my point of view: a much simpler application could be developed. But it is a start. We have followed this up with a research project under the city university to try to determine at least whether or not it is true that a substantial number of people are taking advantage of the program.

Well, we do have the preliminary results and we will be glad to furnish the final results. Commissioner Jack Goldberg, current commissioner of social services, will be glad to give you the final report. But as of this time, the proportion of people who, on the basis of this independent research effort, are taking advantage of the program has turned out to be very small, substantially less than what it assumed to be the national proportion of people who take advantage of the welfare programs generally. Again, I would think this is some clear-cut evidence of the desirability of this kind of an approach, to say nothing of the advantage that lies ahead in the possibility of beginning to use our workers in the way that they ought to be used.

We have under this kind of program, as has been suggested, used a 10-percent sample on a random basis, very similar to that followed by the income tax people and, in fact, based on discussions with them. So I would urge extension of the declaration.

I think the evidence is crystal clear that this is the way we should go and that we are past the demonstration stage.

However, the declaration itself can only be a meaningful step if it is combined with the separation of income maintenance and service. The eligibility job should be done separately from the provision of services and by different personnel. In New York City and in New York State and in other States, we waste qualified personnel on what are fundamentally clerical jobs. I believe the eligibility job is at best a clerical task. I look forward to the day when it can be done by machines. But I certainly see no sense at all in the continued use of college graduates for a task that is simply clerical in nature and does not require people with those kinds of qualifications.

Well, these are some of the things. There are others, of course, that I do not have time to go into—involvement of the welfare recipients

themselves. We have moved in that direction in New York City. In all honesty, the clients themselves have moved more rapidly in that direction. So you are increasingly having involvement of clients.

We have developed a bulletin which provides specific information—a pamphlet to be provided to all people who apply for welfare—as to what their rights and entitlements are. We have moved toward decentralization of services by providing neighborhood satellite centers.

I think these are things that have been done and can be done, but I say to you they won't in the end do the job. So while we are making these improvements, I would suggest that we consider and move toward the development of a new package of programs.

Let me emphasize the package aspect. To suggest that any one of them will work is, seems to me, simply not realistic. Well, there are various packages. Mine happens to be closely related to that of Lisle Carter. I would suggest three things dealing with the income maintenance part of it.

One is that there should be a drastically simplified, modified public assistance program that would be residual. It is unrealistic to think that any program is going to eliminate the need for public assistance. We will need a program of that kind. It will be cut down substantially and obviously ought to be simplified in the ways we have suggested.

Secondly, I would bring the aged, the disabled, and blind under the social security system. We have already moved in the direction of bringing people 72 and above into the system when they have not contributed to it. The argument, of course, is that this will destroy the system. I do not believe that for a moment. It seems to me that here you have a simplified and effective way of taking care of a substantial group of people, of bringing them under the blanket of the social security system, and saving the costs involved in welfare programs, therefore coming up with a much more effective system.

I, too, would opt for the children's allowance. I do not want to get into a long debate with those who advocate the negative income tax. I would settle for either in place of the public welfare system. I happen to favor the children's allowance system for the following reasons: I believe it is simpler to administer since it goes to all. It would eliminate the disincentive problems. It eliminates the means test completely. Anybody with any experience with the means test knows that it has never been administered in any way except a way that is mean.

Four, it puts emphasis on the importance of the family as an institution; five, it has been tested out. As Mr. Carter has indicated, 62 countries have it. So I would urge this.

There is a problem of the cost and the expense, but that problem is true whichever system you go to. The question of what level you set the children's allowance system at is no more complicated than the question of at what level you set negative income tax.

It might be well to consider giving a \$600 allowance to all children below school age, not because I am not concerned with what happens to children once they get to school, but it does seem to me that at this younger period of life the problems posed for the families are the most difficult. Therefore, it seems that as a way of starting the program—because the history of the United States in this area is that we always

go by bits and pieces—it might be well worth considering a beginning children's allowance for children below the age at which they go to school.

Alvin Schorr, in an outstanding book called "Poor Kids," has suggested that such a program at \$600 a year per child would cost about \$5.9 billion on the assumption that the welfare costs would continue as they are because you would increase the welfare allowances to those who would continue to get them. Obviously, there is a possibility for additional savings that would reduce the cost below the \$5.9 billion.

You would have to and certainly should eliminate the \$600 income tax exemption for dependents, and there are other things that can be done with the tax structure also that could cut down the cost.

Let me repeat what Mr. Carter said, because I think it gets overlooked. It is true the children's allowance would go to some people who are not now on welfare. That is often cited as a disadvantage. I consider that an advantage, because it is unquestionably true that there are many families eligible for welfare or just above the welfare level who feel left out of things and who feel that they are put upon by having to support programs for people who are on welfare. I want to bring in some of these people, to give them a sense that they have a stake in the system as well, and to provide them also with the help that they need. So I consider it an advantage that people not on welfare would derive benefits from this system. By eliminating the exemption and making other tax adjustments, we can see that Governor Rockefeller, for instance, does not benefit from an allowance—this type of thing seems to worry some people.

Let me indicate that one of the benefits of such allowances is that they would eliminate strain on young families.

Now, in addition to a new income maintenance system, I think we have to move toward guaranteed employment. This is an essential step that is completely, it seems to me, in the tradition of this country. There are two ways to do this. One is by subsidy to private industry. I believe that is an essential step. I have suggested that where private industry employs a man who is 50-percent productive in the first year, the industry be subsidized for the remaining 50 percent until the person is fully productive. Time limits can be put on this; safeguards can be built into it.

Here again you would move people into employment, reduce the welfare costs immediately, and, at the same time, set up a situation where people get used to working and become productive members in the society in the same way that is true of other people. I see nothing wrong with subsidies to industry or to anybody else to provide employment for poor people. This country has grown great on the subsidy system.

It has always been ironic to me that subsidies to everybody else are considered acceptable, but when you talk about subsidies to poor people, they get redefined as handouts, with all the negative concepts that arouses. It seems to me that with this kind of subsidy to private industry and with the use of Government as the employer of last resort—and I am not talking just about or even mainly about the WPA system, although I have no objections to that; I think the WPA did significant things in this country—I am talking about jobs in the public sector that are essential. Anybody just has to look at things like

the libraries, the hospitals, the mails in this country to know that there are literally millions of jobs that are necessary and are dignified and, at the same time, provide service to the rest of the people. I see no reason why we cannot move substantially in that direction, and I hope the thought would be given by this committee to the use of welfare payments to subsidize people for this. I see nothing philosophically objectionable in any way, other than that we have not done it up to now.

With public social services set up as Mr. Carter has suggested, not supplied to people, but available to them when they need them, not forced on people simply because they need money, this is the package I suggest: a revised and residual public assistance system; a children's allowance system; social security for the aged, the blind, and the disabled; guaranteed employment through subsidy of industry in the private sector and through the employment of the Government as an employer of last resort; and a public social service system available to people as they need it. Whether you like this package or another package is not, it seems to me, the fundamental point. But you do have to recognize that this situation, this system we have, has continually gone downhill. In my judgment, it will continue to go downhill unless we do the two things that are absolutely essential: one, begin to reform our existing system, and, second, go to another system.

Thank you.

(The complete statement of Mr. Ginsberg follows:)

PREPARED STATEMENT OF MITCHELL I. GINSBERG

I am Mitchell I. Ginsberg, formerly Commissioner of the New York City Department of Welfare (now called the Department of Social Services) and presently administrator of the New York City Human Resources Administration, a "super" agency that comprises the public assistance program and its social services; the Federally and locally supported anti-poverty, community development, job and training programs; services for children, youth, alcoholics, narcotics addicts and homeless men, women and children.

The timing of these public hearings, to which I was honored to be invited, is particularly fortuitous. In my judgment, we have arrived at a crucial moment at which general agreement about the ills of the present income maintenance system threatens to disintegrate once again into dissension about remedies. We cannot afford further dissension at this time. We know well what new directions must be taken.

Areas of agreement

First, let me review the areas of agreement—agreement that has been expressed over the past several years in numerous individual statements and committee reports, only the most recent of which is the very excellent report of the Steering Committee of the Arden House Conference on Public Welfare convened last fall by Governor Rockefeller. (Reproduced in the appendix to these hearings.)

Agreement on the following points seems to have been reached by all those who are knowledgeable about our present income maintenance system, including those who define it as punitive and demeaning, and even some of those who define it as a giveaway that betrays the efforts of the taxpaying working man:

That a system designed for a fluid poverty population in temporary difficulty in the 1930's cannot properly confront the problems of a more solidified, permanent under-class in the 1960's, and that changing this system by compounding its basic flaws—as in the Social Security Amendments of 1967—can lead toward nothing but disaster for poor persons and for the economy as a whole;

That while public assistance has offered a means of survival for millions of persons since 1935, it continues to fail to meet its primary objectives of

providing a decent level of financial support and effective encouragement of those who are able to return to self support;

That the welfare caseload is composed largely of persons who do not work because they cannot, not because they will not. The reasons for an inability to work are for the most part not remediable—old age, total blindness or disability, or extreme youth. The reasons that may have some remedy—broken homes, poor emotional and physical health, lack of child care facilities, inadequate education and training—are not wholly within the welfare system's jurisdiction or capacity to devise remedial programs;

That the population now receiving public assistance is but a fraction of the population in need: 8 million Americans receive welfare aid but 29.7 million are defined as poor, according to the most recent Commerce Department report on national poverty;

That the welfare problem is national, rather than local, in scope and origin and therefore requires approaches that are national in scope and origin—national minimum standards of eligibility and financial assistance, emanating from a Federal financial and administrative structure;

That the present program actively encourages the breakup of families through the categorical approach that offers federal aid only to a fatherless home;

That the conditions of aid discourage the seeking and holding of employment at low wage levels that barely exceed the welfare standard in some states;

That the atmosphere of dependency that permeates a welfare home as the result of constant pressure to demonstrate individual need, is destructive to the healthy development of children. If the comment of one child who says he looks forward to "being on the welfare when I grow up" were not eloquent enough testimony of distorted values, the joy and relief of another whose mother has just gotten a job should convince us beyond a doubt of the debilitating consequences of dependency. Even without desperately needed research into the facts of inter-generational dependency, the case examples we do have are impressive; and

That the welfare program operates in almost complete isolation from other programs of rehabilitation, community development and the other public services. Welfare recipients have even been avoided by the anti-poverty program in its anxiety to show results, since the welfare client is admittedly the hardest to inspire to self help.

Areas of divergence

After decades of silence with regard to the welfare program—and I hold myself and my profession as responsible for that silence as anyone—public discussion and a spate of suggestions for change now come from every side.

Unfortunately, the proponent of each remedy tends to espouse it as a panacea, and conflict threatens to intensify. In our eagerness to find "the" solution, we continue to conduct studies, propose experiments, hold forums and delay action.

Obviously, what has become crystalized as "the welfare problem" cannot be remedied by a new income maintenance system alone. I think we already know what can be done in that area—and I will outline some of the specifics in a moment. We also know the direction in which the present system must move in order to develop into something quite new. And despite the sometimes passionate espousal of other programs instead of a new income maintenance system, I think we also know that new forms of subsidized employment, massively increased child care arrangements, more flexible public education, much wider networks of training programs, are also necessary in addition to—and must be constructed at the same time as—new income maintenance systems.

Toward improvement of the present income maintenance system

Although I do not believe that there are, as the committee asked "opportunities for achieving a fair and economic welfare system through improvements that can and must be made now in the present program, at the same time that we begin seriously to consider alternative systems."

The most profound and urgent change in the public assistance system must be the provision of a national minimum standard of assistance. I am sure the committee is well informed on the subject of assistance levels around the nation, so suffice it to say that a system that allows payments that range from a high of \$59.70 in New York (average payment per AFDC recipient) to a low of \$8.35 in Mississippi—with a national average of \$39.15—cannot possibly be justified

merely on the basis of regional variations in cost of living. Although the payment level in New York more nearly approximates the cost of living there than does the grant in Mississippi, it is still far too low.

Apart from the obvious humanitarian basis for a national standard of assistance, we can assume that the provision of a national standard would eliminate at least one of the reasons why so many persons come to urban centers in search of a better life. Since I am unalterably opposed to the imposition of residence restrictions—and welcome recent court action in support of that opposition—the development of a national standard is the only way to insure that poor people can get the help they need where they now live.

A second vital change would be to eliminate the patchwork of assistance categories that has grown up for the past 35 years and to substitute for categorical assistance the single qualifying factor of need.

There is glaring discrimination inherent in a pattern of assistance that respects the aged, blind, disabled and children under 18, but ignores the needs of childless couples, 50 and 60 year old jobless men, the struggling families with fathers and all the other destitute persons who do not happen to fall into a Federal "category."

In New York, we have one of the nation's most extensive general relief programs, but other local departments are hesitating to offer this assistance, knowing that such cases receive no Federal funds.

The most dramatic inequity of the categorical assistance system is in its relation to intact families. In contrast to our apparent dedication to family life, we offer help to a destitute family only if the father is not at home. An immediate improvement in this area would be an extension of the Unemployed Parent AFDC program to provide for intact families while they get on their feet.

Late last year, the Senate passed a provision making AFDC-UP mandatory for all states. The conference committee not only failed to include this in the final version, but voted to restrict the program even further than it now is. I would hope that everyone concerned with this program will do everything possible to press for an amendment immediately to make AFDC-UP generous and mandatory. Without such Federal aid to intact families, the Congressional mandate to states to encourage self-support and reduce the welfare rolls is empty and cynical at best.

The lack of Federal aid for families with unemployed fathers also restricts whatever efforts we have been able to make in reducing the disincentive to employment inherent in the public assistance system.

The earnings exemptions allowed in the Social Security Amendments of 1967, and in the demonstration program operating in New York City since September, are restricted to the AFDC population, including the few men on AFDC-UP who have been unemployed for more than six months—a tiny minority of this off-again-on-again population. Therefore, employment incentives are denied to most male breadwinners, the very ones in which we should be the most interested.

Therefore, following the elimination of categories and the provision of aid to all persons in need, a crucial change in the public assistance system would be the elimination for all recipients of the disincentive to work now inherent in the 100 percent tax on employed welfare recipients.

Although the 1967 amendments provide for a budget exemption of \$30 a month and 30 percent of the remainder, such an incentive in my judgment is too low to do the job. One argument for this small step is that it represents at least some movement toward true work incentives. However, there is serious danger that an inadequate exemption will not work, thereby throwing the whole concept of financial incentives into disrepute. Since there is wide agreement that the concept is sound, it should be given a fairer national trial.

In New York City, the results of a preliminary trial have been impressive. On a demonstration basis since September 1, we have operated an incentive program close to the model developed by the Office of Economic Opportunity—the exemption of \$85 a month and 30 percent of the balance earned.

In the first nine months of the program, 2,500 cases were placed on incentive budgeting, representing about 10,000 persons in families where there is now a breadwinner—with all the psychological advantages obvious there—plus a distinct saving to the taxpayers. I have attached a statistical analysis of the cases on incentive budgeting through February 16th and will just give a few highlights here.

Of the 1554 persons in the program at that time, about half secured jobs as office clerks and sales clerks, factory workers, hospital workers or laborers.

The other jobs ranged from bank tellers and motor vehicle operators to beauticians, school aides and watchmen.

Earned salaries went as high as \$126 a week, but 80 percent of the jobs were in the \$50 to \$90 a week range. Eighty-five percent of the jobs were full time, 25 percent of the workers had had no previous work experience, and 15 percent had been unemployed for five years or more; one client for 20 years.

Our experience with this program shows several things: (1) that with proper incentives, persons will seek and hold employment without being forced to do so by such punitive instruments as the WINS program in the 1967 Social Security Amendments; (2) that recipients of public assistance are, indeed, available for employment if conscientious provisions for the day care of children and the training of employees are made.

We are now entering negotiations with the State and Federal governments to continue this program as an exception to the 1967 amendment provisions, and will make every effort to preserve it with its present level of incentive.

Because of the scarcity of research funds—a chronic illness of the welfare program—we are only now receiving funds to conduct the kind of long-term evaluation of the incentive program that is so needed for guidance in moving the program in new directions. The research will follow incentive-budgeted families for a period of years, to measure the effect of employment on their lives and to identify the kinds of families that can most benefit from such a program. Only with this information can we design future programs to aid specifically at those persons who can best be helped.

A fourth important change in the public assistance system—and I am ranking these points not necessarily in order of importance—would be the radical simplification of the application process and the determination of eligibility, leading to the use of certified applications without investigation and to the complete separation of income maintenance functions and the provision of social services.

In this area, we have made some progress with the institution of a "Declaration Demonstration" in two of New York City's 37 welfare centers on an experimental basis. In line with the trend expressed in the Medicaid and Food Stamp legislation—and in instructions to states from HEW—the statements of the applicant are treated as the primary source of information. Instead of subjecting each applicant to a lengthy, cumbersome investigation of every statement he makes about his current need and past history, we ask each applicant to fill out a Declaration of Need himself.

If this Declaration shows him to be eligible for public assistance, his case is opened immediately and service begins. A 10 percent random sample was taken of the 11,947 new cases and the 18,155 recertified cases in the two centers during the first year of the experiment (April 3, 1967 through April 27, 1968). These sample cases were subjected to the traditional investigation to determine whether there was any variation in eligibility.¹

Preliminary results suggest that a valid decision about eligibility can be made at the time of intake, without a home visit or further verification.

I am sure that Commissioner Jack R. Goldberg, who is now directly responsible for the City's welfare program, will be happy to make the final research results available to the committee when they are published next month. The preliminary review, which includes an analysis of 885 randomly selected new cases and 1,450 recertifications, shows the following:

2.7 percent of the sampled new cases (24 cases) and .7 percent of the recertifications (10 cases) were found to be ineligible by the traditional investigation of the sample. A combination of these two categories of cases shows an overall 1.45 percent rate of ineligibility.

The only figure that can be used for comparison, although not strictly comparable, is the 1.7 percent ineligibility rate found by the State in its most recent quality control study of New York City's entire new caseload and recertifications. The State does not calculate these figures separately.

The nation-wide rate of ineligibility is estimated at between 3 and 4 percent.

The rate of ineligibility found in an early analysis of the City's declaration experiment, therefore, is .25 percent lower than that found by the State in a City-wide study covering the 9 months prior to the beginning of the experiment, and 1.5 to 2.5 percent lower than the nationwide average.

¹The research is being conducted by contract with the City University of New York.

Although New York State, in commenting on the research results, noted that in 11.2 percent of the sample cases eligibility could not be determined, it should be noted that the "eligibility not determined" cases are not analyzed in either the State or national estimates with which we are comparing our results.

It must be noted further that there are no strictly comparable figures in the City, State and national statistics. However, I think the present figures present suggest the validity of this kind of approach.

While continuing to perfect and analyze the declaration system, the next step is to pursue the second aspect of the demonstration. That is, to create a real separation of eligibility determination and social service functions. The present requirement that case workers spend 90 percent of their time investigating client statements may be shown by the demonstrations to be unnecessary. We hope in the second year of the experiment to truly free and train caseworkers to deliver the kind of rehabilitative and supportive services to which we have been giving lip service for many years.

To create a true separation of the two functions, however, will require a new look at staffing patterns in the Department of Welfare.

It should be apparent that the tasks of investigating and helping are incompatible. For the same worker to one day perform as a vigilant guardian of the public purse—conveying the conviction that the client must prove his worthiness for aid—and on the next day seek the kind of confidence and trust that is necessary for any helping relationship is to trap the welfare worker forever between Scylla and Charybdis.

There is no rational excuse, either, for requiring college graduates to perform the essentially clerical task of eligibility determination. In fact, it could be much more efficiently performed by a machine.

Assigning clerks to the critical tasks would therefore free the college graduate to perform according to his skills.

In addition, the welfare worker's job must be analyzed in terms of the type and difficulty of functions, broken down into components and assigned to personnel prepared to do each job. Persons with lesser educational qualifications could certainly relate to the simpler cases and persons with advanced training and degrees are certainly required to help the most difficult cases. Our present demand that any college graduate be prepared to meet all needs is clearly unreasonable. New York State is moving toward more flexibility in requirements for caseworkers and I commend such a change to you for your consideration.

In addition to the major and fundamental changes I have discussed, there are other areas in which I think we are also ready to move ahead.

These areas include the involvement of public assistance recipients in a meaningful way in the program, and in the decentralization and integration services, especially in the large cities.

In New York City, we have made a small beginning in these areas. In most of our 37 welfare centers, we have established Client Advisory Groups that meet monthly with the center administrators to discuss problems, and make suggestions for new programs. The groups publish their own monthly newspaper and have contributed substantially to change. For example, the use of welfare recipients as case aides in the welfare centers was first suggested by the client groups. With funds made available by the Scheuer Amendment to the Economic Opportunity Act, we now have about 400 persons from the poverty population working as aides in the centers, receiving training and high school equivalency aid and earning \$4,250 a year.

We have also prepared a booklet detailing clients' entitlements under the law and are pursuing a more aggressive policy, under a recent change in State regulations, in supplying information about and referrals to family-planning resources in the neighborhoods.

In an effort to bring all the Department's services closer to the recipients' own neighborhoods, we have established five "satellite" welfare centers in areas where the client population is far removed from their major center. In these neighborhood centers, all the services of the department—not just income maintenance—are offered. These services include child welfare, homemaker, Medical Assistance, job counseling and referral, and family counseling programs.

The future

Convinced as I am that institutional social change occurs but slowly in this country, and in calculated stages, I would suggest that the revisions I have outlined for the present system be pursued immediately, while at the same time opening serious discussion of entirely new programs.

It is also my conviction that the public assistance system, no matter how improved, will not answer the needs of contemporary America.

Patching up a basically irrational system—based as it is on individually determined need and accountability—will not work in the long run. But neither will a new income maintenance system provide the nation with a solid basis on which to attack the problems of poverty.

Therefore, I and others have proposed a five part "package" of programs that must be implemented together if we are to pursue realistic solutions. It must be said that there is no guarantee that such a package will do the job. But it is certainly time to try.

Three of the programs are in the area of income maintenance—the transfer of the aged, disabled and blind to Social Security; the development of a children's allowance system; and the reorganization of the public assistance system into a residual program to aid the few Americans not reached by the other four programs.

The fourth part would be a system providing guaranteed employment to all able to work, and the fifth part would be an extensive network of public social services for everyone, whether or not they are in need of financial aid.

Income maintenance

I approach this discussion with some hesitation since I would prefer not to contribute to the polarization of opinion about which income maintenance system would be better than public assistance.

First, let me say that any of the systems now under discussion would be better than public assistance. But for several reasons—none of them strong enough to override my lack of confidence in the present one—my personal preference is for children's allowances and social insurance benefits for the aged and incapacitated, rather than for a negative income tax.

I am aware that many distinguished economists and sociologists have preferred the negative income tax. But the view that we can substitute one simple system for the many systems we now have is, in my judgment, not realistic.

Briefly, the social insurance and allowance concepts—across the board within the categories—seem to me to have the following advantages over the negative income tax:

1. Across-the-board benefits are simpler to administer, since they are given to everyone in certain specific categories;
2. They reduce the problem of disincentive to work, since the benefit is a supplement rather than an income in itself;
3. They eliminate the means test and the principle of individually determined need that have been found to be the rock on which the public assistance system has foundered: services for the poor tend to be poor services;
4. They emphasize the family as an institution worthy of special attention;
5. They have been tested by the experience of 62 nations over many years; and,
6. They have been accepted and dignified by long usage in the United States in the Social Security and Unemployment Insurance programs.

At this point in our history, it is particularly vital to devise programs that avoid creating special classes of recipients and dividing them from the rest of society. The lower-income groups who now feel most threatened by and most hostile to new social programs should be enabled to benefit from these programs.

The problem of expense would apply to *any* income maintenance system and the level of payments decision is equally serious in both cases. But it seems to me that productive experimentation is more possible with supplements than with the negative income tax—and experimentation should begin as soon as possible.

The movement of the "adult categories" of assistance—the aged, blind and disabled—into the Social Security system is a change that we could well contemplate almost immediately. There are more than 75,000 persons receiving aid in these categories this year in New York City, at a cost of \$93 million.

Many of these persons are receiving some Social Security benefits, but at a level lower than that of public assistance. If we were to provide a minimum benefit of \$100 a month, and blanket-in all persons in these categories, whether they were insured or not, most of that \$93 million could be transferred to the Federally-financed Social Security System and substantial savings could be effected in staff and facilities.

The principal argument against such an arrangement has been that it is a violation of the principle of contributory social insurance and would require

financing through general taxes. Of course, the principle of social insurance embodies the notion of skewing benefits in favor of people at the bottom, so I am really only discussing the degree of further skewing that would be necessary. As for blanketing-in uninsured people, Congress has already done that with persons over the age of 72. Only a comparatively small number would be involved in the change. I am sure the committee understands that blanketing-in would only be a temporary measure.

Another argument has been that to remove the adult categories from public assistance would be to deprive these persons of the services they receive as part of the welfare program. It must be said, however, that many persons in the adult categories are in need of money only. They cannot realistically expect to return to the labor force; they do not have problems with young families. What they do need is to be visited and to be helped with specific problems such as getting to a clinic or finding new housing. This help can certainly be provided outside the income maintenance system by a program of public social services to which I will refer later.

The most profound change in the income maintenance package would be the development of a system of children's allowances such as those now provided by 62 other western nations.

Under such a program, every family—regardless of income—would receive a certain amount per child. Depending upon the level at which the allowance was set and the point at which the allowance was recovered from the more affluent families in taxes, the annual cost would vary.

An essential step in creating a children's allowance system would be to eliminate the \$600 per dependent exemption now provided for in the Federal income tax program. Only those who earn enough to pay taxes now benefit from this exemption. Those who are poor receive no benefit at all.

As a starting point—in order to keep the cost of the program down and, at the same time, provide reasonably adequate allowances—I would favor allowances for children of pre-school age, at \$50 per month per child. In addition to the obvious cost advantages of such a restriction, it would concentrate its benefits on young families most in need of assistance.

Alvin L. Schorr, in his landmark study of the nation's 14 million poor children (*Poor Kids*: Basic Books, Inc., 1966) estimated that such a system would require a net expenditure of \$5.9 billion annually: The gross cost of providing the approximately 25 million Americans under the age of six with \$600 a year would be \$14.9 billion. About \$2 billion a year would be collected on this income in taxes and about \$7 billion would result from eliminating the \$600 a year tax exemption for all children, leaving a net cost of \$5.9 billion.

He also estimated as an alternative, that \$4 billion a year net cost would provide \$25 a month for children under six and \$10 a month to children between six and eighteen.

Both of these estimates would be in addition to the \$8 million now spent on public assistance, since a revised and more equitable public assistance system—though covering fewer people—would have to provide truly adequate benefits and services in excess of those now available.

A program of children's allowances would put at least half of the net cost into the hands of poor people. But I would not want you to think the other half of the investment wasted. Families that are not poor but are suffering the intense financial pressures that occur when children are young and wives are unable to work would also be protected by a children's allowance.

This brings me to the third component of a new income maintenance system—a revision of the present system to provide help for those who "fall between the cracks."

Whether we like it or not, there will always be those unfortunate individuals who will be unable to get by on supplemental benefits and who are incapable of self support. There will always be those who suffer from crises such as the death of the breadwinner or catastrophic illness that temporarily prevent them from maintaining themselves even on a supplement.

For these persons, we will require a dignified, equitable, much simplified system of granting funds for the destitute—a system that I outlined earlier.

Guaranteed employment

A fourth, and crucial, part of the package relates to the whole problem of employment. I think that we should move immediately, not just toward full employment but toward guaranteed employment: the right or every able-bodied, willing person to a job.

Emphasis on manpower programs is, not to be disrespectful of its importance, the cure of the hour. The business community, the President and Congress, social planners and the public at large have suddenly developed high hopes for meeting the urban crisis with jobs. It would be helpful, I think, to have a framework within which we designed our job and training program—a goal toward which to work. What better goal than guaranteed employment? Not forced employment such as that directed toward ADC mothers by the 1967 Social Security amendments, but an assured opportunity to work for everyone willing and able.

This could be accomplished in two ways. First, through the greater involvement of private industry. Business and industry as a whole is beginning to give evidence of willingness to help government confront the nation's manpower problems.

But we must remember that business is oriented toward profit and is primarily interested in employing persons whose productivity can assure the business's success. Private enterprise is not, and cannot be expected to be, a social agency.

Therefore, consideration should be given to extending the new JOBS concept to government subsidies to private industries for the employment of persons who are not 100 percent productive when they first come on the job. If Mr. X is only 75 percent productive during his first year of employment, 25 percent of his salary could be subsidized while he develops good work habits and learns the skills required for full productivity. During this period, we would be saving the amount required by a full public assistance grant, the employee would have entered the mainstream of society as a productive citizen, and his children would be relieved of the stigma that is still unfortunately attached to welfare recipients by many citizens.

Of course, careful safeguards would have to be built into such a subsidy program. A time limit would have to be placed on the period a business could receive a subsidy for an individual employee; the employee would have to be guaranteed continuation in the job for which the subsidy was given unless there was evidence of gross incompetence; and an educational component should be added to assure each employee of the possibility of growth and advancement.

Some persons have alleged that such a program of subsidies is creeping socialism. However, it seem to me that the principle of subsidy has found wide acceptance when applied to farmers and to industry. We seem to have difficulty with it only as it might be applied to poor people. In the present climate, I think discussion of such an investment is possible and should be pursued.

For those who cannot be immediately productive enough to enter private industry, it would appropriate to consider the government "the employer of last resort." By this I do not primarily mean a new WPA or public works program, though such programs do have value. But they were designed for a temporary emergency and thus did not concentrate sufficiently on producing employees with new skills nor new kinds of permanent jobs.

What I am talking about are meaningful jobs in the public services. One need only look at our municipal departments to see that "make-work" jobs are not necessary. The work is obviously available for all kinds of aide and assistant personnel in hospitals, health and welfare centers, schools, museums, libraries, parks, police and sanitation departments.

It may be necessary to consider new kinds of financing from the Federal Government to make it possible for cities to add these kinds of jobs to their payrolls, and certainly Civil Service regulations and union contracts would have to be adjusted.

One source of possible subsidy funds comes immediately to mind—the public assistance grants. I would urge immediate study of the feasibility of using assistance funds to subsidize the employment of welfare recipients and other poor people by public agencies. The grants could be used to enable the public departments to employ workers they need so badly, and the worker would receive his income in earned salary rather than in public assistance. The cost would be no greater for the taxpayer and would enable the client to enter the mainstream of the economy with all the obvious benefits to himself and his family.

There are thousands of jobs that need to be done, millions of people who could enter the public services to do meaningful jobs with futures, and possibly billions of dollars that could ultimately be saved.

Public social services

The fifth component of a new package of social welfare programs should be a freshly organized pattern of public social services, available to all those who

wish to use them. These services would include all forms of day care and child welfare services, counseling and support for troubled families, the provision of homemakers, central referral for help with housing, health, education, employment and legal problems, programs for the aged and disabled, and all the other services that presently exist at random in the cities.

The Federal Government has recognized that the provision of such services can contribute to the maintenance of a marginal family in a condition of self support. Washington has offered States the option of providing welfare-supported social services to such marginal families not now receiving—but in danger of needing—public assistance. However, most states—including New York—have not taken advantage of this option.

I would suggest extending this concept beyond the target of the marginal family to embrace a system of public social services for everyone that requires and desires them.

In conclusion, may I re-emphasize my conviction that it is only through the implementation of a group of related programs that we will have any impact on the problems of poverty. As seriously as we need an immediately improved and eventually revised income maintenance system, it would be a mistake to hope that such a system in itself will do the job.

The time is long overdue both for reforms in the existing system and the development of new approaches that provide genuine opportunity to people, and that begin to reverse the growing trend toward the division of our nation.

An analysis of the weekly reports for the period from September 1, 1967 through February 16, 1968 indicates that the number of cases placed on Incentive Budgeting is 1833.

Of the total of 1833 cases placed on E.I.B., a study made of 1554 individual cases reveals the following:

<i>Employment incentive program, New York City</i>		<i>Number of cases</i>
Type of job:		
Bank clerk/teller	-----	6
Barber/beautician	-----	12
Bartender/barmaid	-----	3
Building superintendent	-----	22
Case aide	-----	24
Child and adult care (babysitter, homemaker, etc.)	-----	41
Clerk (office)	-----	266
Clerk (sales)	-----	104
Dental assistant/technician	-----	4
Domestic	-----	45
Elevator operator	-----	5
Factory worker	-----	162
Food services (waitress, cook, etc.)	-----	71
Guard (crossing, security watchman)	-----	33
Hospital worker (aides, attendants, inv., nurse)	-----	123
Laborer	-----	241
Machine operator (factory)	-----	98
Machine operator (office)	-----	29
Motor vehicle operator (taxi, truck)	-----	22
Neighborhood youth corps worker	-----	3
Porter	-----	55
Presser	-----	11
School aide (teacher's aide)	-----	14
Secretary, steno, typist	-----	99
Telephone operator	-----	34
Miscellaneous ¹	-----	27
Total	-----	<u>1, 554</u>
Salary earned (per week):		
Less than \$20	-----	15
\$20 to \$30	-----	76
\$31 to \$40	-----	93
\$41 to \$50	-----	94
\$51 to \$60	-----	326

Footnote at end of table, p. 23.

Employment incentive program, New York City—Continued

Salary earned (per week)—Continued	Number of cases
\$61 to \$70.....	447
\$71 to \$80.....	294
\$81 to \$90.....	128
\$91 to \$100.....	51
\$101 to \$110.....	15
\$111 to \$120.....	13
\$121 to \$130.....	2
Total	<u>1,554</u>

Maximum salary (full time), \$126; supervisor, Neighborhood Youth Corps (United Block Association).

Full-time or part-time job:	
Part time (15 percent).....	234
Full time (85 percent).....	1,320
Total	<u>1,554</u>

Previous work experience:

a. Yes (75 percent).....	1,163
No (25 percent).....	391
Total	<u>1,554</u>

b. Length of time recipient last employed:

1 to 6 months.....	101
6 months to 1 year.....	371
1 to 2 years.....	297
2 to 3 years.....	136
3 to 4 years.....	68
4 to 5 years.....	32
5 years or more.....	158
Total.....	<u>1,163</u>

(Maximum time since last employed, 20 years.)

Category of assistance:

ADC (73 percent).....	1,133
T-ADC (16 percent).....	244
HR/VA (4 cases VA) (11 percent).....	177
Total	<u>1,554</u>

(Cases shown as HR and VA reclassified from T-ADC and ADC as result of full employment.)

¹ Includes carpenter, dispatcher, exterminator, film editor, minister, printer, substitute teacher, assistant designer, gas pump operator, veterinarian's assistant, social health technician, children's counselor, TV repairman, etc.

Representative GRIFFITHS. Thank you. Because Mr. Bolling has to leave, and with the permission of Mr. Rumsfeld, I am going to ask Mr. Bolling if he would like to ask some questions.

Representative BOLLING. Thank you, Madam Chairman. I have just one.

I heartily agree with promoting employment, but I am interested in seeing if I can get from the panel some discussion

I am for national minimum standards, but I am very much concerned about some of the difficulties. One of the difficulties is that there is this enormous difference in the cost of living from one area to the

other. One of our notorious lacks of success at the congressional level has been in facing up to problems that involve a cost-of-living differential.

For example, if we applied national minimum standards that made some sense now in New York City, we could cause a rather remarkable set of circumstances in a given area which I shall not mention. I wonder what the answer is to that. Are you talking about national minimum standards in terms of the end take in goods and services, or are we talking in money terms, or what thought has been given to it?

Mr. CARTER. I think the principal differential in cost of living is in housing. Food costs, of course, are fairly consistent. There was a time, and I do not, any more than you, want to talk about any particular area, but there was a time when in one particular area there were differentials in welfare payments because certain people were said to be only meant to live on certain kinds of food, and, therefore, there was not the need for as much money for them as for the majority group in that State.

That kind of condition has changed. But if we are talking of eating in a decent fashion in any particular State, the food costs are not going to be too different; clothing costs are not going to be too different. If you are talking about housing, it seems to me that differentials could be worked out about that. There has been some talk of modifications in terms of regional differentials, particularly on climate, which enters very much into the cost of living, evidently. So there are ways in which, it seems to me, you can generalize this enough that would forestall individual States from having standards radically different from others, and, therefore, forestall any incentive for differential treatments or migration patterns that might be attributable to these differences and, at the same time, have an adequate national standard.

Representative BOLLING. I would like to reverse the situation. Would you like to comment, Mr. Ginsberg?

Mr. GINSBERG. Yes; I would like to say while it would be interesting to see what would happen in those situations you mention, I think we could move toward a differential. What we could start with is a base that would be applicable across the board and then a differential that could be related perhaps geographically, and certainly that dealt with housing. We have that now in New York City. We find the single factor that makes the most difference is the cost of housing. So even with presumably a welfare system that pays the same amount, we do differentiate quite substantially among families on the basis of housing costs.

Representative BOLLING. I hope you understand that I raise this not as a person who in any way is opposed to the idea, but as one who already favors it and who is interested in being able to answer some of the arguments that occasionally occur in allegedly enlightened circles.

One other question I would like to ask, Mr. Ginsberg.

You quite properly indicate that normally, at least, the Congress does not pass a program as a total program. We usually do as the conservatives complain; we get the camel's nose under the tent and then, as rapidly as possible, get the rest of the camel into the tent.

What would be your idea of an ideal children's allowance program?

Mr. GINSBERG. I would push for the ideal program which, realistically, I think in this country is a substantial period away, of an allowance for all children. The question of the levels is a major problem. There is no doubt that there is this expense factor, although, as I have said, a good deal of work has begun to be done on what might be done with the tax system to minimize or reduce this cost. So my idea: One, would be to provide an allowance of the type I have suggested across the board. I do not think that is realistic, and I think it is understandable that the Congress and the American people would hesitate to move in that direction. That is why I urge, if it is the camel's nose—although in this case it might be considered his whole face or his head—that it be an allowance for children below school age. I think that would meet an objective need where the need is greatest and, at the same time, would quickly demonstrate the validity and value of this kind of approach.

Representative BOLLING. Mr. Carter?

Mr. CARTER. Lest you think that because of Commissioner Ginsberg's comments, the figures are astronomical, way beyond anything presently talked about, there has been work done by such people as Professor Brazier at Michigan and others which shows that if it went to all dependent children, the costs could run anywhere in the neighborhood of \$13 to \$16 billion. So you are not talking about, as some people have suggested, \$30 or \$50 billion in connection with children. This is on the assumption that you take away the income tax exemption and that you tax back progressively.

Representative BOLLING. I am glad to have those figures in the record. I would like to point out that I am not really very frightened of figures, because my own supplemental view to the Joint Economic Committee's comments on the President's Economic Report suggested that the costs to meet recommendations of the Kerner Report might be roughly the same as the cost of Vietnam, and I happen to be a supporter of our policy in Vietnam, and we would be talking about spending \$30 billion a year to meet the problems raised by the Kerner Report. The other day, in hearings of the full committee dealing with the Kerner Report, the best estimate that I heard—and it did not frighten me—was that, probably, if we were to implement the recommendations of the Kerner Report in 5 years, it would cost us \$40 billion a year. This was by a very judicious and careful—and not conservative in the philosophical sense but conservative in the technical sense—economist.

I think one of the very fundamental things that hearings of this sort can do is to gradually accomplish what Mr. Carter was talking about at the very beginning. That is, begin the dialog among the American people as to what are the realities of the problem against which they inveigh so loudly, and what it is going to cost to solve the problem.

Personally, my own view, as I have stated repeatedly, is that these are problems the solutions to which should have been started, and were attempted, 30 years ago, and what we are now reaping as a whirlwind are the seeds of which we planted 40 years ago.

I thank you very much, Madam Chairman.

Representative GRIFFITHS. Thank you, Mr. Bolling.

With your permission, Mr. Rumsfeld, we shall now continue with the testimony.

Mr. Hursh?

STATEMENT OF MORRIS HURSH, COMMISSIONER OF PUBLIC WELFARE, STATE OF MINNESOTA

Mr. HURSH. My name is Morris Hursh and I am commissioner of public welfare in the State of Minnesota. The opportunity to appear before this subcommittee is greatly appreciated. I should make it clear that my comments represent only my own views and are based on my experience of about 20 years in the administration of public welfare in the State of Minnesota.

I think you will notice that the further we go with this panel, the more repetitious it becomes, but perhaps I have a new approach to some of these problems that some of my colleagues might consider a little conservative.

There certainly has been no dearth of criticism in recent months about the shortcomings of the public assistance system in this country. Many knowledgeable people have advanced reasons why it should be scrapped, and an entirely new system of income maintenance established. Until such a system is devised that will guarantee every person in this country, who is unable to support himself, income from public funds adequate to meet his needs, I would like to advance the proposition that if it met the objectives for which it was established, the present public assistance system would provide a guaranteed minimum income for all who are in need.

All that is required to carry out the intended purpose and attain this objective is a broadly based law, with realistic eligibility requirements, which provides financial aid and social services as a matter of right; the development of an adequate budget standard, with need met in full; adequate financing; and sound administration.

As I see the program, and as I have always tried to administer it, it is intended to guarantee that everyone shall have income sufficient to meet his basic needs—food, clothing, shelter, medical care, et cetera. If his own resources do not permit him to attain that level of living, public funds will make up the difference.

The system as it has been administered is guilty of a number of shortcomings which, understandably, have led to the demand for its abolishment. The system can never attain its objective if eligibility requirements are restrictive; if budget allowances are below what a family can be expected to live on in decency and health; if budgetary deficiencies are determined and then arbitrarily discounted on a percentage basis; if legislative appropriations are inadequate to meet the need in full; and if the programs are administered in a grudging, restrictive, or punitive manner. Unfortunately many assistance programs in this country have been characterized by this kind of administration.

While I think there is still hope for the public assistance program, I do not feel its potentials will ever be fully realized until certain changes are made in the system. Following are some that I would suggest. Some of these are going to sound familiar to you.

First, abolish the present Federal categorical assistance programs, and replace them with one public assistance program, with need as the sole eligibility requirement.

This would simplify the job of the caseworker who now struggles with a variety of categorical eligibility requirements. It would eliminate the general assistance program, in which there is no Federal participation, and which includes all of those needy people who do not fit one of the categories. These general assistance programs are notoriously restrictive and underfinanced, and compel their recipients to exist at a level considerably below that of the categorical recipient.

Second, abolish all residence requirements. This should be done on a nationwide basis, and should be made a requirement in every State as a condition to receiving Federal aid. Residence requirements are antiquated and totally unrealistic in the light of the present mobility of our population. Arguments about which State or county or municipality is responsible for a particular applicant for assistance have consumed millions of hours of casework time, and have resulted in deprivation and hardship for many needy families who have been the victims of their own mobility.

It should be noted that there is no residence requirement in the medicaid program—title XIX—and this is rapidly becoming the largest category of all. It should also be noted that several Federal courts have held that residence requirements are unconstitutional; and there is every reason to expect that these rulings will be upheld by the U.S. Supreme Court in the near future.

Third, have the Federal agency establish for each State a minimum standard of public assistance payments. This standard may vary as between States. This has been suggested by the preceding speakers. I would subscribe to the same arguments they gave as to the reason for this.

No State would be permitted to provide assistance below that standard, either in the form of a total grant or as a supplement to the income of the particular recipient when his income is below that level.

Fourth, instead of sharing with the States in the payment of assistance grants, the Federal Government should pay the grants in full.

If the Federal Government is setting the standard in each State, and meeting the total cost, there would be no excuse for any State to pay less than the minimum standard.

I do not know what the total cost in Federal dollars would be under such a plan, but certainly it should be less than the cost of financing a guaranteed minimum-income plan, whether through a negative income tax or some other means. And whatever the cost, I feel that in good conscience the people of this country can no longer countenance a system that compels millions of their fellow citizens to exist at a substandard level.

While I am suggesting that the assistance grants be paid entirely from Federal funds, I would recommend that the cost of administering the public assistance program continue to be shared between the Federal Government and the States. This would include not only the administration of the aid payments, but also the provision of social services.

The fifth and last suggestion along this line is one that Mr. Ginsberg dwelt on at some length. That is making the application for, and

the granting of, financial assistance to the needy as simple and automatic as possible. One method of accomplishing this is through the use of the so-called declaratory application. This means that when the applicant provides the information as to his circumstances, and on that basis is eligible for assistance, we accept his word as to the validity of the information. In other words, we would not check out every eligibility factor as we have always done in the past. We have tried this experiment in Minnesota in three of our largest counties, and it has been tried in many other States. New York City, as Mr. Ginsberg mentioned, is one. It has been demonstrated conclusively that applicants almost always are honest. We have no higher incidence of illegal or improper grants under this method than we have where we check out every detail in every case. Through the use of this declaratory application system, the time of large numbers of caseworkers can be saved—to be spent on providing services where those are needed by the recipient in addition to financial aid. It also enables us to make extensive use of subprofessionals, as a substitute for trained caseworkers.

Adoption of the proposals I have outlined would, in my opinion, substantially reduce the costs of administering the public assistance program. Many functions now required of trained caseworkers would be eliminated, or simplified, and we could obtain the maximum utilization of our public agency workers—assigning each to the task which he is competent to perform.

In our desire to insure that everyone in this country is provided money he needs to maintain a decent standard of living, I feel that somewhat unconsciously we tend to regard the provision of money as the answer to all the problems of the public assistance recipient. To be sure, a guaranteed minimum income would enable millions of people to meet their own needs and solve their own problems, but there are millions of others who desperately need social services of one kind or another. Money is not enough.

This is one of my concerns about the notion that the guaranteed minimum income will answer all the problems of the poor. They will still have marital difficulties, child-rearing problems, mentally or physically handicapped family members, housing problems, school dropouts, a need for training and/or employment, and a host of other problems. A poor family should not be compelled to have their lives run by a social worker just because they need financial aid. At the same time, there should be some agency to which they can turn for social service when they need it. And this I see as the legitimate role of the public welfare agency.

Our experience with the title V program of the Economic Opportunity Act has shown us that, with the assistance of skilled social workers and counselors, many so-called hard-core people who have been given up as hopeless can be stimulated and encouraged to take training and enter the labor market. After 3 years' experience with title V, we now have hundreds of people in Minnesota who are self-supporting, and who, prior to their involvement in that program, were longtime relief cases with employment records or a lack of skills that precluded their ever getting a job.

While there is a great deal of criticism being expressed—which in many respects I consider justified—about some of the 1967 Federal welfare amendments, particularly with respect to the aid to families

with dependent children program, I personally approve of the notion that we build into our public welfare programs some incentive to recipients to take vocational training, and to accept employment where it is appropriate. I do not feel that AFDC mothers should be required to accept training and employment, and, if they refuse, suffer a loss of assistance. The fact is that, contrary to public opinion, a great many such mothers, given some incentive to do so, are anxious to equip themselves for gainful employment and to enter the labor market, either on a part-time or full-time basis.

I have outlined my ideas on how our public assistance program can be made viable—to insure provision of adequate financial aid and social services, as well as providing training and employment for all who can benefit therefrom. Since our goal is to provide people with jobs if they can work, with financial aid if they cannot, and with adequate medical care for anyone who cannot purchase it himself, I will make one further recommendation: That we establish, by Federal legislation, a system of compulsory health insurance for every person in this country in covered employment, as well as his dependents.

If medicare is good for people over 65, and private health insurance—for those who can afford it—is good for people of any age, it seems only logical that a system of contributory insurance should be established to cover the millions of people who are not eligible for medicare, or who are not able to purchase their own health insurance.

There is no question but that many people in this country are being deprived of needed medical services because of their financial situation. I regard such services as a right, the same as the right to a job, or the right to financial assistance. And I do not know of any better system to insure that this right is made a reality.

I would further suggest that if everyone in this country received adequate medical care—at public expense, if necessary—the demand on tax revenues would be prohibitive. For the same reasons that we have a contributory insurance system—social security—that provides for many of the subsistence and medical needs of people over 65, I believe that such a system would be the least burdensome method of providing medical care to people of all ages.

As I indicated at the outset, there is undoubtedly some method, other than public assistance, that will guarantee everyone in this country a minimum adequate income. Since I have not been able to devise such a system, and feel particularly unqualified to do so, I have tried to suggest administrative changes and amendments to our present laws which would enable the public assistance system to carry out the purposes for which it was established, in an efficient and effective manner.

Thank you.

Representative GRIFFITHS. Thank you, Mr. Hursh.

Mr. Wyman?

STATEMENT OF GEORGE K. WYMAN, COMMISSIONER, NEW YORK STATE DEPARTMENT OF SOCIAL SERVICES

Mr. WYMAN. Madam Chairman, members of the committee, my name is George Wyman. I am the commissioner of the New York State Department of Social Services. I, too, welcome this opportunity to

present this statement on behalf of the department and of the New York State Board of Social Welfare, which is our citizen policymaking board. I certainly congratulate the subcommittee on its appreciation of the urgent need for action on the problems of public dependency which confront the entire Nation.

A good deal of what I shall have to say you will have heard before, at least in part. This is the advantage and the disadvantage of being the last one to make such a statement. It is an advantage in that it means that I can underscore some of the things that you have already heard, and perhaps comment on one or two things that have been said before.

Representative GRIFFITHS. Mr. Wyman, feel free to do that.

Mr. WYMAN. Thank you very much, Madam Chairman.

I have heard Commissioner Ginsberg talk a couple of times before very much as he just has. I would just like to offer one suggestion to him. I perhaps should not do it publicly; I should have done it privately before the meeting. That is that I hope that he finds another term for "the Government as the employer of last resort." It seems to me this is a very unfortunate term, and I very much prefer Mr. Carter's term of "public service employment." I think that is a much more positive and effective expression of the very thing I know both of them agree upon.

We in New York State have been keenly aware of the need to find fresh approaches to these critical problems. To help solve them, Governor Rockefeller sought the aid of the private sector in "a unique and unprecedented concentration of American leadership on the problem of public welfare."

At his invitation nearly 100 leaders in business, industry, labor, education, the mass media, and philanthropy met in Arden House, Harriman, N.Y., in November 1967 to seek new approaches to the problems of poverty and dependency.

After months of study of basic materials on these problems, they addressed themselves to the following basic questions:

How can we break the cycle of dependency?

Should the Federal Government set a minimum standard for public assistance payments below which no State may fall and below which no family should be required to live?

Should there be a liberalization of income assistance programs designed to raise the living standards of the 34 million Americans now living under the poverty line of \$3,200 for a family of four?

Should the aged, blind, and totally disabled be transferred from public welfare to the social security rolls?

Should the major objective of public welfare be to prevent dependency, or to raise the living standard of those who are dependent?

In April 1968 a steering committee of the conference made basic recommendations including the following:

The present welfare system should be replaced by an income maintenance system.

Public assistance standards should be uniform and nationwide, and not vary among the States.

The aged, blind, and disabled should be transferred to the social security rolls.

An affidavit system should be used to determine eligibility for public assistance, replacing the present extended investigation procedure.

The systems approach to poverty and public welfare should be explored, and there should be more solid research, more family planning information, more day-care facilities, and better incentives to work.

In May 1968 the committee on economic development met in New York City and, with many of these same delegates to Arden House present and many other national leaders, discussed the committee's recommendations.

Following the Arden House conference, the State board of social welfare conducted seven regional hearings throughout the State to seek grassroots opinions on poverty and welfare problems. Hundreds of citizens attended these conferences, and many of them testified.

It has been repeatedly suggested that the public welfare system in the United States is inadequate. Such criticisms are valid only if the system is to be judged by whether it has eradicated all the root causes of welfare and dependency. It has not done so. We still have poverty in America. We still have poor education, poor housing, poor health, racial discrimination, unemployment, underemployment, technological displacement, and all the other causes of dependency.

But the welfare system was not intended to solve these problems. It was intended to alleviate the gross effects of poverty—to prevent people from going hungry, from being ill-clothed, from being without shelter. In New York State the system has done this and more—it has provided, to a certain extent, the social services which have helped many of the poor achieve self-support and self-care and have strengthened family life.

I would like to make sure that you understand that in New York State we do have aid for the unemployed parent, and that it is not necessary for a person to desert his family in our State in order to get help. Further, we do not have a residence requirement. We are one of the few States that do not have such a requirement, and we are pleased to see that the courts are taking action to correct this inequity around the country.

In New York State the basic standard of public assistance—which is, in very real terms, a guaranteed income, because again, if a person does not earn sufficient to support himself by full-time employment in our State, we will supplement those earnings to bring them up to the welfare standards. In this case, it is \$3,650 a year for a family of four. That is assuming an average rental payment of \$80 per month for such a family. As Commissioner Ginsberg has pointed out, this will vary on an "as paid" basis, not only in the city of New York but in the State of New York. This exceeds the commonly accepted national level of poverty, and this State pays the highest grant in the Nation for aid to dependent children—over \$60 per month per child.

Having said this, the State board of social welfare recognizes that a number of improvements should be made promptly in the conduct of the present welfare system.

Here is a summary of measures which the New York State Board of Social Welfare has recommended to Governor Rockefeller.

(See volume II; apps. 2 and 3.)

Large-scale experimentation should be launched to determine whether it is possible to eliminate most of the investigation process now required in public assistance programs, and to replace the present system with a certified application form, subject to spot checks, as in the income tax procedure.

Assistance to the aged, blind, and disabled should be placed at once on a certified application basis. Mandated periodic verification of the eligibility of these recipients would be eliminated, since by definition their condition is not likely to change in the rest of their lives.

Social service should be separated from the function of determining eligibility and granting financial assistance. This separation would result in more effective use of trained social workers, and would undoubtedly reduce staff turnover.

It should be the policy of the State that every preschool and young school-age child who needs day-care services should have such services available to him. The board has recommended that public capital funding be made available—as is the case in other areas of special need, such as housing and nursing homes—for construction and rehabilitation of needed day care facilities.

Incidentally, this is the one major block to the extension of day-care facilities, the fact that the physical day-care facilities are difficult to rent and rehabilitate and maintain in a way that will be healthy and safe for the children who need such care.

An incentive allowance should be established for welfare recipients who obtain employment. At present, a welfare recipient has no practical motivation to seek a job, since a dollar is deducted from his grant for every dollar he earns, except as effective July 1 with the change in the Federal act.

Family planning is an essential service which should be available regardless of a person's economic status. The State board has already required that the availability of family planning services and facilities be made known to welfare recipients. The board is now considering an extension of this rule so as to include not only recipients of public assistance but also recipients of care or services who are married or heads of families.

It should be the public policy of our State and our Nation to provide job opportunities for all people and to adjust our economic planning, our laws, and our attitudes to attain that end.

There should be more research in social welfare, and modern technology should be utilized where possible in the delivery of social services to the needy.

A number of important recommendations made by the State board in its report to the Governor can be implemented only through action by the Congress or administrative branches of the Federal Government. Following is a summary of these proposals.

1. UNIFORM NATIONAL STANDARDS

The board urges the Congress of the United States to establish realistic national standards for public assistance which would provide a floor below which no person in the land would be expected to live.

One of the principal weaknesses of the present welfare system is that it does not assure every needy American that he will be protected in his essential right to food, clothing, and shelter. The lack of federally mandated standards causes a wide variation in public assistance benefits in the 50 States. Such variations range from granting a small percentage of a minimum subsistence standard in some of the poorest States to meeting 100 percent of basic needs on a more liberal standard in States like New York.

Only Congress can correct this indefensible injustice. It can mandate national standards, and in doing so it would necessarily be required to provide a Federal reimbursement formula which would take into account the economic capacity of the State to finance such a standard.

2. ELIMINATION OF CATEGORIES

The board has long urged the elimination of the so-called Federal categories of public assistance.

These categories have been embedded in the Federal public assistance program, dividing up needy people by age or by the condition which created their need. There are dependent children, and families of dependent children, and blind, and aged, and disabled, and persons on home relief receiving general assistance.

This jungle of categories complicates administration and creates more problems for people who already have problems enough.

The board has consistently advocated action by the Federal Government to establish a single category of assistance based upon need. Such action would make Federal financial aid available to all needy persons, including home relief recipients and poor children in foster care who are not now eligible for Federal assistance.

In regard to foster care, in New York State, we have 42,000 children in foster care; that is, in institutions or in family homes. About 95 percent of these children are poor children. They are in these places of care because they are the children of greatest need. They do not have relatives who are in the position to assist them or to properly care for them.

It seems unconscionable to me that the Federal Government has for years provided assistance only when the child is in the home of a relative. In certain States, this has forced, because of the limited money available, children to live in the homes of relatives who really should not be in such homes. They would be better off if they were in a foster-care situation. Because of the dollars involved, the program follows the money, and that is an unfortunate arrangement.

THE PUNITIVE ASPECTS OF THE 1967 SOCIAL SECURITY ACT AMENDMENTS

The board opposed the action of Congress last year in amending the Social Security Act, and today urges the Congress to repeal or modify the restrictive and punitive provisions of these amendments.

In that connection, Madam Chairman, it seems to me our biggest problem with welfare is a philosophical one. We have never made up our minds in this country whether we are going to punish poor people or rehabilitate them. This goes back to the very beginnings of our colonial period, where every effort was made to set up the poorhouse, over the hill, out of sight. The labor of the people who had to be cared for in those institutions was bargained for, just as the sheriff of that day bargained the labor of his prisoners. Now, we have seen that same thing down through the years, and the Congress last year, I think, still reflected this punitive attitude on the part of a lot of people in this country toward the poor.

The board repeats its urgent request that the ADC freeze be repealed, that children of unemployed mothers as well as fathers be

aided, that ADC payments be permitted to supplement unemployment insurance benefits when these are not sufficient to meet basic needs, and that mothers of dependent children be encouraged to work only when it will be in the best interests of their children to do so.

As this law now stands, it shows a hostility toward needy people that the board cannot believe to be a reflection of the American conscience.

3. INCOME MAINTENANCE

The board has given much thought to the various proposals designed, in effect, to replace the present system of public assistance with a new form of income maintenance. These new proposals are intended to separate the provision of social services to such persons, and to provide a more dignified system of delivery of the funds required for food, clothing, shelter, and other basic human needs.

In recent months most of the discussion of such a major change has focused on the proposal of a negative income tax and on the proposal of family or children's allowances. There are, however, other methods of approaching the same goals, including some form of income insurance which would be based upon a vast enlargement of the insurance aspects of the Federal social security system.

Any such change in the basic method of providing essential income to Americans in need would obviously have to be made by the Federal Government. It would be impractical for a single State—even as large a State as New York—to undertake such a change on its own.

The board believes that these proposals deserve earnest, serious, and prompt consideration by all citizens and by the Congress. However, it urges that any such consideration should keep in mind the following reservations:

1. That it would be a disservice to the inhabitants of the State of New York if a nationwide system of income maintenance were to be adopted that, while benefiting needy persons in other parts of the country, worked to the disadvantage of the affected persons living in New York State. This State has one of the highest levels of public assistance in the country, in the various categories of assistance, and, in some categories, the highest of any State. This is not a matter of generosity on the part of the State's taxpayers, but only a clearer recognition of the responsibility one citizen has to another in a civilized society. It would be a tragedy if, in the effort to improve the condition of the poor throughout the country, the condition of the poor in New York State were to be made worse.

2. That there must be safeguards against the use of a major change in the form of income maintenance as an unintentional device to reduce the effectiveness of those social programs which are intended to assist people toward the dignity and self-respect that comes from self-support.

No form of income maintenance can take the place of reinforcement of existing programs and the creation of needed new programs for employment opportunity, decent housing, improved health care, educational opportunity, and elimination of discrimination.

3. That we must guard against the creation of a permanent underclass of Americans whose chief characteristic will be their depend-

ency. The objective should be to use the device of income maintenance as a foundation on which to build a system of social services designed to eliminate the existence of any group of persons relying upon public assistance, under whatever label.

The board has not reached the point, in its own deliberations, of agreeing on any particular program of income maintenance that would replace the present system.

At this point, Madam Chairman, I would like to add a few words to describe my own personal views on the problems of coping with rising public dependency.

To reverse the upward welfare trend, reduce the great number of families living in poverty, and make certain that every physically and mentally able person can find a productive role in the economy, I advocate turning over to private enterprise all work-training and literacy programs and reorienting public health, education, and welfare programs so that they function as employability insurance, their services focused on making and keeping people employable and employed.

Such employability insurance would begin in school, where every child would be taught, above all else, how to earn a living, and would be required to complete sufficient academic and vocational training to equip him or her to hold a job. All work-oriented instruction would be given in actual work settings by management-labor teams at Government expense. Every school in America would provide periodic health examinations for its children and see that they get whatever medical care they require. Health personnel in Government, private practice, medical schools, and elsewhere would be drafted to teach both children and adults how to take care of their health, especially in areas without adequate medical personnel and facilities.

In the welfare and antipoverty field, employability insurance would mean establishing a new income maintenance program—or recasting the present welfare system—to provide grants to individuals and families who cannot earn a living because of illiteracy, lack of work skills, uncorrectable unemployability, or health disabilities. The first two groups would be given literacy and work training by private industry. The third group would receive maintenance grants and whatever social and other services they require, while the fourth group would be given necessary medical care and other help. Finally, all aged, disabled, and blind recipients of public assistance—who comprise two-thirds of the Nation's welfare cases—would be transferred to the social security rolls “as the soundest, most practical, and most indicated start for an income maintenance or guaranteed annual income plan.”

Employability insurance in the health field would involve establishing a universal health insurance plan—and again this echoes Commissioner Ginsberg's recommendations—to be sure every person able to pay for medical care would assume that priority responsibility for himself and his dependents; to cut down the present burden of sickness, a major cause of poverty—certainly the major cost of poverty; and to reduce it further in the future by providing needed preventive and other health care for America's 50 million schoolchildren.

We are now spending some \$70 billion annually for health, education, and welfare programs that cannot do what needs to be done in the United States in 1968 and the years ahead—prepare millions of

people to fill millions of job vacancies. Recast welfare, education, and health services; a reasonable health insurance program; and a massive job-training program by industry, business, and labor could raise the consumption levels of tens of millions of Americans and increase purchasing power billions of dollars annually.

I have made available copies of these reports, Madam Chairman, that I spoke about earlier.

I want to thank you for this opportunity to be here today.

Representative GRIFFITHS. Thank you very much.

I want to tell all of you once again how much I appreciate your being here and how much I appreciate having this opportunity to hear your view of what should be done.

How many people in the State of New York draw welfare, in the whole State of New York?

Mr. WYMAN. Total number of people?

Representative GRIFFITHS. Yes.

Mr. WYMAN. Last year we had a monthly average of 1.3 million people. That is on the average throughout the year. About a million people are drawing cash benefits, the others are assisted medically.

Representative GRIFFITHS. What does it cost the State of New York?

Mr. WYMAN. Our total expenditure last year was \$1,800 million. About one-third of that is the State cost, one-third local, one-third Federal; about \$600 million each.

Representative GRIFFITHS. \$600 million from the State of New York and \$600 million from the local government?

Mr. WYMAN. Which shares equally.

Representative GRIFFITHS. How many people are employed as social workers in the State of New York, and administrators and so on. How many people does it require to administer the welfare program?

Mr. WYMAN. The total number of employees, and this is clerical and the entire administrative staff, is in the neighborhood of 35,000 people.

Representative GRIFFITHS. What is the cost to the State of New York?

Mr. WYMAN. About \$200 million total.

Representative GRIFFITHS. Is that \$200 million included in the \$600 million?

Mr. WYMAN. Yes, ma'am. That is the total Federal, State, and local share of the cost of the administration.

Representative GRIFFITHS. Mr. Ginsberg has testified that 95 percent of the time is spent in attempting to find out whether or not one is eligible for welfare?

May I inquire what percent of the time is spent by the social worker in attempting to find out if there is a job available for that person?

Mr. GINSBERG. I think the percentage of time is so minimal, Madam Chairman, that I would say, in our program, 2 or 3 percent of the time at best. We do have a division of employment and rehabilitation. We now have a manpower development agency which is part of this, and we try to use those people for this particular function. But you talk about the time of the caseworker itself; New York City obviously is the bulk of Commissioner Wyman's caseload. We anticipate that by June 30, 1969, there will be a million people on public assistance in New York City alone.

Representative GRIFFITHS. How many are men and how many are women and how many are children?

Mr. GINSBERG. The overwhelming proportion—and it does not matter whether you use the current figure for New York of about 850,000, or the 1 million figure—approximately three-fourths of them represent women and children. If you use the million figure, projecting ahead, I would say 150,000 would represent mothers and 800,000 would represent children.

Now, you have close to 100,000 who are aged, disabled, and blind.

Representative GRIFFITHS. How many men?

Mr. GINSBERG. Well, there are various categories. We have a so-called employable male category of about 22,000. But employable males with us includes everybody up to and including the age of 64. Realistically, a man of even close to that age without skills, and often with other handicaps such as narcotics and alcoholism, is employable only in a limited sense. We have 3,300 men who are currently working full time, but who, because of the size of family and low-income jobs that they have, get supplementary assistance that Commissioner Wyman talked about.

Representative GRIFFITHS. Does the State of New York permit ADC to go into a home where the father is present?

Mr. GINSBERG. Yes. As Commissioner Wyman indicated, we are one of 22 States that permit that.

Representative GRIFFITHS. Does the State of New York carry those people on the employment rolls who are able bodied and able to work who are also on welfare rolls?

Mr. GINSBERG. Yes. In the supplementary program that we talked about, we have 13,000 in New York.

Representative GRIFFITHS. You are well aware that, while this has been a requirement of the Federal law for many years, many States do not do this?

Mr. GINSBERG. Yes.

Mr. WYMAN. It has been an option in many States, Madam Chairman.

Representative GRIFFITHS. May I ask you, Mr. Hursh, with the same system, how many people are drawing welfare in the State of Minnesota?

Mr. HURSH. I would say about 160,000.

Representative GRIFFITHS. What does it cost the State, federally and locally?

Mr. HURSH. About \$200 million.

Representative GRIFFITHS. How many of the people who draw welfare in the State of Minnesota are men and how many are women?

Mr. HURSH. 35,000 men, 57,000 women, 67,000 children.

Representatives GRIFFITHS. How many employees do you have in the welfare system in Minnesota?

Mr. HURSH. Well, it would be about 1,200 in public assistance.

Representative GRIFFITHS. Both professional and administrative employees, clerical employees and so on?

Mr. HURSH. Yes.

Representative GRIFFITHS. Would you agree that 95 percent of their time is spent in determining whether the person is eligible for welfare?

Mr. HURSH. No.

Representative GRIFFITHS. How much would you think is spent?

Mr. HURSH. I do not know exactly how much time. We have a somewhat different system, I think, than in other States. When a case comes in that involves financial assistance, the eligibility aspect or all other aspects that do not require social service are turned over to what we call case aides. This is something like the division between clerical and the professional. The case is handled on intake by a skilled worker, who then assigns the case, depending on what it needs. If it is determining eligibility, figuring the budget, doing jobs an untrained person can do, we have this assigned to a case aide, who is required to be only a high school graduate.

Representative GRIFFITHS. How many of those people do you have? Are they included in the 1,200?

Mr. HURSH. Yes. It would be about 150.

Representative GRIFFITHS. Do you permit a family to draw ADC where the father is present in the home?

Mr. HURSH. No, not unless he is totally incapacitated.

Representative GRIFFITHS. Do you carry all of the people who are able bodied and could work on the employment rolls as unemployed?

Mr. HURSH. Well, I do not know the rules of the employment service, but we do not have the unemployed-parent proposition to contend with in our AFDC program.

Representative GRIFFITHS. What amount of time do your caseworkers spend in attempting to find employment for those on welfare?

Mr. HURSH. I would say it is a relatively small amount, except in the title V program, which I referred to in my testimony. In that program, of course, they spent a considerable time at least preparing him for employment and getting him in contact either with the employment service or with employers.

But our regular caseworkers would not spend a great deal of time other than to refer them to the employment service.

Representative GRIFFITHS. What liaison is there between the labor department and the welfare department in Minnesota?

Mr. HURSH. Well, of course, with the new work-incentive program, there will be a very close working relationship, except that we have not yet gotten into that program. But in every county we refer to the employment service office in that district the relief recipients who are suitable for employment.

Representative GRIFFITHS. Have you ever checked to determine whether or not, if two people appear before the employment commission, both of them would be eligible for the same job and there is only one job, one is drawing welfare and one is not, what the employment service does?

Mr. HURSH. I would have to say that my experience with the employment service is that it is like any other agency that wants to show some success. I think that, for many years, they operated on the theory that a welfare client was not the best risk; this was not the way to establish their reputation with the employer.

However, I must say that in recent years, since the MDTA and since title V, there has been, at least in our State, a remarkable change in that attitude. But I cannot say that I think you can blame them.

As I mentioned before, under title V, we had people that the employment service would not deal with at all. These people had no work records or had terrible work records and they did not feel that this was the sort of person that they should handle and bother employers with. But during this whole process, I would say their attitude has changed remarkably in the last 4 years.

Representative GRIFFITHS. I regret to tell you, Mr. Hursh, that the testimony before the Ways and Means Committee is that it has not changed at all. We not only had an Under Secretary in, we brought in the men running these offices in State after State. The answer to the question I asked you was that they give it to the man who is not drawing welfare because the other one is drawing welfare.

Now, if this is going to work in State after State, we are never going to solve this problem. And it is working in State after State. That is the testimony we had before Ways and Means on this exact question.

Mr. HURSH. Madam Chairman, I agree with you. As I said, at the time MDTA started, I recall a conference I had with our employment commissioner. That was his whole point, that people on welfare normally had poor employment records, and they had a poor chance of meeting the employer's expectations; therefore, why should he refer them? I pointed out that I thought it was the whole purpose of this program to take care of these people. If it did not reduce the relief rolls, what was welfare all about?

Representative GRIFFITHS. One of the real answers is that they are on relief rolls because they had a poorer chance, period.

Mr. Rumsfeld?

Representative RUMSFELD. Thank you, Madam Chairman.

I certainly want to thank you gentlemen for your contribution, and I agree with the chairwoman's comment at the beginning of the session that certainly it is one of the important functions of Congress, specifically of this committee, to initiate discussion and dialog on what is one of the important questions before our country today. It is our hope that we can, through our discussions with gentlemen such as you, analyze the problem and, to the extent we are able, determine how the existing system is working, the ways it is working well, and the ways it is not working so well, and then help to shape some recommendations for improvements. Certainly, there is no question but that we cannot continue to permit the waste of human resources with the inevitable results that are now so obvious to all of us as far as the effects on our society are concerned.

I want to congratulate Mr. Carter for the comment he made, where he suggests that there needs to be full and open debate. With all respect to our chairman, I must say that I am not a member of the Ways and Means Committee, and I strongly disapprove of the procedure in the Congress of the United States by which the Ways and Means Committee functions generally under a closed rule on the floor of the House of Representatives, with the result that the Members of the Congress do not have an opportunity to amend, but simply face a take-it-or-leave-it proposition, with respect to the bills of that committee. As a result, of the 435 Members, there are only a handful who have really any voice at all in the shaping of legislative solutions to a very important and difficult area.

As has every Member of Congress, I have received a lot of mail and comment from people similar to that which you have just made, that the decisions made by the Congress with respect to recent legislation are harmful.

Mr. Carter, you have commented that some of these amendments to the law are bad. Mr. Wyman has used a little stronger language. I would like to know specifically why; what has been the experience thus far? What do you have to back up the statements you have made as to the ways that these amendments are actually causing problems?

Mr. WYMAN. May I answer your question in part?

Representative RUMSFELD. Certainly.

Mr. WYMAN. I think the other gentlemen will, also.

I cited there the fact that up until this amendment, the 1967 Social Security Act Amendment, we in New York had been able to provide help for the children of an unemployed mother. Now, after the first of July, we will no longer be able to do that with Federal funds.

Representative RUMSFELD. Is that not an oversimplification?

Mr. WYMAN. Well, you wanted a specific example of where this is harmful.

Representative RUMSFELD. Well, let us probe that a little bit.

Mr. WYMAN. As of when? The effective date of this restrictive amendment limiting Federal financial participation in the cost of care of children of unemployed mothers goes into effect the first of July of 1968.

Representative RUMSFELD. Right.

So it has not gone into effect yet.

Mr. WYMAN. That is correct. But you can anticipate the fact that in some States which do not have the resources of New York—for example, where we will continue to provide care for the children of this unemployed mother after July 1—in some States, they will not have the resources to pick up the loss of Federal funds. At that point, some children are not going to get help that today are getting help.

Representative RUMSFELD. So the effect anywhere in the country until July of this year is nothing.

Mr. WYMAN. Correct.

Representative RUMSFELD. And after July the effect in New York will be zero, notwithstanding your previous remarks.

Mr. WYMAN. Zero in the sense that we will pick up the loss of Federal funds.

Representative RUMSFELD. That is my point.

But the effect on the recipients will be zero in New York.

Mr. WYMAN. Hopefully it will be zero; right. But that is only in that particular area I am talking about.

Now, I cited the fact that unless you people correct this freeze concept, as of July 1, 1968, nationwide, there will be a ceiling on the number of children that the Federal Government is interested in helping.

Representative RUMSFELD. It is my understanding that your answer is inaccurate, and I hope you will tell me if I am inaccurate.

I understand that it is not an absolute ceiling on a number; it is a percentage which will allow for an increase in the number of people.

Mr. WYMAN. Only in proportion to the total child population of the State.

Representative RUMSFELD. In proportion to the total child population of the State.

Mr. WYMAN. Which has no relationship to the number of men who may desert their families or have illegitimate children. There is no correlation between the size of the American population and the number of illegitimate children.

Representative RUMSFELD. I do not mean to press you or to be contrary, but do you have anything you can give us to back up your statement that there is no correlation?

Mr. GINSBERG. Yes.

Representative RUMSFELD. I would be interested in seeing it, Mr. Wyman. Do you have something?

Mr. WYMAN. We can get something.

Mr. GINSBERG. We have it in New York City. We can show you that in New York City alone there would be between 100,000 and 120,000 youngsters who would not be covered under the Federal program as a result of this freeze in 1 year.

Well, it is all right to say the State and city will pick that up.

Representative RUMSFELD. Let me clarify what your answer is.

Mr. GINSBERG. I am figuring about the increase of the proportion.

Representative RUMSFELD. There would be between 100,000 and 120,000 additional?

Mr. GINSBERG. Under this program, yes.

Representative RUMSFELD. That is your estimate?

Mr. GINSBERG. Well, yes, it is our estimate, but it is based on the projections of the last few years. Unfortunately, our projections have been all too accurate.

Representative RUMSFELD. I must say it would be useful, at least to me, and I think to others in the Congress as well as to this committee, to have some specifics on this. There has been much discussion, but there has been a good deal more heat than light thrown on it. I have heard few facts and have seen practically no statistics as to what really the effect would be of these amendments, except that people in your field have disagreed with them. I think it is incumbent upon those who agree or disagree to try to shed some light so we can correct something if it has been wrong.

Mr. WYMAN. We can give you this information from our respective States or localities. But what the committee really should have is the national picture, and you should obtain that, it seems to me, from people in HEW who can supply the impact of this legislation and their estimates on it on a national basis.

Mr. CARTER. I might say, Congressman Rumsfeld, that data have been projected by HEW that show the increases and show the likelihood of excess children over those that can be supported federally. One gets to using language that sounds Orwellian or Swiftian in talking about this.

Representative RUMSFELD. It would net out across the country?

Mr. CARTER. It shows increases even in States where one would think, from one's view of what is going on in that State, that that is not true. In some of the Southern States where there has been actual population loss, there still have been increases in welfare population and, as a result, there will be considerable suffering if the trends continue as at present.

Mr. GINSBERG. May I add just one more figure, Mr. Rumsfeld?

We average now an addition of 1,400 to 1,500 people a month. Between 80 and 90 percent of that group is within this category, the mothers and the children. So we can give you quite specific figures in this area, to say nothing of others.

Representative RUMSFELD. Am I correct that everyone on this panel favors the elimination of the categorical approach?

As I recall, that is what each of the individuals suggested.

Mr. WYMAN. Yes.

Mr. Hursh (nods in the affirmative).

Representative RUMSFELD. I would be interested, Mr. Carter, if you could comment just very briefly on something that is of concern to many studying this question. That is your remark where you say welfare is regarded by people receiving it as demeaning, incentive destroying, and inadequate. Let us accept that. How do your proposals mesh with the problem of trying to make sure there is an identifiable relationship between effort and reward?

Mr. CARTER. Well, it is at the heart of much of the discussion. Yet I am so sorry, because it shows, Mr. Rumsfeld, the difficulty of discussing this problem. Because, as some of the other speakers said this morning, this kind of differential of concern always extends to the poor but never seems quite to extend to other people. We do not seem to have any concern that farmers who take their land out of cultivation because we give them money are going to stop wanting to make more money.

Representative RUMSFELD. I beg your pardon; I have a great concern about it, and have so voted.

Mr. CARTER. Maybe you do, but many do not. At least, not enough in the Congress of the United States do to make any difference.

Of course, there are many other subsidies that one could point to. I think that all we can talk about is predictability—you know, we are a great nation for statistics, polls, things of that nature. Here again, I do not see why this should be any different. We know on the basis of statistics that practically every social indicator of social illness, whatever you want to call it, goes down as income goes up, and we all assume that one of the great things we want to do in the United States, and everybody is encouraged to do it, is to make as much as he can for himself and his family. Yet we somehow assume that there is a group of people for whom this is not true. I am talking of a large group. Obviously, there are individuals in all class levels for whom this is not true, and there is no question about the crippling effect of poverty on a large number of people who are poor. But I would suggest to you, and that is why I dwelt at such lengths on the statistics of poverty population, there is no indication that this is true for anything approaching the vast majority of the poor people, and I would say the vast majority of people on public assistance.

We talk about 8 million people on public assistance, but we fail to realize that we are only talking within the range of a million people when we talk about the employable population in that group. Obviously, everybody would agree that many of those should not work because they are at one time or another caring for very young children or have other reasons that would ordinarily be considered in any family adequate reason for not working.

So you are now down in the hundreds of thousands of people you are talking about. You are not talking about 8 million sitting around doing nothing because they do not want to do anything.

Representative RUMSFELD. I will have to stop you because my time is up, and I do apologize.

Apparently, you did not understand my question. I was not talking about what is, but about what would be, under the program you have recommended. Your response did not deal with that. Possibly you could submit something for the record.

Mr. CARTER. I am only trying to suggest that, if they are given these opportunities that have been discussed, there is no reason to believe this population in the main would behave differently from any other population. That is the reason I answered as I did.

Representative RUMSFELD. You mean under the proposals in your paper?

Mr. CARTER. That is exactly right.

Mr. HURSH. On this line of what the 1967 amendments did that caused some difficulty, there is in there a provision that, because of the new exemption of earnings of \$30 plus a third for ADC mothers, there was a repeal of the present \$85 and \$85 plus a half in the MDTA, OEO, and the Education Acts. This is real hardship, because, as I understand it, all the interpretation we have had is that this takes effect on June 30 of this year. Of course, in a State like ours, which I assume is typical of many States, we cannot get the new exemption until our new legislature meets in 1969. So we have this unfortunate situation of 1,700 people who are working right now in one of these three types of programs who are getting that \$85 exemption who, after this month, will not be able to get it but will have the entire amount deducted from their AFDC grant. So they, in effect, will be working for nothing if they want to keep on working. I understand there was some move to attach a rider to some bill before the first of July that would delay this the same as was suggested—to delay the AFDC freeze for 1 year—that this be delayed for a year to help the vast number of States which cannot take advantage of the new income exemption until next year, so they do not put their workers in this particular bind.

Mr. GINSBERG. May I make clear that because of time we have focused on the negative effects of the freeze and on the point he made. But we would have equally strong objections to some other provisions of the bill, and could equally show, Congressman Rumsfeld, the negative effects that will result.

Representative GRIFFITHS. May I say for the comfort of all of you that when that terrible tax conference bill passes, which I think it will, the freeze will be delayed. That is one of the few good things about that bill.

May I ask you how many of those 35,000 employees in the State of New York could be laid off out of the social services department if we did waive the categories?

Mr. WYMAN. That is pretty hard to give you a firm figure on.

Representative GRIFFITHS. What is your judgment?

Mr. WYMAN. I think the more important aspect of this is the more effective use of the time of those people.

Representative GRIFFITHS. You surely would be able to lay off some of the clerical workers?

Mr. WYMAN. If you divide the function, as Mr. Hursh has pointed out in his State has been done, between the income-maintenance aspects and the social service aspects—I do not suppose that Mr. Hursh was able to lay off anybody. But he was able to improve the services and the effective use of his staff.

Representative GRIFFITHS. How many could you lay off if we did away with the categorical aid?

Mr. HURSH. How many people would we lay off?

Representative GRIFFITHS. Yes.

Mr. HURSH. I would feel as Mr. Wyman does, that it would not quite work out in such a way that staff would be reduced. One of the things I feel about this pat answer of the guaranteed income is that people are going to have many needs for services that may never come to the attention of the agency until the need has erupted into a situation that is beyond repair. I think you have staff members down about as low as you can get them. With the use of these subprofessionals for all of the eligibility aspects, using only your caseworkers for service aspects, I do not know just what would happen. Because, you see, even if you have the guaranteed income, it will be just like social security in a sense: it is never going to be quite enough to meet everyone's needs. So for every emergency, they are going to have to go to the welfare department for supplementation.

Half of the people we have on old-age assistance are receiving both social security checks and old-age assistance checks. Social security never quite keeps up with the cost of living. I think this is what would happen to the guaranteed income. You would start out with \$3,300, or whatever the prevailing level is for a family of four. In a short time, that is behind the actual costs, the law is not changed and so you would always have people who are going to go to the welfare agency to get the supplementation.

Representative GRIFFITHS. In reality, you are saying to me that even if you had a guaranteed income, a negative income tax, or child allowances or what have you, whatever you do, you would build two duplicate empires. You are going to have the social workers plus the Internal Revenue or whatever else you are going to have working on this problem; you are not going to save anything in the administrative costs.

Mr. HURSH. You already have both setups. If you do it through the income tax device, maybe it takes some more clerks or better machines in the IRS, but this is merely a matter of more people filing a tax return. But in the welfare department we have never been notoriously overstaffed.

As I say, I still think there are going to be many requests for supplementation, as well as for services, that are not going to permit you to reduce, except possibly in the clerical staff.

Representative GRIFFITHS. Mr. Carter?

Mr. CARTER. I just want to say that I do not agree with Mr. Hursh's estimate, although I do think there is some justice in the points he is making. I think the implication of the scope and lack of change could be all wrong. That is for the reason that Mr. Hursh, I think, assumes a static situation. I am assuming that the more income people

have, the more income they will want to make, and that there is such a thing as a quantum jump, by which you put a floor under them, and they get out of poverty.

Certainly, there will be discontinuity, there will be people who will require supplementation, and that is why I believe you are going to continue to need a welfare system. But I think that system will be much shrunk.

Now, on the other side, we talk about social services under public assistance. I am not talking now about the programs Mr. Hursh has. He has one of the best programs in the country. But I would want to examine the extent to which there are any social services of any consequence given to public assistance today. If you are talking about constructing a new public social service program such as Mr. Hursh talked about in his program, that is a different thing. It has nothing to do with income maintenance at all.

If he is talking about that, I think we cannot sit here and predict what will it take. We certainly know that, of most of the people who are providing public assistance and public service programs, there are very few people trained to do that, and this is a major problem that plagues not only that program but others. So I think it is not easy to compare the two directly.

I think, from the point of view of administering a public assistance program, there ought to be considerable shrinking of that program. If you now, in addition, want to provide a broad public social service program, this would require a different allocation of resources.

Representative GRIFFITHS. Mr. Ginsberg?

Mr. GINSBERG. Basically, I agree with Mr. Carter. What the change would be depends on how many elements in this package you went with. I think the direction is clearly, one, to make it automatic. Social security does operate quite substantially automatically. If you had to point to a single aspect that is degrading, demeaning, wasteful in staff, cost, and everything, it is this individual determination of need. To the extent that you move toward an automatic system and a determination of need on the basis of certain general criteria applicable across the board and only sample checking, I think you would come up with not only a reduced staff, but with a substantially different staff, a different mix of staff with different kinds of people, different backgrounds, and a staff who would be better equipped to do the job, even though a large number of them would have, would require, much less in the way of educational and other qualifications.

Representative GRIFFITHS. Let me ask you this: Supposing that the Federal Government accepted the New York standard, but we said you cannot go above this, and the Federal Government sent the check to all of those who did not meet that standard throughout the United States. In your judgment, would it stop the influx of people into the cores of the central cities?

Mr. GINSBERG. It would not completely stop it, because there is no question that people move from one place to another place for a variety of reasons. It is a real oversimplification when people say they came here for one reason or another. They came mainly to improve their lot.

Representative GRIFFITHS. And some of them just to see New York.

Mr. GINSBERG. That is right, and some of them just to see another urban community. You would not change that completely.

But I think it is equally true, Madam Chairman, that some people come because they simply cannot survive on the present economic or financial help that they get under the public welfare system in certain States. On them it would have some effect, but I think we would kid ourselves to think that any one step is going to change that pattern completely. It will not.

Representative GRIFFITHS. Would anyone else like to comment?

Mr. WYMAN. I concur 100 percent.

Representative GRIFFITHS. May I ask you, if you are to give money from social security to the blind, I believe, and other groups, do you propose that those payments be financed as social security is financed, via a payroll tax?

Mr. GINSBERG. I would add to that revenue from general taxes. I think that would be required for this system. I think as time goes on, and as we are reaching where we apparently are now, that everybody comes under social security, the need for that would be less and less. I think it would be dishonest to say we could do that simply for them. There would have to be supplementation under general taxes; that precedent has been established and I have never found anything wrong with it.

Representative GRIFFITHS. The truth is if you are going to finance it out of the payroll tax, you are taxing the poor to pay the poor.

Mr. HURSH. I would agree with Mr. Ginsberg except on the point I mentioned earlier of the compulsory health insurance. I think this should be a payroll tax. You can see what is happening in title 19—the medicaid bill. This is going to be an astronomical figure eventually, and I cannot see the logic of paying this out of tax revenues.

Representative GRIFFITHS. May I ask, if you are going to finance it out of the payroll tax, suppose you just release the top level on the payroll; you tax the total payroll, no matter what the man makes; you tax him a high percentage against what he makes.

Would you do that?

Mr. HURSH. I do not think so.

Representative GRIFFITHS. Why not?

Mr. HURSH. I do not feel competent to get into that discussion. I do not know the actuarial situation. How this is determined I am not competent to say. But whatever is required—I do not care what the percentage is—the tax should be whatever is needed to finance the program for adequate social security after retirement age, plus adequate health insurance at any age.

Representative GRIFFITHS. In the beginning, when \$3,000 was selected as the base of the amount that would be taxed, that covered 97 percent of the people. In the training program so far, what percentage of the people who have been retrained have been from the welfare rolls as opposed to other people?

Mr. GINSBERG. We would have some figures on New York City. We have established as a city policy—quite clearly, the mayor has enunciated, and the rest of us—that the welfare clients get the first priority. We have found that an easier principle to express than to carry out. It has varied with us from some programs where there are 95 to 98 percent of the people on welfare. But I think it would

be fair to say our programs have generally ranged between 30 and 40 percent, and that has been as a result of extra effort put into it. Until very recently, the percentage of people on welfare in employment programs, for reasons Commissioner Wyman and others have indicated, has been very low.

Representative GRIFFITHS. What percentage would be in Minnesota?

Mr. HURSH. In MDTA about 8 percent; in title V of OEO, 49 percent.

Representative GRIFFITHS. I feel that some of these retraining programs have been used to make patternmakers out of tool-and-die makers.

Mr. HURSH. Are you referring to the MDTA program?

Representative GRIFFITHS. Any type of retraining program. There are various types.

Mr. WYMAN. I would be glad to furnish figures for the record also on a statewide basis, but I think it is important to keep in mind that, first of all, there are relatively few welfare recipients that have sufficient skills to move right out into a job.

Secondly, we ran a project to determine, when MDTA first became operative, how many welfare recipients in three of our local districts could be moved promptly into that training program. In the three districts, the social workers identified 1,600 people. When they went through the screening for entry into the training program, it was found that all but 75 of the 1,600 were not eligible for the training because they lacked the literacy qualifications, they lacked just grammar school background. So then we put our effort, our major effort, into adult literacy training programs and, working through the school districts of the State, we have had very good success with several thousand, and I can again supply these figures for you—

Representative GRIFFITHS. Please do.

Mr. WYMAN. Bringing people up to a reading, writing, and arithmetic level does not guarantee them a job, but it does guarantee that they will be better citizens, that they will be better parents, that they will have a better understanding of their children's problems, and encourage their own children to complete more of their own education. I think this is where the real benefit has been and will continue to be for many welfare recipients—not in making patternmakers out of them, but in getting them to a point where they can be better citizens.

(The following supplementary material was furnished for the record by Commissioner Wyman:)

The following tabulation shows the numbers of such persons in New York State, either currently or for an immediately prior period:

Work Experience and Training (Title V of EOA)

The average monthly number of trainees in New York State Title V projects for 1967 was 2,300.

In January 1968, the total number of trainees in Title V projects in New York State was 1,723.

Basic Literacy Education

Approximately 2,000 public assistance recipients received basic literacy education during the school year 1966-67. From mid-1964 through the end of the term 1968 period, an estimated total of 13,720 public assistance recipients received basic literacy education.

MDTA

During calendar year 1966, 1,595 public assistance recipients were enrolled in MDTA institutional training courses.

From January 1, 1964 through February 28, 1967, there were 39,072 MDTA trainees of which only 10.8% or 4,219 were public assistance recipients.

Data for calendar year 1967 is not yet available. It was expected that public assistance recipients would occupy 14% of the slots.

Community Action Program (Title II of EOA)

It is estimated that during early 1968, 600 upstate and 3,000 New York City public assistance recipients were receiving training.

I hope this information will be of assistance to you and the Committee.

Representative GRIFFITHS. But the whole problem in the whole re-training program, it seems to me, is that in some instances we are training people who could well afford to pay for the training themselves and leaving out the people who need it most.

I would like to say a few kind words on behalf of the Ways and Means Committee.

The truth is that the Ways and Means Committee discovered that the States were not doing much of anything to help people on welfare. That is really why the freeze was put on for ADC mothers. At last, they said, you either have to do something or we are not going to participate. This is really what this says.

Now that freeze is going to be delayed. Nevertheless, either the States—and I am not talking of your two States; maybe your two States have done a good job—but the States have the administration of these programs. They must perform. They must help the people who need the help the most. In my opinion, they just have not helped those people effectively; they have not reached down to reach those people and to assist them in getting better jobs and in helping them in other fashions. After all, I think that is the intent of the program.

I would like to thank each of you for appearing here today. I think you have indeed helped us. In my judgment, and I have looked at the welfare system pretty closely—I sit on a committee that does something about it—I think almost anything we can do is going to be an improvement of the welfare system. It simply could not be worse. I do not see how you people who have had the responsibility for doing the job have been able to do as well as you have with the tools we have given you.

Without objection we will include a statement by Representative Bennett of Florida at this point in the record.

STATEMENT OF HON. CHARLES E. BENNETT, A U.S. REPRESENTATIVE FROM THE THIRD CONGRESSIONAL DISTRICT OF FLORIDA

Mr. BENNETT. Madam Chairman, I deeply appreciate this opportunity to make this statement to the committee hearing testimony on proposed income-maintenance programs. I congratulate the committee on holding these hearings into a very important problem facing our domestic life today.

Much study and research needs to be made into the various proposals for new forms of income maintenance such as the negative income tax, social dividends, and family allowances. The present welfare system in many aspects needs a drastic overhaul.

I believe a tax reduction to a bare minimum to individuals with low incomes as a substitute for Federal doles and subsidies is a needed

step in helping to solve these problems. This could be accomplished by legislation which I introduced in the House of Representatives over the last several Congresses. My bill, H.R. 241, to do this is pending in the House Ways and Means Committee.

This bill would reduce the income tax to \$5 for those citizens classed in the poverty status to eliminate the need for handouts from the Federal Government.

This bill, amending the Internal Revenue Code of 1954, relating to income tax on individuals, including married persons filing joint returns, heads of households, and single persons, is a technically drawn bill to halt the tendency of Government to tax those low-income groups, while keeping them in the subsidy and welfare class.

In drafting the legislation, the poverty-class definition adopted by the administration, which includes those persons making \$3,000 or less annually, was used.

In taxing the person making \$3,000 or less annually, the Federal Government is going to the source of a man's livelihood, and returning to him a dole subsidy putting him squarely under the thumb of the "great white father."

Rather than pay his rent or give him a welfare check, why not almost eliminate his income tax? My bill would accomplish this.

This bill could probably take the place of a major new spending program and make the individual less dependent on a paternal Federal Government and more dependent on himself. A copy of H.R. 241 is attached.

Former Secretary of the Treasury Douglas Dillon, in his final public speech in March 1965, urged a further tax reduction for the Nation's low-income families, adding support to this legislation.

Thank you for the opportunity to submit this statement.
(H.R. 241 follows:)

[H.R. 241, 90th Cong., first sess.]

A BILL To provide assistance to individuals with low incomes by reducing the amount of income tax on individuals

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) part I of subchapter A of chapter 1 of the Internal Revenue Code of 1954 (relating to income tax on individuals) is amended by renumbering section 5 as section 6 and inserting after section 4 the following new section:

"SEC. 5. REDUCTION OF INCOME TAX ON INDIVIDUALS.

"(a) **MARRIED PERSONS FILING JOINT RETURNS.**—In the case of a joint return of a husband and wife under section 6013, if before applying this subsection the amount of tax determined under section 1(a)(2) (after the application of section 3) or table III in section 3(b) exceeds \$5, then the tax imposed by section 1 or section 3 on the taxable income of such individuals shall be reduced (but not below \$5) by \$200.

"(b) **HEADS OF HOUSEHOLDS.**—If before applying this subsection the amount of tax determined under section 1(b)(1)(B) or table II in section 3(b) exceeds \$5, then the tax imposed by section 1 or section 3 on the taxable income of the individual shall be reduced (but not below \$5) by \$150.

"(c) **SINGLE PERSONS NOT HEADS OF HOUSEHOLDS; MARRIED PERSONS FILING SEPARATE RETURNS.**—If before applying this subsection the amount of tax determined under section 1(a)(2) or table I, IV, or V in section 3(b) exceeds \$5, then the tax imposed by section 1 or section 3 on the taxable income of the individual (other than a husband and wife filing a joint return) shall be reduced (but not below \$5) by \$100."

(b) (1) Subsections (a) (2) and (b) (1) (B) of section 1 of such Code are each amended by striking out "a tax determined in accordance with the following table" and inserting in lieu thereof "a tax equal to the tax determined in accordance with the following table, reduced as provided by section 5".

(2) Section 3(b) of such Code is amended by striking out "a tax as follows" and inserting in lieu thereof "a tax equal to the amount determined in accordance with whichever of the following tables applies, reduced as provided by section 5".

(c) Section 2(a) of such Code is amended by inserting "section 5," after "section 3,".

(d) The table of sections for such part I is amended by striking out the last item and inserting in lieu thereof the following :

"Sec. 5. Reduction of income tax on individuals.

"Sec. 6. Cross references relating to tax on individuals."

SEC. 2. The amendments made by the first section of this Act shall apply with respect to taxable years beginning after December 31, 1966.

Representative GRIFFITHS. Additional items which will be included in the appendix are "The Family Allowance," by Prof. Martin Schnitzer of Virginia Polytechnic Institute, and "Innovation in Public Assistance," by Prof. Sydney E. Bernard of the University of Michigan.

(See volume II ; app. 4 and 5.)

This subcommittee will adjourn and meet tomorrow in this room at the same time.

(Whereupon, at 12:20 p.m., the hearing recessed until Wednesday, June 12, 1968, at 10 a.m.)

INCOME MAINTENANCE PROGRAMS

WEDNESDAY, JUNE 12, 1968

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

The Subcommittee on Fiscal Policy met, pursuant to call, at 10:05 a.m., in room 1310, Longworth House Office Building, Hon. Martha W. Griffiths (chairman of the subcommittee) presiding.

Present: Representatives Griffiths, Bolling, and Rumsfeld.

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

Representative GRIFFITHS. The subcommittee will come to order.

Professor Cloward, we certainly appreciate your being here this morning. We find that the other witnesses are having trouble reaching here. We would like you to begin.

STATEMENT OF PROF. RICHARD A. CLOWARD, COLUMBIA UNIVERSITY SCHOOL OF SOCIAL WORK, NEW YORK, N.Y.

MR. CLOWARD. Madam Chairman, I have come to make what I think is a somewhat different criticism of the public welfare system in America than is usually heard.

Most critics of public welfare focus on the low levels of benefits, as well they might. The average family of four under the aid to dependent children category receives approximately \$1,800 per annum in this Nation, ranging from a low of about \$400 in Mississippi to a high of about \$2,700 in northern States such as New York and New Jersey.

Critics also point to the myriad statutes and policies which legally keep hundreds of thousands of the poorest families in America from receiving any benefits at all. A prime example is the durational residence law—on the books in 40 States—though I am happy to say that these laws are being successfully challenged in the Federal courts. These laws prevent aid from being given to such categories as migratory workers who are periodically stranded without funds in a State far from home, or to the masses of southern sharecroppers and tenant farmers who are being driven into northern States by the inexorable march of agricultural mechanization.

There are many other examples of statutes which have the consequence of excluding from any aid whatsoever substantial portions of our population. In addition to the residence laws, one thinks of various relative responsibility provisions, man-in-the-house rules, and substitute-father laws.

However, the most devastating criticism of public welfare is never made. It is that the system is designed to insure that most people do not succeed in obtaining even the meager benefits to which they are legally entitled. Poor Americans, in other words, are literally cheated out of billions of dollars by government—and this at a time when affluent Americans are receiving transportation subsidies, agricultural subsidies, housing subsidies, urban renewal subsidies, and other governmental benefits of unparalleled magnitude.

To combat this lawlessness by government, welfare recipients have found it necessary to form a national protest movement. Under the inspired leadership of Dr. George A. Wiley, who is testifying here today, the National Welfare Rights Organization is now successfully forcing welfare departments in many localities to distribute benefits in compliance with the law.

One form of lawlessness arises from various policies and practices which keep eligible people from getting on the welfare rolls in the first place.

For example, welfare administrators deliberately engender ignorance of entitlements among potential applicants by refusing to release copies of welfare regulations to them. Hence many people do not realize they are eligible and do not apply. Or, if they do apply and are declared ineligible, they have no independent means of knowing whether they are being lied to—as they very often are.

Ladies and gentlemen, welfare manuals are unclassified public documents, and welfare applicants are American citizens. There can be no explanation for governmental secrecy about benefits except that the intent is to give as few people as possible as little as possible, whatever their legal eligibility.

But even if applicants know of their rights, they find it exceedingly difficult to assert them. The steps involved in proving one's eligibility constitute a veritable bureaucratic obstacle course, replete with invasions of privacy and the necessity of producing birth, marriage, employment, and a multitude of other personal documents which even the most compulsive middle-class family could not be expected to have ready at hand. One must conclude that the poor are supposed to cultivate the habits of the packrat. Nevertheless, lacking appropriate documents they are turned away.

And even if all documents are available, welfare functionaries—under public pressure to keep costs down—may then reject the application, telling the victim to seek help from relatives or friends.

Ladies and gentlemen, our investigations of poverty in northern cities have led us to the terrible conclusion that, for every person on the welfare rolls, there is another who is probably legally eligible but not receiving benefits.

Governmental lawlessness has indeed succeeded in reaching its objective. Little wonder, then, that the National Welfare Rights Organization is now planning to mount a nationwide advertising campaign to recruit the eligible poor onto the welfare rolls.

But one should not suppose that lawlessness ends where benefits begin. Many of those who do manage to get on the rolls are then cheated out of many allowances.

The calculation of budget allowances is extraordinarily detailed and complex—in New York, the few unemployed men who get on the rolls

are eligible for 45 razor blades per year. Under pressure to save money, it is all too easy to forget one or another of these detailed allowances when computing a family budget. And the result is that underbudgeting is rampant.

In many jurisdictions, the law also prescribes special allowances for recipients to purchase heavy clothing or household furnishings. These grants are not ordinarily incorporated as part of the family's regular semimonthly check, but are to be requested as needed.

However, people cannot request a grant that is kept secret, and even when they do inadvertently learn of their eligibility, their requests are often turned down or trimmed down. The resulting economy runs into hundreds of millions of dollars.

Across the country, the National Welfare Rights Organization has been mobilizing massive campaigns of recipients to obtain these special allowances. It prints and distributes the applications which welfare departments will not release, and it stages demonstrations in welfare centers until the completed forms are honored and checks issued.

The National Welfare Rights Organization is doing government's work—and doing it very well, indeed. In New York City, for example, more than \$10 million in special grants have been obtained in just the last 5 weeks as a result of such campaigns.

Ladies and gentlemen, your deliberations on the inadequacies of the present public welfare system are timely, if somewhat tardy. The poor are also deliberating; more than that, they are acting. If you do not reform this system, it seems likely to me that they will.

(The following item was included with Mr. Cloward's statement:)

[From the New York Times, May 30, 1968]

TELL IT LIKE IT IS: DIGALO COMO ES

WELFARE SIT-INS NETTING MILLIONS

Protest Unit Says City Aid Has Risen by \$3 Million

(By John Kifner)

A drive by organized welfare recipients has won for them \$3 million in increased benefits in the last five weeks, the group estimates.

The campaign has taken the form of demonstrations and sit-ins at welfare centers throughout the city—particularly in Brooklyn and the Bronx. Welfare recipients have demanded that they be granted money immediately for clothing and household and furnishings.

The drive is being directed by the Citywide Coordinating Committee of Welfare Groups, a federation of more than 40 neighborhood organizations of welfare recipients, which works out of a dingy third-floor office at 514 West 126th Street.

Hulbert James, the committee's director, estimated that the drive had won the participants an average of \$300 to \$400 a family. He estimated the total gain at over \$3 million.

Department Kept "Busy"

The city's Department of Social Services said that it did have an estimate of the amount of additional grants prompted by the campaign.

"We're so busy filling out the forms, we haven't had time to add it up," one official said.

Jack Goldberg, the Commissioner of Social Services, said that the sometimes unruly demonstrations—which have included sit-ins of several days' duration and the closing of centers—were "the kind of problem we're going to have until we really face the issue of changing our system."

"This department ought to be providing services to people," he said, "and get out of the business of having people coming as supplicants and saying they need

something and having an individual judgment made. We need some form of a guaranteed income, and this is clearly something the city isn't going to be able to solve by itself."

The citywide committee grew out of the organization of neighborhood groups of welfare clients over the last three years. Much of this organizing was done by city antipoverty workers, who discovered that complaints against the welfare system were one of the most pressing issues among the poor. Church, civil rights and community groups joined the effort.

"Minimum Standards" Asked

The focus of their campaign is "minimum standards"—the basic items of clothing, furniture and household equipment that each client is supposed to have, according to the department's regulations.

Often, welfare workers and officials concede, these items have not been issued. The coordinating committee and other welfare-recipient groups have been distributing mimeographed check lists of the "minimum standard" items.

Armed with the check lists, groups of from 10 to 100 clients have descended at least once a week on each of nine welfare centers in Brooklyn over the last five weeks.

In the Bronx, according to Mr. James' figures, a demonstration at the Melrose and Kingsbridge centers for Easter clothing and furnishings resulted in grants of \$35,000. A three-day-and-two-night sit-in, beginning May 6, brought \$100,000 for another group of clients.

More than a hundred people, most of them mothers, stood behind police barriers yesterday afternoon outside the gray building at 161st Street and Morris Avenue that houses both the Kingsbridge and Melrose centers.

A few caseworkers from the Kingsbridge Center went out, found their clients in the line and took them inside.

But the first floor area of the Melrose Center was occupied by more than 150 demonstrators—most of whom had been there since Monday—and the caseworkers had left. When negotiations with the center's director, Mrs. Mathilde Hochmeister, broke down, the demonstrators settled in for another night.

At the Tremont Welfare Center at 1813 Arthur Avenue in the Bronx, 200 mothers on welfare were also preparing to spend the night after a fruitless day of filling out forms and seeking "minimum standards" and emergency aid.

Representative GRIFFITHS. Thank you very much, Professor Cloward.

Mr. Bolling?

Representative BOLLING. I would like to have more detail as to the techniques that are used to keep the poor from achieving their eligibility. I come from a State which is not famous for its generosity in dealing with the poor, the State of Missouri. We constantly have a problem with one or another of the techniques that are used by States to take advantage of the full amount of the Federal money which is made available, but see to it that the poor benefit as little as possible from the intent of the Congress. In no sense am I indicating by that remark that I believe the Congress has even kept pace with the problem, much less advanced in dealing with it, at any time in my 20 years here. But I am curious as to more detail on the chamber of horrors of techniques that are used to prevent the poor from receiving even what is provided in what I consider to be an inadequate law.

Mr. CLOWARD. In other words, the question goes to those who are presumably eligible under existing statutes?

Representative BOLLING. Correct.

Mr. CLOWARD. Well, I think there are many ways in which this condition comes about. I, myself, could not stress enough the functions of ignorance engendered by the failure of the system to conduct any form of public information campaign to potential welfare recipients. You can pick up a newspaper anywhere in this country on any day and find a question-and-answer column on social security benefits. You

frequently see the social security system advertising on TV and the radio to inform the broad American public of their rights and entitlements under this program. But you have never seen an advertisement for public welfare. I doubt that you ever will, unless this Congress or the Department of Health, Education, and Welfare requires States and localities to carry on some form of public-information campaign so the poor people can know their rights.

People cannot assert rights of which they are not aware. When a welfare applicant goes to a department of welfare and is told that he is ineligible and is denied access to the manual, and has no other source of information about the very complex laws and statutes, he has no choice but to accept that decision. Lawyers who have studied welfare practices will tell you that a very substantial portion of those eligibility decisions are of doubtful legality. But there is no means of recourse, for applicants cannot obtain information about the rules.

One of the things the National Welfare Rights movement has been trying to do is get manuals for the people in cities like Cleveland, Chicago, Detroit; welfare officials just will not release them. They give all manner of reasons for the denial: the manuals are too complicated for poor people to understand; the regulations keep changing so the manuals become obsolete; and so on. But where these manuals have been obtained—and they have been obtained in many places—often, I regret to say, only by finding a sympathetic welfare worker who will steal a copy—but where they have been obtained, they have been boiled down, simplified, put into understandable language, and run off at a settlement house or a church, and distributed to thousands of the poor so that they can know their rights and act on them.

So I think secrecy about eligibility means that all the cards are in the hands of the system.

Representative BOLLING. I do not want to interrupt you, but I want to deal with another subject which is rather vague and I think it is important that there be something in the record about this. Would you care, at some point in your answer to my rather broad question, to deal with a specific intent—the reasons why this particular attitude is taken through the process that starts, perhaps, at a State legislature, and works its way down to a local administration? Why is it that people behave this way, the administrators?

I would like to get back to what I believe to be the answer. I am curious as to whether mine and yours are the same.

Mr. CLOWARD. My complaint is not for the most part with administrators of welfare departments. In a certain sense I think they, too, are victims of the same public attitudes which victimize the poor. It seems to me the answer is not so difficult to define. Americans, by and large, believe that work is the source of all good—character and morality. So we as a people tend to denigrate anyone who either cannot or should not work—the aged, the children, the disabled, or mothers with small children. It has only been in recent years that we have gotten children out of the fields, the mines, the mills. Americans also believe, as a corollary of the work notion, that anybody who receives money he did not earn is corrupted by that act.

Thus one of the common allegations of our public welfare is that people are demoralized and debilitated because they are taking money which they did not earn. If that proposition is true, all of us in Amer-

ica are corrupted, for the inventory of subsidies which this Congress allocates to other people is very long. I mentioned agriculture, urban renewal, transportation, and housing subsidies earlier.

Representative BOLLING. Can you in fact think of any segment of society that is not in some fashion subsidized?

Mr. CLOWARD. That is my point. We all benefit from subsidies. But then we say only the poor are corrupted. And it is precisely this double standard in our thinking about subsidies which strangles public welfare departments. It ties the hands of the most altruistic-minded public welfare administrators, puts them under unbearable pressure to keep costs down, to keep constantly on their guard that some applicant is not going to get away with a bit of money that he was not actually eligible for, or something of that kind. So my complaint is not so much with welfare departments as with American attitudes.

Representative BOLLING. Basically, you are referring to a public attitude that is based in ignorance and lack of awareness of all the other subsidies that are involved. That is pretty well depicted by the very high executive of one of the railroads that has its headquarters in my town of Kansas City, who told me that the railroads had never received a subsidy, which is one of the more fantastic statements that I have heard. But the point, basically, is that this is public ignorance translated into political action at the legislative level and imposed on the administrator.

Mr. CLOWARD. Yes.

Representative BOLLING. Thank you.

Representative GRIFFITHS. Thank you both.

I am fascinated with the 45 razor blades. I did not know that they operated this way until a year ago. Will you tell me, supposing a person had used the 45 razor blades. Are there provisions in the New York law wherein additional razor blades could be issued? If the need was proved?

Mr. CLOWARD. Well, I do not think this is a law; I think this is a regulation and policy.

Representative GRIFFITHS. But under the law they could issue additional ones, could they not?

Mr. CLOWARD. They have the power to issue emergency grants.

Representative GRIFFITHS. Would this not involve something, some sort of interview or possibly a visit to the person's house, so that in reality this adds to the cost, does it not, of running the system? You might as well have given the money to the person in place of having this in the system.

Mr. CLOWARD. Yes. We estimate that for every dollar that is disbursed by local departments, it costs them 25 cents because of the enormous paperwork and investigatory procedures, the enormous pressure they are under to detect cheating.

Representative GRIFFITHS. Sometimes I wonder if this really is the problem, to prevent cheating. We, after all, have so many categories, and the question becomes one of whether you are in the right category and are you getting the right amount, and we ask in such endless detail that we defeat the whole system.

In your judgment, how many people are there in New York who really are entitled to welfare that are not getting it?

Mr. CLOWARD. Well, New York is a special case. Two years ago there were about 550,000 people on the rolls. That was also the time when the National Welfare Rights movement was born. The National Welfare Rights movement and Mrs. Sanders will be here to testify this morning, as she is its head in New York City, and a very effective head—has been extremely effective in New York City. There are dozens of local organizations in New York now. They have had a profound impact on that system, not only with respect to securing the special grants which are allowed by the law but rarely disbursed, but also in their impact on the discretion of intake workers. The rate of rejection of new applications in New York City has fallen substantially in the last 2 years through the efforts of this organization, with the result that the welfare rolls are now approaching 850,000.

So my own judgment is that the problem in eligible people who are not on the rolls has been largely solved in New York City. There may yet be another 100,000 or 150,000 who are eligible and not on the rolls, but the problem there has been substantially improved, largely due to the efforts of this new protest movement.

Representative GRIFFITHS. May I ask you, have you personally visited other American cities and rural areas to make a determination from those welfare departments just how they are administering the law, or have you not?

Mr. CLOWARD. Well, I have looked at some. I have not made a nationwide survey. I have looked at some, but I am in constant touch with persons who are very intimately connected with the struggle against welfare departments in other parts of the country, including Dr. Wiley.

Representative GRIFFITHS. Because I would assume that some welfare departments are considerably worse than others.

Mr. CLOWARD. Oh, I think there is no doubt about that.

Representative GRIFFITHS. I think there are many regulations in some welfare departments that do not really exist in others, that they are working harder at keeping people from getting on the rolls.

Mr. CLOWARD. That is right.

Representative GRIFFITHS. Now, may I ask you, if you had a guaranteed income, what other services do you think would be required? Supposing you had a guaranteed income that was really one that was sufficient?

Mr. CLOWARD. And guaranteed.

Representative GRIFFITHS. Yes, and sent from the Federal Government.

Mr. CLOWARD. Well, I think I would begin to answer that by saying that a guaranteed income, while it would provide for the bare necessities of life—food, clothing, transportation, a bit of recreation, educational supplies for children, and so forth—would not enable poor people to purchase decent housing. They can only purchase decent housing if they are permitted to enjoy the same housing subsidies that the middle class now enjoys—long-term, low-cost mortgages, for instance, tax abatements, and all the rest of it. The guaranteed income would not deal with the housing problem or with other needs. It would just deal with the bare necessities.

Representative GRIFFITHS. Well, I think it ought to do better than that. If you are going to be able to pay rent, you ought to be able to

buy a house. What other things do you think a guaranteed minimum income could do? If you had this, could you begin to do away with the welfare system?

Mr. CLOWARD. I, myself, think if you had an adequate health system, an adequate education system, an adequate housing system, an adequate employment system for those who should work and who can work, the necessity for building into our welfare departments a vast range of rehabilitative counseling, guidance, therapeutic services would be substantially reduced. I would, in short, think of welfare departments as having the function of providing services to people on a voluntary basis—day-care services if they wish them, and counseling services if they wish them.

But my guess would be that the demand among the poor for counseling and other forms of service would be rather minimal. They do not need rehabilitation, they need money. Their problem is having to deal with an agency of Government that has a pervasive power over them, that can invade any part of their lives—their living rooms, their bedrooms, their closets—stripping them of their basic civil liberties and their essential dignity. The problem is not receiving money they did not earn, but the terms under which that money is given. The terms are very different than the terms under which you and I get subsidies. I do not open my bedroom to anybody to get a Veterans' Administration mortgage. But poor people, with considerably less subsidy, have to submit to all manner of indignity. I think if people were given an adequate income, as a matter of right, the issue of rehabilitative services would largely recede as a priority matter.

Representative GRIFFITHS. Thank you.

Mr. Wiley, you are welcome here. You may proceed.

STATEMENT OF GEORGE A. WILEY, EXECUTIVE DIRECTOR, NATIONAL WELFARE RIGHTS ORGANIZATION

Mr. WILEY. Thank you, Madam Chairman. Mrs. Sanders, who is second vice chairman of the National Welfare Rights Organization, has just come through the door.

Mrs. Moore, who is one of the national representatives, is seated here at the witness table. She is the national representative from Chicago, Ill., to the national coordinating committee.

Mrs. Sanders is chairman of the citywide organization.

Representative GRIFFITHS. Would you begin, then, Mr. Wiley, and then we will have Mrs. Sanders testify.

Mr. WILEY. Yes. I would like to request, if it is at all possible, that we have a few of the additional welfare recipients who are here to be able either to come in and stand, or use some of the other seats, or perhaps some of the other people would be willing to share the seating with them. We have about 10 additional people who are in the hall.

One aspect of our testimony, let me say, is the degree of concern for the extent to which welfare recipients and other poor people have not been able to participate in the processes, setting the policies and developing the directions.

The prepared text of the testimony of the National Welfare Rights Organization has just been brought in. I wonder if some of the staff might want to see that people in the audience and the press have copies of it.

Representative GRIFFITHS. People in the audience are customarily given it afterward.

Mr. WILEY. We did not plan to read this into the record. We planned to submit it along with the supporting documents.

Representative GRIFFITHS. Without objection, the testimony will be printed in the record.

Mr. WILEY. The supporting documents that are with it, we feel, are quite important and basic to the factual case that we wanted to present.

(See volume II; app. 6 for documents mentioned.)

The National Welfare Rights Organization is an organization of welfare recipients and other poor people that has been developing over the last couple of years. It now has a membership which encompasses more than 30 States and 60 cities. Our national representatives appreciate the opportunity to bring the views that have been developed through this people's organization to the attention of this committee, and we appreciate the fact that the committee has been willing to hear from welfare recipients and from their organization.

Representative GRIFFITHS. You are more than welcome.

Mr. WILEY. Let me say simply that the basic issue for welfare recipients and the overriding issue for welfare recipients and poor people is for money, for income, and for income at an adequate level. There has been no significant demand or no significant interest in our organization, as the goals have developed from the recipients, for services. The interest in services is very, very secondary. The basic issue for welfare recipients is getting enough money to support their families. The present system simply does not allow enough money to support their families. Furthermore, it has investigative procedures and harassment, violation of constitutional rights, violation of their own laws and regulations which make it very difficult for recipients and other poor people to get the benefits that are afforded even by this system, which is inadequate.

We estimate, in support of the information presented by Professor Cloward, that there are probably at least as many people who are eligible for assistance and receive no assistance at all in the cities and in the North, South, East, West, everywhere we have looked into this problem, we have found the same pattern, that people are arbitrarily illegally denied even this meager benefit that welfare affords. The benefits that are afforded are totally inadequate. We find that people consistently do not get all of the things they are entitled to under the regulations. They cannot find out what they are entitled to. In most places, the practices and the policies that govern are arbitrary, are capricious. There is no fixed set of regulations that are easily accessible. In fact, no State, to my knowledge, has presented a simplified set of regulations that is widely distributed to recipients or potential recipients so that people can know what their rights are.

There can be no justice in a system that does not even tell people what they are entitled to or what avenues there are for redress of grievances. Fundamentally, unless the country comes to grips with the basic issue that they are prepared to give at least a minimum decent income to every citizen who is in need, we are always going to have a system that is plagued with these kinds of problems.

Again, as Professor Cloward has pointed out, there are different attitudes toward subsidies for the rich or for the middle class or for the

farmers than there are when it comes to subsidizing the poor in any way. We want to see an income maintenance system that allows people enough money to live on at least a minimum level. We say that that minimum level should be at least at the low-income line. That would afford a family of four a federally guaranteed minimum of \$4,400 a year.

Now, that \$4,400 a year does not allow anybody luxuries, does not allow anybody any real opportunity for even some of the simple luxuries like a car, like a telephone, like many of the things that are even necessities. But that seems to be a minimum level that ought to be established by the Federal Government. We say it should be a sliding scale with an adjustment per child up and down for additional or fewer members of the family.

This is something that this country has never seemed to grasp; that in talking about minimum wage laws, in talking about social security, there has never been an adequate arrangement for people of varying family sizes to get enough money. So that basically, there should be a level that adjusts to family size and that provides a minimum adequate level of income.

The amount of money that that would cost, to bring everybody up above the so-called poverty line to this low-income level, would be about \$20 billion to fill that income gap; \$20 billion to bring everybody up to a level where we would not have starvation in this country, where we would not have hungry children in this country, where we would not have the kinds of conditions we have which I think are breeding the violence and the disorder that we have in the ghettos and the barrios of the country, because people are so dissatisfied when they see affluence all around them and when they know that the country has adequate resources to give them at least a minimally decent living.

Now, people want jobs. Welfare recipients want there to be jobs available, but we want these jobs to be available for men. We want these jobs to be available for those mothers who feel that they can leave their children and go out into the conventional labor force. But we want every person, every mother who feels that her place is at home raising her children, we want those mothers to have the opportunity to regard that as their job and their vocation, and that for them to bring up children, healthy children, children who go to school, children who are going to be constructive, creative, and a productive part of this society—this is what welfare mothers want for their children. This is why they want adequate income, so they can raise their families with a measure of dignity, a measure of respect, and a measure of opportunity for the next generation of their children.

We say in the National Welfare Rights Organization that we have four basic goals. Those basic goals are income, No. 1, adequate income; No. 2, dignity; No. 3, justice; and No. 4, democracy.

Now, dignity, justice, and democracy are dependent on there being a system, first, that provides an adequate level of support; second, a system that distributes that support in such a way as not to degrade, harass, intimidate, and deny people their basic rights as citizens. We think an income maintenance program should be a simple system, should be a system that is administered uniformly throughout the country and throughout the population, not a system based on a States rights principle that is as antiquated as the States rights notions have been in the civil rights area.

We think that the system should be based on declarations and taking—essentially taking the poor person's word for what his condition is, the same as we do with other people in the income tax system and in many of the other benefit systems and subsidy systems, where a person simply fills out an affidavit as to what his condition is and would get his income maintenance based on that.

In other words, we ask for equal treatment with other kinds of taxing and subsidy systems.

The information about the system should be widely disseminated and generally available, which it is currently not under the present welfare system.

We feel also that there should be built-in arrangements for redress of grievances, a system where a person who feels they have a grievance against the system may get a fair hearing, may have a chance to be heard and have their grievance aired. There is no such system in the present welfare system. There is something called a fair hearing system which does not afford anybody any degree of fairness. The two most elementary facts about this fair hearing system should expose that, No. 1, there is no adequate information about what your rights are, so how can you possibly expect to pursue any kind of appeal; and second, and the grossest thing of all, is that your benefits are cut off and frequently you can go without benefits for months while you seek the hearing. In a system that can deny you the benefits without the due process of a hearing can simply have no justice in it.

So that welfare recipients are completely at the mercy of the system when they simply cannot get a hearing unless and until many months after the benefits have been cut off. What they have to do, obviously, is make a deal with their caseworker or make a deal with the welfare department and possibly make some kind of compromise in order to get back on. This often is done at very great hardship to the recipient.

Finally, the most sensitive issue in income maintenance from our experience with it as far as the general public is concerned, is the so-called work incentive. Now, I have found no problem with work incentive among welfare recipients. The welfare recipients in our organization—and we are in contact with some of the hardest working people in this country, many of them work 18 hours a day for no pay to try to raise their children, to keep their households together. It may come as a great source of shock and information to many people that fully 15 percent of the welfare recipients, the AFDC recipients, work at the present time for wages, wages which are quantitatively and completely turned over to the welfare department. They work for nothing, in other words, because that money is immediately taken away by the welfare department.

Now, how can you accuse people in such a system when significant numbers of them work for nothing; how can you accuse such people of not having incentive to work? It seems to me this is the most ridiculous notion that has been foisted upon people, that the issue around welfare is that people do not want to work.

Most welfare recipients, moreover, would love to get a job if they could have their children taken care of or if there were some opportunity for them to have a job that provided an adequate income for their families.

There have been a number of studies to show that, for the most part in the communities where welfare recipients live, with the skill levels and education they have—and in most cases their reason for not having the skills and the education has denied them that opportunity to have those skills or that education—under those conditions they still have the will, the desire to work, but there is no real opportunity for them. Now, there is a problem with work incentives in an income maintenance program. The problem is this: Whereas it would cost 20 billion to bring everyone up to this low-income line, it would cost about \$11 billion if everyone—and I am not just talking about the welfare recipients, I mean if every poor person were brought up to the so-called poverty line—it would only cost this country about 11 billion. That is the current income gap. A lot of people worry that it is going to cost a lot more than that on the grounds that a lot of people are going to quit work and sit back and get this income. This is nonsense, because people want more for themselves, people want more than this minimum for themselves, they want the opportunity if only the jobs were available which pay the money to provide more for their families. Those jobs are not available and this minimum income is of vital necessity.

However, the work incentive is a very costly provision to build into an income maintenance program. It must be understood that our basic interest and what must be the basic priority of the country is giving income to the poorest people in the country so that they can raise their children with a measure of dignity and a measure of respect.

Now, I can think and the organization feels that it would be desirable to build in a modest work incentive program—if you got a job you could keep a portion of that income you got from the job. But it has to be borne in mind, and we should be very clear about this, that if you have a work incentive provision, more people become eligible for the program, simply because the level you are willing to support goes up, and you must support people for a long period of time. You are putting money in for the people who do not need it the most.

The people who need the money the most are people with no income or who are below the present Federal poverty line and below the low-income line.

I should also point out that many of the schemes, the negative income tax schemes, the ones I have read, most of them have such a big work incentive feature that they spend a large portion of the money they are going to put into income maintenance on people who do not need it as much as the people at the lower end of the spectrum. We are urging that the money that is available, the emphasis for that money be put on people at the lowest economic levels.

We have information, and as a closing note I want to say that it is very encouraging that the Joint Economic Committee is willing to look into this issue of the income maintenance and guaranteed income, family allowances, and so forth. But at the same time the Congress has just passed the most punitive, the most regressive, and the most backward piece of social legislation in the entire history of the country.

The welfare law drawn by Congressman Mills and the Ways and Means Committee has been described by many of the leading students of this as something that compares only with Elizabethan poor laws, something that has no place in the 20th Century affluent society, that

is beset with problems arising from divisions between the rich and the poor, the black and the white, beset by the problems of the ghettos and the barrios of this country. What the Ways and Means Committee and the Congress has done in adopting these provisions, which would not go further in aiding poor people but would deny aid to many desperately needy people by freezing assistance at the current levels, despite the fact that millions of people, as we have pointed out, receive no assistance at all at the present time—we try to force mothers to leave their children and accept work or training programs when there is frequently no real opportunity for them, withdrawing from them the choice about what is in the best interest of their families and putting it in the hands of the welfare departments, and adding numerous other eligibility requirements and barriers and redtape and additions to the bureaucracy that can only add to the injustice, the complexity, and the bureaucracy that make it so difficult for anybody to get the benefits that are presently available.

We think this vicious law, if it is not repealed immediately, is going to be a major contributor—I might mention that the President's Commission on Civil Disorders has already pointed out, as have many other groups and bodies, that the welfare system as it is presently operated is one of the root causes of the problems that we have in our cities and in our country, and that this welfare bill, this welfare law which is now the law of the land, can only be regarded as adding fuel to the fires in those ghettos, rather than doing anything about the causes.

So I am sad to say that this Congress has moved in the wrong direction toward trying to deal with those problems.

I hope this investigation and the initiative that has been taken by you, Mrs. Griffiths, and the others in this committee will be a step toward turning around and repealing that welfare law and toward beginning to make steps toward a guaranteed annual income for every citizen.

(The complete statement of Dr. Wiley follows:)

PREPARED STATEMENT OF DR. GEORGE A. WILEY

The National Welfare Rights Organization is a nation-wide organization of welfare recipients and other poor people. It was founded in August 1967 and already has a constituency of over 180 local groups in 60 cities and in 30 States. NWRO is directly and vitally concerned with the present welfare system and in income maintenance programs which may replace it in the future. We believe that the inadequacies of most government programs to aid poor people result in large part from the fact that little or no consideration is given to the views, the needs or the interests of those affected by the programs. We therefore welcome this opportunity to present the views of our constituency which have been developed over the course of the two year development of the National Welfare Rights Organization.

ADEQUATE INCOME

It is the unanimous opinion of our membership that the basic need of poor people is *money*. We believe that the way to do something about poverty is to give people the money they need to meet the basic necessities of life at least at a minimum level for health, decency and dignity. This minimum should be given uniformly by a simple procedure to all people who are in need without degrading investigators and harassments. We suggest that the absolute minimum standard should be the "low income" poverty line as defined by Mollie Orshansky of the Social Security Administration.* This level provides about \$4,400 per year for an urban family of four with a \$600 a year adjustment for additional

*See booklet on the Poverty Line, appendix 6.

or fewer family members. It would cost the Federal government about \$20 billion a year to insure every family an income at this level. This is a tiny amount when measured against our gross national product, our present Federal budgetary provisions and the enormous social and economic costs of the poverty problem in this country.

We call attention to the fact that the more popularly known Federal "poverty line" of \$3,335 for a family of four describes a level below which everyone is desperately poor and not meant to delineate between poor and non-poor. Furthermore, the food budget upon which it is based was not regarded by its architects as one which would allow people enough food for good health. Our present welfare system does not normally grant recipients even this meager subsistence. The average income for an AFDC family of four in the United States is less than \$2,000 per year.*

Moreover, not only are welfare payments totally inadequate for minimum subsistence, but three out of four of those below even the Federally defined "poverty line" receive no public assistance whatsoever. Our research has shown that many of these people are eligible for public assistance but either have not been told of their entitlements, or have been arbitrarily and illegally denied assistance when they applied. Many more people, particularly in the southern and midwestern states, are denied welfare by the maze of eligibility barriers many of which are un-constitutional, established for the sole purpose of reducing the costs of the program by denying aid to otherwise needy persons. The best known of these are residence laws, substitute parent ("man-in-the-house") rules and employable parent rules. Most of these rules are presently being tested in the courts and though court victories are producing clear entitlements for thousands of additional persons, the tangled maze of requirements and conditions even in the more "liberal" states, impose restrictions that prevent welfare from being a viable system for providing a minimum income. A few additional facts should be cited here:

1. Thirty-three States do not even pay their own definition of minimum needs in AFDC cases even though their definition of needs is almost always below the so-called "poverty line."

2. Less than half the States extend assistance to two parent families (AFDC-UP program).

3. The last fifteen years personal income in the U.S. has more than doubled, yet payments for families with dependent children have increased only 25% during that period.

4. Total public assistance expenditures have actually decreased over the past fifteen years when this is measured as percentage total personal income or percentage gross national product.

5. Welfare is the largest program of direct Federal aid to the residents of the ghettos and barrios of our Nation. About a quarter to one-third of all ghetto residents receive welfare in any given year and the majority are touched by it in one way or another.

THE ANTI-WELFARE LAW

As if the horrors of our present welfare system were not enough, Wilbur Mills and the House Ways and Means Committee foisted upon the Congress and the country a new set of welfare regulations representing a 300 year leap backwards towards the Dark Ages.

This law, written behind closed doors and without benefit of public hearings on any of its punitive features would:

1. Freeze Federal welfare funds to children with absent parents at the January 1, 1968 level. This measure absolutely denies Federal aid to millions of needy children.

2. Forces mothers to leave their children to accept work or training programs or be cut off from welfare and have her family responsibility taken away from her and possibly even her children removed from her home.

3. Instead of requiring the un-employed parent program to be extended to all states, it seriously restricts it by adding new eligibility conditions which would penalize most those with large families and long-term unemployed.

4. Add substantially to the already tangled maze of rules and requirements

*For more details, see booklet, *Welfare Guaranteed Poverty*; Hearings, vol. II, app. 6.

which will add to the inadequacies and bureaucratic confusions which already exist within the program.

The President's Commission on Civil Disorders cites the inadequacies and injustices of welfare as a basic source of ghetto unrest. The Commission cited the needs for an adequate income maintenance as one of the basic elements for the solution of the problems of our cities.

When the ghetto fires begin this summer perhaps the nation will look to the Mills, the Longs, the Byrds in seeking to fix responsibility rather than to the Carmichaels, the McKissicks, and the Browns.

For the Mills anti-welfare law misses the whole point of welfare—to provide adequate income for the people in need—and talks about cutting the welfare rolls when 75% of the people living in poverty are unable to get help. It mounts an attack on the families of the most deprived and harassed people in the nation by continuing the policy of most states to deny aid unless the father is out of the home and now tries to force mothers out to work when there are already not enough jobs for the men in the ghettos. It fails, not only to set minimum Federal standards for welfare payments, but ignores the Administration's modest proposals of requiring the states to meet their own definition of need.

Mills and the Ways and Means Committee claimed to be alarmed by the spiraling welfare rolls and attributed a very large share of the welfare growth to family break-up and illegitimacy.*

Far from being alarmed at increases in the welfare rolls, our organization is heartened by it. For it simply means that more people in need of public assistance are now getting it. In 1959, only 13% of all of the children in poverty received public assistance and in 1965 this had increased to 23%. In a humane society one would hope this figure could be 100%.

There might be cause for alarm if the number of poor "female-headed households and broken families" were rapidly increasing. But our investigations show that this group has remained roughly consistent at about 2 million since 1959. The number of children on welfare has grown by more than 50% since that period and the cost of AFDC welfare has increased by 80%, but this growth in the face of constant population of potential recipients simply reflects the fact that the program is reaching more needy persons which should, therefore, not be a cause for alarm.

Though our organization takes issue with the generally held definition of "illegitimacy," it is useful to point out that the "illegitimacy" rate among welfare recipients has been roughly constant at about 18% of the children over the past fifteen years.

FEDERAL RESPONSIBILITY FOR INCOME MAINTENANCE

In 1930 the Federal share of the total tax dollar was 33¢, State 17¢ and local 50¢. In 1965, that relationship had changed to Federal 67¢, state 18¢ and local government 15¢. Despite its increasing share of the tax dollar, the Federal Government has been paying a steadily decreasing share of the welfare costs. In 1959, the Federal Government paid about 60% of the total AFDC bill, by 1965 this had dropped to 55%. This has meant that States and local governments, in spite of the squeeze of their limited tax space, have borne a disproportionate share of increasing welfare costs. This is validated in the fact that while total AFDC costs have increased by 80% over the past fifteen years, the Federal share has increased by 67% and State and local shares by 101%.

It is quite clear that the further shirking of responsibility represented in the Federal freeze could precipitate economic crisis in some states and local governments, not to mention the inhuman suffering that it inflicts upon welfare recipients. We have already pointed out that at a cost of a mere 11 billion dollars every American family could be raised to the "poverty line" and for about 20 billion to a somewhat more respectable level. It should be remembered that these costs are maximum out-of-pocket costs which would be offset perhaps even 100% or more by reductions in delinquency, disorders and crimes and by the stimulus to the economy that would be produced by pouring these amounts of money in through low income groups who immediately and almost quantitatively return it to circulation.

*Report of the House Committee on Ways and Means—1967.

DECENCY, DIGNITY, AND DEMOCRACY

The National Welfare Rights Organization regards adequate income for every citizen as its most basic and urgent priority. We believe that no system which does not provide income maintenance and allow the recipient to keep his self respect, his dignity as a person and his democratic rights under the constitution, is not a valid system. Our present welfare system fails miserably by all of these tests. A few basic elements to insure these rights are needed:

1. The program should operate by a simple, fixed set of rules which do not allow subjective judgment by an administrator.
2. Statements of income or other personal information should be by declarative affidavit such as used by the Federal Income Tax System.
3. Information about the system should be widely disseminated and generally available.
4. Should have a built-in grievance system which allows the recipient to get a fair hearing when he has a grievance against the system.
5. Should include some work incentive provisions to allow the family to keep some portion of earnings beyond the guaranteed minimum income level.

This last point relates to the fact that most welfare recipients and other poor people want to improve their lot by working just as other Americans. Work incentive however, provides a serious dilemma since they can rapidly increase the costs of the program beyond the levels indicated earlier. Our organization regards the setting of a high minimum payment level as the most important priority as opposed to building in large work incentives. It is our view that most of the "negative income tax" schemes that have been advanced, squander potentially available income maintenance dollars, especially on work incentive provisions and set the minimum income for those totally dependent on government support at too low a level.

Representative GRIFFITHS. Thank you very much, Mr. Wiley.
Mrs. Sanders?

**STATEMENT OF MRS. BEULAH SANDERS, SECOND VICE CHAIRMAN,
NATIONAL WELFARE RIGHTS ORGANIZATION; CHAIRMAN, NEW
YORK CITYWIDE COORDINATING COMMITTEE OF WELFARE
GROUPS**

Mrs. SANDERS. Madam Chairman, and members of the subcommittee, Dr. Wiley has given you somewhat of a broad statement. But in my participation in the speech, I would like to hit on key issues that affect welfare recipients. I am going to try to bring to you highlights and points of just how it is to live on welfare with a budget as small as it is.

Some of the things I shall be talking about are things that are not in the budget, things that we need for our children to survive in this society, with a decent education along with other necessities that they have to have.

In grants that welfare recipients receive today, there is no money for newspapers, magazines, educational TV. Teachers give children assignment to bring in for current events. One of the things that the welfare recipients are saying is how can we give our children these things to help the school system educate them when we do not have the money to buy them? We have asked and listed demands over and over again, that our children must have newspapers, they must have magazines, they must have a television. There are lots of people that would tell you practically every welfare recipient I know of has television. But where did they get the money from to buy that television? In order to buy a newspaper or television that a child might need for education, he has to take the money from somewhere else,

where the budget is already so small he cannot afford it. Nine times out of ten, this money comes from food allowance, which is quite small.

Their trips to the museum, theaters, United Nations, zoos, and other amusements that the school is requiring that the children should participate in—we have had teachers tell our parents, you do not stimulate your child enough in order for him to be able to keep up with the class.

One of the things that was also pointed out is that there is not enough money to buy the extras that the children need. There is not enough money to send our children to the United Nations or to a movie or to a museum. There is just not enough money in the budget for these things.

For example, in New York, we have a series of trips at this point that are taking place for the children because this is the last month of school. I can say today 80 percent of those kids are not going on trips because the parents just do not have the money. Our budgets are so small that to really make it from one check day to the other check day, it is incredible, because she has to borrow from the next-door neighbor. As soon as her check comes, she has to pay it back and that still creates a problem, because when she pays the next-door neighbor the money that she borrowed in order to send her child on a trip, then she has taken money from something that she needed in order for her child to participate.

Therefore, she has no money to buy a complete amount of food which would last her for the next 2 weeks.

We have found that this is one of the main problems that the people are talking about today, that there is no money in the allowance for the kids to go ice skating, no money in the allowance for sports. Most of our children want to participate in the Boy Scouts, the Cub Scouts.

Most of our girls would like to become Brownies, and Girl Scouts, but there is no money in our allowance for these extra things.

There are children in the sixth grade that need typewriters; there is no money in the budget for typewriters. One of the things is that you can buy—most parents buy their children the typewriters, but when they go to the Department of Welfare and say, well, look, here is a receipt, I bought this because my child needed it, it takes them from 2 to 4 months before they can replace that money.

One of the things that we are trying to have stopped in this system that we have today is that there is no need for vouchers, there is no need to prove that you bought a typewriter, there is no need to prove that you spent a certain amount of money for certain items in order to get the money replaced.

One of the things that is in this speech is the inadequacy of day care. Dr. Wiley has hit on the fact that people would prefer to work but they want the men to have the jobs. I have to agree very much. In New York City, and I am quite sure you will find this around the country, we find from two to four and five men standing on each corner in the city. The thing that we have said is if you are going to give us jobs, give it to the men, get them off the corner first. These men are on the corner because the Department has run them away from their families. They did not have a job, they could not take care of their families, so they have to leave home in order for their wives and their

children to get a few measly dollars to just exist on. This is why the women are saying, give our men the jobs, let us stay home and take care of our children.

For example, if we were to take—let us take a round figure—400 mothers and say, OK, here we are, where are the jobs—there would be no jobs for these 400 mothers, there would be no place for these women to leave their children. We do not have enough day care facilities.

Operation Living Room in New York is one of the biggest farces that they could ever come up with. They are paying welfare mothers a measly sum to take care of other welfare children while they put these other mothers to work, and they have to sit in their living room. If they get out during the day with the children, fine; if they do not, fine. This is the way the department looks at it. But it is being said that this is one of the best things they could have come up with. Operation Living Room is no good for us in New York City. It does not take care of our children. This is only a small token of children that the department has decided to put in the living rooms of other recipients while they find jobs for these other mothers to go to work.

Operation Living Room is one of the worst situations that we have to replace day care.

We have asked that since you cannot build a day care center, why not take a building and have it remodeled in such a way that it will give a mother a chance to participate in the day care services that are going on in their community, that they will have a voice in how the day care center is run. But this is one of the things we have always been turned down on.

We cannot afford to build day care centers; we cannot afford to remodel buildings. There is no money in the budget for day care services.

One of the things we do know is that if the Government can find money to do all sorts of stupid job training programs, they can find money to put up day care services.

The day care services that we use in New York City range from \$25 a week up. This is for middle-income people. In order for your children to get in, you have to go through so much redtape with the department of welfare; they have to know everything that is going on in your family. Then they charge a measly \$2 a week and that is only on a scale basis, because you are a welfare recipient. There are only a few children that they take of welfare recipients.

Take, for example, in the area I live in, which is supposed to be minimum income. You have to fight tooth and nail to use the facilities that we have in the area because for welfare recipients, the minute they find out you are on welfare, they will tell you there is no opening.

We have done research and found out that there are openings, but they will prefer to take a working mother who can afford to pay \$25 a week; therefore, they will turn you down in order to get that flat cash.

The job training programs—this is under the heading of the incentive to work. There are lots of ideas that could come out of this hearing today on just what type of job training programs we would like to see. One of the things is that we have found out that our job training programs in New York—and I am quite sure this could speak for a number of places around the country—the job training programs are no good, for the reason that there are no jobs at the end of training. We have

had people who went through Manpower and they have come to us, a legitimate agency; they have come to us and said, "I had my IBM, I took job training, I am a lab technician, where is my job? Why cannot I get a job? Every time I go to a door it is slammed in my face because they have nothing for me."

They want to know whose fault it is. The only answer that I can give to people like that is it is the city's fault, because the Federal Government has given them all this money to do the training. They should have had a job for you at the end of it, but there is no job at the end of the training program.

No one has really taken time to do a survey and find out just what type of training program the people really want. This is one of the things that I have asked over and over and over from the commissioner in New York City: How are people to go out in the community to do a quick survey? We could do the survey free, but I refuse to accept it this way.

How are people to do the survey? You could come up with better training programs than you do have. For example, the case aid bit that they are trying to push in New York City at this point was one of our proposals. The city took it but they did not implement the program right. We asked them that they give the people 1 year of training and 2 years of college, which would qualify them to become case-workers because of the college background. And this is not the way it has been implemented.

We have stimulated our people in the movement to the point where they can write proposals of their own. If they can write a proposal that makes sense to CVA and they will consider that proposal for funding, then I feel that the department should take the idea of hiring our people to do the survey to find out what kind of a training program we want our people to participate in.

There are some people who would like to become nurses. Because of the tuition fees, because of the great demand there is for nursing, there are schools that you cannot possibly get in, in New York, because you have been out of school for so long. You have to take tests. There is no kind of preparation to prepare the people to take these tests.

There is no kind of stereotyped training going on in the communities. This is what some of the people are asking for. But in order to find out these things, I still think the survey needs to be done, whether it is done by us, whether the department pays us to do it or not. But I think this is the way it has to be done before you can come up with a concrete training program that is going to be meaningful to people.

There are other things that have to be hit on here. The problem of special items for children which would cover Christmas toys, a Christmas tree, Thanksgiving, telephones, automatic washing machines, sewing machines, these things. For example, to get Christmas toys, our people had to sit in the department to threaten to stay there over the holiday weekend in order to get money to buy Christmas toys. There is no money in the budget for toys. There is no money in the budget for trees.

At Thanksgiving most of our children do not see a turkey unless some charity center that has worked in the community with the people is giving away baskets. Some of our people do not like to take the baskets because they feel that this is charity, they do not want it be-

cause they do not want their children seeing that they have to accept a basket from a group that is in the community because they cannot afford to buy a turkey.

Sewing machines are a necessity because a lot of our people can sew. I have a girl right now that is willing to make me drapes if I can afford to buy the material. They can sew, they can make things that would help themselves. We cannot get sewing machines because the department says you have to go to the store, tell the man that you are on welfare, get a statement from him that he has a machine for a certain amount of money. The department is not going to give you but a certain amount anyway. They have it written in their book, anyway. They are only going to give you a certain amount. Yet you have to put your life on the line, go to the store, get the statement, bring it back and give it to your caseworker to show that you went to the store and that they have a machine for a certain amount.

You do the same thing with the washing machine, which does not make sense. They are only going to give you \$125. Why should I have to go and get a statement for \$175, when they are only going to give me \$125 anyway? Why not give me the \$125 and let me use it to get the machine the best way I possibly can, because they are not going to give me the rest of it?

Another thing that has to be changed in the law is that the washing machines we have found that we have proven through research to be a hazard, because the kind that the department gives you is the wringer type. We have research that has shown that quite a few children have had their arms damaged in the wringer-type machine. One of the things that we are asking, if it is possible, if this committee can do anything about it, is to get that grant for washing machines changed to a grant that will enable people to buy automatic washers. We are refusing to accept wringer washers any longer because there are too many children being damaged.

There is also another thing that has to be brought out here. There is no money to buy new furniture. People are tired of having to buy secondhand furniture. They are tired of having to buy a winter coat every 4 years for an adult. They feel that the regulations should be changed in order to be somewhat more flexible, where they will be able to buy a winter coat in less than 4 years, they will be able to go to a store and buy brandnew furniture. We have taken caseworkers out to Salvation Army stores and the secondhand stores and they refuse to let the clients buy the furniture because the furniture was in that bad condition. All the money that you get for furniture is just enough to buy secondhand furniture. We feel that the people should be able to buy brandnew stuff just like everybody else puts brandnew furniture into their homes.

One of the things that the department has not done that Dr. Wiley has hit on, that I also wish to continue to hit on, is the fact that the department does not tell clients what they are entitled to. We submitted 1,500 fair hearings in New York, and the city was going around as if they were crazy because they were not telling people what they were entitled to, they were denying money that people should have, and we submitted 1,500 fair hearings in order to make the city and the State obey their own laws.

In this movement, we have educated more people about their rights than the welfare department has ever educated. On any given day you will find our clients going into a center saying, I am entitled to X, X, X, and the caseworker will say to them, I have to check it. She will in turn say, you do not have to check it, I know, because I have studied your manual. I know your manual by heart; you should have read it yourself.

The department constantly denies people minimum standards, they constantly ask people to forfeit their fair hearings because they send the caseworker out and have the caseworker tell the people, we will give you your money if you will just drop the hearing. This is one of the things that the city is doing, because before, they were only having something like 50 hearings a year. Now they are scheduling 50 hearings a day because people know what they are entitled to. It is costing the State more money to process the hearings, when they are so worried about saving money; they could have saved a fortune if they had given the people what they are entitled to. Ninety percent of the people who went to hearing won their cases, because the department was wrong.

I would like to ask of you what law do we have or what way can you prosecute the departments for not living up to their own regulations? We have often stated when we break the law, they hurry up and lock us up. I am just about tired of the department breaking its laws and no one is locking them up. There should be something, there should be some way that these people could be prosecuted just like me, Wiley, Cloward, anybody sitting in this room today. If we went out here and broke a window, if I went outside and broke a window, they could lock me up for that because I broke the law. The department has broken the law for many years and nobody is prosecuting them. They continue to break the law and nobody is prosecuting them. I want to know, is there anything or any way that the department could be brought to court, or any kind of way they can be made to obey their own laws?

We have done their work for the past two and a half years. We have told clients what they are entitled to. We have taken clients to the department to get their money. This is not the job of the movement. It is the department's job to tell every client what he is entitled to. It is the department's job to provide for each and every client, but they do not do it.

Now, we want to know how can these departments be brought up with charges? Because if I was there, if it were I that was in charge, I am quite sure somebody would be trying to find out how to bring me up into a court to find out why I am not obeying the law.

Representative GRIFFITHS. Thank you very much, Mrs. Sanders. We will begin the questioning now.

Would you please feel free to answer, too, if there are some questions directed to you?

Mr. Bolling, would you like to question?

Representative BOLLING. Yes, I would first like to express the fact that I was enormously impressed by the statement and again, Madam Chairman, I am delighted that you had the imagination to have these hearings and these witnesses.

I would like to congratulate the organization on a very constructive and sensible program which, in my opinion, also is long overdue. I am not involving any other member of this committee in this particular aspect of my comment, our very able chairman is a member of the committee in question, the Committee on Ways and Means. Some of the action that needs to be taken will have to be taken in the Congress. But I think it is very important to have a clear understanding that Congress is going to be involved, and specifically the House, in any collective action that is taken on a variety of these programs, since all of them require national standards to be significant and effective. I think that will be the one generality concerning about everything that can be said today, that there have to be national standards.

I think it is very important to understand the kind of skew that exists in the way the Congress is organized. I will cite just one illustration, without using names. I will speak of the Committee on Ways and Means.

In the Congress preceding this one, the 89th Congress, after many years—in my judgment, approximately 30—a small beginning was made on a national health insurance program, a very small beginning, a beginning that dealt only with people who were elderly. That program has been discussed as an idea in this country for I do not know how many years, I think probably 75 or 80. It has been an active political issue in this country for at least 20 years, to my certain knowledge.

Mr. Truman proposed a much broader program of medical care in 1949. It had never been debated on the floor of this House as a legislative matter until the last Congress. That was a fact because of the way the Congress organized itself, because we have allowed for years a coalition to dominate the key committees of the Congress, and we have formed a habit of allowing conservative Republicans and conservative Democrats to be the majority of key committees. And not even medicare could be brought to the floor of the House for public debate, resulting in public education.

Now, what happened? At the beginning of the 89th Congress, the overwhelming majorities that the Democrats had made it possible to change the ratio on the Ways and Means Committee from 15:10 to 17:8, which for the first time in all my years of service—and I am in my 20th year in this institution—meant that the Ways and Means Committee had a majority in both parties which was favorable to at least debate on the issue. After all these years of delay, finally the Congress itself had the right to act.

Now, I think it is safe to say that you have a law, that you have properly decried, changing the welfare system to a very substantial degree in this Congress because of one event: When this Congress was organized, the Committee on Ways and Means differential was changed from 17:8 to 15:10, which put the control of that committee back in the hands of the coalition which believes that anybody who does not earn his own living is therefore bad, which is at the root, as the first witness said, of the whole attitude that exists in this country, and everybody can have a subsidy except the person who needs it the most.

I am not proposing to grind this ax specifically, but those of us who recognize that much of the action is doing to have to be taken in the

Congress are going to have to look at the details of how this place is organized, because the ball game is lost before anybody comes to bat. The ball game is lost when the Congress organizes itself on the first day. And unless the people who, like me and like you, are concerned about action—and what you have proposed is constructive action—begin to look at how the power is exercised here, those of us who agree are going to be powerless to see that we even debate these issues, much less act on them.

I apologize for turning it around a little bit, but I so heartily agree with what you have said, and in the constructiveness of your program at a time when many people are turning to what is really a modern-day form of anarchy, that I wanted to share with you a very deep and strong conviction that the only way we can modernize the United States of America in its dealing with its problems is to face the fact that this Congress organizes itself in a way that is suitable perhaps to 1850 and not even this century.

Mr. WILEY. Thank you very much for that statement. I would just like to comment that we of the Welfare Rights Organization have recognized that problem and we recognize that Chairman Wilbur Mills of that committee represents the center of reaction and holds the key to the power of that committee. As a result, we have been pursuing Congressman Mills and have been keeping him under a poor people's surveillance. We expect to be, if Congressman Mills is not willing to act responsibly. We have asked Congressman Mills to call his committee together and allow the poor people of this country to be heard and to allow the issue of repeal of this bill and what this bill is going to mean to welfare recipients and other poor people, and what is happening in the welfare system, to allow that issue to be debated and to be opened up and that the Ways and Means Committee be the forum for that discussion.

To date Congressman Mills has refused to even ask the committee to come together to have that opportunity.

I have written a letter and I have made several phone calls to Congressman Mills, asking if at least he and interested members of the committee would meet with the leadership of the Welfare Rights Organization and other people from the poor people's campaign who are interested in discussing these issues. We have invited them to meet with us on Monday, and we are going to go down and see what their response is. We will have a response if they do not have a response, but we expect to press this action and try to get this debate before the American people. Because we believe that there are many people like us, Congressman Bolling and Congresswoman Griffiths, and many others who want an opportunity to be heard, who want an opportunity to try to right some of these wrongs and the injustices that this welfare system has perpetrated.

And the fact that this welfare law was written behind closed doors, with no opportunity for public discussion once these were brought up, the fact that the closed rule is used on the floor of the House so that there is no opportunity for Congress really to get on the record as opposing these welfare amendments, because they have to vote the whole social security package, either up or down—the fact that even after the Senate knocked out the worst features, Congressman

Mills and Senator Long and a few other people, a minority of people, got together and made a deal, and the deal that they made was to put all of those punitive features right back in. And we have had the same thing happen again, where the Senate has again knocked out some of the worst features and again these same people have gotten together and made the deals.

Now, we think the American people, certainly the poor people, want to know what is going on behind those closed doors. We want to get democracy in this country out into the open and aboveboard and begin to make the processes work for all the people. Our organization is committed to that, that there be democracy for all people, not just the few who are able to get into the closed meeting to make the deal, but for all people. We hope that Mrs. Griffiths as a member of the Ways and Means Committee, who is sympathetic and interested in these issues, will be willing to attend the meeting that we hope to have on Monday. We hope to have Congressman Mills and other members of the Ways and Means Committee who are willing to meet with us on Monday to discuss these issues on what we can do about this bill and what we can do about moving the Ways and Means Committee, which holds the power, toward repealing of these terrible amendments and toward an adequate income maintenance system.

Representative BOLLING. Could I comment on that?

I congratulate you on the effort and I would look very closely at the beginning caucus of the Democratic Party when it decides who are going to be the chairmen—if we are again in the majority—the chairmen of what committees, not limiting it to just one, what the proportion as between one party and the other party is going to be, and what members go on the Ways and Means Committee to fill vacancies. I make no criticism of what you are doing because I am all for it. But the point I am making is that the fundamental decisions that skew the committee are made while nobody is looking, not even the Congressmen. They are made suddenly and quickly at a caucus and the result is that everybody thereafter can claim—I could if I wanted to—that there is nothing I can do about what comes out of the Ways and Means Committee because that was set the day that we organized and put the members on and divided the committee up. No disagreement, just one step further.

Mr. WILEY. I might say, Congressman, I have lived in great despair of that seniority system in Congress and the way it operates so that nobody is willing to challenge a Wilbur Mills.

Representative BOLLING. I will have to send you a book. My time is up, I have to stop. But I will send a book on that very subject.

Representative GRIFFITHS. I would like to ask, Mrs. Sanders, how widespread is your organization?

Mrs. SANDERS. It is 30 States and some 60 cities that we have been able to organize recipients in, which is a movement far bigger than the civil rights movement ever was. It has done more organizing of poor people and has more total participation of poor people than the poverty programs ever have.

Mr. WILEY. One thing I want to say is that even now, the organization has only been in existence since August as a formal organization.

It has 180 local groups since that time. There are people here from New Mexico, for example, where we have had no organization, that we have met in the course of the Poor People's Campaign that are beginning to organize. The lady and the gentleman over here, for instance.

Representative GRIFFITHS. In every State and in every city, have you been able to secure the regulations by which people are entitled to their rights?

Mr. WILEY. No.

Mrs. SANDERS. No, it is very hard.

Representative GRIFFITHS. Is this one of your first objectives in every city?

Mrs. SANDERS. Yes.

Mr. WILEY. Yes.

Representative GRIFFITHS. How do you find the people to whom those regulations apply? Once you have found them, how do you find the poor? Do you go door to door? What do you do?

Mr. WILEY. Our people live there. You must understand that our people are the poor.

Representative GRIFFITHS. I understand this.

Mr. WILEY. So they know many of them from the neighborhoods, from the schools, from the community.

Representative GRIFFITHS. Would you say this is one of the reasons that there has been increased caseloads in those areas where you work?

Mr. WILEY. Yes. Mrs. Sanders might want to comment on some of the techniques. But one of the things that has quite clearly happened is that welfare departments have been forced to become more responsive and responsible under their own laws and regulations. One of the reasons the rolls have increased is that we are not allowing them to get away with the kind of practices that they have used in the past just to run roughshod over the poor people. We are not allowing them to cut poor people off arbitrarily. We are not allowing them to deny them assistance without showing them the reason—the chapter and verse. Our people working in the neighborhoods with the organization are making their case.

We have been carrying that on over here at HEW since we were down here at Resurrection City. We have been taking the cases of Resurrection City residents directly to HEW, to show those people who have never had an opportunity to see some of these problems close up exactly how these State welfare agencies are violating the law and are violating their own regulations.

We have 60 cases that, in the last 2 or 3 days, have been brought to the attention of HEW. People cannot get their checks, they are arbitrarily denied, no reasons given; they are cut off without any adequate reason, and on and on and on.

Representative GRIFFITHS. I see.

Mrs. Sanders, did you have something you wanted to say?

Mrs. SANDERS. Yes, one of the ways of reaching the people is that we do complete day-to-day canvassing in communities. I am sure this is done in other States that we have representatives at. The departments have made welfare clients for the past 30 years feel that, you know, they are dirt and they have no voice at all. What we have given our people is the right to really speak out, the right to dignity, to let

the department know that just because they are on welfare, they have to have the same respect as any other American citizen.

We do do house-to-house canvassing. We go to the department and we talk to the people, because in some centers, take, for example, you will find people that will sit from 9 to 5 for a whole week, sometimes for a whole month, and get no attention at all. Because of the groups that have branched out across the country, we have been able to go in and see that these people get immediate service, because the department has refused to deal with the problem as it comes in. We are there to make sure that they deal with the problem and stop, you know, just lingering along and shuffling papers around instead of giving people service. This has caused the rolls to rise.

For example, we have been accused in New York by our good commissioner, George K. Wyman, who was here yesterday; he said that we were killing the goose that laid the golden egg and I am still trying to find where in the hell that goose is. I have not seen him yet, because if he laid a golden egg, I want to know why did I not get my share of it, why did not my brothers and sisters get their share? This is what we have been accused of.

Representative GRIFFITHS. Now I would like to ask you what I think is the \$64 question. Did the welfare department ever attempt to find a job for you?

Mrs. SANDERS. No.

Representative GRIFFITHS. Did the Department of Labor ever contact you?

Mrs. SANDERS. No. I had a job.

Representative GRIFFITHS. And what happened?

Mrs. SANDERS. I will tell you about it. They set up the poverty program about 3 years ago and they said that they were setting them up for poor people, they wanted total participation of the poor. They also had written in some of their requirements that one-third of the poor should sit on their boards of directors and they would oversee the program to see that the poor people benefited from them. I could sit here and tell you today, I worked in a poverty program for 1 whole year. I learned nothing because they could not teach me anything. I was hired on my own experience and knowledge, working in the community free, helping my neighbors. I was hired on that experience and that background. I was one of the key persons that helped that program to get off to a very good start. The minute the program got on its feet, there were 35 of us poor people who were just phased out of the program, for no reason whatsoever that we thought was valid.

We had no one to turn to. We even took it to the department of welfare and asked them to fight for us so we could keep our jobs, and they could do nothing.

The poverty program has only created hostility among people instead of creating jobs. I worked as a community worker for a whole year and I was phased out of the program. That was a year ago. I have only been unemployed for 1 year.

Representative GRIFFITHS. But neither the welfare nor the Labor Department has ever attempted to find a job for you?

Mrs. SANDERS. I have been to the Labor Department. There are no jobs.

Representative GRIFFITHS. To your knowledge, do you know anybody that the welfare department ever got a job for?

Mrs. SANDERS. I do not know anybody.

Representative GRIFFITHS. Do you know anybody on welfare who was ever contacted by the Labor Department?

Mrs. SANDERS. No.

Mr. WILEY. Mrs. Griffiths, may I turn that around a minute?

Representative GRIFFITHS. Yes.

Mr. WILEY. I have some figures from Miss Orshansky's study of poverty which show that of the female-headed family, 69 percent in 1966 were not in the labor force. Our feeling is that a good number, in fact the vast majority, of the welfare recipients and many of the other people who need income support legitimately should not be in the labor force because they have other important responsibilities at home, to take care of their families. And in some cases, they are disabled or aged, and what not.

It is an important question for many people, that they find jobs. But the important thing is that the men, that the people who are able to be heads of households or ought to be legitimate heads of households be the ones that get those jobs.

Representative GRIFFITHS. Let me ask you one other question. In the State of New York a family can draw ADC with the father at home?

Mr. WILEY. Yes.

Representative GRIFFITHS. Now, I regret to say, Mr. Wiley, you are speaking to the most dedicated feminist we have in Congress. I want to point out to you what I think the welfare program does.

In the first place, we discovered in Ways and Means that the welfare department and the Labor Department were not really attempting to find jobs for people on welfare at all, that if they had their choice between a person who was on welfare and a person who was just out of a job and both were equally qualified, they would simply put on the people who were just out of a job. If you are going to do it this way, you are going to have forever in this country a group of people who are on welfare. Maybe that is all right for the country, but it is not all right for the people on welfare. Those people have a right to participate in the economy of this country. They have just as much right to have a job as anybody else has.

You say that this work incentive program be used to force mothers to work. Well, they will have a choice as to which mothers work and which do not. But if you do not say anything about mothers working, then they are going to see to it that none work. They are not going to be given any chance to work. And in my opinion, this is wrong.

After we went through all of this in the Ways and Means Committee, Mr. Cohen called me and told me that they were quite surprised. They had run a survey in New York City and they had discovered that 70 percent of the women drawing welfare in New York City who had families, 70 percent of them wanted to work if they had a place to put their children.

And I said to him, well, Mr. Cohen, the other 30 percent did not understand the question or they would have wanted to work, too. Who would not prefer to have a job?

But if you give the welfare officials a chance, and the Labor Department, you are going to consign the women to welfare. I just do not think that is fair. I am a woman, Mr. Wiley, and I know the kinds of discriminations that have been used against women.

Mr. WILEY. I work for 5,000 or 6,000 women.

Representative GRIFFITHS. I know the discriminations that have been used against women. I am not for just consigning poor women forever to welfare.

Mr. WILEY. But the problem is that your law, if you are accepting responsibility for that law—I hope you are not—but your law requires the mother to work. If you want to put pressure on the States and welfare departments to find jobs, wonderful. Take Mrs. Sanders' suggestion of putting them in jail or do something to them if they do not do their job. But the problem of this law is that in presumably trying to force State welfare departments to act; you are putting the burden on Mrs. Sanders, Mrs. Moore, and other mothers who are going to bear the brunt of these laws that you have passed, because the welfare department is going to pass that freeze. The other requirements are not going to be put on mothers.

Representative GRIFFITHS. Of course, the freeze is not going to be used immediately.

Mr. WILEY. The freeze is the weapon to club the welfare departments into forcing mothers off the rolls.

The freeze is in effect as long as it is on the books, because what that freeze says is that you freeze the rolls back to the last January levels. And that is like a club over the heads of the States. The States will feel just as much pressure to cut the rolls back to the January levels. Whether the freeze goes into effect this July or next July, it has the same effect of pressuring the State to cut the welfare rolls.

Representative GRIFFITHS. The freeze is only to attempt to force the States to act. Now, in my opinion, the States are not going to act. They have had all these years and they have never acted. The thing I am interested in determining is whether or not the Federal Government can take this thing over completely and just send the checks from the Federal Government.

This is one of the real problems. But do not work yourself into a position where you are going to come out of this saying that, well, we must give these women the right to stay at home, because it will not be a right. That will be where they will be staying. They will not have a choice, either. They will have to, because the welfare department and the Labor Department are not going to do anything for them. They are not doing much now and they are going to do less if they are given that choice.

Now, my time is up.

Mrs. SANDERS. Could I say one thing before you go, woman to woman?

Representative GRIFFITHS. Yes.

Mrs. SANDERS. The fact is, Mrs. Griffiths, that most of us—if this 12080 goes into effect—are very concerned about it, because, take for example, me. I have qualifications that can hold down a number of jobs.

Representative GRIFFITHS. I am sure you have.

Mrs. SANDERS. But the thing is that there is still something lacking, because the Labor Department tells me that: you do not have a college

degree. I only have a high school diploma. I was unfortunate. I was not able to go to college. This is what I have against me. This is what a lot of mothers are going to face.

One of the things we are concerned about is being forced into these nonexistent positions which might be going out and cleaning Mrs. A's kitchen. I am not going to do that because I feel I am more valuable and can do something else. This is one of the things these people are worrying about, that they are going to be pushed into doing housework when they can be much more valuable doing something else. But they do not have the training, they do not have the experience, they do not have the college degree. But what they have that is going for them is the nitty-gritty stuff and that is out into the community, mixing with the people, finding out what their problems are, and trying to help solve those problems.

Because we all have the same common problem, we are women who are heads of households. We have children, small children that we have no day care facilities for. We have nobody to leave our kids with that we can feel that if we go to work, our kids are going to be taken care of properly. These are the things that we are worried about.

Representative GRIFFITHS. I understand.

Mrs. SANDERS. The fact that they are talking about giving us counseling, I say to you, Mrs. Griffiths, I don't need anyone to give me counseling. Our people do not need it. We need concrete programs that if you have to put the people to work, why can't you give them something that they will be able to get off the welfare completely, but you are not doing it with 12080, because they have no jobs.

We have talked with the welfare department, we have talked with HEW, they do not even know which way they are going themselves. They do not even know where the training is coming from.

Representative GRIFFITHS. I understand exactly and I want to point out to you that there is in this very bill \$600 million for day care centers.

Mrs. SANDERS. When are they going to start building them?

Representative GRIFFITHS. This is the reason they are going to delay the freeze so they will have 1 year in which to put it into effect.

Mr. Rumsfeld?

Representative RUMSFELD. Thank you, Madam Chairman.

I certainly want to join the other members of the Subcommittee on Fiscal Policy in thanking you sincerely for being here. I think this is a useful contribution to the deliberations which were undertaken.

Mrs. Sanders, you mentioned the difficulty with job programs. I unfortunately had some airplane delays and did not hear your full statement, but when I came in, you were discussing the situation where the person is trained and then there is no job.

Mrs. SANDERS. Right.

Representative RUMSFELD. You have touched something that is, I think, very much at the heart of the problem, as has Mr. Wiley. That is one of these seemingly minor and insignificant, rather subtle things that tends to work against the solutions of these problems. Members of this committee and Members of the Congress have been attempting to get the executive branch of the Federal Government to assemble a current jobs-available statistics study for years, and attempting to get

them to sort this problem out. Anyone can pick up any newspaper in the country and know there are thousands of jobs going begging. We know that. Yet our job training programs in too many cases have not been geared to see that people are in fact trained for positions that were available. We have not intelligently projected what the needs would be next year and the year after as automation changed the types of jobs that were available.

There is no public appeal in a jobs-available statistics study. There is no citizen interest in it.

I wish Congressman Curtis were here. I have served with him for 6 years and I do not think there has been a year that I have not heard him absolutely raise Cain about this, and yet it does not happen.

I wish Mr. Bolling were here because he made some interesting statements, some of which I happen to agree with and some of which I think indicate a little aberration. I can tell you why I think there does not exist today an up-to-date jobs-available statistics study. It is because labor unions have influenced the party in power to not undertake that kind of study because they are afraid it will not work to their purposes. There has been sufficient time and sufficient information developed that I think there is some truth in this. It is, however, the kind of thing that is hard to prove.

We have a number of serious problems in this country and I am personally delighted that you are here contributing to our attempt to sort out some of these things.

Mr. Wiley, you described some of the House rules and the problem of getting record votes. I am just one minority member but I can remember, a few years back, offering a motion, a simple amendment that would have changed our committee rules so that votes taken in committee would have been a matter of public record. Now, that is harmless. It was defeated on a straight party line vote so that when we vote in committee, nobody in the country knows how we voted. In a representative system of government, this is ridiculous.

What else has happened? I testified in 1965, 3 years ago this week, before the Joint Committee on the Organization of Congress. This was the first time in 20 years the Congress had ever attempted to look at itself to see if its procedures, rules, and approaches to problems helped it function as an efficient instrument of government in coping with the problems of today. That bill is still languishing in the Rules Committee.

There is no constituency for congressional reform. There is no appeal. It is like a job-statistics study. Yet each of these things could in very important ways help the Congress be more responsive.

Mrs. Sanders, you asked a question. You said how do you make a department live up to its own regulations. This is the kind of thing, all the way down the ladder, that builds the frustration that you have, and frankly, that I have. I can give you the general solutions to this problem—the courts, the administrative proceedings at the Federal, State, or local level, the ballot box, and the press. They all, of course, must be used. But, I would mention one other of which you may not be aware. Another committee that I serve on, the Government Operations Committee, while refusing to allow anyone to know how we vote in committee, does not feel that way with respect to the executive

branch. We sponsored, supported, and passed a bill called the Freedom of Executive Information Act. In July of last year Federal legislation went into effect which requires the executive agencies of the Federal Government to make information available to any citizen on request, unless it falls in several exempted areas, which, it would seem, this kind of information does not.

Now, if you have instances where you have made requests, or you, Mrs. Moore, because I am also from Illinois, of agencies that are using Federal funds in any way, and they are unwilling or refuse to give you the information you feel you need, write me and I will work on it through the Government Operations Committee.

Mrs. SANDERS. You give me your address, because I have a case right now in New York City.

Representative RUMSFELD. House of Representatives. I'll do my best for you, even though the minority party does not run this place. As Mr. Bolling said, the Democratic Party does.

Mr. WILEY. Let me tell you, Mr. Rumsfeld, there is not a welfare department in the entire country, to my knowledge, that will let a welfare recipient look at his own case record—his own case record.

Mrs. SANDERS. That is right.

Mr. WILEY. Even when that is involved in a proceeding against the welfare department, you cannot look at your own case record to prepare your case against the welfare department. That is in New York City and New York State, and to my knowledge, in every welfare department in the country. There is a general inaccessibility of information about the rules and regulations.

Representative RUMSFELD. To the extent that the departments refuse to make information available as to what their regulations are and what categories of people would fit under certain provisions or, what the benefits should be, there is no question in my mind that this is wrong and I think with some effort on your part and my part and the parts of others, maybe we can get it changed. Certainly it should be changed.

I do not have any other questions, Mrs. Griffiths.

Mr. WILEY. May I respond to one part of what you said?

Representative RUMSFELD. Certainly.

Mr. WILEY. I would like to go back and stress the fact that you are interested in jobs and job training and that part of the problem, and that is an important part, but it is a small part. It is like talking about 5 or 10 percent of the problem when you are talking about poor people. The main problem for poor people is money, income. If you want to deal with the gut of it, talking about income, let me say, for example, fully a third of the people—everybody knows this—below the poverty line work full time at jobs. Now, for those people, an income supplement is just where it's at; either that, or you have to raise the minimum wage, which I do not think your party has been very peaceful about. You have to do other things like that. But there has to be some way such as a substantial income subsidy from the Federal Government. That is probably the most practical way if you want to avoid the problems that minimum wages have caused in a number of industries.

Representative RUMSFELD. It keeps the people off the rolls in some cases.

Mr. WILEY. So a supplementation is what you have to deal with.

Now, in this connection, I think that that has been a creative proposal that the Republicans have made, to try to open up the processes of government more to the people. I am happy to find myself in agreement with some of the things your party has to offer.

Representative RUMSFELD. I may add that in this question of congressional reform and making our Government more responsive I am in agreement with Mr. Bolling, but he is very much in the minority in this party. Let there be no doubt about that.

Mr. WILEY. The other thing that I wanted to say about that and about the income supplementation and about the issue of income maintenance is that the Ways and Means Committee in the Congress has moved entirely in the wrong direction. This freeze will and is further restricting the Federal participation in income maintenance programs and it is throwing an increased burden on State and local governments who do not have the financial resources to carry it. So that hardship caused by that is inevitably going to be transferred in more hardships to the recipients. So the Federal Government has not been assuming its responsibility in this area.

Mrs. Griffiths, you say you want to see the Federal Government assume the burden directly. But the Federal Government, through the act of Congress, through this antiwelfare law, is withdrawing from its responsibilities. And you must find other ways, other than this freeze, of getting the State and local welfare departments to do their job. You must find other ways to do that because that freeze and those requirements put the burden on the welfare recipients rather than on the welfare departments. I do not seem to be able to get that across.

One thing, when we met with Congressman Mills last week, the one point he agreed with us on is that the suspension of the freeze was going to be of benefit to the States but it was not going to be a benefit to the recipients, because the recipients were still going to get the burden of the pressure that the States feel upon them to cut the welfare rolls in any way they can.

Do you understand?

In any way they can, they are going to cut the welfare rolls so that they do not lose those Federal dollars. From our experience with them, we know that those ways are going to be illegal, they are going to be arbitrary, they are going to use every trick, device, technique, new regulations, old regulations, that they can find to get people off welfare. And that is exactly in the wrong direction when people are desperately poor and need even that little bit of money that they get from welfare.

Representative GRIFFITHS. Mr. Wiley, I understand you perfectly. I understand the whole situation perfectly. The historic answer in this country, the reason the Federal Government ever takes over is because the States fail in their function. They have done it over and over and over again in one field after another. In as small a thing as slaughter inspection, the States had the right for 70 years to act. They did not act, and finally we had to.

We are having great problems on gun control. Why have not the States acted? They had the right. Now, what do you have to do?

There are innumerable such situations. But the answer is that no one ever had a congressional hearing on this problem before. This has never been out in the open. The day is going to arrive when there is unanimous consent that anything you can do to the welfare system is going to improve it. It is so bad that any change is going to be better.

Mr. WILEY. Again let me remind you, the Congress has just made one that is not.

Representative GRIFFITHS. Are we really seeking a world where everybody has a chance to a job, has a right to a job? Everything we have in the welfare system says, "Do not work, you are better off this way than you would be if you tried to work." So we are completely wrong. We must do something that makes it better.

Mrs. SANDERS. Could I say one thing?

Representative GRIFFITHS. I want to ask you a technical question.

Do you live in an apartment?

Mrs. SANDERS. That is what I want to talk to. I live in public housing.

Representative GRIFFITHS. Do you live in an apartment?

Mrs. SANDERS. An apartment.

Representative GRIFFITHS. In that apartment, is there a washing machine that you can pay to use?

Mrs. SANDERS. Yes. But the point is I have 50 families in my building.

Representative GRIFFITHS. And how many washing machines are there?

Mrs. SANDERS. Three.

Representative GRIFFITHS. Now, let me ask you, is there a laundromat any place close to you?

Mrs. SANDERS. Yes; but you see, the point you are trying to make—let me clarify you right now. I work 16 hours for the movement, with no pay. One of the requests that should be made is that I should have a machine to keep my kids clean, because they have to go to school.

Representative GRIFFITHS. One of the things I discovered in the city of Detroit in the ghetto area is that there are no laundromats.

Mrs. SANDERS. I have to walk three blocks to a laundromat.

Representative GRIFFITHS. The point I want to make is, why does not industry come in and bring laundromats?

Mrs. SANDERS. I cannot answer that. I do not know why.

Representative GRIFFITHS. But the point is there are washing machines close to you?

Mrs. SANDERS. Three or six blocks.

Representative GRIFFITHS. Would you have to walk and carry clothes?

Mrs. SANDERS. Yes.

Representative GRIFFITHS. It seems to me that is quite a long way.

Mrs. SANDERS. The department does not buy me a shopping cart, either.

Representative GRIFFITHS. How close are you to a decent shopping center?

Mrs. SANDERS. To a decent shopping center, four blocks. I live in an urban renewal area, where everything is just a tumble. They are putting middle-class people in and they are pushing the poor people out. It just happens that—I have stated this over and over again—that I hap-

pen to be one of the exceptional people, that I refuse to do anything that I do not want to do. I did not want to move out of the area and I did not. I have an apartment, but I want a washing machine in my apartment so when I come in, I can wash my children's clothes at night and keep my clothes up. But when I have to spend \$10 to go to the laundromat, I could spend that \$10 on me, a pair of shoes. It does not make sense.

One of the things I wanted to bring out to you is that the department—Dr. Cloward mentioned that everybody in this country gets subsidies except welfare recipients. I just want to bring the point to you, even though I believe in public housing, I am still governed by rules and regulations that I do not feel I should have to live up to.

For example, in public housing, the people in public housing, especially recipients, they watch you like a hawk. If your kids blow their noses, they want to talk to you about it. You have to keep your child quiet. You cannot play your radio, you cannot have this, you cannot have the other. There are lots of things that go on in public housing that need to be changed.

The welfare department, and only a few out of selected people get into public housing, which is not the total answer, because you have millions of poor people living in slum areas where the department pays a tremendous amount of money for utilities and for slum landlords, wherein George could go and live in a co-op and if his salary does not meet the requirements, the Federal Government is going to subsidize George, but it will not subsidize me to live in a co-op. Right there, that is a discrimination against me and any other welfare recipient.

They are bringing in all kinds of duplex co-op buildings in my community. I have even put it to a test. I went and applied. The minute the man finds out I receive a welfare check, he looks at me and says, "We can't take you." They do not want any welfare recipients in their fine co-ops.

One of the things the Federal Government should stop doing is subsidizing these people to live in fine co-ops and one of the things I have to do is live in public housing, and they are not subsidizing me to do anything.

We found out last year that six millionaires paid no tax whatsoever and they are trying to save money, wherein I have to pay more tax than any rich working person pays and I cannot get a dime from the Federal Government to move in a decent apartment so my kids can be comfortable. This is one of the things that has to be stopped.

If the department can pay a tremendous amount of money for people to live in slum houses, they can pay that money for people to live in a decent apartment. This is what they refuse to do.

They pay millions of dollars to Con-Edison who is cheating people left and right, because the people have to heat up the whole damn area to get some decent heat. This is where frustration comes. This is where people start breaking down and burning down houses because they are tired of living in it.

If the Federal Government can subsidize rich people, then subsidize us. We are the ones who need it.

Representative GRIFFITHS. Thank you very much. I want to thank all of you for participating.

Mr. WILEY. May I direct one other comment?

You raised the question and you have the concern about women having the opportunity to work. I wanted to let you know that part of our nationwide summer campaign this summer is going to be telling people about the fact that welfare is supposed to provide training for people who want it and day care and so forth. Now, we are going to be advertising and recruiting people to claim their rights under those provisions. Now, one of the problems we see, however, is if we find a lot of people who want to work voluntarily, which I know we will do, the Congress and people like yourself back us up in not letting the welfare department cut other people off and try to force other people who do not want to work, because they feel their place is in the home, not try to force other people into those jobs or into those training slots, rather than accepting and doing something for the people who really want it, of which there are a very great number. So we are going out and doing something on getting people for them, for the job programs. But on the other hand, we want to see that people's rights are protected, that they are not cut off, that their children are not taken away, that they are not put on these voucher and protective payments and all these penalties against these recipients that they are writing into these laws and that some action is taken on your part to see that the States live up to their responsibilities rather than having this entire burden put upon recipients.

Representative GRIFFITHS. We will do our best. You see, when you go out and help people get training and so on, we had to write into the law in the Congress that one-third of those spots had to be for women, because up until that date, there were no places for drop-outs for women at all.

So I want to remind you, when I came to Congress, a woman drew \$64 for doing the exact same job that a man did and under welfare, today she draws only \$60. The discrimination against those women in those jobs is pretty bad.

Again, let me thank you for using your time to come here. I am thoroughly grateful to you. You have been very helpful.

Mr. WILEY. One footnote, since you are from Detroit. Our welfare rights organization in Detroit, after the disorder there and after the chamber of commerce said they were going to go out and find all these jobs, some of our welfare mothers there who are able to work and wanted to work went and tried to get some of those jobs. Big publicity, Time magazine, New Detroit—not one of our people was offered a single job under that program.

Representative GRIFFITHS. I tried in Detroit after World War II to keep women on the streetcars. They got them all out. I tried to get women jobs out at that plant outside of Detroit. I have done my best.

Thank you very much.

This subcommittee is adjourned until 10 o'clock tomorrow morning in this room.

(Whereupon, at 12:07 p.m., the committee recessed subject to reconvening at 10 a.m., Thursday, Jun 13, in room 1310, Longworth House Office Building.)

INCOME MAINTENANCE PROGRAMS

THURSDAY, JUNE 13, 1968

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

The subcommittee met, pursuant to recess, at 10 a.m., in room 1310, Longworth House Office Building, Hon. Senator Proxmire, member of the subcommittee and chairman of the full committee, presiding in place of subcommittee chairman, Representative Martha W. Griffiths.

Present: Senator Proxmire (presiding); and Representative Griffiths.

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

Senator PROXMIRE. The Fiscal Policy Subcommittee will come to order.

Mrs. Griffiths is unable to chair the session today. She will be here a little later, I understand; but she has asked me to substitute for her in the beginning. I am privileged to have this opportunity.

We have had two interesting sessions on the problems of the present welfare system. The first day we heard testimony from welfare administrators. The second day we heard from people who have looked at the welfare system from the standpoint of welfare recipients.

It is evident from these 2 days of hearings that there are many unresolved problems in income maintenance and the provision of social services. Today we will present four economists in the first of two sessions dealing with proposals for the radical reform of income maintenance.

Gentlemen, we are delighted to have you today. We look forward with great interest to what you have to say.

I understand you have been informed that, if possible, we would appreciate it if you could confine your opening remarks to 15 minutes or less. If to do that, you have to abbreviate or summarize your remarks, the entire statement will be printed in the record.

I might identify the witnesses. Our first witness is Dr. George H. Hildebrand, professor, Department of Economics, Cornell University.

Dr. Hildebrand, we will be happy to hear from you, sir.

STATEMENT OF PROF. GEORGE H. HILDEBRAND, DEPARTMENT OF ECONOMICS, CORNELL UNIVERSITY

Mr. HILDEBRAND. Poverty is a complex phenomenon, deriving from many causes. For the same reason, it has no single solution. To attack it successfully requires diverse policies. All of them will cost large

sums of money. The Federal Government now faces a deficit of at least \$25 billion in fiscal 1969. Even if the tax bill and expenditure cut are promptly undertaken, the deficit will run at about \$10 billion. With inflation continuing and with the external value of the dollar obviously still in jeopardy, a deficit at even this reduced level is not to be regarded lightly.

Given this environment of fiscal constraint, two inferences clearly follow. First, any large new program of antipoverty expenditure must require either a major overhaul of the present personal income tax to produce more revenue at the revised rates now sought, or a substantial revision of present spending priorities to permit reallocation of revenues available.

Second, all antipoverty programs, existing or contemplated, must compete with each other for scarce Federal dollars. All of them must be critically examined. Their specific goals must be carefully identified. A consensus must be worked out regarding the relative priorities of these goals. And to the extent that these specific purposes overlap, their comparative costs and benefits under competing programs must be evaluated so that scarce tax dollars can be used most productively in the war on poverty.

Essentially, there are three major ways in which the Federal Government can spend money to alleviate poverty. The first is to increase the incomes of all of the poor, by means of a subsidy or transfer payment. This approach would embrace those who are already employed, those who are employable, those who mostly will become employed soon—male youngsters primarily—and those who are not in the labor force and not likely to enter it because they are too old or too young, or are incapacitated in some way, or are involved in the duties of motherhood.

The second approach is that of financing programs to increase the earning power of the employed and soon-to-be employed poor. This includes the various manpower development programs, emergency employment plans, expenditures to upgrade education at all levels, all measures to enlarge job opportunities by antidiscrimination laws, training incentives to private industry, and special credit arrangements to encourage the formation of new enterprises. In the same category would be investment funds to upgrade and extend public transportation in urban and metropolitan areas, so that city workers can get to distant jobs cheaply and conveniently—a necessity that now receives only \$175 million annually in Federal funds, as against over \$5 billion for highway construction chiefly for the benefit of suburbanites and the motor trucking industry.

The third line of attack is directed at improving the quality of the environment in which the poor now live, especially in the cities. Like the second, this approach mainly calls not for payments directly to the poor but for expenditures on infrastructure that can yield large external benefits to them. Here I have in mind the upgrading of slum schools to achieve genuine parity, the rebuilding of rundown city housing, and the development of more adequate civic facilities and amenities of all kinds.

Consider now transfer payments in behalf of the first approach, that of raising the spendable incomes of all of the poor. At the present time, the Federal Government directly participates in two major

transfer programs: the social insurance system (primarily OASDHI) and public assistance (PA).¹

OASDHI reaches a minority of the poor, either taking them above the poverty limits or raising their incomes toward those limits. Mainly it embraces retired employees and their dependents, although it also extends to disabled workers and their families and to survivors and dependents. As a general rule, the able-bodied adult poor and their children draw no benefits from OASDHI, because the system was intentionally drafted to concentrate upon certain groups. However, any eligibility rules of necessity define those who are to be excluded as well.

PA is also a deliberately exclusionary group of programs that limit eligibility to those who are both poor and unable to work by reason of extreme youth or old age, incapacitation, or home duties. Moreover, in several States exclusion is further increased by residence requirements and other devices, and in the case of aid to families with dependent children (AFDC), by the rule that there be no man in the house.

As of 1966, the Bureau of the Census estimated that there were 29.7 million poor people in the United States, on the basis of the standards developed by the Social Security Administration. Of these, 12.5 million were children under 18 and perhaps 4 million more were elderly adults living alone.² By contrast, as of December 1966, about 8 million people were recipients of PA payments. Of these, 1.1 million adults and 3.5 million children, 57.5 percent of all public assistance recipients were on AFDC, while 2 million were on old age assistance. By September 1967, the PA total had risen to 8.6 million persons, of which 5.1 million (59.3 percent) were on AFDC.³

So far as the poor are concerned, OASDHI and PA together constitute a quite incomplete system of income maintenance. To stress the point, of the 12.5 million children of the poor in 1966, probably no more than 4.5 million were protected by either method of provision. Even more, the majority of these youngsters were dependent upon AFDC, a program that in August 1967 provided as little as \$8.35 per head per month in Mississippi, as against \$56.05 in New Jersey and \$37.65 on national average.⁴

In short, at least 8 million children came under neither program, although they, too, were poor.

A special Census survey indicates that in 1966 an estimated 9.1 million employed persons either earned less than \$3,000 from year-round full-time work or were unemployed for 15 weeks or more. Of these, 4.5 million were men. Among nonwhites, 22 percent of their segment of the labor force were in subemployment as just described, as against 8 percent for whites.⁵

¹ Unemployment and workmen's compensation are primarily State programs.

² U.S. Department of Commerce, Bureau of the Census, "Income in 1966 of Families and Persons in the United States," Current Population Reports, series P-60, No. 53 (Dec. 28, 1967), 5 and 18.

³ The public assistance totals include those on general assistance (663,000 at end of 1966 and 729,000 in September 1967), which is a purely State and local program mostly for the marginally employable and their families. Some States do not provide general assistance while payment levels vary widely among those that do. Figures for those provided with medical assistance through vendor payments are excluded.

⁴ Figures for public assistance from U.S. Department of Health, Education, and Welfare, "Welfare in Review," 6: 1 (January-February 1968), 43.

⁵ "Welfare in Review," as cited, 32.

⁶ "Manpower Report of the President," transmitted to the Congress in April 1968 (Washington: Government Printing Office, 1968), 34-36. These figures are conservative: they exclude those who were involuntarily employed part-time, those who were unemployed for a moderately long time, those who had dropped out of the labor force after 15 weeks of unemployment, and those groups who were unavoidably undercounted in the survey.

Assuming three dependents for each of these adult male members of the labor force, we have at least 13.5 million poor people who were unlikely to have had protection under either system of public income maintenance involving Federal participation. For the same reason, they are the principal target for any major extension of the transfer approach to improving poverty incomes.⁶

The chief advantage of the two proposed new transfer proposals—a negative income tax or a children's allowance—is that both are ways to get more money promptly into the hands of the poor. Even more, these funds would reach the many who are now excluded from significant income protection. If, also, the necessary legislation is passed, it may be possible to treat payments under either method as supplements to existing provisions under PA, without a dollar-for-dollar reduction—a real benefit to those of the poor who are unable to work and who now must depend upon very low levels of welfare support.

At the same time, however, it should be borne in mind clearly that neither form of new transfer program will do much to train the poor for better jobs, to increase the number and quality of jobs available to poor youngsters, to rehouse the urban poor, or to provide them with adequate public transportation and other badly needed improvements in their environment. More than this, except for manpower programs the need for additional Federal funds for these purposes is very great.

Looking now at the negative income tax in particular, any such proposal figuratively involves an "uneasy triangle" whose vertices contain goals that are competing and that can only be compromised, not reconciled. One involves the adequacy of the payment to be guaranteed when there is no other income. Ideally this level should be high enough to replace PA payments in the highest paying states, if not high enough to take the recipients out of poverty. A second goal is that the new transfer payments should not substantially reduce the incentive to work. This turns upon the "tax rate" at which other income from property and work is to be deducted from the guaranteed minimum. Not to provide such an offset, of course, is to say that every tax reporting unit in the country, rich and poor alike, would have full entitlement to the minimum guarantee. Thus this rate of "tax" is of the utmost importance: it can strongly affect incentive and it also determines the point of maximum adjusted gross income at which the net subsidy becomes zero. And through both it affects the total net cost of the transfer program. Finally, there is the third goal of holding down total net cost, which must be done if enough funds are to be had to finance equally important competing aspects of the war on poverty.

Generally speaking, the higher the level of minimum guarantee, the higher will be total cost to the Treasury. To restrain cost it is necessary to check leakage of the transfers upward to the near-poor and the not-so-poor. But to do this requires a high "tax" offset rate on other income, and this curbs the incentive to work. This is the problem of compromising the three conflicting goals.

Time allows me only an example or two to demonstrate the triangle problem. Suppose that the plan is designed to eliminate AFDC

⁶ However, of the 4.5 million adult males, some undoubtedly did receive unemployment compensation. In 1966, an estimated 272,000 males of ages 20 and over were unemployed 15 weeks or more.

dependency entirely, but without reducing the income of any AFDC family by a penny. To do so the minimum guarantee cannot be set at the national average, but must be fixed at the level of the highest State—for a family of four this would have required \$2,700 in 1967. Under Professor Friedman's exemptions plus deductions plan, to hold the zero-subsidy point at \$3,000 would require an offset "tax" rate of 90 percent on other income if the \$2,700 minimum is also to be achieved. This exceeds by far the highest marginal rate of positive taxation.

If, to avoid disincentive effects, the "tax" rate were held at his proposed 50 percent, then the zero-point must rise all the way to \$5,400 for families of this size, with accompanying large increase of cost. Even at a guarantee level of only \$1,500 for a family of four, the cost of the Friedman plan could run between \$4 billion and \$11.5 billion, depending upon its effect upon the incentive to work. Also it would not be feasible to reduce PA payments at all on his version of the plan. By contrast, with a \$2,700 guarantee and a 90 percent "tax" rate, the plan could cost well over \$25 billion, and much more because of leakages if the work-destroying offset rate were cut to 50 percent.

The other versions of the negative income tax are subject to the same difficulties. There are others as well. Any appropriate and humane welfare system must provide for adequacy, frequency, and flexibility of payments. For such objectives, a negative income tax is an awkward and relatively rigid instrument, depending as it must upon predictions of other income, and upon long lags between changes of need and adjustment of payments. Finally, it is not possible to escape the need for a type of means test—the tax return—or for a large bureaucracy to pay out benefits, to audit claims, and to deal with fraud.

Consider next a children's allowance. Like the negative income tax it can reach the substantial number of poor who are now excluded from income maintenance. Unlike NIT, it could be made universal, to become a uniform "social dividend" whose amount need in no way depend upon other income. Furthermore, in such form it would require no means test whatever. But this would make it payable to rich and poor alike—at a very high cost. In 1966 there were approximately 71 million children under the age of 18: if each were granted \$100 yearly, the gross cost would have exceeded \$7 billion. If instead the allowance were made income-conditioned to confine it to the poor, the cost would drop to below \$1.5 billion. However, tax returns would then have to be filed and audited, the level of support would be much lower than even under the very modest Friedman NIT plan, and, of course, programs such as AFDC and general assistance—while they could be made more uniform and less harsh—would have to be retained.⁷

Professor Tobin's tax allowance scheme provides for an attractive combination of a family allowance and a form of negative income tax. To hold down cost, reckoned by him at about \$14 billion at the time, the plan is income conditioned, in that about \$4.2 billion represents upward leakage—that is, payment to those above poverty limits.

⁷ For an AFDC family with a mother under 65 and three small children and without other income, the Friedman plan would yield \$375 annually per head, or \$1,500 as against \$300 under a \$100 children's allowance.

To preserve incentive, Tobin introduces a uniform 33⅓ percent offset "tax" on other income in the lower brackets, without exemptions and deductions. Cost could be reduced further in a way not proposed by him by limiting the allowance of \$400 per head to children under 18 years. However, the payments would still have to be coupled to a tax return, with all of the disabilities inevitably connected with this device. More than this, an AFDC family of four would obtain only \$1,200 per year. This would fall far short of the AFDC national average—\$1,800—although it could fully replace these welfare payments in the lower paying States. Even a modified Tobin form of children's allowance, then, would not allow us to eliminate AFDC or any of the other "categorical" PA programs.

Nonetheless, there are other distinct advantages to a children's allowance. If it were made universal—no tax offset—it is unlikely to reduce significantly the incentive of workers to work, especially if the allowance is made payable to the mother.⁸ It offers some inducement to poor youngsters to stay in school and out of the labor market. It can have a very large impact upon the real income and standards of consumption of the poor. It can also make a start toward strengthening the ties for holding poor families together, because it need not call for an "absent father" requirement.

Most of all, even if a children's allowance were introduced in a very modest way and made income conditioned initially, it could be designed to provide a positive yield even to the great middle range of working families in the \$4,000–\$10,000 range. I suspect strongly that their inclusion is essential for gaining the needed political support for any major new transfer plan. To people in these brackets, who already bear a disproportionate share of the taxload, a dollar is still a dollar. Most of them are hard pressed today to pay the cost of rearing children, of whom about half are destined for college. To them also even a taxed allowance would have real value. However, the price of their inclusion in the plan would be a much lower initial allowance to the children of the poor. Against this, the way would be opened to higher payments as fiscal stringency is relaxed, and eventually to a universal tax-exempt program that would be free of the diverse limitations of the negative income tax and of PA.

The least satisfactory parts of our present system of income maintenance are the AFDC program and the exclusion of the working poor and their families. If the aim is to do something promptly and substantial for these two groups by way of added transfers, NIT is the better instrument. But to accomplish its purpose its cost must be very high, its disincentive effects will be great, and its inherent inflexibilities cannot be avoided.

By contrast, if the goal is to make a start toward ending dependency, the best way to do it would be to introduce a children's allowance, eventually to be made universal. In this way flexibility can be gained, disincentive effects can be minimized, and a substantial, continuing, and highly productive investment in the next generation can be made. In turn, this should strengthen the family as the primary unit of social organization.

⁸ This assumes that for adults in low- and moderate-income groups generally the effect of increased transfer income (with no change in wage rates) upon the supply of personal effort is neutral.

Moreover, the cost of an initially modest children's allowance would be much less than for NIT, because the adult poor would be excluded from eligibility and because the disincentive effects would be small. At the same time, more scarce dollars would be available for rebuilding the cities. Admittedly these are hard choices to make. But poverty is a Protean problem that has no instantaneous solution. On a long-term view of the future, measures that initially seem both modest and even cautious can well turn out to be the most humane and constructive course to follow.

Senator PROXMIRE. Thank you very much, Dr. Hildebrand.

Our next witness is Dr. Joseph A. Pechman, director, economic studies, the Brookings Institution.

STATEMENT OF JOSEPH A. PECHMAN, DIRECTOR OF ECONOMIC STUDIES, THE BROOKINGS INSTITUTION

Mr. PECHMAN. Thank you, Mr. Chairman. I have a statement which will take longer than 15 minutes to read, so I propose to summarize it.

Senator PROXMIRE. The entire statement will appear in the record.

Mr. PECHMAN. The purpose of my statement is not to argue in favor of one or another negative income tax, but to explain the general characteristics of this approach to income maintenance. I firmly believe that some of the problems we have had in explaining the negative income tax are due to the fact that a lot of people who propose it simply have different views about details and the public has been confused about the variety of programs that have been presented. I think it might be helpful, therefore, to establish the major characteristics of what this approach implies and then make judgments about the details.

I hope the committee will not be misled by these differences, because they are not nearly as important as the basic principles. Perhaps the best way to put the matter into perspective is to recall that the 16th amendment to the Constitution, which permits the Government to levy an income tax, would never have been enacted if its proponents had tried to agree on the degree of progression, the definition of a family unit, the definition of income, methods of payment, and other important features of the income tax. In fact, with a bit of research, we could probably find that, for every criticism of the negative income tax, a corresponding criticism was made at the time against the positive income tax.

There are three features to a negative income tax. These can be varied to some degree. If you take one of the features out, however, I would not regard the plan as a negative income tax.

First, the amount of the negative income tax return would be determined on the basis of income, and size and composition of the family unit.

Second, the only test to be applied in determining eligibility would be the comparison between the family's income and the "breakeven" level for that type of family. In other words, payments would be made to all the poor, and not to certain categories of the poor.

Third, the income of the family would be subject to tax, but this tax would be substantially less than 100 percent.

There is a fixed relationship among three variables in any negative income tax—one is the basic allowance, the second is the breakeven level, and the third is the tax rate on the family income—and it is impossible to vary one variable without affecting at least one of the other two.

The relation, of course, is very simple; the basic allowance is the product of the tax rate and the breakeven level. I have a table in my prepared statement which compares various combinations of basic allowances, tax rates, and breakeven levels. For example, if you have a breakeven level of \$3,000 and the tax rate is 50 percent, the basic allowance must be \$1,500. On the other hand, if you raise the tax rate to 66 $\frac{2}{3}$ percent, the basic allowance is \$2,000. Conversely, if you start out with a basic allowance of \$2,000 and a tax rate of 50 percent, you must have a breakeven level of \$4,000.

Because of these relationships, the negative income tax can be thought of in one of two ways, but they come to the same thing. First, you might regard it as a method of paying people the basic allowance, then taxing them on all of their income at the stipulated rate—say 25 percent, or 50 percent.

The second method is to take the breakeven level, subtract the family's income and apply the tax rate against the difference. Both methods will come out to the same thing.

Note that I have included in table 1 of my prepared statement one type of system that has a 100-percent tax rate. That is, with a basic allowances of \$3,000 and a 100-percent tax rate, the break-even level is \$3,000. That is similar to what we had in the welfare system before the 1967 amendments to the Social Security Act. In other words, the welfare payment is reduced dollar for dollar by any earnings that the individual may have earned.

I am happy to see that the welfare system has now been radically modified in this respect by the 1967 amendments that require the States to permit the recipients to keep some part of what they earn. We have come part way already toward a negative income tax.

The major remaining difference between what I have outlined as a negative income tax and what we have in the welfare system today is that we deny certain types of poor people the privilege of obtaining welfare assistance. If you simply universalize the welfare system according to present law, you would have a negative income tax. My own feeling is that I would like to improve some of the fringes, but basically, that is what the problem is, that you do not have a universal system of providing payments to all the poor.

It might also be noted—and this is another confusing problem—that there is essentially no difference between what I have called the negative income tax and what many people call the guaranteed income plan. Under the negative income tax, many people would receive a basic allowance even if they had no income.

Some guaranteed minimum income plans implicitly impose a tax rate of 100 percent, but this is not an essential feature of such plans. I think that, in its questioning of individuals, the committee ought to be careful in ferreting out the differences between the theory of the plan and what they are actually proposing. If they are proposing a simple guarantee, they may be proposing a method of universalizing the present welfare system with a 100-percent tax rate.

I said earlier that I could pick out a problem in the positive income tax for every problem in the negative income tax. Let me give you several examples. I think they are rather interesting.

Take the definition of income. We do not have a comprehensive definition of income under the positive income tax. As you know, I have tried to persuade many administrations and many Congresses to move in the direction of a comprehensive definition of income. Professor Rolph will talk about this aspect of the tax problem in more detail. But I am sure that, with respect to the negative income tax, the Congress would immediately decide that it would want to approach comprehensiveness as nearly as possible, simply because I cannot conceive of anybody arranging a negative income tax or a universalized welfare system and permitting, for example, the recipient of \$10,000 of taxable interest annually to receive a negative income tax.

You will find, therefore, that you would have a double standard. Your standard is comprehensiveness in the negative income tax, even though the positive income tax lacks comprehensiveness. This may perhaps demonstrate how bad the positive income tax is in these respects.

My own position is that you can move ahead on the negative income tax without solving all of your positive income tax problems. But there is one major problem of exclusion that you will have to pay attention to and make some decision about. That is the question of treating homeowners and renters alike under the negative income tax. As you know, under the positive income tax, we exclude the value of the services provided by a home, so that a homeowner in effect pays less tax with the same total income as the renter. Now, this apparently is tolerable under the positive income tax. I am not sure it would be under the negative income tax.

Consider two people with identical cash incomes, one of them owning his home and the other one renting. The one who owns his home owns it outright. It is clear that the man who owns his home really is better off than the man who has to pay rent. I suspect you would want to take this into account. It is not easy to do it, but I would think the simplest way would be to apply a flat rate of return, say 4 or 5 percent to the net equity of the home, which is its market value less the outstanding principal of the mortgage.

You may want to modify the definition of income for the negative income tax in still another respect, which you may think does not have a counterpart in the positive income tax, but really does. A lot of people have argued that the income tax itself is not equitable because you do not take into account the capital of an individual in deciding his ability to pay. Well, this would present itself forcibly if you were designing a negative income tax in the following situation.

Suppose you have a man with \$100,000 of IBM stock. This man will receive only \$1,000 of dividends per year, and might be eligible for the negative income tax. My guess is that most people would agree that the man with such a large holding of stock ought to at least begin to liquidate some of his securities before the Federal Government helped him out. And it would be very simple to do it by requiring a capital offset which would be, say, 10 percent or 20 percent of the value of any capital in excess of a generous exemption. This would automatically eliminate the negative income tax payments for wealthy individuals.

Another question that comes up with both the positive and negative income tax is the definition of a family unit. In the positive income tax, the individual is the unit, but obviously, we would not be able to hold to the individual in a negative income tax. I think the appropriate unit for the negative income tax is the family, since the family provides the basic economic support for its members.

There are, of course, easy cases—married couples with children and adults living alone, but there are others like broken families, married teenagers, self-supporting minors, college students and the like, which are troublesome.

I suggest that the family include the adult nucleus—this might be defined, first, as any married couple; second, any unmarried person 21 years of age or over; and third, 19- and 20-year-olds who do not live with their parents and do not receive more than half their support from them. Children and other minors living in the household should be considered in the family unit if they receive more than one-half their support from the adult nucleus. Those studying full time for their college degree should also be included regardless of age.

Now, I will not go into the methods of setting the basic allowance, but clearly, here we have a number of objectives. One is to be adequate in terms of basic needs. The other is to keep the cost of the system within manageable proportions.

As Professor Hildebrand has said, if you want to lift the incomes of all people in the United States to the poverty thresholds, it would be very expensive indeed. I agree that you will have to start out modestly. I disagree, however, that this introduces an inflexibility or inconsistency with the present system and I will explain that in a moment.

My proposal would be to give the two adults an equal per capita payment and then taper down the allowances for children, depending on how much money you want to allocate. You might, for example, start with \$600 per year per capita for the two adults and then give \$400 for the first three or four children and then taper those down to \$200.

Alternatively, you might start out with \$800 per capita for the two adults, and add \$500 for the first two children, \$400 for the next two, and so on.

I would like to amend what Professor Hildebrand had to say in one important respect. There is a necessary connection between the positive and negative income tax if your breakeven level happens to be above the taxable level of individuals. In that case, there is a simple device of integration which would not require much paperwork and would not be difficult to administer. That is simply to permit the individual to elect whichever tax system is more beneficial to him. I have a chart in my prepared statement which explains this, but I do not think it is necessary to go into it in detail.

With respect to the methods of payment, another subject that Professor Hildebrand brought up, you can organize your negative income tax system in one of two ways, depending upon which way you look at the negative income tax system. If you regard the negative income tax system as paying basic allowances, you can simply pay out the equivalent of the basic allowance on a monthly or semimonthly basis to individuals, with the option to stop the payments if they are not eligible

for it. If they do not stop the payments, they would be subject to a 50-percent withholding rate. If they do stop the payments, they would be subject to the present withholding rates.

The alternative method is to design the system on the present system of declaration of estimated tax. That is, an individual would make a declaration once a year estimating his total income and claiming, in effect, a negative amount of tax. He would receive this negative amount of tax prorated monthly or twice a month until he amended his declaration and, of course, at the end of the year, there would be a final reconciliation.

All of this may sound difficult, but we are doing exactly this with respect to some 75 million people who file tax returns in the United States today and I do not see any reason why the addition of people who do not file would make matters much more unmanageable.

Another important question is the question of integration of public assistance. I do not agree that there is any inconsistency between negative income tax and public assistance. Suppose, for example, you started out modestly and took a \$3,000 break-even level and a \$1,500 basic allowance for a family of four. It is true that this \$1,500 basic allowance would be substantially smaller than the AFDC payments that are paid in some of the more generous States.

The States could be permitted to supplement the negative income tax by whatever payments they deemed desirable, and in order to encourage them to do so, I would have the Federal Government pay, say, 50 percent of the cost of the supplement. This would have to be accompanied, however, by one major constraint; namely, that the State would have to adopt the implicit tax rate that the Federal Government has in its own negative income tax. This is not a terribly important constraint, since they are all going in that direction anyway, and since the Federal Government would be taking the financial load of a large proportion of the public assistance payments that are now made.

I want to add one more point about how you view negative payments to poor people and positive taxpayments to rich people. A lot of people worry about overclaims for basic allowances if you have a generous negative income tax. A lot of people worry about breaking up of families in order to obtain higher negative income-tax payments. I worry about these things, too, but I think we ought to put them in the proper perspective. In the case of the negative income tax for a family of four, the maximum amounts that might be involved are \$3,000 or \$4,000 a year. The kind of shenanigans that many seem concerned about in this area might yield the family additional negative income-tax payments of a few hundred dollars. In some cases, where there are differential per capita income payments, the amounts might be \$500 or \$800 if they break up. I do not think many would break up on the basis of the amounts we have been talking about.

In any case, if there is chiseling, I think the committee ought to remember that there is an awful lot of chiseling in the positive income tax that we do not worry about. We have rather conclusive evidence that there is still serious underreporting on Federal income tax returns. In the high brackets, the amounts that people get away with are very much larger on the average than the amounts that people who would be receiving negative income tax payments under some of these plans would get.

I do not think we should have a double standard. I do not think that the kind of administrative expense that is needed for a negative income tax is proportionately any greater than the expense that is now allocated for the positive income tax. If you believe that these people have been discriminated against by society in the first place and that part of our problem is that we want to get them back into society, this kind of double standard is not at all defensible.

Finally, I want to add one word on the question of whether we can afford a negative income tax. The amounts of money are surely large, but I do not think it is meaningful to ask today whether we can afford such a program in this country. A nation that is allocating \$25 to \$30 billion a year to an unpopular war can surely afford to allocate at least as much to help its own poor after the war is ended. The question is one of priorities and social attitudes. Those who believe the poor have only themselves to blame for their poverty will prefer tax reduction to an imposed social welfare program. Those who believe as I do that the condition of the poor is traceable to oppression and discrimination will prefer the improved social welfare program.

It is becoming fashionable to argue that defense expenditures will not decline much after the war has ended because depleted stockpiles need to be rebuilt and long-range military programs have been deferred. But I doubt that our national security will be significantly improved if we spend \$85 billion a year for defense instead of \$60 billion. On the contrary, unless we make an early decision to take care of our poor, the national security will be endangered far more by uncontrollable forces within our midst than any enemies we may have abroad.

Thank you very much.

Senator PROXMIRE. Thank you very much, Dr. Pechman.

(The prepared statement of Dr. Pechman follows:)

PREPARED STATEMENT OF JOSEPH A. PECHMAN*

HOW A NEGATIVE INCOME TAX WOULD WORK

I am pleased to have the opportunity to appear before this subcommittee to discuss improvements in the income maintenance system in our country. It seems clear to all that the present welfare program cannot be allowed to continue for very long without substantial modification. It is inadequate, inefficient, demeaning, and discourages welfare recipients from working. I believe that the best way to improve the system is to replace it by a negative income tax, and I should like to outline briefly how this alternative might be implemented.¹

Before going into details, it is important to understand that the term "negative income tax" describes a general approach to income maintenance. Even if we agree on the basic features, there can be legitimate differences of opinion with regard to numerous details. Opponents of negative income taxation frequently exaggerate the nature of these differences. I hope the subcommittee will not be misled by this disagreement over details. Perhaps the best way to put the matter in perspective is to recall that the Sixteenth Amendment to the Constitution, which gave the Federal Government the power to levy an income tax, would never have been enacted had its supporters argued over such matters as the level of exemptions, the degree of progression, the definition of the family unit, the definition of income, and methods of payment. In fact, with a bit of research, we could probably find that, for every criticism of the negative income

*The views expressed in this paper are those of the author and are not presented as the views of the trustees, officers, or other staff members of The Brookings Institution.

¹ For a detailed discussion of the problems, see James Tobin, Joseph A. Pechman, Peter M. Mieszkowski, "Is a Negative Income Tax Practical?," Yale Law Journal, November 1967 (Brookings Reprint 142).

tax, there was a corresponding criticism made at that time against the positive income tax.

ESSENTIAL FEATURES OF THE NEGATIVE INCOME TAX

The negative income tax is a device to reduce or close the poverty gap by making payments to those in the lowest income classes in inverse relation to their incomes (i.e., the lower their incomes the higher the payments). It is called a negative income *tax* because the payments can be regarded as an extension of the principle of progression, which now applies under the positive income tax, to those who are at the bottom of the income scale. But this does *not* mean that all the features of the positive income tax need be carried over into the negative income tax. As we shall see, it would probably be desirable to modify most of the definitions in the positive income tax structure in order to make the negative income tax workable and fair.

There are three essential features to the negative income tax:

1. The amount of the negative tax payment would be determined on the basis of income, and size and composition of the family unit.

2. The only test to be applied in determining eligibility would be the comparison between the family's income and the "breakeven" level for that type of family. In other words, payments would be made to all the poor, and not to certain categories of the poor.

3. The income of the family would be subject to tax, but this tax would be substantially less than 100 percent.

There is a fixed relationship among three variables in any negative income tax—the basic allowance (A), the breakeven level (B), and the tax rate (t) on the family's income—and it is impossible to vary one variable without affecting at least one of the other two. The relationship is that the basic allowance is the product of the tax rate and the breakeven level (or $A=tB$). Thus, if the breakeven level is \$3,000 and the tax rate is 50 percent, the basic allowance is \$1,500. Conversely, if you wish to have a basic allowance of \$2,000 and keep the breakeven level at \$3,000, the tax rate must be 66⅔ percent. Examples of consistent A's, B's and t's are shown in Table 1; there are, of course, many other possibilities.

TABLE 1.—ILLUSTRATIVE BASIC ALLOWANCES, TAX RATES, AND BREAKEVEN LEVELS

	Basic allowance (A)	Tax rate (t) (percent)	Breakeven level (B)
\$1,500.....		50	\$3,000
\$2,000.....		66⅔	3,000
\$2,000.....		50	4,000
\$3,000.....		75	4,000
\$1,000.....		33⅓	3,000
\$3,000.....		100	3,000

Because of these relationships, the negative income tax can be thought of in two ways. It can be regarded as providing a basic allowance to all persons, together with a special tax rate on the incomes of those who accept the allowance. Or, it can be regarded as a payment which reduces the gap between income and the breakeven level by the same tax rate. The equivalence between these two approaches may be illustrated with the first combination of A, t and B in Table 1. According to the first method, a family with an income of \$1,000 would receive a basic allowance of \$1,500 and would pay a tax of \$500 on its income, which would leave it with a disposable income of \$2,000. According to the second method, the family would receive a payment of \$1,000—50 percent of the difference between the \$3,000 breakeven level and its income of \$1,000—leaving it with the same disposable income of \$2,000.

Note that the last entry in the table shows a basic allowance equal to the breakeven level. This occurs whenever the income recipient must give up one dollar of his allowance for every dollar of income he may receive: in other words, when the tax rate is 100 percent. The U.S. welfare system had this feature until the Social Security Amendments of 1967 required the states to permit recipients to keep some part of whatever they might earn. (This provision will become fully operative in mid-1969.)

It might also be noted that there is essentially no difference between a negative income tax and a guaranteed minimum income plan. Under the negative

income tax, individuals would receive the basic allowance if they had no other income, and in this sense the basic allowance is a guaranteed minimum. Some guaranteed minimum income plans implicitly impose a tax rate of 100 percent on any income the family might receive, but this is not an essential feature of such plans.

THE DEFINITION OF INCOME

One obvious difference between the negative and the positive income taxes should be the definition of income. I happen to believe that the nation would be better off if we were able to tax all incomes under the positive income tax, and I hope that we will be able to approach this ideal in the not-too-distant future. The inequity of having a definition of income which is less than comprehensive is all too clear when we consider the negative income tax. For example, I doubt that anybody would agree that a recipient of \$10,000 of tax exempt interest annually should be eligible for a negative income tax payment.

Although it will be important to use a comprehensive definition of income to avoid such obvious anachronisms, most of the poor will not be affected by the degree of comprehensiveness since they ordinarily have little or no other income and do not benefit from the well-known "tax loopholes." The one exception—and this is a major policy issue—is the treatment of imputed rent from owner-occupied homes. Suppose A does not own his home but pays rent with \$1,000 of taxable income he receives from \$25,000 worth of securities, while B sold his securities and purchased a home which does not provide any cash income. If they received no other income, and the rental value of owner-occupied homes were not taken into account, B would receive a larger negative income tax payment than A, even though they were in economically identical circumstances. Similarly, two families with identical cash incomes would receive the same negative income tax payments even if one owned his own home while the other paid rent out of his income. In both cases, the home owner would be much better off.

The same inequity arises under the positive income tax, and it may be that it can be tolerated under the negative income tax. My view is that we should impute income to the home owner for negative income tax purposes, because it would provide fairer treatment between home owners and renters and also lower the cost of the income maintenance program. However, this is a close question and will need to be given serious consideration by the Congress. If imputed rent is to be included in income, a relatively simple method is to apply a flat rate of return, say, 4 or 5 percent, to the net equity in the home, that is, its market value less the outstanding principal of the mortgage.

Capital in other forms occasionally yields low cash returns and this might also lead to anomalous situations. For example, an individual owning \$100,000 worth of IBM stock receives cash dividends of less than \$1,000 annually. Such an individual is likely to have enough other income to disqualify him for negative income tax payments, but the mere possibility that this could happen might discredit the program. The remedy is to require an individual to offset against the negative income tax a modest percentage, say, 10 percent, of the value of any capital he may own above an allowance, say, \$25,000. Thus, an individual with a net worth of \$50,000 would offset 10 percent of \$25,000, or \$2,500, against the negative income tax payment to which he would otherwise be entitled. It would be appropriate to set the exemption at something like \$25,000 in order to relieve the poor from reporting furniture, automobiles, and other personal property, and to avoid imposing hardships on those who own modest homes.

DEFINITION OF THE FAMILY UNIT

Another feature of the positive income tax that cannot be carried over to the negative income tax is the definition of the family unit. The unit under the positive tax is the individual; the appropriate unit for the negative income tax is the family, since the family provides the basic economic support for its members. The easy cases are married couples with children and adults living alone. Difficulties arise in other situations—broken families, married teenagers, college students, self-supporting minors, etc.

I believe that the family unit should consist of the adult nucleus, plus any non-married children in the same household. The adult nucleus might be defined as (a) any married couple; (b) any unmarried person 21 years of age or older; and (c) 19- and 20-year olds who do not live with their parents and do not receive

more than half their support from them. Children and other minors living in the same household should be included in the family unit if they receive more than half the support from the adult nucleus; those who are studying fulltime for their first college degrees should be included, regardless of age.

Two difficult cases would arise under these rules. First, adults qualifying as a separate unit would be eligible for negative income tax payments even if they reside with another family unit. Such adults could be considered part of the unit with which they reside, but it would probably be better social policy to consider them separate units, since most of them are incapacitated for independent living for reasons of health, age, or psychological difficulties. Second, married minors would be entitled to claim allowances while they are living with parents who are well off. This possibility can be eliminated, but there might be some advantage to giving married couples of whatever age some financial independence even if they live with their parents.

SIZE OF BASIC ALLOWANCES

The principle that should be followed in setting the basic allowances is that they should reflect the relative cost of supporting units of different size. This means that the allowances should increase with family size, but not proportionately because there are economies of scale in family consumption. According to the latest poverty threshold estimate by Mollie Orshansky, a single person needs a little more than three-quarters of the income of a married couple to maintain the same living standard, and children add less than 25 percent each to the household budget, with the percentage declining as size of family increases. These relationships could be incorporated in any schedule of basic allowances, and there is a good deal to be said for this approach.

The problem is that large per capita differentials between small and large families will provide some with an incentive to split up. For example, if a family of two receives a basic allowance of \$2,000 and a family of four receives \$3,000, the latter could gain \$1,000 by splitting into two 2-person units.

In the vast majority of cases, the nonpecuniary factors governing family relationships are much more important than the pecuniary. But it would be unwise to provide too large a financial incentive to break up, even if the number of families affected might be relatively small. Accordingly, the basic allowance might be set on a per capita basis for adults, and at lower amounts which decline with size of family for children. Two schedules conforming with these specifications are shown in Table 2.

Under the H-Schedule, a family of two adults and six children would receive \$4,600 if it split into two 4-person families, as compared with \$3,800 if the family remained together—a difference of \$800. I doubt that this advantage would bulk very large in comparison with other considerations that are ordinarily significant in the decision to maintain or split a family unit.

TABLE 2.—ILLUSTRATIVE SCHEDULE OF BASIC ALLOWANCES

Size of family	Basic allowance	
	L schedule	H schedule
1	\$600	\$800
2	1,200	1,600
3	1,600	2,100
4	2,000	2,600
5	2,300	3,000
6	2,600	3,400
7	2,800	3,600
8	3,000	3,800

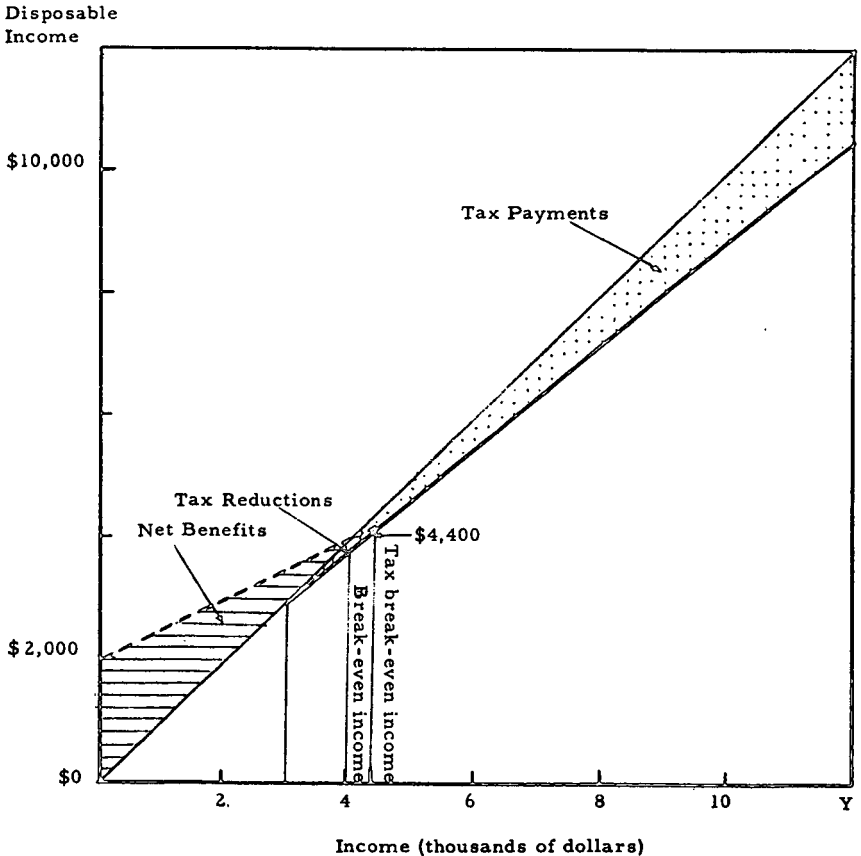
RELATION TO THE POSITIVE INCOME TAX

So long as the breakeven levels are no higher than the levels at which the positive income tax begins to apply, the negative income tax can be operated quite independently. However, if the negative income tax is to provide more than a pittance as a basic allowance, the breakeven levels will be higher than the levels at which the positive tax takes hold. For example, with a basic allowance of \$2,000 and a tax rate of 50 percent, the breakeven level is \$4,000 (see Table 1).

The personal exemption and the minimum standard deduction for a family of four amounts to only \$3,000. Thus, the two systems would overlap in the range between \$3,000 and \$4,000.

The answer to this problem is to give the family the option to choose the system under which its disposable income is higher. In the above example, it is obvious that all families with incomes of \$4,000 or less would choose the negative income tax. It turns out that some families with incomes above \$4,000 would also choose the negative income tax because the switch from the negative to the positive income tax precisely at \$4,000 would raise the tax rate on an additional dollar of income above 100 percent. At \$4,001, the positive tax for a family of four (according to the simplified tax table) would be \$144, leaving it with a disposable income of \$3,857 instead of the \$4,000 it would have had without the additional dollar of income. Paradoxically, the option to pay the higher negative income tax rate would yield a family of four a higher disposable income until its income exceeded \$4,400 in this example (see Figure 1). The exact location of this "tax breakeven point" need not concern the individual taxpayer because the final tax return would provide a reconciliation between the positive and negative income tax.

Figure 1. Illustration of a Negative Income Tax Plan for a 4-Person Family with a \$2,000 Basic Allowance and a 50 Percent Tax Rate



METHODS OF PAYMENTS

Since the negative income tax is designed to help poor families provide their basic needs, it will be important to make the payments rather frequently—certainly once or twice a month. The payments can be calculated in one of two ways, corresponding to the two different conceptions of the negative income tax explained on page 98ff. First, the basic allowances could be paid to all families, except those who waive payment in order to avoid the offsetting tax on other income. Second, the *net* benefits could be paid on the basis of a declaration of estimated income, patterned along the lines of the quarterly payments now made under the positive income tax by persons who are not subject to withholding.

The election to waive the basic allowance under the first method could be made in writing either to the government or to the employer. In the former case, the government would inform the employer not to withhold the offsetting tax; in the latter case, the employer would inform the government to stop payments of the basic allowance. Tables would be provided, of course, to help individual workers make up their minds, but the decision would not be irrevocable. In the event the employee elected the wrong option, he would be reimbursed for any difference after he filed his final tax return.

If the declaration system is preferred, individuals and families would declare their incomes annually. The government would compute the estimated net benefit for the year and make payments weekly or twice a month on a pro rata basis. Families with a change in income status, either up or down, could amend their declarations at any time. Even if the circumstances did not change, a renewed declaration would be required at the beginning of each year.

The declaration method would not require any changes in the present withholding system, and would thus not add to the costs of employers. On the other hand, the automatic payment method would be less likely to be abused by persons who are willing to take the chance to defraud the government. In addition, the automatic payment method would place the burden of compliance on those who do not want negative income tax payments and these are the people who are likely to have the sophistication needed to make the decision.

It should be added that, under either system, there will be a final reconciliation at the end of the year, at which time the taxpayer will pay any balance of positive income tax due or excessive negative income tax received and will receive a payment for any excessive prepayments of positive income tax or underpayments of negative income tax. Many billions of dollars are received from, or paid to, the government at the end of each year under the present tax system and there is no reason why the additional—much smaller—amounts that would be involved in a negative income tax cannot be handled in approximately the same way and with as little fuss.

Since there would be an intimate connection between the positive and negative income tax, it would be appropriate for the IRS to receive the final tax returns and handle the refunds and payments due, as well as to make the necessary office and field audits. But the claims for the weekly or semimonthly payments could be made through another agency specially organized to guide the poor in preparing their applications for payments. One of the strong arguments in favor of the negative income tax is that it would relieve welfare agencies of the administrative tasks of investigating the validity of welfare claims and permit them to devote their personnel to guidance, counselling, and other social services which the poor badly need.

INTEGRATION WITH PUBLIC ASSISTANCE AND OTHER TRANSFER PROGRAMS

The federal and state governments make a wide variety of transfer payments to individuals, and these must be integrated with the negative tax to avoid confusion and duplication. In general, the rule should be that transfers intended as deferred compensation for previous work should be counted as income. Unemployment compensation and veterans pensions would thus be included in the negative income tax base. On the other hand, payments based on need—e.g., public assistance, Medicaid, rent supplements, and the value of food received under

food stamp programs—should not be counted as income. The aged should be permitted to elect negative income tax payments if they exceed the social security benefits to which they would be entitled.

The public assistance programs as we know it today could be eliminated entirely if the basic allowances under the negative income tax were equal to or higher than the highest State payments. It is hardly likely, however, that the first negative income tax to be enacted in the United States will be so generous. It would be desirable, therefore, to encourage the states to keep their own public assistance programs as supplements to the negative income tax. This would permit the states to improve on the levels of assistance in the national program, and also to make adjustments for cost-of-living differentials.

If the states were permitted to continue to administer their own public assistance programs, the value of the negative income tax as a device to maintain work incentives would be impaired unless their tax rates were consistent with that of the federal government. To encourage the states in this respect, the federal government might offer to pay, say, half the cost of supplementary state public assistance programs provided the states would agree to use the offsetting tax rate used in the federal negative income tax.

CAN WE AFFORD A NEGATIVE INCOME TAX?

While an effective negative income tax would cost a great deal of money, I do not believe that it is meaningful to ask whether we can afford a program in this country. A nation that is allocating \$25 to \$30 billion a year to an unpopular war can surely afford to allocate at least as much to help its own poor after the war is ended. The question is one of priorities and social attitudes. Those who believe that the poor have only themselves to blame for their poverty will prefer tax reduction to an improved social welfare program. Those who believe, as I do, that the condition of the poor is traceable to oppression and discrimination will prefer the improved social welfare program.

It is becoming fashionable to argue that defense expenditures will not decline much after the war has ended because depleted stockpiles need to be rebuilt and long-range military programs have been deferred. But I doubt that our national security will be significantly improved if we spend \$85 billion a year for defense instead of \$60 billion. On the contrary, unless we make an early decision to take care of our poor, the national security will be endangered far more by uncontrollable forces within our midst than any enemies we may have abroad.

Senator PROXMIRE. Our next witness is Prof. Earl R. Rolph, University of California.

STATEMENT OF PROF. EARL R. ROLPH, UNIVERSITY OF CALIFORNIA, BERKELEY

Mr. ROLPH. Thank you very much, Mr. Chairman.

The proposal I would like to set forth is part of the—

Senator PROXMIRE. I just want to say that we are letting our time slip away a bit. Mrs. Griffiths will be here. I think I would prefer to save some time for questioning.

Mr. ROLPH. I think if I read this, it will be much faster than the other way.

Senator PROXMIRE. Yes, it is only seven pages, much shorter than some of the others.

Mr. ROLPH. Various negative income plans that have been proposed, whether called negative rates, income maintenance, or guaranteed annual income have, as their presumed goal, the alleviation of poverty. A credit income tax also has this goal; in addition it has the goal of improving the Federal individual income tax.

A credit income tax applies the following formula to a person: $T = Yr - C$; where T is the tax liability plus or minus, Y is annual in-

come as defined for tax purposes, r is the (single) rate of tax, and C is the annual credit per person.¹

According to this plan each person domiciled in the United States is liable to income tax and each person is also entitled to the credit. The tax liability of people whose income times the tax rate is less than the credit will be paid the difference by the Treasury and those whose income times the rate is greater than the credit will pay the difference to the Treasury. The credit income tax design consists of a proportional income tax and flat sum credits.

From the point of view of public policy, the critical issues in the practical administration of a credit income tax are the definition of income for tax purposes, the tax rate, and the size of the credit. On the assumption that the tax base has been properly defined—a big assumption—the tax rate and the credit must be made consistent. This feature means that the tax rate r must be set so as to recover the total credit ΣC and provide the desired net yield to the Treasury R , given the total of personal income, ΣY .

To illustrate, if $R = \$80$ billion, $C = 500$ per capita, and $\Sigma Y = \$600$ billion, then $r = 80 + 100/600$ or $.3$ —in other words, the tax rate is 30 percent—when the population is taken at the round number of 200 million people.

One of the most important issues in connection with a credit income tax is the restructuring of the definition of adjusted gross income in the tax code. There are certain obvious types of incomes that would have to be included, such as veterans' benefits, unemployment insurance benefits, and old-age retirement benefits, to make the credit income tax equitable and also to hold down the rate.

In addition, the much discussed problem of broadening the tax base would need to be tackled anew. Many people with large incomes are presently paying little or no tax. In fact, for a person with a large property income, payment of the Federal individual income tax has become almost a voluntary contribution. Over the years tax shelters have multiplied and the number of people with high incomes who are comfortably ensconced in them has been increasing. To eliminate these tax shelters we should stop the pretense that high-income groups can be taxed at high marginal rates. It is mainly for this reason that I suggest one rate be applied to all income no matter how large. Not only must the notorious percentage depletion allowances be eliminated, but all capital gains must be brought into the tax base and taxed at full rates. Constructive realization is imperative if high-income groups are to pay the same rate of tax as many middle-income families. I personally would favor full inclusion of transfers at death in the income tax base of recipients, recognizing, however, that this is a much disputed question.

The credit income tax could be labeled simply a progressive income tax. It has the effect of being progressive from the first dollar of income and approaches proportionality at the limit as does existing law. Unlike the present law that taxes incomes below the exemption limit at a zero rate, it would, however, be progressive in the regions of low income.

¹ For a family, the tax liability (plus or minus) is $T = \Sigma Yr - \Sigma C$, where ΣY is the total income of the family, and ΣC is the sum of the family credits.

The design being suggested is a powerful device to redistribute income in the egalitarian direction. The amount of redistribution depends on the height of the tax rate and the size of the credit. A credit tax rate combination of \$400 per person per year and a rate of 25 percent can be expected to approximately double the income share of the lowest fifth of the income distribution where the poor are found. If the public wants greater redistribution, the credit and the tax rate can be further increased.

The system also has the property of permitting the Congress to make specific, unambiguous provisions for people who for one reason or another are believed to merit special treatment. For example, people who are blind may be given an extra credit, as may the totally disabled; I would hope that no extra credit would be given to a person merely because he has reached a certain age in life such as 65 years. It is also feasible to install a general and comprehensive plan of medical protection. Incremental credits could be given as a percentage of medical expenses above some cutoff such as \$100 per person per year.

SOME COMPARISONS WITH OTHER PLANS

Of the many and various other plans of redistribution that I have examined all have the characteristic of being truncated. There is to be one income tax for the people with low incomes and the existing Federal individual income tax for people above some level of income.

In my opinion, these plans are certain to lead to large-scale administrative complications and may even turn out to be simply another grandiose public assistance device. Among the difficulties of a two-income-tax system is the problem of fragmentation. As a matter of literal fact, there are more people who receive zero income than any other amount of income simply for the reason that women and children in households commonly have a zero income. A truncated plan invites people with low legal incomes to split off.

For example the father might separate from the family, report his income for tax purposes as under present law, and the wife and children would classify as poor and qualify for the credit. Less dramatic illustrations are young people, including college students, who could report low incomes and qualify for the credit even though their parents are above the \$20,000 bracket. If we are to start on the path toward systematic redistribution of income, it is important that we get off on the right foot, and in my view these various truncated schemes would start us off on the wrong foot.

ADMINISTRATION

In regard to administration, a credit income tax would, according to my proposal, be administered by the Internal Revenue Service. The principle of collection at the source should be pushed just as far as it is practical to do so. Taxpayers could be given an option, if their estimated income for a year is below some number, of receiving the credit in monthly or quarterly installments. People above that line would apply the credit to that portion of their income that would not receive collection-at-the-source treatment. In the simple case where a person's total income is subject to tax at the source, his tax liability

at the end of the year would be zero and he would be entitled to a Treasury check for the amount of the credit.

The main administrative difficulty that the Revenue Service would encounter is collection of tax from people with low incomes. All plans have this difficulty. Many poor people are marginal farmers who have little skill at recordkeeping, and many of the urban poor have casual earnings. Imaginative efforts would need to be made to effectively enforce the tax law for low-income groups.

RELATION TO OTHER PROGRAMS

If a credit of about \$400 per year and a tax rate of 25 percent are internally consistent and become the law, there are many existing programs that would need to be modified and many that might be altogether abolished. There are the farm programs whose only excuse for being is to provide some farmers with higher income. If the Congress is willing to treat a credit income tax as the redistribution device, the farm program might be largely or altogether abolished. Clearly, public assistance could be radically curtailed and the present financial load on State and local governments arising from public assistance and other forms of welfare payments could also be curtailed. The several hundred new programs aimed at the urban ghettos should be carefully examined to see if they would be necessary. In fact, if a credit income tax is installed with a reasonably generous credit, the Federal Establishment other than the Defense Department could be substantially curtailed.

COST OF THE PROGRAM

In Washington it is customary to make estimates of the number of billions of dollars that a program will cost. In my view, if a credit income tax is found to be acceptable, there should be no budget item to be labeled "net credit." The credit might be reported as a total sum such as \$80 billion if the credit is \$400 per person. It would be simpler if the Treasury reported the net yield of the income tax as it now does. We do not now show, for example, carrybacks in the expenditure budget.

In an economic sense, the cost of a redistribution program will be negative by a large sum. Poverty is not only ugly, it is grossly inefficient. If people are to break out of the poverty trap, their children, to take one large group, must have a sufficiently high quality of home care including adequate diets, medical attention, and decent housing to permit them to perform effectively in school. If parents are provided with more ample financial means, they can provide for their children more effectively and many more of these children can then break out of the vicious circle of poverty.

No longer would there be incentives for poor people in Mississippi and Alabama and in many other States to migrate to the large cities in the often forlorn hope of improving their condition. They will be made better off right where they are. By having more financial means, they would be able to make their moves out of unpromising environments of the basis of the genuine prospects for work in small communities and cities instead of moving to qualify for relief.

If urban poverty is to be alleviated, poverty generally must be alleviated. The cost to our large central cities in attempting to cope with large numbers of poor people unaccustomed to city life is large indeed. These costs could be cut and cut substantially by an even-handed system that provides credits generally, regardless of where a person lives.

In conclusion, there have been pockets of persistent poverty in American life since the founding of the country. There is nothing new about the fact of poverty. What is new is that many poor people in this country have become tired of being poor. They are tired of noble words and ineffective programs. Who can blame them? The time has now come to establish an efficient program of systematic redistribution, one that will work, one that carries no stigma, and one that will substantially improve the economic condition of millions of our poor people. I am convinced and I hope I have convinced you that a credit income tax is the effective means to achieve these ends.

Thank you.

Senator PROXMIRE. Thank you, Mr. Rolph.

Our last witness, batting cleanup position, is, I am happy to say, from the University of Wisconsin, Mr. Harold Watts, director of the Institute for Research on Poverty at the university. Mr. Watts, we shall be pleased to hear from you.

STATEMENT OF HAROLD WATTS, DIRECTOR, INSTITUTE FOR RESEARCH ON POVERTY, UNIVERSITY OF WISCONSIN

Mr. WATTS. Thank you, Senator Proxmire. I am pleased and honored to appear before this subcommittee to discuss the welfare system and proposals for reform.

In my discussion, I hope to make three basic points:

First, that our present array of public assistance programs owe many of their shortcomings to their categorical nature.

Second, that a more universal transfer or income maintenance scheme must face and solve the issue of incentives by the design of rules that can be applied equitably to all the poor.

Third, that programs of the negative tax variety, be they called income guarantees, incentive income supplements or whatever, offer a more direct and economical route toward reaching our income maintenance goals than do alternatives such as a social dividend or children's allowance.

The most glaring defect of our public assistant programs is that they simply do not aid 73 percent of the poverty population. Never mind the fact that they fail to raise the other 27 percent above poverty levels, they don't even try for the vast majority of the poor. The programs aimed at the aged exclude three poor households out of every five. Those aimed at fatherless families fail to reach one out of three poor households headed by nonaged women. And for households in poverty headed by a nonaged male, 92 percent received no form of public assistance in 1966. The bulk of the excluded poor are in this nonaged male head category of households.

Why is this so? It is because our categorical assistance programs have systematically excluded any household which includes a presumptive earner, particularly a male one. An able-bodied male is presumed

to have sole responsibility for his family without regard to conditions which prevent him from providing an income above the poverty level.

Fear of the consequences of sharing or weakening that responsibility has prevented us from providing assistance in these cases.

Our current practice illustrates two serious defects of the categorical approach. First, it has led to excluding nearly three-fourths of the poor from assistance. Second, it provides a situation in which a father can best serve his family by deserting it. Such adverse incentives are a hazard with any categorical approach that is based upon characteristics of the family that can be changed at the option of the family.

Categorical programs, indeed, have some point only if they do exclude some groups or at the very least treat the several groups in quite different ways. On the other hand, I find it hard to imagine a set of programs to eliminate poverty in this country that does not include a universal as opposed to a categorical system of income guarantees and supplements.

Jobs, training, education, and social services are indispensable parts of an effective antipoverty effort, but so is a basic system of transfers. No one program can eliminate all poverty. The most economical one requires a careful blending of many approaches. Try as we may to get more earners from poor households into better jobs, there will remain some combinations of low wages, large families, and tough luck which leave families, including many children, in poverty.

Our policies have demonstrated our conviction that such deprivation is a handicap for the upward mobility of these children, and it seems inevitable that a direct money transfer is the most straightforward means of preventing such deprivation.

But a major problem faces us in considering any universal assistance program. We must preserve incentives for work and self-improvement. Our current practice effectively withdraws assistance dollars equal to any amount earned by welfare recipients. This leaves them very little to show for their efforts. Such a practice might be, and has been, defended on the ground that we should not force old folks and mothers to work.

While I would tend to agree that we should not force them, we must also recognize that millions of old folks and mothers, some of them poor and some on assistance, do work in spite of the lack of incentive. We can and should make the work alternative more attractive by sharing the gains from earnings with the earner.

But for the excluded category, it is clear that an extension of the incentive-numbing welfare practice could be disastrous. Eighty percent of poor persons in households headed by a nonaged male rely on full- or part-time earnings of the head. Elimination of the incentive for these earners would clearly add to the poverty problem. If we are to extend assistance to the "working poor" we must do it on terms that will not drastically impair their incentive to work and improve their own situation. Clearly, this must involve allowing them to retain a major share of the fruits of their efforts.

A negative tax type of income-conditioned benefit can do this. While such a scheme seems fairer and more economical for the categories now receiving assistance, it is imperative for the excluded working poor.

It is worth digressing briefly on this nonaged, male-headed category for a moment. Over half of the poor are in this group, 8 million children and 7½ million adults, and 12.7 million of these people rely on a working head. This whole group has been excluded from aid via public transfer payments because somewhere in the bunch are a few males who are not likely to work if they have any alternative means of surviving. Can we really believe that the threat of extreme deprivation is the linch-pin of our whole economic system? Or is the opportunity to move from a basic but viable minimum to higher levels by one's productive efforts the more important key to our present and future progress?

We can and we must find a solution to the income maintenance problem which relieves acute and chronic poverty for all groups. The injustice of visiting the sins of the father on the son is evident to all of us—we are now engaged in visiting the sins of a few fathers on all sons. But this solution must be one which complements rather than competes with our efforts to eliminate poverty through enhanced job opportunities and productivity. It must encourage rather than stultify the considerable efforts of the poor to help themselves. An income-conditioned cash benefit system offers the best hope for a solution.

What of other alternative solutions to this problem? I will mention three and indicate why I feel the negative tax is superior. The first would be to simply modify the terms of categorical assistance to provide substantial incentives and then expand the coverage by making all excluded categories eligible.

This reform, if thoroughly carried out, would really institute a negative tax system administered by individual State agencies. Much of the standardization and uniformity which we prize in the administration of the positive tax system would be lost. Moreover, it would tend to complete the subordination of provision of family services to financial administration in the welfare agencies.

What about a social dividend which would pay to each household, or individual, a standard allowance without reference to income. It is alleged that such a scheme would reduce the stigma attached to receipt of public transfers and would enhance social cohesion. The main problem here is that a dividend large enough to provide a decent guarantee for those who have no other income would require about 25 percent of personal income—\$150 billion—of which less than a fifth would go to the poor.

Given the fact that this entire amount must be recovered via taxes, most nonpoor families would simply send the dividend back to the Treasury in partial payment of taxes. Thus, in terms of the total amount of checkwriting and taxpaying, only a very small proportion would be aiding the poor.

A social dividend scheme of the sort proposed by Professor Rolph, called a credit income tax, does have some attractions as a general reform of the entire tax and transfer operations of the Federal Government. The simplifications and rationalizations available in a sweeping tax reform would be appealing with or without income maintenance reform. I would, however, regret any postponement of action in the latter area because of reluctance to change the status quo in the rest of the tax system. There is an urgency about our need to align

the income maintenance system with those who need help that just is not shared by the admitted inequities and defects of the individual and corporate tax structures.

Children's allowances are being proposed as another alternative to negative tax schemes. Children's allowances are a special case of social dividend—they are paid only to children. Again, the same low fraction of aid to the poor in the total cost is found here. If the total benefit paid to rich and poor alike is smaller in this case it is only because a smaller amount is going to the poor as well as the rich. The same crosshauling of tax and allowance moneys is also involved.

But there is an added feature. Both the social dividend and the children's allowance, after taking account of their financing, result in redistribution of income from the well-to-do toward the poor. But children's allowances also redistribute income from those who no or few children to those with many.

This redistribution takes place at all levels of income. While the idea of focusing aid on children in poor families is attractive, it is more obscure what social objective is served by penalizing those at higher incomes who choose to have small families.

The basic problem of categorical aid raises its head once more in the case of children's allowances—where aid is available only to households with children present, and where the level of such aid is large enough to make an appreciable dent in the income deficiency, powerful incentives will impel households to qualify for such aid. Only if the additional aid provided for an additional child bears some reasonable relation to the additional costs can there be something like neutrality in the effect on individual choices.

In closing, let me repeat, a successful antipoverty effort must include a comprehensive income maintenance program which can serve all the poor. A universal income maintenance scheme must both support and encourage individual efforts to improve this situation. An income-conditioned cash benefit, usually termed the negative income tax, can accomplish our objectives and seems superior to the principal alternatives that have been suggested.

Our poverty problem is, in my opinion, the top priority problem facing the Nation. An income maintenance program will not solve the problem all by itself, but neither will any other single measure. I am convinced that a universally applied income-conditioned cash benefit is a necessary part of the solution, and one that we can and must begin to construct.

Thank you.

Senator PROXMIRE. Thank you, Dr. Watts.

Thank all of you gentlemen for very helpful, thoughtful, and convincing expressions.

What I get out of this, in general, is that all of you seem to be dissatisfied with the present welfare system and think we ought to do something about it, that it must be improved, that it is wasteful as well as not providing for many people who should be covered.

I would like to start off with you, Dr. Hildebrand, and ask the other gentlemen to come in as they will. All of you gentlemen are eminent economists and are before this committee for that reason as well as for others.

What disturbs me right now about the problem of the negative income tax or children's allowance, or whatever we decide to adopt here, what concerns me especially right now and, as I say, I think it is going to apply for many years to come, is that economists such as you have been telling the Congress that we should increase taxes. Many economists also say we should cut spending, that we have an economy that is racing too fast, the demand pressure is too great, that, as we translate this, we have too few people out of work, we need more people unemployed, and that the tax increase and the spending reduction are going to have the effect of slowing down the economy.

We have had testimony previously before the Joint Economic Committee—only a couple of weeks ago—from eminent economists. All of them agreed the tax hike was going to slow down the economy, throw people out of work, and they cannot see any alternative. But this is what all economists, not only you gentlemen, but the economic profession generally, say we have to do.

Now, it seems to me inconsistent to argue that we have to create a situation in which we have to slow down the economy now, in which Gerhard Colm, who is a very eminent economist, said, that we are going to have perhaps a million more of our people out of work next year, and an eminent economist from Harvard told us that the tax hike guaranteed a recession in 1969.

How can economists say that we should take such fiscal action and then, at the same time, say we have to do something either to create more jobs at the same time we are taking them away, or to provide something which is more inflationary, a payment to people who will not be working?

Do you see the dilemma that you put us in? How can we be responsible?

Dr. Hildebrand, I would like to start off with you.

MR. HILDEBRAND. I think it is a real dilemma. That is the reason I started my discussion by pointing out the difficulties with the deficit even if we get the tax package you are talking about. It was for that reason that I was, therefore, quite cautious in approaching what I would call a schedule of priorities for doing something about income maintenance.

Let me just indicate that schedule to you as I see it. The first group might be those who cannot work, such as the people in AFDC and old-age assistance. Secondary are children all through the poor categories, however you cut them.

The third are those who can work but do not, and, finally, those who do work, even full time, and cannot make an income that takes them above the poverty limits.

Now, if you take those priorities and this fiscal problem into account, you do have to sort out how far you can go at the start. You also have a very practical political question that seems to me we cannot ignore; that is, to get a program of added income maintenance into effect, we would have to get the broad support of the working people who are not poor.

These people are by no means enthusiastic about large new transfer programs.

So, I have taken a cautious position, and I have said, if you want to go all the way toward utilizing income maintenance and you want

to confine it to the poor, then I think some form of negative income tax or tax credit plan is the way to do it.

I am also saying I am not at all sure we can stand that at this point, given the position of the dollar and the rest of it. I would like to see attention paid, not only to priorities of groups among the poor, but also to alternative programs that the Government might follow for dealing with poverty, apart from simply paying more transfers.

If I may have one more word, and then I shall stop because I have colleagues here: the Federal Government is helping to make the problem of poverty worse; for example, by acreage control that is driving people out of the delta region, producing people who are forced to go to cities and who become welfare clients.

The minimum wage program, I believe, is creating real barriers to employment for unskilled and young people today. Look at the statistics on unemployment in those groups. The minimum wage at \$1.60 now applied to Puerto Rico, for example, is going to curb jobs even further, encouraging Puerto Ricans to migrate to our cities.

Senator PROXMIRE. You say it is too high?

Mr. HILDEBRAND. Too high, in my judgment. It is a barrier to employment. It is good for those who can get jobs.

Senator PROXMIRE. Should we have no minimum wage, or is it just too high?

Mr. HILDEBRAND. It is too high at this point.

Senator PROXMIRE. There should be a minimum wage, but not \$1.60?

Mr. HILDEBRAND. Not \$1.60, which we have. I am saying it is a barrier to jobs.

Senator PROXMIRE. In the first place, it is not universal, as I understand. It only applies to some groups. You realize that?

Mr. HILDEBRAND. About 35 million workers are covered.

Senator PROXMIRE. But about half are not covered?

Mr. HILDEBRAND. Yes; but the half that are not covered are not low-wage workers. It has a real impact on people who have employment problems, people in the industrial States, people in the poor groups who are not prepared to qualify for jobs that are set at that price. These are all parts of the difficulty.

I do not want to make too much of it, but it is a factor in the situation.

Senator PROXMIRE. I want to follow that up in a minute, but go ahead.

Mr. HILDEBRAND. You are going to have a session on it later.

Senator PROXMIRE. Dr. Pechman?

Mr. PECHMAN. Your question involves a shortrun and a longrun problem. What we have been talking about is the inauguration of a longrun program.

Senator PROXMIRE. I want to clarify my position on that. It involves shortrun and longrun problems, in a sense. But, you see, it also involves a situation where right now, we have 3.5 percent of our work force out of work, about as low as it has been in the last 15 years. And they say we cannot get much below without an unacceptable degree of inflation. This has nothing to do with the Vietnam war, necessarily.

I understand that, absent the Vietnam war, we still would be in inflationary difficulties, perhaps, 3.5 percent unemployed according to the way the economists advise us.

I do not accept it. I think they are wrong, and I shall say in a few minutes why I think they are wrong. But this is a long-term problem of trying to get below the 3.5 percent unemployment. If you cannot do that, I do not know what you are going to do about your hard-core unemployed.

Mr. PECHMAN. I would like to see a negative income tax enacted anytime we can persuade the Congress to do so. If you did it next year, since I think that the economy is overheated and needs to be cooled down, I would favor adding enough taxes to the surcharge we are now considering to finance the initial part of the program.

My own opinion is that this is a temporary situation. The tax increase will be very effective in cooling down the economy. Whether the economy actually goes to 4 or 4.5 percent unemployment depends upon actions that will be taken later this year or early next year.

Senator PROXMIRE. It cannot be effective unless it does increase unemployment.

Mr. PECHMAN. It will increase unemployment to some extent, but I do not think you are talking about the same groups. My own feeling is that any temporary increase in unemployment that you would get as a result of cooling off the economy would not greatly aggravate the situation of the poor, or at least not aggravate it as much as, say, the 5-percent increase in prices that you have had in the last year and a half.

It is a problem of tradeoffs.

Senator PROXMIRE. In the sense that the Negroes, for example, are last hired and first fired, marginal workers are generally the last hired and the first fired, too, you will have a million more people out of work, and they are going to be the poor people; are they not?

Mr. PECHMAN. I would agree.

Senator PROXMIRE. The welfare program is bad. Everybody agrees. And I hope we can change it. But by and large, the welfare program is keyed to the cost of living to some extent—at least, in my State it is, and in the District of Columbia it is. It is very slow, but they do try to adapt to it.

If people need more to buy food or necessities, they are paid more. There is a lag, but at least, the very poor have some kind of opportunity to adapt to inflation.

Mr. PECHMAN. Well, you are raising the question of tradeoffs, which is terribly important and terribly difficult to resolve. I do not pretend to know the exact answer. I have my own opinions.

Right now, I think the shortrun stabilization problem is to cool off the economy. The best device to do it, it seems to me, is by increasing taxes. I think that the reduction in expenditures that we enacted along with this tax increase is unwise. If we needed more cooling off than the tax increase, we should have raised the surcharge more.

But I do not want to confuse the longrun problem of income maintenance with this shortrun problem. Consider what will happen 5 years from now if you have an income maintenance system installed. You would not aggravate the stabilization problem by that alone.

Senator PROXMIRE. You would aggravate the stabilization problem.

Mr. PECHMAN. No.

Senator PROXMIRE. Of course, you would. You would aggravate it in the sense that people would have more income, would be buying

more, the demand would be increased but we could not be producing any more.

Mr. PECHMAN. I assume you would be levying taxes to pay for it. You and I would be paying higher taxes. The poor would get higher incomes and would be spending what we might otherwise have spent.

Senator PROXMIRE. So other Americans consume less so that the poor can consume more.

Mr. PECHMAN. I recognize there is a practical political problem right now. But it is inconsistent, in my view, to cut Federal expenditures by \$6 billion and talk at the same time about improving the lot of the poor. I am delighted that quite a number of people in the House of Representatives recently voted that way.

Senator PROXMIRE. But there is a very hard, tough, remaining inconsistency in the Phillips curve notion, the inconsistency in the level of unemployment and price stability.

Mr. PECHMAN. I favor any move to move the Phillips curve to the left, for example, by increasing job training.

Senator PROXMIRE. How about wage-price guidelines?

Mr. PECHMAN. Enforcing wage-price guideposts is a difficult problem under inflationary conditions. I am in favor of wage-price guideposts, but I do not expect that their shortrun effectiveness would be very great when total demand greatly exceeds potential supply.

Senator PROXMIRE. Mr. Rolph?

Mr. ROLPH. I agree pretty much with what Dr. Pechman says. On the tradeoff, it seems to me what is relevant here is that if we do not have a tax increase, we have to have a tighter monetary policy. If you want to clobber the housing industry again, I think that would be pretty serious. And I think that is the kind of choice you really have as far as the shortrun point of view is concerned.

Now, let me direct my attention to minimum wage laws. I am glad to agree with Professor Hildebrand about this. But I think the proper stance is to get rid of minimum wage laws. If you have a proper income redistribution plan, any excuse for minimum wage laws disappears. Then you no longer harm the people who are, for one reason or another, not particularly attractive to employers. This is what a minimum wage law does.

Senator PROXMIRE. What you are saying is, you would make the guaranteed income for the negative income tax sufficiently attractive so that a person just would not work if he did not get, say, \$1.60 an hour or \$1.90 an hour?

Mr. ROLPH. No; on the contrary. Consider the person who is worth only \$1 an hour. It is true that a minimum wage cuts him out. One dollar an hour is about \$2,000 a year. That, plus a redistribution plan, may put him in reasonably good shape. If you cut him out altogether, you put him in really rough circumstances. That is what I am talking about.

I do not know why the view has ever gotten around that for some reason or other, a certain commodity labor service should never have a price below a certain number. It does not make economic sense.

Senator PROXMIRE. You see, we have had a history of this. We have had quite an experience with minimum wage and we have quite convincing arguments that it has created a very good result. As you know, we have had a 25-cent minimum wage, a 40-cent minimum wage, a 75-

cent minimum, and so forth. The minimum wage has done several things. If nothing else, it has greatly speeded up the efficiency of the American economy, because it has meant that employers are forced to find a way of economizing on manpower and find a way of using machinery instead of manpower.

You might say this automation has put people out of work; I do not think it has. At the same time that it may have replaced people, it has also put more emphasis on developing skill, and that kind of thing.

But the minimum wage is somewhat irrelevant to this.

Mr. ROLPH. That is quite like the argument of David Hume that you should tax people more heavily so that they become more efficient. That is a parallel notion.

I am concerned about the fact that we think of 3.5 percent or thereabouts as a floor. We cannot get below it. I do not think you can get below it by inflating GNP. The only way you are going to get below it is by methods that bring these hard-core people into the employment picture, and minimum wages I regard as one block.

But more positively, I would go for plans that would subsidize employment for certain categories of people, instead of taxing employment as we now do under the social security system.

Senator PROXMIER. You gentlemen seemed to nod your head when Dr. Rolph said we cannot get much below 3.5 percent. I vehemently disagree with that. In 1953 we were down well below 3 percent; we had very little inflation. I think we would have to recognize that right now; this is not a demand-pull inflation. The fact is that we are operating at about 84-percent capacity—in fact, below what we were in 1964 when we cut taxes to get the economy moving more rapidly.

Furthermore, an even more convincing statistic, it seems to me, is the fact that people are working shorter hours in our plants now than they have been since 1962.

So there is not the kind of terrific demand on manpower resources that I think Congress has been deceived into thinking there is. What has happened is that we have had wage settlements way out of line with productivity increases, and the consequence from that is almost always inevitable: we have had an increase in prices.

There are many explanations for that, reasons for it, but it would seem to me that if you accept the position that we cannot get much below 3.5-percent unemployment, you are in a dilemma which seems politically insoluble.

I do not think you can possibly persuade the Congress to cut spending by \$6 billion and increase taxes, create that kind of situation, and then turn around and say, you are either going to adopt a program of creating a million more jobs in the public sector and a million more in the private sector for people who do not have jobs now, as the Kerner Commission says we must do, or do something which is more inflationary, pay people an income which is equivalent to a very simple job and they do not produce anything.

So they are consumers to a greater degree, but not producers, which is the most inflationary thing you can do.

Mr. PECHMAN. I want to make an amendment to one thing you said. We nodded to the statement that Professor Rolph made that inflation will not move unemployment much below 3.5 percent. There are things

that will move us below 3.5 percent that are not inflationary. Certainly, inflation alone does not improve skills of anybody, nor does it give us greater efficiency.

Senator PROXMIRE. I agree with that. I thought you were nodding your heads at the elements that are pushing prices up, to wit, whatever it takes in terms of political sacrifice, a real tough effort to try to hold wages down somewhat closer to productivity increases, recognizing that it will be a hard political fight, but fight hard for holding wages down to a 5-percent guideline.

Have you finished, Mr. Rolph?

Mr. ROLPH. I would like to speak to this matter you just mentioned, that a redistribution plan has no productivity. In the first place, there are a lot of poor people who are not getting enough to eat. It is very hard to work effectively if you do not have enough to eat. What is even more important quantitatively, and very important generally, is the productivity of children.

Senator PROXMIRE. I certainly did not mean to say it has no productivity; it certainly does. It has great social justice implications and is far better, I think, than the present welfare system. But I do say it does not have the productivity that a job has, does not have the dignity that a job has, or even the acceptability to the poor that a job has.

I have gone out here to Resurrection City and talked to the people out there. They want jobs. People come here from Milwaukee and Madison, came here for the Poor People's March. They want jobs.

Now, it is true that you make a very strong case that many people cannot work. Those people, because they have somebody in the family who can work, are excluded. That is a problem I think you have addressed yourself to very well. But I think the jobs are not only acceptable to Congress and acceptable to the generality of the American public, but the poor want jobs, too.

Mr. ROLPH. May I speak to that?

Senator PROXMIRE. Certainly.

Mr. ROLPH. As Mr. Watts here indicated, a lot of poor people are working full time. They are just not very productive. These people are, by and large, left out in the cold as far as all existing welfare programs are concerned. Their children are not being properly educated and a large part of the problem—not all of it, by any means—is that children are not given the proper amount of home care because the parents do not have enough money.

Now, it is extremely important that we do not continue this cycle of poverty. We have to bring these children out of these circumstances. Just to sit, for this country to sit, and do nothing about these millions of poor children seems to me to be incredible.

Senator PROXMIRE. I certainly agree.

Mr. Watts?

Mr. WATTS. First of all, on the question of what is the appropriate fiscal stance for this country to be taking, I perhaps differ from some of my colleagues here in suggesting that I would really like to see us move down toward 3 percent in the unemployment rate. I do not really have an independent judgment as to whether the budgetary actions that have been taken constitute overkill in this problem of eliminating

demand pressure in the economy. But I suspect I would probably agree with those who say we have cut too much.

Senator PROXMIRE. Let me interrupt at this point to say that I was impressed by Dr. Mangum's indication that the thing our society or economy has done is that we have required the poor to be our price stabilizers. We do that as we cool off the economy and increase unemployment, the people who suffer are the people at the margin of work, the minority groups and the other people who do not have the skills and are laid off and cannot find jobs.

Mr. WATTS. You have almost made my point. The only other addition I would make is that not only can the poor benefit by getting more and better jobs when the unemployment rate is low, however achieved—good job programs or inflation of the economy—they also tend to benefit from any resulting inflation. To the extent that we can separate those two effects in our data, we observe a more rapid rate of reduction in poverty, after allowing for the price level changes, during periods of rising prices, than we do at times when prices are more stable.

Some of this makes sense, I think, since they are buying a different market basket from the rest of us. Things they buy do not tend to rise as fast as the things the rest of us buy.

The other factor is that they do not tend to be net creditors in fixed dollar claims. To the extent that the change in the price level does have something to do with debts and the size of the burden of the debt, net debtors in terms of a fixed dollar claims tend to gain. So there are a couple of ways in which inflation is not adverse to the welfare of the poor.

I would certainly like to second your comment that when we are agonizing over this tradeoff along the Phillips curve, it is a little ungraceful for us to say, "I guess we just cannot have that much price increase; it is going to be hard on the poor folks, but we will have to put up with a little more unemployment."

We may feel sorry about that every night, but they are the ones who are actually going to bear the cost of maintaining our purchasing power.

Senator PROXMIRE. Do all of you agree with Dr. Pechman's observation, the notion that if your tax level is high enough, it is perfectly possible to have an adequate negative income tax or children's allowance, or whatnot, without inflation? In effect, what you have is virtually zero unemployment, because everybody who does not work will be getting a payment which is equivalent to at least a simple wage.

Many of them will not be producing. Can you, in your view, do this without inflation? Can you do this without a tax which is so oppressive that we would have serious difficulties with the economy; that is, destroy incentive and in various ways retard goals?

Do all of you agree with Dr. Pechman that this is perfectly possible?

Mr. WATTS. I do.

Mr. HILDEBRAND. Yes.

Mr. ROLPH. I not only agree with him, but if you have a credit income tax, in effect, you have a powerful tool. If you slip into inflation—

Senator PROXMIRE. Yes, that is very important. We have been concentrating entirely on what you do in inflationary situations. The

great benefit of this is that you would not have the kind of recessions or depressions that we have without it. It would be a very great benefit.

I am still very worried about the inflationary aspects of this kind of program and also, of course, the tax burden on working people who have modest incomes—not low or not very high.

Mr. PECHMAN. I do not want to minimize the problem of raising adequate taxes for such a program, because as you just pointed out, the burden of a generous negative income tax would be very large. We ought not to minimize the problem of raising tax rates to finance it.

Senator PROXMIRE. Yes. Not so much in terms of what it is going to cost, but in terms of what it is going to do to the stability of the economy.

Mr. PECHMAN. We know how to maintain stability, provided we use our knowledge.

Senator PROXMIRE. Of course, you gentlemen, in varying degrees and in various ways, are advocates of this and I am not surprised that you nod your heads and approve it. I think it would be helpful, however, if we could have some kind of a study, or if you know of some kind of a study if you could inform us about it, of the effect on economic stability of this kind of a program in which everybody in the economy, everybody has an adequate income, adequate at least in the sense that they are not hungry and have a shelter and enough for their health, and so forth.

You do not know of any study that has gone into this? In other words, you are saying that it is simply a matter of failure to pass adequate tax laws and raise enough revenue to do it and then the lack of will to do it has kept us from eliminating this scourge that has made the poor our price stabilizers in the past; it can be done instead by adequate taxing.

Mr. PECHMAN. I feel that very deeply, and I think it is correct.

Senator PROXMIRE. I know you feel it and I think everybody in the country would like the consequences you expect. We would like to see it worked out, if possible, so that it would be more than feeling. I think we could make a lot of practical advance if we could have it worked out, that we could assure people that this would not be an engine of inflation.

Mr. ROLPH. If I may react to that, if you move in the direction I have suggested, then the tax base would be much closer to personal income. The built-in flexibility of the tax base would be much higher than it presently is.

On the other hand, you are reducing the variance in incomes for all groups in society, not just the poor, by this device, so the stability properties are very great.

The built-in flexibility effects of this plan would be much greater than what you presently have. So from that point of view, you are better off, you do not have to do quite so much maneuvering as you now do.

Senator PROXMIRE. Dr. Pechman, you indicated that the welfare system is the same as the negative income tax except that it is not universal. You mean the negative income tax would have the same utilization of welfare workers and the welfare system in the sense of advising people with low incomes?

Mr. PECHMAN. No; I was talking about the type of payments made to individuals.

Senator PROXMIRE. What would happen to the constructive aspects of the welfare system, the welfare workers who are now working to talk to people and help people? I know there are many destructive and undignified aspects of it, but how about the favorable aspects? Could you preserve those?

Mr. PECHMAN. I would hope the enactment of a negative income tax, which is based entirely upon income and family characteristics, would permit simplification of administration and reduce the administrative cost of handling welfare payments. To the extent that there are savings of this sort, I hope that these savings would not go to reducing the size of the staffs of the social workers and other people who are helping to guide and counsel poor people.

If there are savings, I think that we need more help to the poor to get jobs, to find out how they can manage their lives better, to improve their lot in a noneconomic sense.

Senator PROXMIRE. How would you do that? Now we have it tied to their welfare payments.

Mr. PECHMAN. No. I would divorce them from welfare payments.

Senator PROXMIRE. How would you do it? How would you have people probe into other people's lives this way and be able to justify it?

Mr. PECHMAN. I would divorce the administration of negative income-tax payments from the social welfare work.

Senator PROXMIRE. Then how do you justify the work of the social worker? How do you use him in a big way?

Mr. PECHMAN. I would justify it on the basis that the social worker would be providing an important service to the poor. My guess is that he would be more effective in doing that kind of a job if you took away from him the heavy burden of investigation that he now has.

Now, I do not know whether you can do that kind of a job more efficiently with fewer or a larger number of social workers, I am not experienced in this field. My guess is that we need just as many social workers as we have today, because there are an awful lot of poor who need an awful lot of help and counsel.

Senator PROXMIRE. Dr. Hildebrand?

Mr. HILDEBRAND. I am still completely unconvinced that any feasible form of negative income tax is going to get rid of the welfare system. It may permit us to reconstruct it, but we are still going to have it, and we are still going to have social workers, and people who are familiar with the situation will tell you that the caseload of these social workers around the country are fantastically high. Because they are made into auditors and detectives and policemen by the nature of the niggardly system that we have, they cannot do much in the way of helpful work with people who can use help, and often want it—not all of them do. So you would free them to do the professional job that social workers like to say they want to do, but really cannot do in the nature of the present system.

Mr. WATTS. I feel the same way. If one could divorce this large financial administration problem from the provision of services, one could also, I think, move a good deal in the direction of making a

person's decision to avail himself of these services a more voluntary one. In a voluntary setting the person receiving the help is likely to be much more receptive, and the provider of the services likely to approach the transaction in a more suitable spirit than one in which, either 5 minutes before or 5 minutes later, he is going to have to be playing policeman with this very same person.

Senator PROXMIRE. Dr. Pechman, you raised another very tough, practical, political problem that I asked Nelson McClung, who has been loaned to us by the Treasury Department, about. He said a few hundred persons last year received incomes of over a million dollars, and had little or no taxable income, so little that they paid no taxes at all.

You said we would have to probably do something about our positive income tax evasion, or at least avoidance. This is a practical problem. These are powerful people. They have succeeded for years in persuading Congress from doing what we should be doing.

I suspect we do not want to invite any more opposition to the negative income tax than we have to. So how would you handle this in a way that would define income and yet keep some shocking, scandalous development of the kind that would destroy faith in the whole thing from happening, like having some fellow with a huge amount of income get a payment under this?

Mr. PECHMAN. My proposal for a negative income tax is a halfway house to Earl Rolph's global, comprehensive, reform. If I could get Earl Rolph's plan, I would accept it. I do not want to fight two battles at the same time, though I have fought both of them on separate occasions.

Senator PROXMIRE. I know you did, and you are one of the most eminent, certainly.

Mr. PECHMAN. Thank you.

With respect to the definition of income under the negative income tax, there is no technical reason why we could not define income on a comprehensive basis for recipients of the basic allowance or negative income tax payments that we are talking about.

Now, as soon as we enact a law of this sort, you have two codes, so to speak. You would have the Internal Revenue Code that applies to the rich and you would have a negative income tax code that applies to the poor.

It would be immediately obvious that the poor are being discriminated against. Their income is defined comprehensively, and the income of the rich is defined in a much less comprehensive way. I would hope that this would impel the Congress to move in the direction of a comprehensive income definition for the positive income tax.

Senator PROXMIRE. What this would be, what it would do would be, develop all kinds of opponents of the negative income tax right away. These people are not stupid; they are very bright, very sharp. They would find a good reason to oppose this. They would make this the reason.

Mr. PECHMAN. This is an objection to negative income tax that I have yet to meet.

Senator PROXMIRE. They have told you about it. I am sure they are feeling it.

Mr. PECHMAN. It may be a problem. In this case, let us disabuse them of their fears. Let us explain that what we are doing is having a double standard, a comprehensive income definition for the poor.

Representative GRIFFITHS. Gentlemen, I apologize for not having been here previously. Did any of you suggest that to enact a negative income tax, we repeal the minimum wage?

Mr. HILDEBRAND. Yes.

Representative GRIFFITHS. That might be a very enticing item to some, repeal of the minimum wage.

Let me ask you also: In your contemplation of the negative income tax, are you going to pay the same amount to every person, no matter where he is located? That is, if you give a thousand dollars back per person, you give a thousand dollars back in Mississippi and a thousand dollars in New York? Is that right?

Mr. HILDEBRAND. I think the answer is not simple. But as a Federal arrangement, under the Federal income tax, it will be uniform. There is the problem of the single persons who are getting negative income tax, the unrelated family person as against the multiple family group. Plans vary on how they deal with that individual as a separate unit, as against a group of people in a family.

Mr. PECHMAN. I just want to add to that, that my own view on that question, as I explained it in my statement, is that we ought not to confuse the principles of negative income taxation even if we cannot come to agreement about some of the details. That is a detail, but a very important one.

My answer to that question would be that the negative income tax would be a relatively modest one—in other words, would not provide adequate incomes for all the poor, at least up to the threshold, the poverty threshold.

I would encourage the States to maintain supplementary welfare systems to add to the basic negative income tax payment by the Federal Government so that they can vary the amounts according to cost-of-living differentials around the country.

Now, with respect to the argument that you should not have a basic amount throughout the country, there are pros and cons on that. Under the social security system, for example, we have one minimum benefit. We do not vary it.

My own guess is that, for a Federal system, it is easier not to get involved in the cost-of-living differentials but to let the individual States take care of that.

This is a matter of judgment, and it is hard to know how to do it.

Representative GRIFFITHS. The real truth is, if it were the same amount, you might have some influence on stopping the inflow of the poor into cities. \$1,000 is a lot more money in Mississippi than it is in the heart of New York.

Mr. PECHMAN. That is right.

Mr. ROLPH. Right.

Representative GRIFFITHS. Welfare people who have testified do not feel that this is necessarily true. Some people come to New York just to see New York. But on the other hand, I think that it would have some tendency to stop the inflow of people into the cities.

Mr. HILDEBRAND. There is a 7-to-1 differential in AFDC payments for a child in New York State versus Mississippi—Now, I suspect that it induces some flow of people.

Representative GRIFFITHS. Now, I would like to ask, and I again apologize, what do you estimate the cost of a negative income tax, child allowance, or whatever; what do you think the total cost would be?

Mr. PECHMAN. You would have to stipulate your plan.

Representative GRIFFITHS. You stipulate your plan and tell me how much.

Senator PROXMIER. Dr. Hildebrand had the child allowance. Why not start with that?

Mr. HILDEBRAND. It is as Dr. Pechman says, how you stipulate a plan and what effect you get out of producing such a plan, the number of people who withdraw from the labor market, and so on. You could have a negative income tax of a modest type that would run between \$4 and \$11 billion, as a cost estimate, depending upon its work incentive effects. If instead, the plan was a child allowance, it would depend upon whether you make it universal, or for all children under 18, or whether you limit it to the poor.

It also depends on the rate of payment. If you are going to give the child only \$100 a year or \$120, as in Canada, you can do it for the poor alone and do it for, say, around \$1.5 billion.

If you extend it to all, you might have a net cost of around \$7 billion for a \$100-per-child allowance. If you want to make it higher, the cost goes up.

Mr. PECHMAN. I have two schedules in my statement, one I call the L schedule and the other the H schedule. The H schedule, or the high schedule, will be much more adequate. We have estimated that schedule to cost net—that is, after taking into account the reductions in public assistance payments, and other offsetting factors, particularly if you included rent in the tax base—as much as \$20 billion per year.

This, of course, would not close the entire property gap, but would go a long way toward that. It is very expensive to do an adequate job.

Mr. HILDEBRAND. To put it another way, if you want to get rid of AFDC as the typical crucial problem in the categories, you have to pay equivalent to the highest State under one of these plans. That means \$2,700 a year for a family group of four. That, in turn, gives you high costs.

That is what you are referring to?

Mr. PECHMAN. Yes.

Mr. ROLPH. Another way of looking at it is that in a systematic redistribution, you are going to raise the percentage that the lowest fifth gets, and also the lowest next, as you do now, as a matter of fact, as a consequence of the Federal income tax.

Only under a credit tax plan of the sort I have been propagandizing for, you would do it more so. But if you want to double, let us say, the share of the lowest fifth, and that is where the poverty people are concentrated, keeping in mind that not everyone who gets a low income in any one year is poor, by any means, you would have to knock off 4 or 5 points from the percentage of the highest quintile.

Well, that is the sort of tradeoff that does affect the other groups in between.

The other point concerns how this hurts the rich. If you adopt a flat-rate system, considering what we presently have, high marginal

rates, and offer this package to people who are wealthy—I have not taken a poll—but I think they would buy it. They would love it.

Representative GRIFFITHS. Every one of them.

Mr. ROLPH. They love it even with the loopholes closed. Most of these people are pretty tired of maneuvering around. They may love sitting in their tax shelters, but they would be happier just being plain, honest citizens and paying taxes like other people—at least in my opinion.

But the plan I have proposed should be bought by the rich. They should be all for it, as well as the poor. It is the groups in between that you might have some trouble with.

Representative GRIFFITHS. If you do not pay everyone, the person who is going to object the most is the person who earns the same amount of money or a little more than the person who draws the money from the Government.

I had a letter one day from 28 women who scrubbed floors for a living. They were in their late fifties and sixties. They said, “Would you please explain to us why we should scrub floors and pay young women to bear illegitimate children?”

Now, I cannot answer that. You may be able to.

Mr. WATTS. I think I cannot, either, and that is pretty much why I have been led to favor the negative-tax kind of approach. It would set up a system within which those who work end up better off than those who do not, with the size of their differential directly related to the size of their earnings.

Representative GRIFFITHS. That would be somewhat like the system now; yes.

Mr. WATTS. It is very hard to explain, this phenomenon of those who do not purchase any product receiving just as much from the whole system as those who do. But that is a liability of our current system, not of a negative tax scheme.

Also, I would like to say as a footnote that costs, however they are accounted in a redistribution scheme, are really measured in a different coin than, say, costs of a war effort. In the latter case, one is really removing expendable income, goods, services, products, and so on—from the private household sector and using it for something else. That total amount of output just is not available for consumption purposes.

In a redistribution scheme, however you account the costs, we are taking away from some part of the general public and giving it to some other part of the general public. But at least that total amount of expendable, consumable resources remains more or less fixed, except for that amount of resources used up in carrying out the redistribution.

There are different budgets and different systems of accounting, and I realize in making budget decisions at the congressional level, one does have to trade among programs on a dollar-for-dollar basis. But in the case of distribution programs, there is a difference.

Representative GRIFFITHS. The New York Welfare Department testified that it has 35,000 employees and that 95 percent of their time is spent figuring out under what category a client comes and whether or not he is cheating the system. I asked if they thought that they would be able to get rid of anybody in case we passed a negative income tax, and they were not willing to let anyone go.

I think it would help the negative income tax if it were possible that some of this group were going to be disposed of.

Mr. HILDEBRAND. We have already commented on that briefly, but I would like to add a point. One of the real difficulties with the present public assistance system is precisely that each caseworker has to do a detailed administrative job on each case. This is carrying political administration into too great detail.

Any of these allowance or transfer plans that can be made Federal and uniform and with general rules allows us to release that burden of detection and administration and decisionmaking. This is a real gain. These people can then do the job for which social workers are really trained and which they are intended to do, which is not this kind of thing.

Mr. FECHMAN. Perhaps I have a gimmick that might help you on this problem. I have heard that, say, 90 or 95 percent of the funds that are allocated for administration are really used for investigation and not for social work. Perhaps what we ought to do is put a line in the budget for "Administrative expenses, total"—whatever the amount is—100 percent. Then "Investigation, 90 percent"; and, "Social welfare work, 10 percent."

The question is, Can you reduce that 100 percent, including the 90? The answer is "Yes." I think we can do the job much more efficiently and it will release resources.

The unfair comparison that is being made is between the 100 percent, which includes something else besides social welfare work, and the cost of social welfare work under a negative income tax.

Mr. ROLPH. May I just illustrate? Take a person who, let us say, has a credit of \$500 and a tax rate of 25 percent. His earnings are \$2,000 per year. There is a family of four. They obtain a credit of \$2,000 and pay a tax of \$500, so their disposable income would jump to \$3,500.

Now, that would take people like that—not in every case, but in a great number of cases—out of the category of public assistance. So I do not know quite what these people were saying. In New York City, Mr. Ginsberg says that for every person on the rolls, there is at least one other who is entitled to be on but is too proud to be on. Those people would be taken care of, and they ought to be taken care of, and now they get nothing.

Representative GRIFFITHS. I would like to ask you if one of you has said you would give up the minimum wage; have you also agreed that any work paid for by any employer should be tax deductible?

A housewife paying for an employee within her home, or a babysitter. Do you think it should be tax deductible? Why only in business? They are employed, are they not? This would be one way of checking with people on whether people are employed or not.

Mr. ROLPH. My wife works and we employ lots of help. That is a form of consumption. To allow me to deduct that would be equivalent to making my taxes much lower than they presently are, and I do not see any reason why I should pay lower taxes on this account. We can go out to dinner more often or hire more household help. It is a tradeoff that we have. That is the way it is.

I think it would be a very bad idea.

Representative GRIFFITHS. But you would have some method of keeping track of who was working.

Mr. WATTS. Would it really add that much to the method we now have? Social security, if it worked ideally, would accomplish the same thing. Would we not have the same enforcement problem?

Senator PROXMIRE. I would like to ask, Dr. Rolph: You made an interesting proposal that no matter how large an income people should pay the same tax rate.

Mr. ROLPH. Tax rate; yes.

Senator PROXMIRE. Of course, you had a limited paper. You could not define that as much as you would like to. Is this like Senator Robert Kennedy's proposal that everybody pay at least a 20-percent tax, regardless of what oil depletion advantages they had or what income they might have, municipal or bonds, and so forth?

Mr. ROLPH. It is like it, but say the rate is 25 percent. It may have to be 30 percent. Then the gross tax liability of every single person would be 25 percent of his income.

Senator PROXMIRE. You would not change, however, the progressive element of the tax?

Mr. ROLPH. No. You get the progressive element in the tax system in this scheme by the flat sum credits.

Senator PROXMIRE. Then you would not have the progressive rates?

Mr. ROLPH. No, no. A proportional rate right across the board. It is a proportional income tax and a system of flat sum credits.

Senator PROXMIRE. People with a lot of income would support that sort of position. I am not sure it would be more equitable.

Mr. ROLPH. It would change the income distribution quite radically by this device. What you mean by progressive, or ought to mean, is reduction in income inequality.

Senator PROXMIRE. I have been fighting for years to try to reduce the oil depletion allowance. I have introduced amendment after amendment and I finally got 31 votes for it, which is more than anybody else has gotten before that. But this is a hard thing to get done. The people in the oil industry feel very sincerely that this is a necessary incentive to encourage oil exploration.

We just wrote into the law an investment credit which provides for a differential kind of opportunity for people to reduce their taxes. Now, your proposal would eliminate all of these devices which have a lot of power and push behind them. I am just afraid that once you get a proportional tax, if they accept that, then they will come right back in with some of these provisions, like oil depletion, and all you would do is eliminate the progressiveness we now do have.

Mr. ROLPH. I am not optimistic that you can write the kind of plan I have in mind in the short run. But if you can get in a critical provision, construction realization, then you can tax these people at some point in time. Their gains have to show up someplace.

If they cannot go to their death without realizing this, then they are going to be taxed at some time. You may catch it at the right time, but you will catch it. That is the critical provision. But that is what you want to hammer on.

Mr. PECHMAN. May I add to that. Professor Rolph chose his 30 percent very carefully—you do not have to worry about tax reduction under his scheme. As you may remember, we presented testimony to

you and other committees before that the average effective rate in the top brackets, if you include all income, never exceeds 30 percent.

Senator PROXMIRE. Not in the top brackets, but in some of the lower brackets, it does.

Mr. PECHMAN. No. There is no bracket under the present law, if you include all income.

Senator PROXMIRE. Joe, I hope you will make out my income tax next year.

Mr. PECHMAN. No; no. I referred to the average effective rate. That is the point. So that, on the average, Professor Rolph actually increases tax payments of the people above the credit very substantially. And, of course, he redistributes it to the poor. You cannot regard his flat rate as a nonprogressive device. It is a highly progressive device, one which, if we could ever approach it, would be a great improvement over the present system.

Senator PROXMIRE. One other question for Dr. Rolph: I quote you: "If a credit income tax is installed with a reasonably generous credit, the Federal Establishment other than the Defense Department could be substantially curtailed."

Mr. ROLPH. Right.

Senator PROXMIRE. Happy day. But I must say, when you look at other expenses than national defense, it is awfully hard to make a case that you are going to cut. I have the "Budget in Brief" before me, and there are seven or eight items. Would this reduce international affairs, foreign aid? Would it reduce space research, agriculture, and agricultural research? Some, perhaps.

National resources, commerce and transportation, housing and community development, education, general government, interest?

I can see that it might have some effect on categorical grants for health, labor and welfare, possibly have some effect on retarding veterans' benefits, although I doubt that.

I doubt that it would have much effect on holding down other spending. If it would, I think it would be a very strong argument.

Mr. ROLPH. Let us take something like the Army Engineers, who engage in these various water projects, and what-have-you. Whenever these are looked at, almost 100 percent in my experience are found to be overscaled by a big factor. A lot of them are not justified at all. But with income distribution coming into the picture—they need a dam up in the Eel River because the people are poor—even if they do not want it, the claim is made that they are going to be better off.

If you could get rid of this distribution argument as being irrelevant in lots of these projects, you are on much firmer ground to say "No." Maybe you will not say "No."

Senator PROXMIRE. I am afraid I would not.

Mr. ROLPH. Take the farm program. That is very expensive. What is the number—\$6 billion? Well, let us cut that back.

Senator PROXMIRE. Cut it back providing that the small farmers would be the only ones who would benefit?

Mr. ROLPH. Studies of that have shown many times that people who benefit are the large farmers.

Senator PROXMIRE. They would not benefit from the negative income tax.

Mr. ROLPH. How are they going to justify their position?

Senator PROXMIRE. They would not.

Mr. ROLPH. I think if you went through the whole program and asked, "Is this program justified on the basis of income distribution?"

Representative GRIFFITHS. Why would not veterans' benefits be cut back?

Mr. ROLPH. It would be a question of how you are going to coordinate it.

Senator PROXMIRE. I do not want to be in the position of being one of those who has to lead the fight for cutting veterans' benefits, under any circumstances.

Representative GRIFFITHS. It would be simply incidental. You would be taxing back more of the money, would you not? You would not have a problem with that, would you?

Senator PROXMIRE. Maybe not, but I think the veterans might consider that the benefits they are getting are something they have earned by service in the Armed Forces and are for something they have been deprived of, and something they should get under any circumstances.

Mr. ROLPH. If you want to buy this type of plan, you can always put on a supplementary credit to any class you want to define—veterans, people who are blind, disabled, whatever.

Mr. WATTS. There is another candidate that you did not mention for possible reduction. This is in the area of housing. It seems to me that if people are provided incomes with which they can reasonably afford quality housing, and if we realistically face what the cost of quality housing is, I have a fair amount of confidence in the private sector's ability to meet the demand for this housing.

Senator PROXMIRE. There is no question in terms of the future thrust of our housing. But our housing in the past has been so limited in this area. Two and a half years ago, we passed a rent supplement program. As of the end of last year, 400 families in the whole United States had used rent supplements.

These things are so slow that as of the budget before us now, the savings here would not be very great. Prospectively, it might be very helpful, because I think we are moving into an antipoverty area and into a more constructive housing area than we have in the past.

I think you might make some case for Mr. Rolph's position in 1975, but not in 1968.

Let me ask Mr. Watts—I think none of you gentlemen put as much emphasis as I would like to see, and as I think most Members of Congress and the public would like to see, on jobs.

There is no reason why there should be a conflict between these two things. In fact, if the Federal Government acted as residual employer, or employer of last resort, you would solve a lot of the problem. What is left would be politically practical and possible and capable of being handled. Very few able-bodied people do not want to work, in my view.

Give them the proper amount of training, maybe a little motivation, and so on, and I have not, in my experience, found anybody who really did not want to work. I think if people could rely more on jobs, the Government doing all it can to find and create jobs, this might help you get what your objective is much more effectively and at a far lower cost.

Mr. WATTS. Let me say that I also feel there is no necessary conflict between those two. I think in terms of many points of view, simply

the fact that people would prefer to be supported through their own productive efforts.

Senator PROXMIRE. Each job—if a person is working, instead of not working and receiving a benefit from the negative income tax—his income tax would be less inflationary. His whole operation would be less inflationary, because he would be producing something. He is increasing a supply. The economic stability standpoint would be far better.

Mr. WATTS. I think that it is advantageous. It seems to me that the negative income tax, which does provide an incentive, is particularly well adapted to removing any conflict there may be between jobs and cash transfers. We should move as fast as possible to provide jobs by any device we can.

There is, however, an urgency about providing this income now—because I think that does affect people's ability to produce. It is going to affect the ability of their children to mature with strength, health, and fully developed human capital so that they can be more productive in the future.

We should not really wait until we have done all we can with jobs, because there is never any limit to that, before starting a comprehensive income guarantee. Until the doctor comes, let us provide minimum income but go ahead with full force to provide as many jobs as we can.

Senator PROXMIRE. You seem to put more emphasis than the other gentleman did on this being only part of the problem. Maybe a relatively modest part of the problem as compared with training, education as compared with other things that would help the poor even more, perhaps.

Mr. WATTS. I think ultimately it should be a small part of the total social programs. But in the meantime, I think it would probably be a fairly large one.

Mr. HILDEBRAND. I sought to make that very point, that poverty was a complex problem that took a lot of approaches, not just one uniform solution that is going to deal with it.

I did not develop the notion of jobs. I categorized it as one way to attack the problem. I find it attractive also and I would like merely to mention that job creation could be undertaken at least in two major ways. One would be for the Government to develop direct methods of incentive payment to employers to hire children of the poor and train them.

There are various ways this can be done. Another is to consider this "last resort" approach—I do not like the term, but it has been demonstrated that there are all kinds of things in the field of pollution, for example, where labor-intensive projects by Government could be developed at relatively low cost, or large mileage-per-dollar in terms of jobs created.

These things are well worthy of study, because right away you take the older children of the poor and the younger out of the problem by this method.

It can also even reach certain categories where the head of the family is dependent upon welfare because he or she cannot work.

Senator PROXMIRE. As a matter of technical fact, Dr. Watts, do you know for the working poor, is it cheaper to bring the total income up

to the poverty line through transfers or through training to increase their earning capacity?

Mr. WATTS. I do not think we have strong enough figures on the real payoff of training to say this. It depends on the labor market. If we are going into a phase where there is 4.5 percent unemployment, I do not think training is going to have any effect at all. It just is not going to bring enough people in.

Senator PROXMIRE. That is a good counteraction that all of us feel, that training does pay off richly when the jobs are there and you are not acting with a fiscal policy to destroy jobs. As Secretary Wirtz testified, in saved welfare costs alone, training programs pay for themselves in 2 years, and in additional taxes that are derived by the Federal Government, they pay for themselves in 4 years.

I would like to ask you for the poor who are stranded in isolated rural areas, what is the comparative cost of providing them with poverty-line income, where they reside, and giving them training on the one hand and, on the other, a moving allowance so that they can seek employment elsewhere?

Do you have anything on that?

Mr. WATTS. Well, the provision of a minimum income can certainly be used on a voluntary basis, to finance a move to a more favorable environment if they can see one. But it may also provide enough sustenance so that they can stay where they are.

One area in this whole issue that has not been fully explored is the development potential of a minimum income provided to people in isolated and very poor areas. This would produce an influx of purchasing power equivalent in many respects to the development of an export industry.

Senator PROXMIRE. You seem to have a private project on that. Is the New Jersey operation a guaranteed annual income experiment?

Mr. WATTS. It is a negative income tax type of experiment.

Senator PROXMIRE. There, I presume, you could perhaps see some results, although you are thinking of an isolated community in a rural area, perhaps?

Mr. WATTS. In this development sense, I am thinking in terms of a separate community.

Senator PROXMIRE. Where you develop service, training jobs, and so forth?

Mr. WATTS. The total impact on New Jersey, or a particular city in New Jersey, is going to be pretty small from the experiment that affects relatively few scattered families. If one experimented, perhaps, with a small, isolated, and fairly poor community, one would expect to find aggregate effects on the economy of that particular community.

Senator PROXMIRE. Let me ask you if the Indians in this country would be better off with this?

We were very impressed with the fact that we have 380,000 Indians on reservations. We spend \$250 million on Indian programs, or about \$600 per Indian family, and they have an income of \$2,000, as I recall, per family. There is a bureaucracy of 23,500 persons working in the Bureau of Indian Affairs and allied areas.

Now, it would seem to me that it is almost transparent that this is wasteful and wrong and that you could substantially economize, as

well as very greatly increase the income of these families, by following some practice of this kind you are proposing. Is that right?

Mr. WATTS. It would be right, except for the question of how many of the kinds of activities of the Bureau of Indian Affairs are adding real income to the Indians. My guess is that only a small part of these activities lessen the Indians need for income. But, to the extent that they do, something should be added to the \$2,000.

Nevertheless, my guess is that they would be better off with payments that approach the poverty levels for each family and gives them more freedom to resolve their own problems, and add to that by whatever they could earn. It seems to me that they could be much better off with more cash and less high-priced paternalism.

Representative GRIFFITHS. It is an ideal isolated situation, where you could just close the Bureau of Indian Affairs and give the money to the Indians, and see what happens.

Senator PROXMIRE, I would like to ask Dr. Pechman; I think either you or Mr. Rolph were talking about Vietnam. I should say we secured a speech that the former Budget Director, Charles Shultze—a colleague of yours now at Brookings—gave, in which he said that this is just about as illusory a benefit as you can get. Even if tomorrow, in Paris, they should agree on a cease-fire, the saving from reducing the activities of the Vietnam war is far away; it is going to take a long time to get that \$30 billion a year—several years.

In other words, this is something that we cannot expect next year, or the year after, or for sometime, to have as a dividend we can use elsewhere.

Mr. PECHMAN. I regret that Charles Shultze's speech on that point has been misinterpreted.

Senator PROXMIRE. As I say, I got a copy of the speech and I went over it pretty carefully.

Mr. PECHMAN. I think he tried to warn us that, unless we watch out, we will be spending the money we allocate now to the Vietnam war on other military programs.

Senator PROXMIRE. I got from the speech that we are going to have to spend quite a bit on continuing military commitments.

Mr. PECHMAN. I did not interpret it that way, and I asked him if he honestly thinks that, and he said "No." You must distinguish between Mr. Schultze's forecast of the probable level of military expenditures and a statement of his policy preferences.

I should think that the Congress would be very alert, and I hope the next administration will be very alert, to this problem. We ought to impose serious controls and restraints on the industrial-military complex in this country.

The hard problem, the hard question, is whether the extra \$10 or \$20 billion going to increase the national security of the Nation? While the military can probably tell you that they need this particular kind of system for a particular purpose, whether it indeed adds to our national security depends on other considerations.

Senator PROXMIRE. Well, I disagree with the antiballistic missile system. To me, it is just another long step in our arms race escalation process. But a lot of people disagree with me. My political experience in Washington has convinced me that Defense tends to get what it

wants, that it is the hardest thing to knock down on the floor of the House or the Senate, and we are going to stay close to a \$75 billion Defense budget, for one reason or another.

One reason, of course, will be that we have to replenish inventories in various areas.

Mr. PECHMAN. That is very bad news, indeed, and I hope you resist it, Senator.

Let me say this: When the Vietnam war was escalated, we were at a level of about \$50 billion a year. In fiscal year 1969, according to present estimates, we are going to be at a level of \$82.5 billion. Even if you make allowances for price and pay increases, \$60 billion is enough to do what we were doing before the Vietnam war and to add a little bit to restore some of the stockpiles.

Now, with respect to important new programs, where you invest \$5, \$10 billion per year, you have to ask yourself whether you are adding to national security. My own feeling is that there are other factors than the military that are much more important in our foreign policy.

Indeed, unless the Congress follows your prescription, unless it economizes in this area, we are not going to be able to achieve our national objectives and we will be worse off, I agree.

I hope that Mr. Shultze is given an opportunity to explain his position.

Senator PROXMIRE. We have, as a matter of fact—I think it would be a good idea, that is, if the chairman permits, to make his speech part of the record.

Representative GRIFFITHS (chairman of the subcommittee). Yes; I agree.

Senator PROXMIRE. It will be included in the record at this point. (The document above referred to, follows:)

COMMENCEMENT ADDRESS DELIVERED BY CHARLES L. SCHULTZE, SENIOR FELLOW, THE BROOKINGS INSTITUTION, WASHINGTON, D.C., AT THE COLLEGE OF ST. THOMAS, MAY 25, 1968.

Shortly after Monsignor Murphy asked me to address the commencement exercises at St. Thomas, I began to ponder the problem of commencement exercises in general. Following the example of Defense Secretary Robert McNamara, many of us in the Federal Government became increasingly devoted to the proposition that even the most difficult problems will yield to scientific analyses. Why not, therefore, conduct a systematic analysis of commencement speeches, as a background for preparing my own!

I first attempted to secure a governmental research grant to conduct this path-breaking study. Unfortunately the most appropriate source of funds—the National Institutes of Mental Health—turned down my application for a grant. Nevertheless, I plunged ahead on my own. And I can now announce to this group, some of my preliminary findings—which are, to say the least, most revealing.

In the first place there are 2,200 institutions of higher learning in the United States, and the number increases each year. Taking account of the fact that many colleges graduate more than one class each year, I estimate that in the past decade alone, there have been some 30,000 commencement addresses delivered. In turn, this implies that the past decade's commencements have been the occasion of some 150 million words of advice, counsel, and inspiration passed on from the older generation to the younger. Put on one tape, and played continuously eight hours a day, it would take ten years simply to listen to those words of advice, much less to follow them! This vast outpouring of graduation sentiments staggers the imagination and overwhelms the intellect.

But quantity of advice is not all. These words of wisdom are not costless. My researchers have yielded the fact that some 25 million graduates, parents, relatives, and assorted girl friends and boy friends have sat through these com-

mencement addresses. Valuing their time conservatively at the minimum wage level, I estimate that these addresses in the past ten years have cost the American economy some \$40 million or approximately 16 cents per word of advice! And given the typical ratio of words to sound ideas in the typical speech this is very expensive counseling indeed. Further costs of 30 million missed martinis and 22 million unseen TV shows have to be added in to complete the reckoning.

In the face of these facts, I began to despair. What could I possibly add to this overflowing superabundance of wisdom? I then admonished myself to return from the past. Forget the past decade and ask, "What does the college graduate of *today* wish to hear from his elders?" But it took only a few hours perusal of the headlines from Columbia and Berkeley to block this avenue of escape. The obvious answer to that question is "very damn little."

Yet despite these negative results from my research efforts, I determined to follow the tested approach of the true scholar: Ignore the results of your research, and plunge ahead to a set of conclusions. And that is what I shall be forced to do.

I start with what I take to be a self-evident fact. American society is being driven by a set of internal tensions, the intensity of which we have not confronted previously in this century. The cleavages are growing steadily wider between young and old, poor and well-to-do, black and white, between advocates of social change and guardians of social order.

The unparalleled growth of the American economy in the past seven years has paradoxically widened, not narrowed that conflict. During those seven years alone we have added \$250 billion or over 40 percent to our national output, measured in dollars of constant purchasing power. The yearly income of the average American family has risen to \$7,400 a year and 14½ million families now make over \$10,000. Yet another 11 million families, containing 30 million people, still live in the direst poverty. We have created 10 million new jobs in our labor force, yet the unemployment rate for young Negroes exceeds 16 percent, and in the heart of some of our major cities one-third of the labor force is unemployed or underemployed. Our consumption of tobacco, liquor, and cosmetics has reached all time highs—yet, despite our wealth we rank 15th among the nations of the world in the infant mortality rate—and most of our high rates occur in the poorest 10 percent of the Nation's counties. The rate for whites is 22 deaths per 100,000—for Negroes almost double, 41 per 100,000.

Our per capita consumption of food is the highest in the world, yet every year thousands of children in some parts of our Nation are permanently stunted physically and mentally by malnutrition. Sales of new automobiles reach the staggering sum of 9 million per year, and we spend \$8½ billion a year on highways over which to drive them. But we also pump about 350 billion pounds of poisonous wastes into the atmosphere every year, and the poisoning grows by leaps and bounds. We spend over \$18 billion a year on higher education, double what we spent five short years ago. Yet, rightly or wrongly, a growing proportion of our college students are becoming disenchanted with their universities, their faculty, and their courses. We are becoming increasingly an urban Nation. History will judge us as it judges all civilized people, by the kind of cities we build and maintain. Yet at a time of unparalleled wealth and sharply rising national income, our largest cities are being slowly strangled to death by traffic congestion, crime in the streets, substandard education in the ghetto, and the flight of high income tax payers to suburbia.

I recite this familiar litany simply to emphasize that our growing social tensions—however exaggerated by demagogues and played upon by irresponsible revolutionaries—do have a solid basis in fact. That these tensions have accelerated during a period of literally unprecedented economic growth and prosperity for most of society simply underlines an important historical truth.

Pressure for social change is strongest precisely when there is some hope for improvement. When all are poor then none may hope. But when affluence grows by leaps and bounds, when the resources of a rich society are swelling each year, and when the miracle of modern communications constantly displays the Nation's wealth in every corner of the land, then it takes very little to loose expectations which can never be bottled up again.

Compared with other nations, the web of laws, institutions and relationships which binds American society together has always been relatively elastic. In some places that social web has indeed been quite rigid—it has stretched only under terrific pressure from the weight of decades of injustice which should never have been allowed to accumulate so long without relief. Yet, for the most part it

has been woven of flexible material which stretches and bends and re-forms, accommodating social change while still maintaining the integrity of a working society. Today, however, the social web is stretched in many places to the breaking point. The sounds we hear from the streets of Watts, and Detroit, and Washington, D.C., and from the campuses of Columbia and Berkeley and their counterparts across the Nation are the strands of that web snapping under tensions they cannot stand.

I do not pretend to be able to sort out the rights and wrongs—to be able to say how much the sharp increase in tensions arises from unreasonable rigidity in our social institutions and how much from unreasonable pressure for instantaneous social change. Nor have I a list of program measures, which—if we could only get them adopted by President and Congress, Governors and mayors—would guarantee the elimination of these social tensions and the causes which give them rise.

I do have a more modest and certainly a more prosaic objective. There are certain commonly accepted views about the solution to the Nation's social problems which, if allowed to persist, can be misleading if not downright dangerous. The most prevalent of these combines two widely held premises into an equally widely held conclusion.

The first premise is that the cessation of hostilities in Vietnam will release some \$30 billion or so in Federal budgetary resources for use in domestic public programs. The second premise is that all we basically need to solve the social problems now facing the Nation is a fistful of money to expand existing public social programs or initiate new ones along the lines of the old. Put the two premises together, and one is forced to conclude that once we end the Vietnam war, we will be quickly on our way to the solution of the Nation's social ills.

The first premise is, I believe, false. The second is a half-truth. Cessation of hostilities in Vietnam will most likely *not* release substantial funds for other purposes. And, large injections of budgetary funds are not alone sufficient to meet the problems which confront us. Now I want to be quite clear about what I am saying. We cannot attack poverty, the decay of the inner city, and the pollution of the environment without committing to this effort large expenditures of public funds. We can't buy solutions on the cheap. But at the same time effective solutions will not be achieved simply by smothering the problems in money. We will have to face up to major changes in governmental organization, in social institutions, and in private attitudes. To put it yet another way, a large increase in budgetary funds is a necessary, but far from a sufficient, condition to reduce the tensions which threaten the social fabric.

Let me start by examining the assumption that an end to the Vietnam war would make available a huge kitty of resources for use in public programs of education, health, urban rehabilitation, pollution control, and the like. The Federal budget for fiscal 1969, submitted to the Congress last January, estimated military expenditures for Vietnam at \$26 billion. Since that time President Johnson has revised that estimate upward by \$2½ billion, for a total of \$28½, or nearly \$30 billion. But this is no measure of what reductions might be forthcoming with a cessation of hostilities.

In the first place some of the costs attributable to Vietnam would have occurred in any event. B-52's would be flying practice missions instead of combat missions. Some of the aircraft now being bought to replace combat losses in Vietnam would have been bought to replace obsolescence and to make up for losses in training flights and non-combat operations. Moreover the Vietnam war—compared to other wars—has been fought on a tightly controlled inventory basis. During the Korean war all the bars were let down on the procurement of military equipment and supplies. We accumulated excess stores of military items sufficient to last far into the future. Under Secretary McNamara, on the other hand, procurement for Vietnam was much more carefully adjusted to combat requirements. Excess stocks have not been accumulated—indeed some stockpiles have been run down. Moreover, during the past three years, many items of routine military procurement—family housing for military personnel, for example—have been postponed and stretched out. They cannot be postponed indefinitely.

There is no good way in the light of all these factors, to calculate exactly how much of a reduction in military expenditures an end to the Vietnam war would make possible. But we can get an idea from some crude estimates.

If defense expenditures after the hostilities end should run at the same level as they did before Vietnam, allowing for increases in prices and in military pay

which have occurred since then, they would amount to about \$61 or \$62 billion next year. This compares with the \$79 billion now estimated to be spent in that year. In other words a reduction of \$17 or \$18 billion would be possible if Vietnam operations should cease—from \$79 billion to \$61 or \$62 billion. If, as another way of making an estimate, we assume the same percentage reduction in military spending as occurred after Korea was ended, a reduction of \$15 billion would be forthcoming. These calculations would put the reduction somewhere between \$15 and \$18 billion. But both of these estimates ignore the fact that, unlike Korea, we will not end the Vietnam war with a huge stock of unconsumed weaponry and ordnance. Indeed we shall have to build up some depleted stockpiles and undertake some deferred construction. Moreover, we will in all likelihood be spending some funds for the civilian reconstruction of Vietnam. Taking these factors into account the reduction in military expenditures after the end of the war is likely to be less than \$15 billion, compared to the almost \$30 billion figure carried as the accounting cost of the war.

Even this \$15 billion or less is unlikely to be made available for use in civilian programs. At the present time the Federal budget is in deficit by over \$20 billion, during a period of relatively full employment. Rising prices, soaring interest rates, and a deteriorating balance of payments have been the result. The President has been trying, for almost a year, to get the Congress to enact a temporary tax increase aimed at reducing that deficit to manageable proportions, and bringing inflation under control. The issue is still in doubt as to whether the Congress will enact the tax increase. The major stumbling block has been the attempt by Congress to exact major slashes in Federal expenditures as a price for the tax increase. Even if it should be passed, the tax increase is explicitly temporary in nature, expiring on July 1, 1969. I take it as practically dead certain that this temporary tax will not outlast the Vietnam war. The current insistence of the Congress on a major expenditure slash as the price of enacting the tax increase is a good tip-off as to their attitude. In other words the less than \$15 billion reduction in defense expenditures which would occur within perhaps 18 months after the end of hostilities, would just about match the reduction in taxes from the expiration of the temporary tax increase. To put the matter briefly, the ending of the war in Vietnam will not automatically make available any budgetary resources for transfer to bold new programs aimed at meeting the nation's domestic social problems.

Transfer of resources from Vietnam to civilian programs is not, of course, the only means of securing budgetary resources for domestic programs. Federal revenues are primarily derived from personal and corporate incomes, from payrolls, and from certain excise levies. As the Nation's economy grows, incomes and payrolls grow along with it. Consequently, even with no change in tax rates, a steadily growing economy produces each year a continuing expansion in Federal revenues. Under normal conditions, with inflation under control, steady economic growth will yield, each year, an *additional* \$11 to \$13 billion in Federal revenues.

Here, it would seem, is the answer. Even if the end of the war in Vietnam produces no added resources for the Government's social programs, economic growth will. But this, too, is only partly valid. A substantial part of the revenue increase brought about by economic growth will be used up by automatic increases in existing Federal programs. As the number of older persons grows each year and medical costs rise, expenditures for social security and Medicare will rise. A flood of veterans leaving the Armed Forces, and rightly taking advantage of the G.I. Bill of Rights, will swell the expenditures of the Veterans' Administration. Added Federal expenditures will be needed in the more routine functions of the Federal Government merely to keep pace with a growing population and rising income—more facilities and personnel in our national parks, rising workloads for the Internal Revenue Service, the Patent Office, the Passport Office, the Forest Service and the Justice Department. Increased pay for Federal employees and the Armed Forces, simply to stay in line with private wages and salaries will eat up additional budgetary funds; and so on down the line.

These nearly automatic increases in Federal expenditures are not the result of some monstrous bureaucracy which blindly and wastefully devours the taxpayer's hard-earned dollar. Rather, they occur simply because ours is a rapidly growing economy, in which public services necessarily tend to grow along with the other parts of the economy. But for whatever reason, the fact remains that a substantial part—perhaps half—of the \$11 to \$13 billion annual rise in Fed-

eral tax revenues accompanying economic growth will go towards financing built-in increases in Federal expenditures.

This still leaves an important source of revenues for financing expanded social programs. And these are cumulative totals which increase each year—\$6 billion in the first year, \$12 billion the second, \$18 the third and so on. But, at least in the first few years, they will probably not be available for financing major *new* social programs. There are a host of existing Federal programs, introduced in the last several years, in answer to pressing social problems, which have had to be held well below the levels originally intended because of the rising Federal deficit and inflationary pressures. The Elementary and Secondary Education Act of 1965 was a path-breaking piece of legislation, designed to provide a major increase in resources for compensatory education, primarily for the poorer schools and school districts in the nation. Yet it has never been funded at more than \$1½ billion, which represents less than five percent of total State and local expenditures on elementary and secondary education. The Rent Supplement program—to help make decent housing available outside the huge ghetto-like public housing projects—has so far been unable to secure more than \$20 million a year in authority to enter into rent subsidy contracts. Appropriations for water pollution waste treatment facilities have only been half the amount authorized in the Water Pollution Control Act and an even smaller fraction of the resources needed to make a meaningful dent in the pollution problem. And again so on down the list.

For the first several years, therefore, after cessation of hostilities in Vietnam, a very substantial part of the rise in Federal revenues accompanying economic growth will have to be devoted toward meeting increased workloads in a host of established Federal activities. Most of the remainder will be needed to provide funds for existing and high-priority social programs which have had to be skimpily funded in the last three years. The expansion of these programs can make a substantial contribution toward meeting urgent national needs. But there are unlikely to be large sums available—out of current tax rates—to support major *new* attacks on social problems.

And for such sums as are available, there will be an important new claimant. Since the end of the Korean war, some 15 years ago, there have been several major reductions in Federal tax rates and some minor ones. Federal tax rates were reduced in 1954, in 1962, in 1964, and again in 1965. Even with the currently proposed 10 percent surcharge, Federal tax rates will be substantially lower than they were five years ago. Federal expenditures, including the costs of Vietnam, now take up only a slightly larger percentage of our national income than they did five years ago, and excluding Vietnam a smaller percentage. But the situation with State and local tax rates and expenditures is far different. State and local expenditures have been rising at an accelerating rate—in the late 1950's at \$3½ billion per year, in the early 1960's at \$5 billion annually, and they are currently rising at \$10 billion per year. State and local revenues, at constant tax rates, were not able to support these increased expenditures.

As a consequence State and local tax rates have been raised again and again. Income taxes have been introduced for the first time in many States and increased in others. Sales taxes and property tax rates have been raised repeatedly. State and local revenues, which were nine percent of our national income in 1957 have risen in the short space of ten years to almost 12 percent.

As we grow wealthier, we demand more and more public services in the form of better education, better parks, better highways, expanded State Universities, and the like. Moreover, most public services cannot be mass produced. They are not subject to the same gains in productivity which mass production industries can use to offset the costs of higher wages. Not surprisingly, therefore, as salaries of teachers, and policemen, and civil servants rise, the price of public services rises apace. For all of these reasons, expenditures on public services at the State and local level tend to grow faster than the national income. At the same time, however, we resist paying the increased taxes these public services require. A man whose income rises from \$8,000 to \$12,000 a year will pay perhaps \$70 for a suit instead of the \$50 he once paid. He wants a better suit and he doesn't gripe about the system. But he will strenuously resist the tax increases which his rising demand for public services requires.

And there is little doubt that resistance to State and local tax increases has been growing. That resistance has been one of the major reasons why many Congressmen have refused to support the proposed 10 percent Federal surcharge. The steady pattern of State and local tax increases will, I am certain, lead to sharp pressures, once Vietnam is over, for some form of revenue sharing, under

which part of the rise each year in Federal revenues will be returned directly to the State and localities. And, in turn, this new source of revenues would most likely be used to meet current needs of State and local governments, and to avoid or mitigate the need for further State and local tax increases. Little of it would, I venture, be used to mount major new programs, aimed at the poor, the inner city, environmental pollution, or the provision of job opportunities for the unskilled.

In brief, there is no reason to hope that cessation of hostilities in Vietnam will bring the millenium—that if we simply wait a while, a flood of budgetary resources will be painlessly available to apply toward rebuilding our decaying inner cities, and sharply improving the education of the poor, and attacking head-on the growing pollution of our air and water.

Now let me be quite clear. As a Nation, there is no question that we are wealthy enough and economically strong enough to do anything within reason that we set our minds to. In just six short years between 1961 and 1967 the mere *growth* in the American economy was equal to the *total output* of West Germany. To put it another way, the American economy in 1967 was equal to what it was in 1961 *plus* the entire economy of West Germany. Six years from now, quite apart from any price increases, we will be producing \$250 billion more than we produced last year. Cumulatively, during those same six years taken all together, the additional production arising from economic growth will approach \$800 billion. Under normal circumstances about \$240 billion—30 percent—of that dividend from economic growth will go towards the normal functions of all governments taken together, Federal, State and local. That leaves \$560 billion for increased *private* spending on consumption and investment. Should additional resources be needed to meet the ills which trouble us as a society, economic growth will provide them. If, as a nation, we truly believe that the greatest and wealthiest republic on earth should not have its poorest citizens in hunger, and squalor, and rat-infested shelters—if we truly want to arrest the decaying inner cores of our large cities—if we literally believe what our text books tell us about equality of opportunity—then, Lord knows, a shortage of economic resources is no excuse for failing to act. The diversion of even a modest fraction of that \$560 billion, which would otherwise go for our private enjoyment, would provide additional resources in abundance. And remember, it is a fraction not of our present wealth but of the future growth in that wealth.

My point, therefore, is not that we cannot afford to devote whatever resources are needed towards easing the tensions which are now wrenching the social fabric of the nation. Rather, my point is that cessation of hostilities in Vietnam will not automatically make those resources available. There will be no painless, tax free transfer of massive budgetary sums to domestic programs, once the war is over. To put the matter in its bluntest form, the only way to make really large additional resources available to meet our social problems, is to tax ourselves—to decide deliberately that some fraction of the growth in what we might otherwise have consumed for private pleasure we shall devote to the public good. While it is a tax not on our present wealth but on its future increase, it is a tax nevertheless. Here, as elsewhere, there are no easy answers to difficult problems. As John Gardner aptly put it, history will judge harshly a wealthy nation which refuses to tax itself to cure its social ills.

I said at the beginning that there were two widespread fallacies which needed to be punctured. The first of these was the belief that an end to the Vietnam war would painlessly make available the resources we require to attack the nation's social problems. The second fallacy is the view that all we really need is a fistful of money, devoted to more of the same kind of programs we now have. I have made it clear that large sums will be needed—one does not wipe out the neglect of a century at bargain basement prices. But at the same time, more than economic resources will be required. Five years of observing the new social programs of the Federal Government, from the vantage—or as some would put it, the disadvantage—point of Washington, have convinced me that major changes in governmental organizations, in social institutions, and in private attitudes are a prerequisite for successfully dealing with the problems we face.

Take, for a starter, *governmental organization*. The major social programs of the Federal Government have a number of characteristics which, taken altogether, distinguish them sharply from most of the activities the Federal Government has undertaken in the past.

In the first place, attacking the problem involved in the inner city—poverty—civil rights—complex requires not a single policy instrument, but many. Education, jobs, housing, health, transportation, law enforcement are all involved. The

success of compensatory education, for example, is not unrelated to the availability of jobs for the parents of school children or the prospect of jobs for high school graduates. The effective delivery of medical services in the inner city is related in part to the training and use of inner city residents as sub-professional medical personnel. Water pollution abatement in a river basin brings in the Corps of Engineers, the Interior Department, the Department of Agriculture and the Public Health Service. Assistance to accelerate the development of economically depressed areas involves investment planning by a host of Federal agencies. More generally, the interdependence of programs requires the concerted action of many government departments and agencies, each of whom, organizationally, is independent of the other.

Second, in its newer social programs the Federal Government is directly involved in program decisions at the local level in thousands of individual communities throughout the Nation. Decisions have to be made in the field—on the spot. Unlike the more traditional programs—Defense, agricultural price supports, veterans' benefits, and the like—policy coordination at the Washington level, difficult as that is, is no longer enough.

Third, all of the newer Federal social programs are joint ventures with State, county and city governments—in some cases with all of them at the same time. In any program involving both education and health—for example, a Head Start program including medical examinations for the children—it is necessary to involve at least two Federal Departments, the local school board, the State controlled public health service, the city welfare department, and the local community action agency.

Dealing with this incredible array of different political jurisdictions, and different but co-equal agencies within the same jurisdiction poses tremendous problems at every level of decision making. Much of the difficulty is inherent in a Federal system in which a multiplicity of governments is encouraged. But much of it also inheres in the functional organization of the Federal government itself. Combining different functional components into a single program package is difficult enough when it must be done in Washington among Cabinet Departments. But when it must be done in thousands of communities among co-equal departments of a number of political jurisdictions, the difficulties increase by orders of magnitude.

Insofar as the Federal Government is concerned, a major part of the problem stems from the fact that it has no regional structure as a government. It is organized functionally with individual lines of authority running parallel to each other directly from Washington to the field. Even within many individual Cabinet Departments, there is no meaningful regional authority for the Department as a whole. Individual operating Bureaus have their own independent field establishments, which are not responsible to any overall Departmental official in a region or a city.

In short, the organization of the Federal Government has not caught up with the substantive nature of the problem it faces. On the substantive side it is attempting to deal with social problems in a region or a city through comprehensive programs which combine a host of different elements. On the organizational side it has no overall regional structure. It has no good mechanism at the regional level to plan, allocate budget resources, and handle day to day operating conflicts among the different functional units whose programs must be combined in a single package. Moreover, the mayor, or the governor who wants to gain control of his own departmental bureaucracy has no place to turn. His own, usually independent, departmental bureaucracy deals directly with its Federal counterpart in negotiating Federal aid. There is no Federal Government at the regional level, only a series of independent Federal agencies.

The Federal Government needs to develop a regional structure—a regional presence as a government. Not only do individual Departments need to strengthen the power of their own Departmental regional officials, but even more important, the Presidency itself needs a regional presence, a regional umpire and mediator among the various Federal agencies—someone who can act jointly with mayors and governors in carrying out tremendously complicated joint enterprises, in which education and training, and slum rehabilitation, and public facilities each form but a part of a comprehensive program.

I cannot predict or prescribe the particular nature of the necessary regionalization. But I believe a regional structure for the Federal Government, with sufficient power to deal with problems which arise among co-equal Federal agencies, is a major necessity. It would permit the *geographic decentralization* of decisions from Washington to the field, which the variety of local conditions

demands, and political good sense dictates. But it would also permit locally a *functional centralization* of decisions which the inter-related nature of Federal programs requires.

Reorganizing the Federal Government alone, however, is far from sufficient. If we take a long and careful look at some of the causes of the social ills that plague us it becomes glaringly evident that *no* amount of budgetary resources, however well-organized and skillfully applied, can make up for the perverse effects of some of our most cherished institutions and attitudes.

Let me give a few examples. Both the Federal Government and city governments have struggled for years with the problem of planning urban development. Almost every form of Federal assistance to municipalities is conditioned on some kind of planning requirement—comprehensive plans, functional plans, planning processes, social renewal plans, workable programs, and so on down the litany. But, all too often, the plans are more breached than observed. Local communities design "Year 2000" plans for an aesthetically pleasing and economically efficient city. And almost at once the inevitable zoning changes tear the plan to pieces. In large part this occurs because the system of rewards and penalties at work in connection with urban investment is not merely neutral to but runs precisely counter to the goals and objectives of the plan.

Investment in physical improvements to property tends to earn a normal rate of return and is taxed at regular income tax rates. But investment in land speculation is realized as a capital gain and taxed at one-half or less the normal rate. Small wonder that investment is attracted into land speculation rather than physical improvements, and that land developers often press for zoning changes to allow the highest possible density, and the largest possible capital gains. Why invest funds in improving decaying downtown property? The return on investing in improvements is subject to the normal tax rate. But by investing in property simply to hold on for future price increases, I can take my return in the form of capital gains at a favorable tax rate, and very often, depreciate an old building several times over in the process. The whole system of rewards and penalties, which heavily favors land speculation as compared to physical improvements, is perhaps the greatest single promoter of urban blight. Pouring tax money into urban renewal, to rectify what Federal, State and local tax laws have created, scarcely strikes me as a profitable enterprise. Indeed nothing would be more effective in arresting urban decay and suburban sprawl than taking the profit out of promoting them. Yet I pity the mayor, the Governor, or the President who turns his hand to this problem. His will be a most harrowing experience.

The list of painful changes we shall have to face up to, if we really mean what we say about social justice and equal opportunity is a long one. Federal programs which train inner city Negroes in one or another skill will yield little but bitterness if apprenticeship restrictions or closed crafts keep them from a job. Subsidized housing projects for low and middle income families are a vital Federal program. But they cannot be confined to central cities only—suburban communities which reject them are simply stoking the fires of unrest. It is easy to understand why suburban communities fear the growth of metropolitan-wide governments. Why add to the tax load of suburbia to make up for the low tax base of the impoverished central city? Yet it is the flight to the suburbs of the past several decades and the tax problems it created, which is helping to strangle the governments of our big cities. And whether they continue to strangle will depend at least as much on the help they get from surrounding suburban communities as on any programs of assistance the Federal Government can mount.

There is no question but that as a Nation we have the ability to cure the ills which plague us—the rising discontent of the poor, the slow strangulation of the city, the accelerating pollution of our environment. We have the economic resources, the technical skills, the political ingenuity. Preeminently among all the societies which have ever existed, we have these. Our *capacity* is not at issue. It is our *will* which is in question. Steadily growing abundance will *not* automatically be diverted toward the needed social investment. As voters and taxpayers we must act to divert it. And even if diverted toward urgent public ends, abundance alone will not suffice. It must be joined by changes in social institutions and governmental organizations, and by the dismantling of the private barriers which we have erected against the black and the poor. These will not be easy actions. Immensely difficult problems will not be solved by easy means. But when were they ever?

And if these times call for a painful act of will on the part of those who have the affluence and wield the power, they also call for an equally disciplined act of will on the part of those who are demanding social changes. That act of will

takes the form of a decent observance of the orderly process of change in a democratic society. If I may be permitted to turn around a famous quote, "Extension in the defense of liberty is a vice . . . Moderation in the pursuit of justice is a virtue."

For the better part of its history, the human race has struggled to devise means for achieving social change while still preserving social order. The Oresteian trilogy of Aeschylus is the greatest of all Greek dramas, precisely because it portrays in heroic form how the terrible anarchy of clan vengeance is a means of seeking justice was transmuted into the orderly process of community law. Athenian law tamed the Furies. They must not be let loose again. If they are, they will surely turn first on those who unchain them.

It is a hard counsel to tell those who have been denied so long that they should have patience with the deliberate pace of change under democratic processes. Indeed I take it as the mark of a civilized man of good conscience in these times that he is at war within himself—his sympathy for the plight of those who are demanding social justice warring with his judgment that oftentimes the means of demanding it are destructive of the democratic process. Yet it is precisely a blend of that sympathy and that judgment which can win us through.

Mr. PECHMAN. If you assume for one moment that we can keep military expenditures at \$60 billion, the present \$82.5 billion gives us \$22.5 billion. Then add to that the normal fiscal growth of \$12 billion a year, that is almost \$35 billion in the first year after the Vietnam war.

Senator PROXMIRE. I do not want to go on on this. I know you are very well informed in this area, but I just raised the point that on the basis of past experience and attitudes, and so forth. I think it may be difficult.

I would like to ask Dr. Hildebrand about the possibility that we might have the same experience here that they have under the English poor laws; that is, a tendency for employers to bargain with employees to pay a wage which will enable, especially if you eliminate the minimum wage, employers to reduce their wage costs very greatly without substantially decreasing the income of the employees.

Mr. HILDEBRAND. Because they can fall back on negative income tax?

Senator PROXMIRE. That is right, one way or another, they can fall back on it. They can use it as a supplement or use it to keep costs down.

Mr. HILDEBRAND. I suppose that would depend on the level of unemployment for that group, how loose or tight the market is, and also what the incentive or disincentive is on the negative income tax rate. If that is kept reasonably tight, I do not think you would create a permanently deprived class of workers who would stay at a subsistence level. I do not think so.

Senator PROXMIRE. I would like to ask Dr. Watts: How reliable are the measures of poverty-line income?

We now need different research on incomes of families in different circumstances to enable them to maintain comparable standards of living, do we not?

Mr. WATTS. I think the first thing to be said is that the levels at which poverty lines are placed are really arbitrary. There is a continuous gradation of incomes, and as one considers lower and lower ranges of income, fewer and fewer people have those incomes. One can, for the purposes of dramatizing the problem, set the line at one level, and say that anyone below that is poor, and anyone above that is not poor. But that is, to some extent, an artificial division.

Senator PROXMIRE. Another question Mrs. Griffiths has raised so well and so sensibly is that this might be ample in a rural area in one part of the country, but in a part of the country that is urban, or where we have climatic problems that are severe, and the cost of living is higher, it might not be.

Mr. WATTS. I have carried out research in attempting to measure the differentials that are required to maintain similar levels of living.

Senator PROXMIRE. This is so dramatic. We always have a lot of criticism of our public housing program; critics say that for a certain kind of subsidized housing, you can have a family who has an income of \$10,000 or \$11,000 a year who can get subsidized housing and justify it if they have enough kids. That is only in New York. If it is in rural Texas, if their income is above \$4,000 or \$5,000, they do not qualify.

It is worked out quite carefully, so there is a terrific discrepancy.

Dr. Hildebrand said quite properly that you have to have a uniform system.

Mr. WATTS. There are two issues, it seems to me. In terms of defining who is poor, taking as fixed circumstances both where they are, and how much money they are getting, we can count up the number of poor taking into account differences in living costs. We may say these are the sets of circumstances, given where people are, given the size of their families, et cetera; and this many are poor. Now, in the case of income guarantees, it is a separate question whether one wants to observe those differentials in living costs by matching the minimum to some set of poverty lines which vary from place to place.

To do that, it seems to me, is to follow a policy which suggests we now have an optimal distribution of households over this country and we do not want to do anything to change it. I would suppose that something more in the direction of a uniform standard could very well have a beneficial influence on migration plans, perhaps allowing some recognition of climatic differences.

Senator PROXMIRE. In other words, you might have some people from New York going down to Mississippi.

Mr. WATTS. Yes, indeed. Do we want to say that we have the amount of urban congestion which we want to have, and do we want to support through our programs the continuation of forces that produce this congestion? I think probably not.

So our income guarantee could provide some advantage for moving out of congested areas into lower cost and less congested areas.

Senator PROXMIRE. I have one final question: Many of the poor have some earning capacity, but they may not exercise that capacity that they have if they can elect transfer payments instead. What do we know about the work incentives effects of transfer payments?

Mr. WATTS. We do not know nearly as much as we should. That is why we are carrying out the experiments in New Jersey.

Senator PROXMIRE. What experiment do we have besides the New Jersey one?

Mr. WATTS. That is the only experiment I know about at present. I have heard vague rumors about a children's allowance experiment in Gary.

Representative GRIFFITHS. Do you know, in the experiment in New Jersey, whether or not there are aged people?

Mr. WATTS. There are no aged.

Representative GRIFFITHS. May I ask, why not?

Mr. WATTS. The main reason is this: One would ideally like to design an experiment that covers the whole population that would be affected. But this is the first time an experiment of this kind has been carried out, and it is a very difficult thing to design.

We had to ask ourselves the question. What is the most important group to find out about? That group, it seemed to us, very nearly coincided with the working poor I mentioned earlier. They are the ones who are now working. What they do when faced with the alternatives presented by a negative tax is extremely crucial to evaluating whether we want one or not.

Now, in terms of the aged, we already have on record a social choice of a sort, which says they should not be encouraged strongly to work. At one point in our history we wanted to get them out of the labor force to make room for the others.

Any change that affects the aged, given those who are now on public assistance or on OASDI, is only going to increase their incentive to work. Anything which does that will tend to reduce the public cost. The more they work, and if we share in their earnings, the smaller are public expenditures.

For the group we are experimenting with, the shoe is quite on the other foot. They are now working; they are not given any income maintenance. Reductions in their work and earning efforts, if we do not pick a reasonable combination of tax rates and guarantees, could add a great deal to our first estimate of the cost.

Mr. ROLPH. May I comment on this? One, there have been a large number of empirical studies of incentives, and they all come up with pretty much the same answer; namely, that the sensitivity of people to buying leisure is very low. There are some problem cases, but they all have pretty much the same answer—namely, that it is not something you need to worry about.

Senator PROXMIRE. Would you give us a notion of where these empirical studies were made and how recently they were done?

Mr. ROLPH. These were various kinds of groups, both British and American.

Senator PROXMIRE. Perhaps for the record, you would like to document it.

Mr. ROLPH. Perhaps the latest one was the Michigan survey, a study of high-income groups, which showed, contrary to some expectations, that high-income people would work harder than lower income people. There is a little empirical study that was made in Oakland by one of our students of 100 Negro families. These are poor people.

It does not have all the properties that a nice experiment should have. But what he found out, or what he thought he found out was: one, that people wanted to work more, not less. Their main difficulty in terms of their work behavior was the very simple one that we all know about; namely, that they could not find the opportunities to keep themselves fully employed; they were employed part of the year at this job or that job, and so on.

What was holding them back was lack of employment opportunities.

He also found that there was the same stigma attached with the man around the house in that area that you would have in other higher income groups.

Senator PROXMIRE. Was this in simple, rough, tough jobs, too? Did they want to work even if there were jobs like, as Mrs. Griffiths said, mopping the floors, jobs that did not pay much, or were not associated with any kind of dignity?

Mr. ROLPH. Some of them were fairly high paying, when they could get them, like being a laborer for a construction gang, which is unionized and carries a very high wage rate. A lot of them would be casual employment of all kinds and varieties.

In any event, the important point is that these people want to work more than they in fact can, given the circumstances they find themselves in.

Mr. WATTS. But the question remains, it seems to me, if you consider someone who, by dint of hard physical labor, at an unpleasant job, manages to earn \$3,500 and is supporting his family, not with any degree of luxury, who is then faced with the alternative of a \$3,000 minimum income with a 100-percent marginal tax rate, doesn't it seem likely that some of those people will decide they will just retire for a while and take the \$3,000 and rest a bit?

That is why I think it is important, when we begin to talk about bringing the working poor into an income maintenance program, to forget about tax rates that are up around 100 percent. Faced with that kind of an alternative—an income at 80 percent of what I am now earning—I might even retire.

I would seriously consider it. There is a lot of fooling around that I can do that I would enjoy, too.

Representative GRIFFITHS. We thank all of you.

I particularly thank you, Senator Proxmire.

Gentlemen, we are very grateful to you for your testimony.

This subcommittee will meet again next Tuesday morning in room S-407 of the Capitol, the public hearing room of the Joint Committee on Atomic Energy.

(Whereupon, at 12:35 p.m., the subcommittee adjourned, to reconvene on Tuesday, June 18, 1968, at 10 a.m., in room S-407, the Capitol.)

INCOME MAINTENANCE PROGRAMS

TUESDAY, JUNE 18, 1968

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

The Subcommittee on Fiscal Policy met, pursuant to recess, at 10 a.m., in room 1310, Longworth House Office Building, Hon. Martha W. Griffiths (chairman of the subcommittee) presiding.

Present: Representative Griffiths, and Representative Melvin R. Laird, Wisconsin (guest).

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

Representative GRIFFITHS. The subcommittee will come to order.

First, I would like to thank each of you for appearing here. It is very kind and very helpful of you.

You may begin, Mr. Morgan.

STATEMENT OF JAMES N. MORGAN, PROFESSOR OF ECONOMICS, UNIVERSITY OF MICHIGAN

Mr. MORGAN. Thank you, Madam Chairman.

I come here in a double role, speaking both for myself and for Professor Harvey Brazer, chairman of the Department of Economics, University of Michigan. I am a professor of economics at the University and a program director at the University's Survey Research Center, which is part of the Institute for Social Research.

Professor Brazer is the author of a draft proposal for children's allowances, focusing improved income maintenance programs on families with children. While his paper has been scheduled for publication on June 14 as part of a symposium volume edited by Eveline Burns, I should like to introduce it into the record of these hearings, and to add some comments.

Representative GRIFFITHS. We will be pleased to place it in the record. (See volume II; appendix 7.)

Mr. MORGAN. Thank you.

Professor Brazer focuses income maintenance programs on families with children, saying this is where the improvement is needed most.

Professor Brazer and his research assistant, Gail Wilensky, are already working on improvements in the detail of the plan. For instance, in order to insure that low-income families with one or two children are at least as well off as under public assistance, they now propose to have a sliding scale of benefits, \$1,200 for the first child, \$800 for the next, \$600 for the next, and \$400 for each additional child.

They are also finding that the recoupment of the payments from families with higher incomes can be made more rational if one does not make the payments taxable, but relies on a single separate schedule of recoupment. It may also help reduce the school-dropout problem if eligibility for the allowance requires that the child be in school. This would mean that the allowance would stop when the child dropped out, but would continue even beyond age 18 if he or she continued in school. If the first child to drop out is considered to be the first one in the family, then the \$1,200 payment would be the one dropped, a major incentive to keep the children in school.

Perhaps more important than a discussion of improvements or details of implementation, is why Professor Brazer feels—and I agree with him—that it is best to start with families with children, not all those families or individuals in need. There are several reasons for starting with families with children:

The present system probably has more inequities for the large family where the head just cannot earn enough money than for any other single group in society. There are a substantial number of families where the head is working, but he has too many children to support.

Second, family allowances make the most direct entry into the potential cycle of poverty and may prevent these disadvantages from being passed on from generation to generation.

Third, whether the help is deserved or not is less critical than for families without children; children are by definition blameless and nobody is going to punish them for the sins of their parents.

Fourth, I think the elimination of an employment test is less debatable or more likely to be irrelevant for poor families with children. In most cases, there is either a single parent or a family head unable to earn enough to support his family who is working, so the whole issue of somebody loafing on the dole becomes less critical for families with children than for any other group.

Fifth, I think the self-enforcing nature of income supports requires that they be reasonably neutral on changing family composition. People should not be induced to split up or live together just for playing games with the system. This is less likely to be a problem for families with children than with supplements for which individuals are eligible. The latter case could lead to teenagers leaving home to collect their own payments.

Sixth, if other groups were covered besides those with children, many of them are now protected by social security programs and the whole emotional issue gets raised as to whether to include social security benefits in taxable income in order to tax back payments to those who really do not need them.

Seventh, family allowances tend to focus help on areas where the chances of curing problems by other programs such as manpower retaining are somewhat less. The family head, if there were one, would be already past the optimum age for retraining.

The unusual feature of the Brazer proposal as compared with simple family allowance schemes is a recoupment scheme which greatly reduces the proportion of payments going to families which are not poor. The total amount required net of recoupment in public assistance and other payments is now estimated to be somewhere between \$9 and \$11 billion a year. This should not be called a cost in any economic

sense since it represents a transfer of funds to those in need. I am concerned that we be careful in our use of terminology and not talk about cost when we are talking about systems of taking money from some people and giving it to others who need it worse.

The scheme shares with other proposals several important features.

For one thing, it separates income maintenance from the provision of counseling, social services, vocational and rehabilitation, and the like, and this simplifies the tasks of both groups. Those engaged in providing counsel, special services, et cetera, can make it a voluntary service and not imposed with the threat of cutting financial support unless behavioral standards are met.

There is a third social necessity, insuring that adequate standards of behavior are met. That is a police function that probably should be separated from both the other two. So you have a police function that sees to it that children are fed, clothed, and sent to school; a counseling and service function that provides job training, advice, and help; and an income maintenance or tax income scheme that sees to it that nobody starves, and that if the income gets high enough they start paying taxes.

Any system that accepts these principles opens possibilities for people by eliminating restrictive requirements. For example, the threat that an application for help will lead to demands on one's relatives surely stops some people with genuine need from asking for help. The residence requirements certainly deter some people from moving to areas where there are better job opportunities, but where security in cases of trouble is substantially lacking.

In some States, if you get into trouble, you are offered your busfare home, so you will not be a burden on the local jurisdiction.

Most important of all, I think, the requirement that all savings be exhausted before assistance is available must surely discourage saving, and the lack of savings must surely reduce efficiency in the use of funds and produce a sense of insecurity that can be disfunctional.

Almost all income maintenance programs, guaranteed incomes, or negative income proposals, use a simple income test without an asset test and have this benefit of not taking people's savings away from them and making them prove themselves worthless before they can get any help.

I think we are in danger of focusing so much on technical details such as marginal tax or recapture rates, that we may be ignoring what is one of the most important positive and creative contributions of simple, adequate and uniform income maintenance programs. I think the provision of some basic economic security is the issue here, a base on which the family can build and from which it may safely venture for the first time into new ways of earning a living.

Suppose a family decided the best way to improve its economic status was to get a car so the main wage earner may have a wider range of jobs or so a single parent could take a job. Present rules consider that not a legitimate expenditure.

Suppose a family is willing to double up with its relatives to save on housing costs so they can put more money on the children's education? Why not let them do it without imposing a financial penalty? Simple income maintenance schemes would leave a great deal of flexibility.

Perhaps the change that worries more people more than any other is the abolition of the employment test. The specter is raised of increased idleness by people living on taxpayers' money. We have several empirical studies that seem to show that for the majority of Americans, the standards of living below which people tend to work overtime are so much higher than any proposed income maintenance levels that it seems doubtful we are in any danger of mass exodus from the labor force.

We have papers on people's work hours and desire for more work that show that for almost every family below \$6,000 or \$7,000, the head is looking for a second job or has one or his wife is working and they are generally struggling to get some additional money to live on.

We have some other studies of retirement plans and actual retirement that seem to show that nobody seriously considers retiring unless he can count on \$4,000 a year, and that is for himself and his wife. These look like social minima that people fairly generally observe. Although there always will be a few people who will loaf at any income level, I do not think we need to worry about this as a major problem.

But in discussing issues like this, it is sometimes necessary to ask, what can we say about what might happen, not from this kind of study but by extrapolating from psychological theory and from studies done in other places or with special populations, like the college sophomores that psychologists work with so much.

There are two basic principles of psychology that are well accepted and relevant here.

The first one is that positive incentives are more powerful than negative ones. Our present system focuses on punishment, on the threat of deprivation—if you do not do what you are supposed to, your welfare gets taken away. If psychologists are right, the chance to earn a little and save a little without losing all one has, might be more powerful in getting people to work than all the threats and tests we have been using over the years, not very successfully.

The second psychological principle is that aspiration levels are quite flexible, particularly upward. This means that people can quite rapidly get used to almost any level of income and decide they want some more. It means, conversely, that people do not have fixed goals which allow them to retire once they get to them.

Finally, apart from any estimate of how people might respond to more adequate, uniform and flexible income maintenance programs, there is a level of decency at which people should support the dependent. In an increasingly affluent society where our own data are showing an explosion of the income distribution at the top, the mere failure to improve standards produces increasing inequity and misery. Despite what we may do to make people self-supporting, we have a more immediate need to eliminate poverty in the meantime.

Representative GRIFFITHS. Thank you, Professor Morgan.
Mr. Lampman, you are recognized.

STATEMENT OF ROBERT J. LAMPMAN, PROFESSOR OF ECONOMICS,
UNIVERSITY OF WISCONSIN

Mr. LAMPMAN. Thank you.

I would like to enter my statement in the record and make some comments on it.

Representative GRIFFITHS. Without objection, we will certainly be pleased to put it in.

(Prepared statement of Professor Lampman follows:)

PREPARED STATEMENT OF PROFESSOR ROBERT J. LAMPMAN^o

EXPANDING THE AMERICAN SYSTEM OF TRANSFERS TO DO MORE FOR THE POOR

In the postwar period, and in the last few years in particular, we have made considerable progress against poverty. By means of broad economic growth and full employment policies, selective labor market programs, and income maintenance efforts, the number of poor persons, as defined by the Social Security Administration, was reduced from 39 million in 1959 to 30 million in 1966, or from 22 to 15 percent of the population.¹ The poverty-income gap, that is, the difference between the money income of all poor households and what their money income would be if they were just over the poverty threshold, was \$13.7 billion in 1959 and \$11 billion in 1965. By projecting these trends, we can estimate that in 1969 about 26 million people (13 percent of all people) will be poor. In that year the poverty-income gap will be about \$10 billion, or 1.2 percent of the expected gross national product.

THE ROLE OF TRANSFERS IN ANTIPOVERTY EFFORTS

This progress in terms of the poverty rate and the poverty-income gap is due in some part to vigorous development of the American system of transfers. This is our public and private means for providing both money income and goods and services to persons on a basis other than their current productive activity. The grand total of such transfers in 1964 was \$97 billion, \$57 billion of which was in the form of health, education and other services. The pre-transfer poor, who were 28 percent of the total population, received an estimated \$38 billion worth of fringes and transfers, over half of which came to them in the form of social insurance and public assistance. In return they paid \$8 billion in taxes and private contributions. Hence, they gained \$30 billion; this meant that while the pre-transfer poor started with only 5 percent of factor income, they ended up with 11 percent of factor income plus fringes and transfers net of the transfer costs.² This is a good measure of the size (though not necessarily the effectiveness) of our antipoverty effort in 1964. (Note that this was before the passage of Medicare, the new Federal aid to education provisions, the Economic Opportunity Act, and the 1967 amendments to the Social Security Act.)

In 1964, money transfers of \$40 billion lifted 8.5 percent of all families out of poverty. They reduced the pre-transfer poverty-income gap by \$10 billion. These transfers were divided about equally between the poor and the non-poor; however, while they amounted to only 4 percent of the income of the non-poor,

^oRobert J. Lampman is professor of economics at the University of Wisconsin and a staff member of the Institute for Research on Poverty. This research was supported by funds granted to the Institute pursuant to the provisions of the Economic Opportunity Act of 1964. The paper is adapted from "Adding Guaranteed Income to the American System of Transfers," *Social Action*, November, 1967.

¹ Report of the Council of Economic Advisers, 1968, p. 130.

² See the author's chapter, "How Much Does the American System of Transfers Benefit the Poor?" in Leonard H. Goodman, ed., *Economic Progress and Social Welfare* (New York: Columbia University Press, 1966). Cf. Michael S. March, "Federal Programs for Human Resource Development," *Federal Programs for the Development of Human Resources*, a Compendium for the Joint Economic Committee, 90th Congress, Second Session (Washington: Government Printing Office, 1968), pp. 111-154.

they were about half the income of the poor. The latter point is true even though only about half of the after-transfer poor families received a transfer. It is interesting that the several types of transfer payments differ widely as to their distribution. Most unemployment insurance and veterans benefits went to the pre-transfer non-poor, while public assistance went chiefly to those who remained poor after transfer. The benefits of the largest program, OASDI, were more evenly distributed, with relatively heavy emphasis upon those who became non-poor by receiving transfers. Money transfers do much more for small families than for large families. Persons in families of four or more persons are 55 percent of all persons poor before transfers and 62 percent of those poor after transfers. They comprise only 36 percent of those taken out of poverty by transfers. Although such persons account for 51 percent of the poverty-income gap, they get only one-third of all transfers received by the pre-transfer poor.

Under this money-transfer system the average payments, net of taxes to pay for transfers, were systematically related to pre-transfer income and family size. That is, for families with under \$1,000 of pre-transfer income, the average net transfer was \$810 for one-person families, \$1,280 for two-person families, \$1,650 for four-person families, and \$1,935 for six-or-more-person families. (Note the bias against the larger families.) The average net transfer fell off to zero at \$4,000 for one-person families and \$5,500 for four-person families. Those figures are *averages*. One way to assure a pattern something like this in terms not of averages, but of minimums, and at the same time, to correct the bias in the present system against the larger family is by means of a guaranteed income plan. The present system cuts the pre-transfer poverty-income gap by \$10 billion. By adopting a carefully designed guaranteed income plan, we could cut the gap by another substantial sum and thereby hasten our progress against poverty.

THE GUARANTEED INCOME IDEA

The guaranteed income is one name for a family of plans that includes such members as the reverse or negative income tax, the income-conditioned family allowance, the income supplement, and the social dividend.³ The central idea of all these plans is that net benefits are payable on the basis of family size (or number of eligible family members) and the level of income. This is in contrast with both public assistance and social insurance. Under one of these plans, which we will refer to as "The Welfare-Oriented Negative Rates Plan," a family would receive 50 percent of the difference between its actual income and the poverty-line income for its family size. This means allowances would be paid as shown in Table 1.

TABLE 1.—NET ALLOWANCES FOR FAMILIES OF 3 DIFFERENT SIZES UNDER WELFARE-ORIENTED NEGATIVE RATES PLAN

Family income before allowance	Net allowance based on 50 percent of poverty-income gap		
	1-person family, poverty line of \$1,500	4-person family, poverty line of \$3,000	6-person family, poverty line of \$4,000
\$0	\$750	\$1,500	\$2,000
\$500	500	1,250	1,750
\$1,000	250	1,000	1,500
\$1,500	0	750	1,250
\$2,000	0	500	1,000
\$2,500	0	250	750
\$3,000	0	0	500
\$3,500	0	0	250
\$4,000	0	0	0

A family would therefore be confronted by a new set of choices. The new choice situation is represented by Figure 1. Consider a four-person family earning \$2,000 (choice point A). After the plan is in effect that family would receive a net allowance of \$500, and if it continued to earn \$2,000, would have an after-allowance income of \$2,500 (choice point B). On the other hand, if its

³ See Christopher Green and Robert J. Lampman, "Schemes for Transferring Income to the Poor," *Industrial Relations*, Vol. 6, No. 2, February, 1967.

income target were \$2,000, it could attain that by working less and earning only \$1,000 (choice point C). Or, if it decided to earn \$2,500, the after-allowance income would rise to \$2,750 (choice point D).

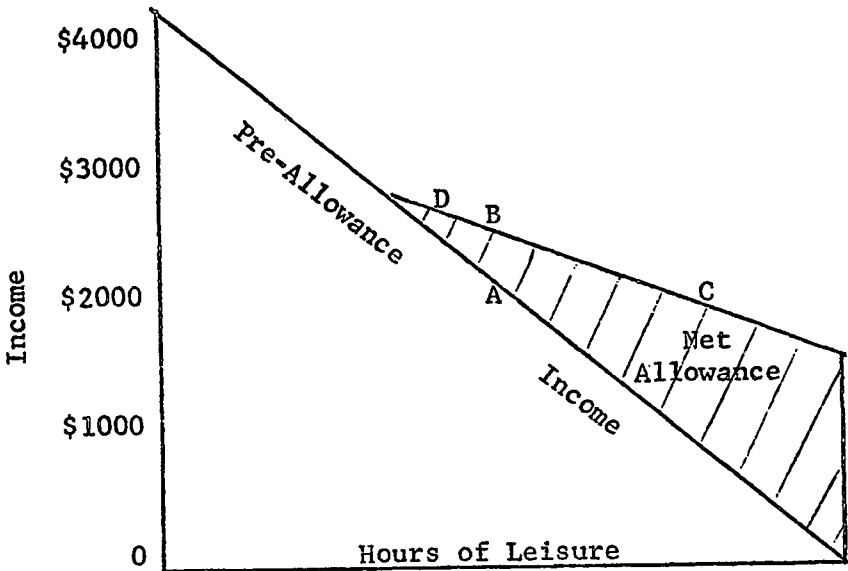


Figure 1

Income-Leisure Choice with Negative Rates Plan

CONSIDERATION IN DESIGNING A GUARANTEED INCOME PLAN

For purposes of calculating costs, we can assume that the typical family in this situation would elect choice point B, that is, the family members would do neither more nor less work because of the introduction of the 50 percent negative rates plan. However, it should be noted that there is a lively controversy among economists about what would actually happen, some maintaining that people would take more leisure, some that they would take less.⁴ There is very little controversy about the effect of a 100 percent rates plan, i.e., one that would fill 100 percent of each family's poverty-income gap. Such a plan would take away all monetary incentive for a low-income family to earn or receive income from property or transfer sources, and would thus make the pre-allowance poverty-income gap much larger than it now is and result in a greater than proportional increase in the cost of the plan. A 50 percent rates plan would cost an estimated \$7.5 billion in 1969 without any correction for savings on public assistance. Doubling the rate to 100 percent of the poverty-income gap would more than double the cost. Indeed, in the opinion of this writer, it would more than triple the cost. For this reason, and because we don't want to penalize more severely than necessary work effort by either poor or non-poor people, it seems desirable to avoid tax rates on the poor of higher than 50 percent. That is, we would like to avoid allowances that amount to more than half the difference between pre-allowance income and the income level at which allowances are to fall to zero.

⁴ An experiment involving one thousand families and designed to last for three years is now proceeding to investigate how people respond to different levels of guarantee and different tax rates. This experiment is financed by the Office of Economic Opportunity and managed by the Institute for Research on Poverty and Mathematica Corporation. For a description of it, see the unpublished paper by Harold Watts entitled "Graduated Work Incentives: Progress Toward an Experiment in Negative Taxation," available from the Institute for Research on Poverty.

Another point to be noted about the benefit scheme shown in Table 1 concerns horizontal and vertical equity. Incomes after allowance would rise with family size. For example, one-member families earning \$2,000 would have \$2,000 post-allowance earnings, four-member families would have \$2,500, and six-member families \$3,000. Incomes would rise with earnings. In no case would a family that had a lower pre-allowance income end up with a higher rank in terms of post-allowance income, among families of the same size.

We have now referred to two considerations that are important in designing a guaranteed income plan. These are (1) preserving incentives to seek pre-allowance income, and (2) maintaining horizontal and vertical equity. Three other concerns are (3) paying money out only to the poor, (4) avoiding incentives to family disorganization, and (5) integrating the plan with the existing transfer-tax system.

We began this discussion by indicating that the goal was to close a substantial part of the remaining poverty-income gap, which is now on the order of \$10 billion. In line with that, we may assert that the most efficient plan is the one that does the most to close the gap per dollar of expenditure. It is necessary to note that there is no plan that would close the \$10 billion gap with \$10 billion of expenditure. A 100 percent plan would close the gap, but would cost, as we have indicated, in the neighborhood of \$25 billion. A plan that sets the minimum allowance at the poverty line and taxes all pre-allowance income at a tax rate of 33 $\frac{1}{3}$ percent would close the gap completely, but at a cost of \$50 billion, and would pay most of its benefits to people who are not poor. By contrast, the 50 percent negative rates plan would cost \$7.5 billion, less about \$2.5 billion reduction in public assistance (or a net cost of \$5 billion), would pay all of its benefits to those who are poor, and would close half of the poverty-income gap.

To make sure that all of the benefits go to the poor, we need to be careful in defining the benefit-receiving unit and the income to be counted in determining the size of benefit. Spouses should be required to file jointly, and unmarried persons under 19 years of age and students under 22 years of age should be prohibited from filing separately. A person who files under this plan could not be claimed as a dependent on any other person's positive income tax return. Income to be counted in reducing the allowance should be broadly defined to include the total money income of all members of the recipient unit. Ideally, it should include not only earnings and property income, but also public and private transfers (but excluding public assistance), and imputed income from non-cash-yielding assets. One could exclude from eligibility families with a gross business or farm income of more than a certain amount, and perhaps families with very large assets or very high incomes in the previous year. This would preclude a certain number of "horror cases," in which benefits would go to rich people who, in some cases, presently pay no income tax.

We need to be alert to the possibility that even a carefully designed plan might encourage husbands to desert their families and might discourage widows from remarrying. For example, a father with a wife and three children, who earns \$3,000, presently pays no income tax and would get no allowance. If he deserted he would pay \$394 in income tax, but, under the 50 percent rates plan, his wife might claim \$1,500. Or if a widow with two children who has no income but receives an allowance of \$1,250 marries a man earning \$3,000, which is \$2,606 after taxes, she would lose \$1,250 while he would save \$394. The penalty is \$856. While we do not know how much effect these incentives and penalties might have, they do deter us from considering rates higher than 50 percent, and urge us to recommend reducing the size of the guarantee for persons filing alone.

The other pertinent concern is to integrate the plan with the existing tax-transfer system. Consider how a negative rates plan would tie in with the income tax. In those instances in which the poverty lines are higher than the combined exemptions and deductions under the income tax, a family might have to pay a marginal tax rate of 50 percent plus a marginal rate of 14 percent on earnings. This is an argument for raising exemptions and deductions or for lowering the break-even income levels for negative rates purposes.

By the following type of arrangement, the administration of the plan could be integrated with that of the income tax. A family would declare what it thought its next quarter's income was likely to be. If the expected income were so low with reference to family size as to justify an allowance, the Internal Revenue System would do two things: (1) it would mail out allowance checks to the family each month, and (2) it would withhold tax at the source at a rate of 50 percent. At the end of the quarter the family would make

a new declaration, and either the allowance or the withholding rate could be changed to adjust for over- or under-payment in the previous quarter. A final settlement could be reached at the end of the year, at which time account would be taken of the fact that some people who started the year on one side of the poverty line ended up on the other and, hence, experienced both positive and negative rates under the income tax.⁵

INTEGRATION WITH PUBLIC ASSISTANCE

One of the more troublesome problems is integrating a new scheme of this sort with public assistance. One step in this direction would be to prescribe that the guaranteed allowances should be calculated without reference to public assistance and that public assistance benefits could be payable above the allowances as the States saw fit. At the present time, about 8 million of the total 30 million poor persons receive \$5 billion in public assistance payments. Presumably, a substantial number of the 8 million persons, namely, those in States where assistance benefits exceed the maximum allowances shown in Table 1, would continue to get assistance payments, but in diminished amounts. The great innovation would not be with regard to these people, but rather with regard to the 22 million poor persons who do not now receive assistance.

Most of the 8 million persons on assistance are in families without a worker, and most of the 22 million not on assistance (of whom 9 million are children) are in families with a worker. This suggests that one way to integrate a new scheme with assistance is to aim the negative rates plan at those categorically excluded from assistance, namely the "working poor".⁶ For the latter group, the level of the allowance in the event of no earnings would not have to be high, since they ordinarily have earnings. Setting the maximum size of the allowance far below a subsistence level would make it clear that we expect them to work and are not offering them an attractive alternative of subsistence income at no work. It is more important for these people than it is for the aged, the disabled, and the broken families that we keep the marginal tax rate low. This is based on the strong presumption that the lower the marginal rate, the less the disincentive to work and to strive for property income.

The key features of a negative income tax aimed at the working poor are reflected in Table 2's schedule of allowances for a family of four persons. Parallel tables would be established for each family size.

TABLE 2.—NET ALLOWANCES FOR 4-PERSON FAMILIES UNDER NEGATIVE RATES PLAN FOR THE WORKING POOR

Family income before allowance	Net allowance	Income after allowance
\$0.....	\$750	\$750
\$500.....	750	1,250
\$1,000.....	750	1,750
\$1,500.....	750	2,250
\$2,000.....	500	2,500
\$2,500.....	250	2,750
\$3,000.....	0	3,000

Under this plan, the allowance is unchanged as pre-allowance income rises from zero to \$1,500. In that range, in other words, the marginal tax rate is zero. From \$1,500 to \$3,000 of income, the marginal tax rate is 50 percent.

⁵ There are other ways to administer such a plan. For a valuable discussion of choices that are open see James Tobin, Joseph A. Pechman, and Peter Mieszkowski, "Is a Negative Income Tax Practical?" *Yale Law Journal*, November 1967. Also see William A. Klein, "Some Basic Problems of Negative Income Taxation" *Wisconsin Law Review*, Summer 1966.

⁶ This distinction between the working poor and the nonworking poor is emphasized by the Kerner Commission. At page 466 of their report, they call for providing ". . . for those who can work or who do work, any necessary supplements in such a way as to develop incentives for fuller employment; (and) to provide for those who cannot work and for mothers who decide to remain with their children, a system that provides a minimum standard of decent living and to aid in saving children from the prison of poverty that has held their parents."

This distinction is also discussed by the Council of Economic Advisers in their 1968 report. They point to the need for income supplements for poor families headed by men of working age and refer to the possibility of a "children's minimum income allowance." They note that "Especially difficult problems are involved in any program designed to eliminate poverty for those who can do some useful work but whose earning capacity is limited by their abilities or family responsibilities." (Pp. 147-148.)

Most of the poor four-person families are not on assistance and most of them have incomes from work in the \$1,500 to \$3,000 range.⁷ If a family is literally able to gain no income in the form of earnings, property income, or social insurance, then it would, just as is true under present laws need to apply for public assistance. In other words, this plan would not govern for those in the very lowest income brackets, except for those now on assistance in a few states. However, it would supplement earnings for most poor four-person families by up to \$750 per year. It would pay lesser amounts to smaller families and unrelated individuals and larger amounts to larger families. Hence, it could be called an income conditioned family allowance. While it would not take any family out of poverty, it would fill one-half the poverty-income gap for the 22 million poor persons not presently on public assistance. It would do this at a cost of \$6 billion, less about \$2 billion reduction in public assistance or a net cost of \$4 billion.

It would not do violence to the main purpose of this plan to restrict eligibility to those who are not receiving public assistance. That would make the gross cost equal to the net cost of \$4 billion. Such a move would dramatize the need for a package of reforms, including a raising of public assistance benefits in some states. In Mississippi the average AFDC benefit for a family of four is \$450 per year, while in New York it is \$2,990. The nation-wide average is \$1,728. The 1967 amendments to the Social Security Act included changes in public assistance benefit formulas which give assistance some of the characteristics of negative taxation. The first \$360 of earnings (\$30 per month) are not to diminish the benefits. In other words, a zero marginal tax rate applies over this short range. Beyond that, benefits are diminished 66 $\frac{2}{3}$ cents for every dollar of earnings. This means that in a state which establishes a maximum benefit of \$1,500, the income level at which benefits are reduced to zero is \$2,632. However, in New York, the break-even level is around \$4,822 (\$2,990 divided by .666 plus \$350).

The key issue of how to treat the categorical or assistance poor and the non-categorical or working poor is thus entangled with the issue of what to do about the difference in assistance levels among the States. A logical first step might be for the Federal Government to under-write a minimum assistance benefit for four-person broken families with no income of, say, \$1,500. A second step would be the introduction of the negative rates plan for the working poor as herein described. (See Table 2) The first of these changes would do a great deal for the poorest poor and the second would be of moderate help to those not now helped by assistance. We repeat that the latter group includes 9 million children. Differences would still remain between the treatment accorded equally poor families in the several States and, especially in States like New York, between the categorical and non-categorical poor. However, the differences would be reduced in all cases. The cost of such a package would be on the order of \$5 billion.

There is no reason why this two-part package could not be combined with other changes, including the following: improved minimum benefits for OASDI and unemployment compensation, re-training and on-the-job training programs, creation of new public jobs, and subsidized private employment opportunities for the poor.

CONCLUSIONS

This paper offers two proposals in answer to the question: What should we do next in developing the American system of transfers? Both proposals are aimed at adding to the incomes of those in poverty and are made in recognition of the fact that 22 million of the 30 million poor persons are not now receiving public assistance. These 22 million people, 9 million of whom are children, are mostly outside the traditional assistance categories of the old-aged, the broken families, and the disabled. They are "the working poor", and are poor because of one or more of the following factors: low-wage-rates, irregular employment, large family-size.

One way to reach the working poor and, at the same time to supersede public assistance in the low-benefit States, is to introduce the "Welfare-Oriented Negative Rates Plan." This would assure all families of four persons a minimum income of \$1,500 and offer net allowances that diminish to zero at \$3,000 of other income. The \$1,500 minimum would be an increase for those people on assistance in a substantial number of low-income States, but would merely replace part of the assistance benefits for some in higher-income States.

⁷ Relatively few of the poor are in "the categories" and not on assistance. In 1966 only 3.3 million aged poor and 2.1 million persons in broken families were not on assistance.

The alternative proposal is a two-stage one. The first stage is a federal setting of standards to lift assistance benefits for those four-person families in the traditional categories and with no income to \$1,500 in all States. The second stage is to introduce a variant of the negative rates plan discussed above. This variant is called the "Negative Rates Plan for the Working Poor." For a family of four, this plan would supplement any amount of earnings or other non-assistance income up to \$1,500 with \$750. Income beyond \$1,500 would diminish the supplement toward zero at the \$3,000 level.

Both proposals would accomplish almost the same things. They would channel help to those among the poor who most need it and who are least helped by the existing American system of transfers, which now pays out over \$40 billion of cash benefits. Either proposal would cost about \$5 billion of new tax money in 1969.

Mr. LAMPMAN. The guaranteed income is one name for a family of plans which include such members as the negative income tax, the income-conditioned family allowance, the income supplement, and the social dividend.

The central idea of all these plans is that net benefits are available on the basis of family size or number of eligible family members.

Professor Morgan talked about a family allowance or a children's allowance, which is one example of this general family of plans. On the basis of family size, then, and on the level of income, this is in contrast with both public assistance and social insurance.

One type of a plan we can call a negative rates tax plan. A family would receive 50 percent of the difference between its actual income and the poverty line income for the family size. Thus, for a four-person family, we can imagine I think that if they had no other income, they might receive one-half of the poverty line income. Nowadays that is about \$1,600. This would be the level of guarantee, then, in the case of no earnings. If they earned some amount, this would close the distance between their actual income and poverty line and their allowance or net payment from the plan would fall.

There is in all these plans some level of income at which no benefit is payable. You can refer to that as the break-even point. A 50-percent rate plan of the kind so briefly mentioned would today cost somewhere around \$7.5 billion gross. There would presumably be some savings on public assistance so one can estimate about a \$5 billion total cost to the Treasury.

As Professor Morgan has mentioned, this is a transfer cost; a transfer charge. It is quite different from other costs that economists refer to as resource-using charges.

Now, one way of calculating the importance of a \$5 billion outlay of this sort that I have just mentioned is that it would approximately close one-half of the poverty income gap that remains at this time. Thus, we could, by adding \$5 billion to our present pattern of income maintenance payments, take our poor population very close to a point of elimination of all the poverty that remains in the United States.

Now, there are various other plans that have been suggested or reviewed at an earlier session of these hearings, which would eliminate poverty altogether. I would like to underline that there is no way to eliminate the poverty income gap of \$10 billion or a little more that exists today for anything like \$10 billion. It would cost, apparently, under any plan, at least twice as much as that, perhaps three or four times as much under some plans, to totally eliminate poverty. Thus, a 100-percent tax rate plan which would say to every family, we will fill

100 percent of your poverty income gap, would cost, I estimate, in the neighborhood of \$25 billion. This is on the reasonable assumption that many people who are now working and poor would be induced to stop work if we said to them, we shall take away every dollar that you earn in the form of a reduced benefit.

Another way to try to close the poverty income gap is to set the guarantee at the poverty line and then have a low marginal tax rate, say $33\frac{1}{3}$ percent tax rate, which would make the break-even point three times the poverty line or something over \$9,000 for a family of four. This particular variation, I estimate, would cost in the neighborhood of \$50 billion a year.

So that in talking about a 50-percent negative rate plan to cost net about \$5 billion, it seems to me we are pointing to a real bargain in terms of tax dollars. We can close half the gap for \$5 billion. If we try to close all the gap, it will cost something over \$25 billion a year.

Now, I note that there is a great amount of discussion in the press and among people around the country about one feature of these plans. In particular, many people focus on the guarantee—that is, all they are interested in, it seems in discussion, is how much are you going to pay people for not working. A common variation of this is \$3,000 as a guarantee. It seems to me that there is a lot of concern, and rightfully so, about saying to an able-bodied head of a family, if you are of a mind to not work, you can accept a \$3,000 annual income.

Now, I think it is very important in considering the size of the guarantee to divide the poor population into two groups. One group is the people who are either on welfare at this time—that is, public assistance—or the people who are eligible for public assistance, versus another group of people who are not eligible for public assistance. The number of poor in the country today is close to 30 million persons. Eight million are on public assistance. Something, then, in the neighborhood of 22 million people are poor but are not on public assistance. Most of those 22 million people are not likely to be eligible for public assistance as the laws are presently drawn—that is, these people are in families headed by an able-bodied man under age 65. They are not, then, going to fit into the category of old age or broken families of disabled people.

So the really big problem that we face in talking about any new income maintenance program is what we are going to do with the non-assistance poor—the noncategorical poor, if you please.

The level of the guarantee is of greatest importance, it seems to me, at least, in thinking about the assistance poor—the people who are not able to work and are not expected to work. On the other hand, the typical ones of the 22 million people who are poor and not on assistance today are in families where the head does work. He is not only able to work, but he is willing to work, and in fact does work most of the time. Professor Morgan mentioned many of these people are poor not because of complete lack of work, but because of low hourly wage rates or because of irregular unemployment or because of a large family size relative to the income of the family head.

Now, for these people, the size of the guarantee is often quite academic. It is not important whether the size of the guarantee in the case of no work is \$3,000 or \$1,500 or \$700. Most of the poor persons

in the country, aside from those on assistance, are in families where earnings run in the neighborhood of \$2,000 a year.

I have suggested in my paper here that we should think about a plan which is designed specifically for the working poor, that we would say to them, we will supplement your earnings and, as one suggestion in the paper goes, if you are in a family of four persons and your earnings are \$2,000, we will supplement those earnings with \$500. That would close approximately half the poverty income gap for families in that circumstance.

We could at the same time say to them, the guarantee for you as a member of the working poor is very low. The guarantee, let us say, is \$750. If you do no work, in other words, your option is to take a very low income. This is set deliberately low to make it clear to everyone that we are not inviting people to stop work. It would, however, be a way of adding to the income levels of most of the people now in poverty and I hope without discouraging them from continuing their work efforts and indeed, along the line Professor Morgan suggested, induce them onward and upward to still higher levels of earning and well-being in their family units.

I would also point out that if we are looking for places to begin, one of the real problems that we have in our public assistance system today is the great variability among States. So I suggest that a second or concomitant step to introducing a negative tax for the working poor would be to improve the benefit levels in the very lowest benefit States.

For example, benefits in Mississippi for a four-person family without any other income apparently run now on the order of \$500 a year, whereas in New York for similarly placed families benefits run close to \$3,000 a year. I would think it would be desirable to spend approximately \$1 billion to raise the benefit levels in the lowest income States to something on the order of \$1,500.

Now, my estimate is that in terms of transfer cost, what would be needed to do these two things is, one, a \$4 billion outlay for a new negative income tax for the working poor of the kind I have mentioned; a low guarantee, \$750 for a family of four; a set of benefits which run undiminished from zero income to \$1,500 of income for that family; and then our decline at a 50-percent rate to a break-even point of roughly \$3,000. That would cost about \$4 billion.

In addition, it seems to me we could very profitably and reasonably spend a billion dollars or so improving the low-income State levels of benefits on public assistance. These two steps carry a total cost of \$5 billion of new tax funds to be paid by the nonpoor.

My suggestion is not meant to be an exclusive one. It is not meant to say we should not also spend money on retraining, on some new public employment opportunities, on privately arranged on-the-job training and new employment opportunities in the private sector for members of poor families. I think these are all important to go along step-by-step together. We need also improved health and education opportunities for the poor in various parts of the country.

So that as I see it, what we are looking for, Madam Chairman, is a package of benefits, a combined set of programs which are going to continue our long tradition of concern for the poor in this country and which will move us forward to not only closing the poverty income

gap more rapidly than we have been, but which would also improve real opportunities confronting the young people in our poverty population.

Thank you.

Representative GRIFFITHS. Thank you very much.

Mr. Levine?

STATEMENT OF ROBERT A. LEVINE, ASSISTANT DIRECTOR FOR RESEARCH, PLANS, PROGRAMS, AND EVALUATION, OFFICE OF ECONOMIC OPPORTUNITY

Mr. LEVINE. Thank you, Madam Chairman.

I also have supplied the committee with a written statement I should like to have in the record.

Representative GRIFFITHS. It will be placed in the record following your oral presentation.

Mr. LEVINE. First, I would like to make clear these are my personal views and do not represent the views of the Office of Economic Opportunity.

I would like to start, Madam Chairman, by discussing the role of income maintenance in the OEO program planning structure because the OEO is charged with seeking solutions to problems in this area, whether or not these solutions be within the OEO program as such.

In looking at the problem of the war on poverty, we divide our programs into four major categories. The first of these is manpower and job training programs. The second is individual improvement programs, primarily education; third are community change programs such as those in the community action area. Fourth is income maintenance.

I bring this up now because there frequently are heard statements by academic or other people that the strategy of the war on poverty should be an income maintenance strategy *or* a jobs strategy *or* a community institution-changing strategy. To my mind, this is an incorrect approach.

The strategy of the war on poverty has to draw from all of these sorts of programs. Each of the categories of programs supports the other categories.

For example, the OEO program as such is an economic opportunity program, and economic opportunity in our economy is opportunity to get and hold a gainful or meaningful job. But one reason why so many of the poor do not have such jobs is the poor education they have been subjected to and thus the education programs support the job programs. Similarly, the job programs support the education programs in supplying motivation for better education.

The community action sort of programs, by trying to change environment and adjust institutions, support the rest.

In this set of categories, income maintenance, I think, plays a crucial role for two reasons. Somewhere between one-third and one-half of the poor are in families where economic opportunity has no great meaning for this current generation. These include families headed by aged persons, some of the families headed by women—there is no

clear way to divide the sheep from the goats, those who should work from those who should not. But at any rate, a large portion of the poor are in essentially noneconomic opportunity programs.

But if we are sincerely interested in eliminating or eroding poverty, I think income maintenance is the program for these people. In addition to being the most direct program for this generation, it is a program of opportunity for the next generation. It is a program which supports other programs such as Headstart, such as the Neighborhood Youth Corps, supports them because a child in a family which is stable and which has a stable, albeit low, level of living, is, we believe, far more likely to succeed in these other opportunity programs.

So I want to make clear that we are putting income maintenance into a role in the war on poverty, but we are not putting it into an exclusive role.

Now, given this, my own feeling about the sort of income maintenance program that is most desirable is that it should be a universal, noncategorical one going to people on the basis of low income alone, with no further categorization. Nonetheless, I realize that both for fiscal and other reasons this may be very difficult to do. It certainly may be a very difficult way to start. I, therefore, would move from a belief in a completely noncategorical program to one which sets up some categories, but I am reluctant to set up any but the most obvious categories.

Age is such a category; whether there are children in families is such a category. Other categories shade off into questions of interpretation—whether a person belongs to the labor force or not, for example. I think one of the current difficulties with the welfare system is in these interpretations and who is to do the interpretation.

So I think we would start off, if we are going to categorize, with these very broad categories. I would suggest the priority categories are two—not necessarily in this order—the category of the aged and the category of families with children.

I pick on the aged for two reasons. One is, it is fairly easy to apply an additional income maintenance program to the aged over and above current social security. It is easy and not too expensive.

The second reason for picking on the aged is that this group among all, if we are to categorize by groups, depends on income maintenance—opportunity programs are less applicable to those who are reaching the age where work is going to be less likely.

The reason I pick on the families with children, and I am in agreement with Professor Morgan and Professor Brazer, was implicit in my discussion of categories. It seems to me that in an opportunity program these are the groups, the next-generation groups, which it is most necessary to reach with income maintenance.

A large portion of our own programs, a large portion of the total war on poverty programs do go to children. It seems to me these programs for education and training of, children and youth, must be supported by an income maintenance program reaching the families in which these children are, to unite the families, hold them together, and help to support the other opportunities we hope to provide the children. So these are the two categories.

I would like now to read quickly from the written submission the requirements for such a program. These requirements apply primarily to the program for the families with children, and with some qualification to programs for the aged—but I believe there are six requirements any such plan should fulfill.

First of all, it must provide an income floor for all beneficiaries based on national standards. It is unreasonable for persons to be eligible in one jurisdiction and ineligible in another a few miles away. It is illogical for the standards of support to be as much as 10 times larger in one area of our country than in another. Indeed, I think some of the recent court decisions having to do with the residency rule are pointing in this direction.

Second, the burden of support should be distributed among the population in a manner which reflects the ability to bear that cost, and not be governed by the numbers of poor within certain areas. The States which have the smallest resources are now generally those which must make the largest relative financial effort to provide welfare benefits, and even then they can only establish support levels which are far below the level of assistance maintained by their richer neighbors. Poverty is a national problem and I think this should be a national program for ending poverty.

The third requirement I would suggest is that financial assistance should go only to the poor initially, although perhaps in a later phase it might reach above the current poverty line. But realistically, now we are talking about a program which goes only to the income-defined poor.

Fourth, we would need to abolish residence requirements and relative responsibility provisions permitted under the present law and replace the present investigative apparatus with a system of random audits similar to that prevailing under our current positive income tax system as a mode of enforcement.

Fifth, we should not require persons receiving assistance to accept counseling by a social worker. For one thing, we do not have enough social workers to go around, and many of the poor need only income assistance as a second reason. Counseling in such conditions may be only disguised meddling. If people are incompetent to run their own or children's affairs, the law provides remedies already. If they are competent, society should encourage the exercise of such competency. It seems to me that is a basic requirement for changes in current income-support programs.

Finally, and I think the most important requirement, and this is one that applies perhaps less to the aged than to the families with children, is an incentive system which encourages the recipient to obtain work, rather than penalizes him for working.

In a small and insufficient way, we have already begun on this. The amendments to the social security bill passed during 1967 effected many changes in the welfare system. Many of these changes were opposed by the administration as undesirable, but one made extremely good sense. Beneficiaries under AFDC will be permitted to keep the first \$30 of their income without having their AFDC payment reduced. Income larger than that amount will reduce AFDC benefits by 67 percent of additional income. Today, the normal practice is to reduce

the AFDC benefits by 100 percent. The change is thus a step which begins to give people an incentive to work, but the tax rate of 67 percent is still a rather high one. The highest income tax rate on the positive tax, after all exemptions and deductions, is only 70 percent, and that rate applies only to incomes in excess of \$180,000 a year. I think this is an odd equity between people on welfare and those making \$180,000 a year.

These, then, are what I would suggest as the requirements for any basic income-maintenance scheme which starts at this time. Given these requirements, I do not much care what we call it. I think negative income tax is an unfortunate phrase which is tough to understand and the words in which have been abused. Nonetheless, these requirements do describe many of the basic factors in a negative income tax.

The Office of Economic Opportunity is now commencing under the sponsorship of the University of Wisconsin Institute for Research on Poverty—Professor Lampman, among others, has been active in this—and running through the Mathematica Corp. in New Jersey, an experiment attempting to find out the effects of such a scheme on poor people in the State of New Jersey. It is an experiment which starts with intact male-headed families. The chief information which we wish to get out of it is the actual effect of such a scheme with varying rates of return, tax rates, and varying income levels on the poor in this group of working age.

The reason for concentrating on male-headed families is these are the families at issue when we discuss whether a scheme of this nature would discourage work.

Another bit of information we wish to get out of it is the effect on the unity of these families. The plan is to have 800 to 1,000 families in the experimental group, and 200 families in the control group. I am sure Professor Lampman could describe it much more effectively, but the main objective is to get out of it the effects of such a program on work incentives and family stability.

Let me conclude by reading a final portion of my written statement. There may be some interest in why I am saying at the same time that I personally feel it is time for an income maintenance program of a certain description, and saying that we are carrying on an experiment in income maintenance, the purpose of which is to gain more information about such a program as I already favor.

For myself, I feel quite confident that negative income tax-type systems would encourage the incentive to work compared to current public assistance systems with their built-in 100 percent tax. Nonetheless, I find it likely that such new proposals may discourage the incentive to work compared with no income maintenance at all, and there is no income maintenance at all available to these male-headed families in New Jersey. Thus, I think the New Jersey experiment will show some dropoff of work in the group receiving payments as compared to the control group receiving none. I do not believe this dropoff will be substantial, but I do feel that the guess of George Harris, writing in *Look*, that the group receiving payment will work more may prove overoptimistic.

For myself, as a personal judgment, I think the basic income maintenance for the so-called deserving poor—who do not work because they cannot or should not—is so very important that I will be willing to accept, as a price of the system, payments to the “undeserving poor” who might work less than they should. I use the words “deserving” and “deserving” because they are common phrases, not because they have meaning to me. I do not think the children of “undeserving” parents are themselves undeserving of a chance in life. If we took this view, we would be perpetuating their life on welfare.

In any case, a carefully designed system would minimize the size of the “undeserving” group by building connections between income-maintenance programs and training-employment programs. Nonetheless, let us face it—any broad-brush income-maintenance scheme will have some “chiselers.” There always are some “chiselers.” The only final way to separate the “deserving” from the “undeserving” is by a careful case-by-case investigation; and this is where we are today, with the public assistance system—a system of investigation which many find unacceptable.

What I am saying, bringing together the reason for trying to get further information as well as my own advocacy of a broad income-maintenance scheme at this time, is that I do want the evidence of how many, if any, will work how much less under a basic income-maintenance system. I, for myself, would opt for such a system even in the knowledge that some persons would work less. I would accept such “chiseling” as the price of a needed system, just as we accept similar chiseling, which is much larger in dollar terms, illegal tax evasion, as the price of a nonoppressive, positive graduated income tax system. Neither form of chiseling is desirable, but the systems themselves are desirable and necessary. Any attempt to make a perfect separation between the sheep and the goats would transform both a positive income tax system and a basic system of income maintenance into far less acceptable systems.

For this reason, then, Madam Chairman, I would as a personal matter endorse broad income maintenance, while as a professional and bureaucratic matter I am sponsoring an experiment to obtain more information.

Thank you.

(Prepared statement of Professor Levine follows:)

PREPARED STATEMENT OF ROBERT A. LEVINE

I am pleased that the subcommittee has asked me to present my personal views on the welfare system and possible reforms in that area. I should like to make clear first of all that what I say here represents my own views and should not be construed as necessarily reflecting the policies of the Office of Economic Opportunity which I serve as Assistant Director for Research, Plans, Programs and Evaluation.

I am convinced that the broad system of income maintenance which has evolved over the last 30 years is inadequate to serve the needs of America, and needs reform. That part of the income maintenance system most widely known and condemned is that popular called welfare, and the most roundly criticized part of “welfare” is Aid to Families with Dependent Children. I include myself among those critics.

Before I begin the main body of my presentation I should like to suggest what we might reasonably expect to obtain from an income maintenance system. Very simply, what is needed, and what should be possible to obtain, is a system which would both provide Americans with an income sufficient to the necessities of life,

and encourage them, if at all possible, to obtain this income from work rather than government transfer payments. This is really all that system should do. Nothing more. Income maintenance is not a substitute for a high level of demand. It cannot be effective in the absence of full employment, and it cannot substitute for a much needed improvement in educational and community institutions.

I indeed I am sure that to the extent that income maintenance is required to cover deficiencies in employment or training it will fail of its real intent—to provide an income floor without substantially reducing the incentives to make one's own way in life. Income maintenance is not a cure-all; any incentive features of an income maintenance program will be worthless and the program will become quite expensive if the incentive to obtain a job is frustrated by the absence of work opportunities.

I think that I can best begin by focusing attention on some basic facts about the population we call the poor, and thus indicate where my concern in the design of an income maintenance program lies.

The program designs which will have the greatest likelihood of success in eliminating dependence and poverty through programs of income maintenance are determined in large part by the characteristics of the population to be benefited. Thus it is important to know that over half of the poor are either less than 16 years old or over 65. Of even greater importance is the fact that male heads of poor households in the normal working ages (22-54) are not simply waiting for the next check to arrive from the government. Over 55 percent of such persons are working full time 40-52 weeks a year, and are poor in spite of it all. Statistics can be dull, but a statistic such as this highlights the fact that many millions of persons are poor in spite of strong attachment to the labor force, and underlines the need for income support which would include strong work incentives. The following tables specify some basic characteristics of the poverty population which can help guide the design of such a program.

Table 1 enables us to see how the size of the poor population has begun to diminish in recent years in absolute terms and how that diminution has been distributed between farms and urban places, and between those who are white and non-white.

Table 2 classifies those who were poor in 1966 by color and sex among various age groups and permits greater insights into the question of which groups would benefit from a generalized program of income transfers. It is useful to note, incidentally, that $\frac{2}{3}$ of the poor are white. A broad income maintenance program based on need would benefit twice as many whites as non-whites, if that is relevant—which I don't really think it is.

Table 3 then separates out those living in families and distributes family members of distinct age groups by the age of the head of the family. This distribution shows the ages and number of people who live in poor families headed by persons in the prime working ages, as compared to the number in families for which work incentives might not be as effective.

Table 4 examines the work experience of distinct age groupings of the poor population during a recent year, so that the need for programs which attempt to provide income support in concert with work incentives can be judged.

These are the poor.

TABLE 1.—NUMBER OF POOR PERSONS BY PLACE AND COLOR, 1964-66

	1964	1965	1966
WHITE			
Total.....	23,614	21,698	20,459
Farm.....	3,046	2,092	1,565
Nonfarm.....	20,568	19,606	18,894
Inside SMSA.....	10,769	10,186	10,243
Central city.....	5,625	5,426	5,392
NONWHITE			
Total.....	10,638	10,524	9,458
Farm.....	1,329	1,199	886
Nonfarm.....	9,309	9,325	8,572
Inside SMSA.....	5,577	5,887	5,047
Central city.....	4,431	4,924	4,095

TABLE 2.—NUMBER OF POOR BY AGE, SEX, AND COLOR, 1966

	Male		Female	
	White	Nonwhite	White	Nonwhite
Age:				
Under 15.....	3,556	2,370	3,555	2,372
16 to 21.....	763	436	1,018	552
22 to 54.....	1,998	835	3,010	1,558
55 to 64.....	693	240	1,234	360
65 and over.....	1,621	313	3,014	432
Total.....	8,631	4,194	11,831	5,265

TABLE 3.—NUMBER OF POOR PERSONS LIVING IN FAMILIES AND UNRELATED INDIVIDUALS BY AGE OF HEAD AND AGES OF THE FAMILY MEMBERS, 1966

Family members by age	Persons in families by age of head					Unrelated persons
	Total	Under 22	22 to 54	55 to 64	65 and over	
Heads of families.....	6,087	226	3,522	801	1,538	5,082
Under 16.....	11,535	274	10,185	649	427	316
16 to 21.....	2,444	366	1,610	321	147	324
22 to 54.....	6,529	17	5,688	434	390	874
55 to 64.....	1,655	-----	80	1,150	425	872
65 and over.....	2,674	-----	124	96	2,454	2,696
Total.....	24,837	657	17,687	2,650	3,843	5,082

TABLE 4.—1964 WORK EXPERIENCE BY AGE AND SEX

[Thousands of poor persons]

Age and sex	Worked full time				Worked part time				Did not work					
	Total	40 to 52	14 to 39	1 to 13	Total	40 to 52	14 to 39	1 to 13	Total	Unable to find work	Keeping house	Going to school	Ill or disabled	Other, including retired
Males:														
16 to 21.....	501	158	167	176	463	185	107	171	342	15	3	266	37	21
22 to 54.....	2,828	2,124	554	150	434	179	170	85	444	82	15	47	228	72
55 to 64.....	557	416	95	46	246	108	54	84	329	15	3	.....	221	90
65 and over.....	169	105	38	26	243	92	72	79	1,497	21	16	.....	457	1,033
Total.....	4,055	2,803	854	398	1,386	564	403	419	2,612	133	37	313	943	1,186
Females:														
16 to 21.....	474	64	215	195	334	68	92	174	818	52	230	438	28	70
22 to 54.....	1,646	807	524	315	1,065	395	331	339	2,728	86	2,190	45	251	156
55 to 64.....	308	191	84	33	278	138	74	66	972	36	737	.....	128	71
65 and over.....	162	89	57	16	259	127	56	76	3,042	18	2,075	.....	489	460
Total.....	2,590	1,151	880	559	1,936	728	553	655	7,560	192	5,232	483	896	757

Any change in existing income transfer programs must start from where we are today with regards to these 30 million poor people. And where we are is pretty clearly something of a mess.

About 8 million of the poor get some or all of their income from existing public assistance programs. About 2.2 million receive income-conditioned veterans disability payments not related to military service.

Direct income transfers to the poor from public assistance programs now total about \$5 billion a year, and the income conditioned veterans disability payments cost about 2.1 billion.

The three other major national programs provide income maintenance support not restricted to the poor. They are:

OASDI retirement and disability programs which costs about \$20 billion annually, of which approximately \$7 billion goes to the poor, primarily the aged; the various programs which pay medical bills for the aged and the poor; and the unemployment insurance program. Medical payment programs to the poor now cost about \$3.7 billion a year. Unemployment insurance costs *in total* about \$2.6 billion a year, but we do not have any statistical series which permits us to determine very accurately how much of this total poor people receive or the distribution of these payments among the poverty population.

The list could go on and on. What we do know is that our programs of income maintenance cover less than a third of those who are poor. We know that standards of eligibility and payment are uneven and sometimes illogical. We know that the working poor are almost universally excluded from coverage. We know that these programs have provided little incentive to work, by taxing the earnings of recipients at 100 percent rates, and have provided incentives for the husband to desert his family by restricting benefits to households where men are not present.

How can we improve this system? We can make revisions within the present welfare system, we could provide a system of children's allowances, or we could introduce what is widely referred to as a Negative Income Tax System.

There are two questions which must be answered before any policy of improvement or change can be appropriately focused. First, who among the groups delineated above should receive income maintenance protection? Second, how should such protection be conditioned?

I would prefer to see a program of income maintenance which would provide some protection for all poor persons but I realize that such a program may now be considered politically impossible. In this case the most realistic alternatives to universal coverage are to cover two major groups—persons over 65 and families with children.

The establishment of a single and comprehensive program of income maintenance for the aged is attractive from many points of view. First, an increase in transfer payments to this group does not have the generally bad odor of welfare attached to it. Second, they are a significant element of the poor whose income needs (as measured by the poverty line) total only about \$2.5 billion which is only about one-fifth of the income needs of all poor persons. Third, they don't have many babies, and we don't expect them to work very much.

A national system of income maintenance for the aged which would guarantee all aged persons 75 percent of the poverty line, and which provided moderate work incentives could cost as little as \$2 billion. The means for establishing such a program would not require any altogether new institution, but could utilize the present OAA program.

In order to maintain the principle of state participation and administration, each state could pay a uniform percentage of aggregate state personal income into an OAA fund supporting the entire system. Such a levy on the states would equalize sacrifice among them. This fund would then be increased by a federal contribution sufficient to pay all needy aged the difference between their existing income and 75 percent of the poverty line. Administration would remain in the hands of the states, but no state could disqualify persons 65 or older except by an unwillingness of applicants to make a simple income declaration which validated that their income was below the poverty line. The program could have simple age, income and asset limitations and be administered very efficiently.

Whether such a program should be implemented depends both upon the competing needs of poverty groups other than the aged, and upon the funds available for such programs.

Regardless of financial constraints which may interpose barriers between program proposals and action, one principle should be remembered. A system

like that which has been described can eliminate all or part of the income deficiencies of the aged at a smaller cost than required by other program alternatives.

Outside of the aged and their families, virtually all of the remaining poor are those in households headed by a person of working age—sixteen or older. My own view is that all of these should be covered by a basic income maintenance system, which, added to the coverage of the aged, would make the system nearly universal. But if, for fiscal or other reasons, this is considered infeasible, then the group of prime interest is those working-age-headed families with children. Some heads of families over the age of 65 do have minor dependents, and therefore this is not a perfectly clean category of persons, but all this implies is that such families could be included under either program category.

Why is a new program for income assistance to families with children regarded as having a high priority? The main reason is that our existing programs generally exclude such families as long as they are intact, and thus provide an incentive to drive the husband away from his family. A program for payments to such families would channel our limited resources to the population (children in poor families) where income increases will have the greatest probability of reducing the tendency for poverty to be transmitted between generations. Such a program would help both by maintaining family stability and because income provides an opportunity for choice—choice of education or training as against subsistence labor, for example.

The benefits of the program would go only to the poor and would be structured to preserve the incentive to work. An effective and meaningful beginning could be made now through a design which would retain very significant work incentives for program beneficiaries at a net new cost of around \$2 billion.

The characteristics of such a program are:

1. It must provide an income floor for all beneficiaries based on national standards. It is unreasonable for persons to be eligible in one jurisdiction and ineligible in another a few miles away. It is illogical for standards of support to be as much as 10 times larger in one area of our country than they are in another.
2. The burden of program support should be distributed among the population in a manner which reflects an ability to bear that cost, and not be governed by the numbers of poor within particular areas. The states with the smallest resources are now those which generally must make the largest relative financial effort to provide welfare benefits, and even then can only establish support levels which are far below the level of assistance maintained by their richer neighbors. Poverty is a national problem.
3. Financial assistance should go only to the poor initially, although in a later phase it might reach somewhat above the current poverty line. Until we are able to provide the basics of a decent life to all Americans, programs should not assist those whose incomes are sufficient to this end. I do not argue that those just above the poverty line may not need help. Only that their need is less pressing than those whose incomes fall below that level. As we raise the support level we can if desired increase the number of persons who are aided.
4. We would need to abolish residence requirements and relative responsibility provisions permitted under the present law, and replace existing investigative apparatus with a system of random audits similar to that prevailing under our present positive tax system.
5. We should not *require* persons receiving assistance to accept counselling by a social worker. We just don't have nearly enough trained social workers to go round, and many of the poor need only income assistance. Counselling in such conditions may only be disguised meddling. If people are incompetent to run their own or their children's affairs the laws provide sufficient remedies; if they are competent then the society should encourage the exercise of such competence by providing advice and counselling only when it is specifically requested by the beneficiary.
6. Perhaps most important of all is the establishment of a rational incentive system which encourages the recipient to obtain work, rather than penalizing him or her for working. In a small and insufficient way, we have already begun on this. Amendments to the Social Security bill passed during 1967 effected many major changes in the welfare system. Most of these changes were opposed by the administration as undesirable. There is no doubt, however, that one change provided by the new legislation made extremely good sense. Beneficiaries under

AFDC will be permitted to keep the first \$30 per month of any income without having their AFDC payment reduced; income larger than that amount will reduce AFDC benefits by 67 percent of additional income. Today the normal practice is to reduce AFDC benefits by 100 percent of any other income. The change is thus a step which begins to give people an incentive to work. I would however point out that the tax rate of 67 percent is still a very high one. No family pays this large a tax rate under the regular tax system. The highest income tax rate after all exemptions and deductions are taken is only 70 percent and that rate applies only to income in excess of \$180,000 a year. I cannot imagine that such an incentive system would be very effective in encouraging people to find work if it taxed earnings from that work at rates averaging more than 50 percent.

These six requirements outline what is generally called a negative income tax, but the important point in filling the requirements, not calling it a negative income tax—I would be much happier if we called it something else. If it filled the requirements it could be called a negative income tax, or a Graduated Work Incentive program, which is the name we give our New Jersey experiment, which I shall describe, or it could be called a welfare reform.

But if we call this a welfare reform and in fact try to achieve it by reforming the welfare system, we should guard the six requirements; many proposals for welfare reform violate one or more of these crucial specifications. Many such proposed Public Assistance reforms continue to maintain state, rather than national standards; they continue the degrading system of investigation; or they continue to tie income maintenance too closely to "social services" for the poor.

The major alternative to a system such as we have outlined is called the children's allowance. It seems to be that this is less preferable.

Advocates of this type of program are in my opinion proposing an inequitable and very expensive system. Were we to provide all families in this country \$5.00 a month for every child, the total cost of the program would be over \$4 billion a year. If we gave benefit at a higher level (say \$2,000 a year for a family of four) the cost would increase to about \$33 billion.

Some advocates of Children's Allowances have proposed that the cost of such a program could be reduced very substantially by restructuring the present tax system to eliminate the present \$600 exemption, and taxing the Children's Allowance. This might reduce the cost of the program to about \$15 billion. There are many difficulties involved in such a tax recapture, but let us suppose that a program of Children's Allowances could be established which would initially be paid to all families; that in addition the tax law could be restructured to tax back all of the benefits received by families who are not poor, and that net benefits would be related to the degree of poverty experienced by each family.

A Children's Allowance which could do this would, in fact, be almost identical to a negative income tax program for families with children—any distinction would again be a minor question of semantics and structure rather than of substantive program differences. By calling it a Children's Allowance, we have nominally restructured our entire income tax system, but we have actually installed a program like the one outlined above by the six requirements.

In designing a program which would fit these six requirements, there are still very many open issues of a more or less technical nature—issues of administration, of time-phasing, of meshing it with existing systems such as Old Age, Survivors and Disability Insurance. Like most technical issues, these can be overcome.

On another set of issues related to human response to such an income maintenance system, however, we still have little information—lots of guesses but little information.

Will a negative tax likely affect the number of children which would otherwise be born to recipient families? What will be the effect on patterns of inter-area and rural-to-urban migration among the poor? What effect might such a program have in achieving a greater sense of community identity or a lessening of tension between the poor and the affluent? How much would family integration and stability be increased? What effects might such a program have on the educational attainment of children among recipient families? Finally, most important, what will be the actual effect of such a partial tax of low-level earnings on the incentives to work and earn?

Answers to these questions can only be determined from empirical data, and the importance of such issues as these have led the Office of Economic Opportunity to fund a Graduated Work Incentives experiment in New Jersey. That project, which I believe to be the first scientifically constructed attempt to

determine the effects of policy alternatives under public discussion, is to begin late this summer and is planned to continue for three years. Approximately 1,000 families will receive monthly income transfers which if their income fell to zero would range between $\frac{1}{2}$ of the poverty line and the poverty line. The transfers actually made will be reduced by rates ranging between 30 percent and 70 percent as other income of the family increases.

About 200 families will act as a control group and will not be provided any transfer income. The inclusion of a control group and the variation in the income guarantee and its associated tax rate for those who will receive such transfers are extremely important elements in the experiment. They are vital to any attempt to discover the alternative costs and benefits resulting from various plans to be considered under any national program which might be legislated. OEO is therefore attempting to provide the Congress, the public, and the President's Commission on Income Maintenance with a means of evaluating the likely effects which might be expected to result from the enactment of legislation in this area. Hopefully, early results from that experiment may be available within a year or so from its inception. The experiment will not prove or disprove any hypothesis of cost or effects. It will provide a very substantial, technically competent, basis for determining estimates of costs and effects of alternative programs.

One final question remains. Throughout this statement I have indicated some favorable feeling toward proposals of the Negative Income Tax type, as a current proposition. At the same time, I have said that there are still important pieces of evidence missing and that is why we are financing the Graduated Work Incentives Experiment in New Jersey. How can I reconcile these two statements?

Frankly, I do so on the basis of a personal value judgment which I realize may not be shared by all or even a majority of the American people. I feel quite confident that Negative Income types of systems will encourage the incentive to work compared to *current* Public Assistance systems with their built-in 100 percent tax; nonetheless, I think it likely that such new proposals may discourage the incentive to work compared to *no* income maintenance at all. Thus, I suspect that the New Jersey experiment will show some diminution of work in the group receiving payments as compared to the control group receiving none. I do not believe that this drop-off will be substantial but I do feel that the guess of George Harris writing in *Look* magazine that the group receiving payment will work *more*, may prove overoptimistic.

For myself—as a personal judgment—I think that basic income maintenance for the so-called “deserving” poor who do not work because they cannot or should not is so very important that I would be willing to accept as a price of the system, payments to the “undeserving” who work less than they should. (I use the terms “deserving” and “undeserving” because they are common, not because they have much meaning. Are the children of an “undeserving” family head, themselves undeserving of an opportunity in life? If we answer that question affirmatively, we make it likely that they will be on the welfare rolls as adults.)

In any case, a carefully designed system would minimize the size of the “undeserving” group by building connections between income maintenance programs and training-employment programs, but there will still be some “chiselers”—there always are.

The only way to finally separate the “deserving” from the “undeserving,” however, is by a system of careful case-by-case investigation, and this is where we are today with the public assistance system—a system of investigation which many find unacceptable.

So what I am saying is that although I do want the evidence of how many—if any—will work less under a basic income maintenance system, I would opt for such system even in the knowledge that some people would work less. And I would accept such “chiseling” as a price of a needed system just as we accept “chiseling” which is much larger in dollar terms—illegal tax evasion—as a price of a non-oppressive positive Graduated Income Tax system. Neither form of chiseling is desirable but the systems themselves are desirable and necessary; and any attempt to make a perfect separation between the sheep and the goats would transform them to different and far less acceptable systems.

Representative GRIFFITHS. Thank you, Mr. Levine.
Mrs. Rivlin?

STATEMENT OF MRS. ALICE M. RIVLIN, ACTING ASSISTANT SECRETARY FOR PLANNING AND EVALUATION, DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

Mrs. RIVLIN. Thank you, Madam Chairman. I, too, would like to submit a statement for the record.

Representative GRIFFITHS. Thank you. I will be happy to have it.

Mrs. RIVLIN. I would also join the cautious bureaucrat on my right in saying that any views I express are my own and not those of the Department of Health, Education, and Welfare.

I thought it would be useful at this stage of this very interesting set of hearings if I tried briefly to summarize what the present income maintenance system looks like and what dilemmas face anybody who tries to improve it. I think the dilemmas are real. It is not just that the good guys are against poverty and the bad guys are for it. There are some very real problems facing anyone attempting to change the system.

In the first place, of course, it is not a system. We do not have a set of programs specifically designed to maintain income or eradicate poverty. What we have is a patchwork of programs accumulated over years of trying to meet particular problems for particular groups—social security, unemployment insurance, public assistance of various sorts. For all its virtues, this so-called system has two main faults. One is, it is very uneven in many respects. It treats different people differently. Not only are there major interstate differences in the levels of public assistance, but there are consistent differences in the way different kinds of poor people are treated.

We do relatively well by those that we consider should not work or cannot work—the aged or the disabled. We are rather ambivalent about women with children. We do support them, but not nearly as well.

We are also ambivalent about unemployed males and their children. In some States they are eligible for public assistance and in some they are not. And we really do not do anything for the working poor, those who are managing to find work, but not at an earnings level on which they can support their families at what we consider a decent standard of living.

We stigmatize some, making them feel, by investigations and other forms of indignities, that they are getting an income to which they are not really honestly entitled. We do not stigmatize the aged, who are those who have in some sense earned the right to this kind of an income maintenance.

And we have a very peculiar reaction to incentives to work. On the one hand, the programs are designed not to support people who could work. On the other hand, we discourage working under the public assistance program by a heavy tax on the earnings of those who are eligible for public assistance.

The other feature of the program is that it is simply inadequate. For all our income maintenance programs. We still have about 30 million people who are poor by a rather conservative estimate of what we mean by "poor". Over half of these are children. Children are in male-headed families where the head is working. There does not seem to be any easy way out of this situation. There are several

dilemmas that have to be faced when we are thinking about what to do to reform this system.

The first is the work dilemma.

Most of us would agree on two things. We would like to have everyone have a minimum decent standard of living, but we would also like to see work be the main source of income for people of working age who are not sick or disabled. The difficulty in choosing a new kind of program is how to compromise these two objectives, because to some extent they are inevitably competitive. A fairly high guarantee of minimum income, with a positive incentive to work, is bound to make it possible for some people not to work if they choose not to. Those who are now earning less than a poverty wage could, if they so chose, not work.

Now, it has been argued here this morning that this would not in fact happen. But in fact, we do not know, I would like to join Dr. Levine's endorsement of the New Jersey experiment. I think we also need a great many other experiments. We need to try in different parts of the country different kinds of incentive schemes and different kinds of income maintenance schemes, and see what happens so we would have some way of estimating how great the disincentive to work might be at several levels of guaranteed income.

Secondly, we have what might be called the efficiency dilemma. It seems sensible, if one is trying to eradicate poverty, that a high proportion of the money used for this purpose should actually go to the poor. But it is very difficult to design a system that will do this if we are guaranteeing a reasonable level of income as a minimum, and also have an incentive to increase earnings. It then becomes very difficult, if not perhaps impossible, for the system not to give money to the nonpoor.

My fellow economists point out that transferring money to the nonpoor is not really a "cost." But that is not clear to the taxpayer. It is a cost which augments the Federal budget and competes with other things that could be done with the budget.

It is occasionally argued now that a country which can afford very large military expenditures could surely, if the war were ended, afford to eradicate poverty even if substantial amounts of the funds went to the nonpoor. But one has to remember that war is not the only competing use. Education, health, clean air and water, recreation, urban renewal, are all things that we want also to spend public funds for, which would compete with a costly income maintenance program.

Then we have what might be called the equity dilemma. How do we assess whose needs are greatest? Should we use our scarce resources to raise the levels of those who are now most inadequately covered by our present programs—families with children in general headed by women. Or should we look to those who are not covered at all—the families of the working poor?

The mood of the country, as reflected in recent legislative history, seems to indicate that the work ethic is quite strong. The poverty program has in general emphasized training, education, getting people to help themselves, and the new amendments to the public assistance program also are work-oriented and stress increasing the incentives to work.

I think it is safe to say that the efficiency argument also seems strong. Many people feel that a program which would give a good deal of money to the nonpoor is wasteful. Admittedly, we do not seem to be as worried about this in considering other kinds of subsidies, like higher education, for example, much of which goes to the nonpoor.

Then the question is really where do we go from here?

It seems to me that there are three major routes or alternative futures one might envision. We can spend most of our effort on improving present programs, making the benefits higher and more uniform, bringing up the lowest States under public assistance, covering more people under social security, and making the benefits higher; reducing the disincentives by more earnings exemptions, making the programs simpler and less undignified in their administration.

One could go a long way in this direction toward eliminating the poverty problem. But what about the working poor? We really do not have any kind of a program now designed to reach this group. One could simply decide to let economic growth take care of the problem. After all, the working poor are, with a constant absolute definition of poverty, declining. They will continue to decline. They are declining faster than any other group of the poor. But they are not declining very fast and it can certainly be argued that a constant absolute definition of poverty is ridiculous, that the standard should rise as the economic standard of the country rises.

So the second step possibly would be to enact a special new program aimed primarily at the working poor, and let improved categorical programs of the type we now have take care of those we think really cannot or should not work. For this purpose, a fairly modest negative income tax or children's allowance would be useful. Perhaps a children's allowance would be simpler. It would be easier to gear into other programs. It would reach a large number of those who are not now reached by other programs.

And a third alternative is to scrap or phase out our present set of programs, particularly public assistance, and shift to a major new program such as a negative income tax, designed not just to supplement but actually to cure poverty. If one were going to take this tack, then I think a negative income tax is probably more worth exploring than a children's allowance. A children's allowance could not really be counted on to solve the poverty problem. A lot of the poor do not have children. And it is an extremely expensive way to cure poverty, since the allowance per child has to be quite large. Unless you have an extremely clever way of taxing it back from the rest of the population, the total cost, in the sense that the taxpayer thinks of it, becomes very large.

(Prepared statement of Mrs. Rivlin follows:)

PREPARED STATEMENT OF ALICE M. RIVLIN °

ISSUES IN INCOME MAINTENANCE

Where we stand

The present "system" of Income Maintenance is a conglomeration of cash transfer and income-in-kind programs—Social Security, Public Assistance, Unemployment Insurance, and similar programs on the one hand, and food stamp, housing, Medicare and Medicaid on the other. The programs serve a variety of

°The views expressed in this paper are those of the author and are not presented as those of the Department of Health, Education, and Welfare.

objectives; they aid differing and overlapping target groups; and their administration presents a crazyquilt pattern of particular formulas governing benefit levels and eligibility requirements.

This pattern has emerged since the 1930's in response to changing needs and public awareness of those needs. The pattern has been one of categorical extensions of aid either in terms of people served or in the type of benefit provided. It is reflected in the categorical nature of public welfare and Social Security and in amendments to those programs—inclusion of the disabled, blanketing-in of the aged, and so forth, and of new programs of aid in the health and housing areas.

But in spite of the strides forward which have been made, particularly in the last few years, there has been growing dissatisfaction with the end product. The welfare system has carried the largest burden of this criticism and with some justice. Payment levels are inadequate for those in need, recipients in many areas are subject to indignities of inspection and invasions of privacy, and until the recent amendments, recipients have had little incentive to improve their lot by working. Moreover, the lack of a comprehensive program of aid for unemployed men heading families has meant that the system encourages the break-up of families.

The correction of these defects was the intent of a wide variety of legislative proposals put forth by the Department last year:

The requirement that States update and meet the standards of need which they establish,

The determination of eligibility be simplified, and

That a portion of earnings from work be exempt in determining assistance payment levels.

Except for the latter recommendation, the Congress did not act on any of these proposals. In my view, these changes are still absolutely necessary. However, even if they were enacted into law, the present system of Income Maintenance would be far from adequate. Levels of support would still be low and great gaps would remain in program coverage: Poor persons in families headed by a man under 65 who is working account for approximately 35 percent of all poor families and for this group, there is in effect no Federal cash assistance.

The omission of the working poor constitutes, in my view, one of the most serious indictments of our present system of Income Maintenance. This, along with the shortcomings of our welfare programs, has been the primary source of discontent among the poor themselves and in the eyes of concerned citizens. There has been a call for action from numerous public and private groups such as the Steering Committee of the Arden House Conference, the recent Conference of Mayors, the Commission on Civil Disorders, and the Advisory Council on Public Welfare. The growing awareness that something must be done lies behind the President's recent appointment of a Commission on Income Maintenance.

The chief proposals which have been advanced in recent years are: a non-categorical welfare program as recommended by the Advisory Council on Public Welfare, a Negative Income Tax as suggested by The Arden House Conference, and a Children's Allowance as endorsed by Mr. Lisle Carter here just a few days ago. In many respects, the basic issues underlying the development and implementation of any or all of these radical departures from the present system are, as you obviously recognize, little understood by the general public and even many of our well-informed citizens.

I would like to review briefly with you what I consider these basic issues to be:

The work dilemma

Most of us would subscribe to the following two statements:

Everyone should have a minimum decent standard of living.

Earnings should be the principal source of income for those of working age.

But anyone who is trying to design an ideal Income Maintenance system recognizes very quickly the inherent conflict in these two values. There are many persons who work full-time, but are unable to earn an income which will lift them out of poverty. If income were guaranteed at the poverty level or higher, some persons of working age simply would not work.

All proposed reforms in our present system have basically the same ingredients; all establish a floor under income levels and all make some provision for work incentives. In the Children's Allowance plan, payments are made to everyone as a matter of right. In one sense, the monetary incentive to work is strong

since there is no reduction of the allowance for earnings. However, depending on the level of income or allowance chosen, some persons who could work will not choose to do so because the additional earnings will not be judged worth the effort.

Most Negative Income Tax proposals typically provide for a low minimum level of support and a strong monetary incentive to work since the level of payments is low and a substantial fraction of earnings above the minimum are retained by the wage earner.

Proposed changes in Public Assistance Programs would improve the level of support by establishing a National Assistance Standard and would provide a monetary incentive to work by exempting a significant proportion of earnings.

The balance struck in any particular system between the level of support and the monetary incentive to work reflects the relative importance attached to each by its supporters. The conflict between these values is intensified if resources available for Income Maintenance are limited. And in fact, resources have been limited in relation to what is required to bring the income of all poor even to the poverty level. In the 1967 Economic Report of the President, the poverty income deficit was estimated to be about \$11 billion; that is, the amount of money necessary to raise the income of the poor to the poverty line. Eleven billion additional dollars would nearly double the amount of cash assistance going to the poor. It is likely that additional funds, perhaps twice as much, would be required to close the poverty gap because some of the poor or near poor who are now partially or fully self-supporting would quit working and some individuals who now escape poverty by living in a household whose combined income is adequate for all would establish independent households for whatever assistance is available.

The efficiency dilemma

Particularly if resources are limited in relation to the size of the poverty problem, some would insist on an additional objective for Income Maintenance Programs—that they be efficient, where efficiency is gauged to be the proportion of additional resources for the purpose of raising the income level of the poor which actually goes to those who are poor. This criterion further intensifies the difficulty of shaping new programs or reforming old ones, because any system which insures an adequate level of living for all and includes a monetary incentive to work, cannot avoid providing income transfers (through partial earned income credits) to individuals in the middle income brackets.

Any system which incorporates an earned income exemption and provides a guarantee of an income for everyone at the poverty level compromises the efficiency objective. If transfers are to go only to the poor, the minimum payment will have to be below the poverty level. How far below depends on how prominently incremental earnings are to be reflected in income. If a high minimum payment is set, the monetary incentive to work is weakened; if a low minimum payment is fixed, the incentive to work is strengthened and adequacy is sacrificed for those not working or unable to work.

The dignity dilemma

Insistence on efficiency raises another dilemma. In order to insure that money goes only to the poor, it is necessary to subject potential recipients to a means test or at least an income test of eligibility. In a work-oriented society, some stigma attaches to money received only after proof of need. An Income Maintenance Program such as Children's Allowance which gives money to all families with children, avoids the stigma, but some proportion of the funds go to the non-poor.

The equity dilemma

Limited resources also force consideration of the following distributional or equity issue:

Should additional funds be distributed "equally" to all who are poor, or should assistance be concentrated on only certain categories of the poor?

Among those covered by Public Assistance, those receiving AFDC are worst off:

Should additional funds be spent on improving the income level of this group?

Should it be spent on others who are not now covered by Federal programs—unemployed male headed families in States which have not yet adopted such assistance programs and other unattached individuals of working age?

The priorities of the present Federal system are reflected in the existence of categorical programs for the aged, blind, disabled, and dependent children, and the level of support for each. It is no coincidence that the aged, blind, and disabled have led the way in our current cash assistance programs since in some sense, these groups have been considered the most "worthy" of support. Children have been less well treated because some of those who are (or might be) eligible for assistance are needy for reasons which have been less acceptable. These reasons have to do with parents and not with children:

Inability to earn a decent wage

Unemployment

Absence of the father (for whatever reason—death, divorce, desertion)

Or because the children themselves were born out-of-wedlock.

In summary, changes in the present system of Income Maintenance must ultimately strike a balance between the value put on work as the means of support, the level of cash transfers, the distribution of benefits, program efficiency or cost, and personal dignity. Any particular resolution of these problems is destined to leave one or more objectives in everyone's scheme of things at least partially unsatisfied.

Where are we headed?

Recent legislative history shows that these issues are being resolved in favor of work ethic for some groups in the population and more adequate income support for others. The basic thrust of the poverty program for example has been towards education, training, work experience, and similar activities to enable the poor to escape from poverty through their own efforts. This same emphasis is reflected in the AFDC Amendments of last year. On the other hand, the Medicare Program and the more recent Social Security benefit increases have gone far to provide a better life for the aged.

With the laws on the books today, the total costs of the welfare program will grow to more than \$5 billion in 1969; OASDI benefits under Social Security will reach about \$26 billion; the combined costs of Medicaid and Medicare Programs will be \$10 billion; and approximately \$1.5 to \$2.0 billion will be spent over the next five years on the training and rehabilitation of Public Assistance recipients and day care for their children. However, some 14 million poor persons—mostly the working poor and their families—will still receive little or no cash assistance.

There are several alternatives which might be selected for the future. Continued emphasis can be put on programs for increasing capability for self-support and improvements can be made in our present systems of Income Maintenance. In essence, we can continue to do what we have done in the past. Doing this will help more individuals and families to escape poverty, but it will also mean that the working poor are largely ignored in our plans and programs of cash assistance.

Superficially, it seems that another categorical program of aid might be devised for this group but unfortunately, no one, to my knowledge, has been able to do so in a way which is satisfactorily integrated with present programs. In my view, our long-run objective should be the enactment of a comprehensive Income Maintenance Program which will prevent anyone from falling below the poverty line, provide positive incentives to work and make the poor the primary beneficiaries of aid.

Representative GRIFFITHS. Thank you very much, Mrs. Rivlin.

Mr. Levine, I would like to thank you for saying that in some ways the 1967 amendments to the Social Security Act do have some value. This is the first time I have heard this said by any witness. Since I was one of those who helped put them on, I think, myself, they have some value.

I would like to point out, however, that one of the sad things is that the States have had for years the right to permit welfare recipients to maintain part of their welfare and still learn money. They have never implemented it. I believe there is not a single State which has implemented it.

I notice that the State from which I came was one of the States that demanded this right and still never implemented it and did not use it.

What the Social Security Act of 1967 attempted to do was to force some responsibility upon the States that they have not now taken.

At the present time, I believe Arkansas receives 85 cents on every dollar that they paid out for welfare. Eighty-five cents of it is paid by the Federal Government, whereas in the big, rich States, 50 cents is paid. Now, if you permit the State to determine who is going to draw, how much more would you have to do? Simply add an additional billion dollars or pick it up 95 cents or 97 cents on the dollar?

Mr. LEVINE. Madam Chairman, I cannot answer the question. But the question illustrates the reason why my own inclination is to opt for trying to go the national route—again, whether we call it the negative income tax or what—but go a route of a national system in which the payments are determined nationally, the eligible categories are determined nationally, and the States are not given the option to adjust the system to get the biggest portion of the Federal buck possible.

Arkansas is a poorer State than some of the other States and there is some equity, therefore, in Arkansas getting more. But it is very difficult to set up a system, I should think, where you can get States running this sort of a national system without their exploring the highways and byways of getting something which, in terms of interstate relationships and in terms of relationships of the States to the Federal Government or their own people may not look very equitable. I think a national system may be simpler, for just the reason you illustrate.

Representative GRIFFITHS. May I ask you, in your judgment, if we had a national system and approximately the same amount was sent to every person who is poor in any State, do you think it would have any tendency to stop the influx of the poor into the central cities?

Mr. LEVINE. Yes, I do; and I think it would stop the influx of those rural poor who can least benefit from moving into the cities. There are some rural poor—either young or able to absorb educational training, able to work—who perhaps would be better off elsewhere, but the so-called boxed-in poor, to use our jargon phrase, who are not going to be very functional in jobs anywhere, would be better off if they could live where they are, staying where they are. I think such a system would have a maximum beneficial effect in this regard.

Representative GRIFFITHS. Would you agree with that, Mr. Morgan?

Mr. MORGAN. I think that is probably true.

Representative GRIFFITHS. There were some details on this New Jersey experiment. How many people are included in this guaranteed income?

Mr. Lampman, would you care to answer?

Mr. LAMPMAN. Madam Chairman, the program is intended to be a small sample.

Representative GRIFFITHS. I realize that.

Mr. LAMPMAN. In several communities in New Jersey, it will reach approximately 1,000 families. As Dr. Levine already indicated, they are a special cut of the poor; that is, they are urban, they are male-headed intact families where the head is in a certain age range.

The idea of the experiment is to offer not just one plan to a given number of families, but to offer a variety of programs to various parts of the sample. Some people thus will be controls against the others.

Representative GRIFFITHS. Yes. Has the experiment begun?

Mr. LAMPMAN. No, it has not yet actually gone into operation. At this time, screening surveys are underway in one community.

Representative GRIFFITHS. I see. Who is doing the screening?

Mr. LAMPMAN. The Mathematica Corp. is the operating agency. They have a subcontract with Opinion Research Corp.

Representative GRIFFITHS. I understand that there are no aged and I have been given an answer why there are no aged in the experiment. Would you explain to me why there are no women in the experiment?

Mr. LAMPMAN. That is women-headed families?

Representative GRIFFITHS. Yes.

Mr. LAMPMAN. Well, we wanted to get at the situation of more or less a purely new program. Many of the women-headed families in New Jersey are eligible for AFDC. Most of the poor women-headed families in New Jersey, we think, probably are already on AFDC. It would be very difficult for us to take them from the program on AFDC and put them on a different program where the benefits are perhaps less.

Representative GRIFFITHS. I see.

Mr. LAMPMAN. So we are restricted in trying to deal with that particular category of the poor in the State of New Jersey, and that would be true in many States.

Representative GRIFFITHS. And would it not be possible simply to substitute the amount of money for a woman-headed family that they draw on the AFDC, or define women who are working and give them that much money to see what they did, whether they worked or not.

Mr. LAMPMAN. Yes, but it would be hard for us to get any control of women-headed families.

Representative GRIFFITHS. Why would it?

Mr. LAMPMAN. Statistical control—that is, in getting some women who are low income and who are held with a very low benefit level, to compare with those with a very high benefit level.

Representative GRIFFITHS. I agree. There are very few women with high incomes.

Mr. LAMPMAN. Well, I mean in this case, high benefit levels are already represented in New Jersey by AFDC guarantees.

Representative GRIFFITHS. I see.

Mr. LEVINE. Madam Chairman, might I supplement this?

Representative GRIFFITHS. Yes.

Mr. LEVINE. One thing that I tried to make clear about this experiment is that it is not a demonstration of how well or even how a negative income tax would work. It is a research program to get certain information. The basic piece of information is on the work incentive. In the political eye and in general, this information is most needed about the man. It is the man one pictures sitting on his porch and fishing because he is getting \$2,000 a year from the Government. It is this question, how much time is spent sitting on the porch and fishing, which I think it is concentrated on the man. Somehow we think less frequently of the woman loafing because she is getting a payment.

Mrs. RIVLIN. Of course, she is not really loafing, Bob.

Representative GRIFFITHS. I would like to say I am probably the only woman in Congress who disagrees with this picture. I do disagree completely. I think any intelligent analysis of the welfare picture will show you that most of the recipients of welfare are women and they themselves are the creators of other welfare recipients, so that generation after generation of children are being reared who have never seen anyone work. If work is the ideal, and I am inclined to believe

that this is the ideal and that most people will work if given the chance, then it seems to me that you just have to do something about seeing to it that women on welfare are given a chance to work. I think I know this Congress pretty well. If you do not do this, you are going to create a permanent welfare class in this country that never will be lifted above this level.

So I think that it is deplorable that you are wasting money on an experiment which does not include women.

Now, I think one of the most difficult things for me to swallow is the idea of a children's allowance, because the criticism that comes to me comes from people who say, as I had 26 women say, both black and white, who were scrubbing floors for a living, that maintain little homes, paying taxes—the question they asked was, why should I pay taxes to support an 18-year-old rearing a family of illegitimate children?

Now, if you can give me an answer to that, I will be glad to listen to it. I could at 60 scrub floors, but I could have done it at 18, too. Why should they not have to do it? This is the first answer that is going to have to be made on any welfare system that changes.

Would you be willing to answer?

Mr. MORGAN. I think there is a very simple answer to that. You do it for the children. Our society has never had the courage to suggest that if children are not being properly raised, they ought to be separated from their parents. We may have to face up to the issue that if you really believe what you are saying, you may have to go the second step and suggest that under the circumstances, these children ought to be raised somewhere else.

Representative GRIFFITHS. I agree, but orphanages were tried at one time and people did not like the idea. It seems the next way out is saying that woman herself must go to work. But if you give her a child allowance, are you not really rewarding her for having additional children? Of course you are.

Mr. MORGAN. But you have to do something with the children.

Representative GRIFFITHS. But you are calling the children into being by a child allowance.

Mr. MORGAN. I think there is some doubt about this.

Representative GRIFFITHS. This is one of the biggest criticisms that comes to me out of the public schools of Michigan. When a child graduates from an inner city school, the boy has no way of making a living, but there is certainly a way for a girl to get an assured income. You are already giving it to her. So why do you not try to see to it that she, too, goes to work?

Mr. MORGAN. But you still have to do something with her children.

Representative GRIFFITHS. There is a sort of middle-class theory that women do not work. I assure you that women work.

Mr. MORGAN. I do not question that women work. This is not a discussion of legalized abortion or separating children from their parents. But given a society that refuses to do these other steps, we are then saddled with a problem that we have failed to deal with this as certain early stages. We have to do something with these children. You have already said we have no institutional devices for taking care of them. Day care for these children is extremely expensive. It has never been

shown to be all that much better training than the mother's. The mother has then been used as a cheap source of taking care of her own children. I happen to think this may be a big mistake, that maybe we should rethink the whole issue of how we are going to take care of these children. Once we settle that, then you can raise the issue of what we are going to do about the mother. But you cannot continue to punish children for the sins of the mother, or father, or both.

Representative GRIFFITHS. But it seems to me one of the things you can do is not put it on a child basis but give it to anybody below a certain age, man or woman.

Mr. MORGAN. No matter what you call it, the result is the same, if you insist on taking care of these children, unless you are going to pay somebody else.

Representative GRIFFITHS. Perhaps if you give her the income without the children, you do not call the additional children into being.

Mr. MORGAN. You cannot give a woman with no children the same guaranteed income you give a mother with four children.

Representative GRIFFITHS. If you gave her some income. What you are now saying and you are going to continue to say it, if you put it on child allowance basis, you do not get anything unless you have a child. We are really subsidizing bastardy, and it is one thing we have enough of in the country in reality. Actually, this is true.

Mr. MORGAN. I am an economist, but I really do not believe economic motivation works quite this simply. There is a large number of people who are not very well informed about the facts of life and who are perpetually getting in other kinds of difficulties which would indicate that their planning horizons are such that the present systems for avoiding families are inappropriate for them.

Representative GRIFFITHS. I am a politician and the criticism that you get on the whole scheme is that this is what we are doing. Therefore, why do we not think up a scheme that at least avoids this criticism?

Mr. MORGAN. Why don't you legalize abortion in the first place?

Representative GRIFFITHS. No, you do not have to do it that way. The negative income tax system to me is much more appealing than a child allowance system.

Mr. MORGAN. We have to get some kind of system where a single person can get some kind of support. In many States, we do have. We do have, after all, assistance payments that are allowed for single people in many States. There is nothing wrong with this. But we have the basic problem that there is no way to punish people for having large families without punishing the children.

Representative GRIFFITHS. I will agree with that. But if you began by saying that the only people who can get any money are those who have children, then you are already off on the wrong track.

Mr. MORGAN. What we are talking about is what we do to supplement a present system.

Representative GRIFFITHS. As I say, the thing with which I have the most difficulty is the child allowance system. The thing which sounds best to me is the negative income tax system.

Mr. MORGAN. They all end up paying larger families more than smaller families.

Representative GRIFFITHS. No they don't.

Mr. MORGAN. Yes, they do, because of the exemption for children on the negative income tax.

Representative GRIFFITHS. This may be true, but at least you are going to get something whether you have the child or do not have the child. The difficulty with that the child allowance is the same that we are having right now.

Mr. MORGAN. This is a matter of degree rather than kind, because all systems now provide amounts of payments to people—single, married, various family sizes. The only real difference is not a matter of substance but of the extent of the differences. If you pile a family allowance scheme on top of the present system, you effectively do somewhat more for people with large families. But you still have a basic system that provides income maintenance programs even for single people. And every guaranteed income scheme effectively is a family allowance scheme in the sense that it provides more for larger families than for small. Even our present welfare system does this. There is no way to get around this short of separating children from their parents. If you want to discourage people from having more children, that is one thing. You cannot do it economically, if you are going to let parents take care of their own children. There, your own constituents will fight even more, because we have a great emotional belief that somehow the natural mother have more love for her children, takes better care of them.

Representative GRIFFITHS. But this is what the \$600 million is in the welfare amendments for, setting up day care centers, trying to withdraw the children away from their homes as quickly as you can and giving them additional types of training.

Did you have something you want to say, Mrs. Rivlin?

Mrs. RIVLIN. Well, I think we should be clear what kind of children's allowance we are talking about. If we had the thought that a children's allowance could be the substitute for all other forms of income maintenance, then the bounty per child would have to be extremely high. One would presumably have to pay something over a thousand dollars per child. If one got up to that level, I think I would agree with you, too. This would be tempting fate or tempting sin.

But I do not think that is what we are talking about. The children's allowances that have been suggested are a way to supplement the system that we have now. People who favor them are also for making the present system better. A children's allowance is a means of getting more money to the working poor. When you have a family where somebody is actually working, and where there is a father, a fairly modest allowance per additional child would seem to me not to have a very great incentive to increasing the birth rate.

Representative GRIFFITHS. At the present time, you have great difficulty. I had a woman write me the other day who had received \$290 for working. She had five children, her husband had left her. She received \$270 on ADC. The real truth was she was making more money on ADC than she was when working, because on the job, she had to dress, she had to go to the job, she had to at least declare income tax. On ADC, she was completely out of it.

I would think that at least in your experiment, you ought to pick up some women.

Mr. LEVINE. Let me make the record clear, Madam Chairman, that as far as any proposal I would make personally, this would not discriminate against women and particularly the incentive scheme should have incentives for women to work. I do not want to get into the argument about sin particularly, but I do think that if, as a practical matter for getting started, if there were a negative income tax which started out with families for children, the possible child-inducing effects of such a program might be counteracted by other things we have going—specifically, the great increase that we are on the way to in day care and the substantial increase we are on the way to in family planning programs for the poor. So as a net matter, I do not think that starting out on a scheme for families with children which does provide incentive for female family heads and secondary earner, for that matter, as well as for male family heads to work would start a baby bonanza among the poor.

Representative GRIFFITHS. In the city of Detroit, they started, 2 or 3 years ago, maybe more, a program where, when a girl had her first illegitimate child, they put her in special classes in high school and they helped her in every way that they could. Now, they found it extremely effective. Some of these girls went on to college, were on their way to becoming teachers. It just happened that they discovered that in many instances, it was the brightest girls who were becoming pregnant at 14 and 15 years of age.

However, when we started cutting out money in the Detroit school system, this was the first cut made. So you consign these children, these little girls, to a life on welfare and to a very unrewarding life, girls who had already shown that they could do really quite well if they had a chance.

May I ask you, at what level, Mr. Morgan, would you start child allowances?

Mr. MORGAN. I started by suggesting that Harvey Brazier's proposal struck me as a very interesting and ingenious one, partly because of its efficiency aspects, not paying out money to the poor. He started at something like \$1,200 for the first child, then down to \$400 for the fourth child and beyond. So he already builds in a disincentive for having additional children. But it is partly an economy of scale issue. It is cheaper to take care of more children if you make a pot full of stew. Obviously, this is not intended to provide total support for the family.

I think there are two issues here. One is what do you do about the future and about family planning? The other is what do you do with existing families, where the children are already there? I think one of the bothersome things is you are effectively giving money to parents for taking care of their children and this takes their time and energy as well as cash. It is not quite legitimate to compare what they get for working with what they get paid to take care of children. If they are working, they are working either fulltime or somebody else is taking care of those children. If society is taking care of them, this is very expensive. If you look at the cost of even day care centers, much less child care, it is extremely expensive. I think one of the reasons we got rid of orphanages was because we did not want to pay for them.

So I think given existing children, one of the questions is how are we going to take care of them. The other problem is how do we dis-

courage people who cannot take care of families themselves from having more family? I would like to separate the problems, because they are two separate problems.

Representative GRIFFITHS. Mr. Levine has pointed out what he would do with a \$2 billion program. If you had only \$2 billion to institute a guaranteed program, what would you do with it?

Mr. MORGAN. I think I would start with the so-called working poor, the large family poor, where there is no issue of employment, no issue of the needs of the children, there are very few other issues, and do something there first. If I really have to limit myself, I would agree. But I think there is a lot to be said even for large families as being the most neglected of our poor, even where there is only a single head. And I admit these other problems. But I think we do have to worry about those children, what is happening to them. The history of most family allowance programs that the parents have been pretty responsible about what is done with the family allowances. The evidence is that the abuse has been very small and people have been very conscious of the fact that this was money for their children.

Mr. LAMPMAN. Could I ask Mr. Morgan a question on that. I am not quite clear. You are saying on the one hand a family allowance program and on the other a program for the working poor.

Could you clarify that?

Mr. MORGAN. Family allowance is a funny term. It has its own emotional overtones. But if you have to start, you can argue we should start with the very large families where there is no issue of the employment of the head. He is already working, but he just cannot support a family. These are people where there is no political issue but the need of the family. We have just not done anything about it because we have not admitted that it takes an awful lot to support a family of six, eight, ten kids these days.

Mr. LAMPMAN. You would leave ADC in place for the broken families?

Mr. MORGAN. That is right.

Mr. LAMPMAN. But introduce a negative income tax for the working people, the working poor, essentially, mostly male-headed families?

Mr. MORGAN. Yes.

Mr. LAMPMAN. However, there are some women-headed families, of course, that are not on assistance at the time and who might prefer, if you gave them an option, to be on a low guarantee program of the kind I outlined earlier.

Mr. MORGAN. That is right.

Representative GRIFFITHS. Mrs. Rivlin?

Mrs. RIVLIN. I wanted to ask Mr. Morgan if he would do that before he raised the levels of AFDC from the extremely low levels they are in some States?

Mr. MORGAN. I am not an expert on where the priorities should go. I have not really thought out this question. I think you are quite right, if I took a cold look at some of the States, I would worry about how to raise the standards of some of those States before I started with complete families.

Mrs. RIVLIN. The Chairman only gave you \$2 billion.

Representative GRIFFITHS. What would you do with it, Mrs. Rivlin?

Mrs. RIVLIN. I think I would start by trying to improve the levels of payments in the States which have very low levels of AFDC payments. I would also make it necessary for a State to include children of unemployed fathers in the program, which is not now necessary, as you know.

Representative GRIFFITHS. Yes.

Mr. LAMPMAN. May I comment on that?

Representative GRIFFITHS. Yes.

Mr. LAMPMAN. I think there is a very real alternative in involving AFDC-UP. As I see it, one of the lines of the approach that is possible, as Secretary Rivlin mentioned, is to go ahead and widen AFDC-UP, to try to get all States under it and make it more generous as a program. I would be opposed to that. I think it would be much better, if we could, to introduce a new program with the working poor which is not associated with assistance and which would replace what we now have in the way of AFDC-UP.

I wonder if that is clear, what I am talking about.

Mrs. RIVLIN. Well, it is really just a question of priorities. If you have a relatively small amount of money, I do not know how far you can go with a new program.

Representative GRIFFITHS. Yes; \$2 billion is really very small when you consider the cost of the whole program, any program.

Mr. LAMPMAN. I was suggesting a program that would cost approximately \$4 billion. This could be scaled down to approach \$2 billion and do much more, it seems to me, for the working poor than a comparable amount expended on AFDC-UP. So I think the choice is, as Secretary Rivlin very well pointed out, a choice between efficiency on the one hand and equity on the other. We have this work dilemma, what to do about the working poor. We have a choice of what we might do about the people in the very low-income States vis-a-vis those in the high-income States.

For any modest amount, we are not going to resolve the problems of all of the poor and we are not going to achieve anything like equity among the poor of various categories and various locations. But we can make some steps toward that for even \$2 billion of new money and I think that this is worth our very best efforts at social engineering, or whatever we want to call it, to find those priority points.

Mr. MORGAN. I would like to suggest that to some extent, we are victims of the belief that it is a lot cheaper to live in Alabama than in Michigan. I think it is necessary for your committee or someone to put together some better data on what it really costs to live in most places. Most cost-of-living statistics are not valid for many comparisons. They are interstate comparisons with how much it has changed since 1959. It is seldom that any Government agency makes a real attempt to compare what it costs to live in different States. I suggest if it is done very carefully, those differences are extremely small and are concentrated almost entirely in housing. After all, you can buy from the Sears, Roebuck catalog almost any place in America and food is not really any cheaper in some areas than others. Housing is often cheaper because it is poorer housing or there are lower property taxes because there is a miserable school system. We go along with these differences on the assumption that they reflect differences in cost and may be standards of living. We have never really examined this very carefully.

I think Mrs. Rivlin's point about improving the standards in the State would be helped if someone were to get some statistics on what it really costs to support a family of four in these different places. I think the answer would be that the differences are small.

Representative GRIFFITHS. One of the things I have heard is that it is cheaper because you live cheaper. You just do not have the same things and you do not require different things.

Mr. MORGAN. If that is true, we ought to encourage people to go there and live cheaper.

Representative GRIFFITHS. That is right. But you also have the problems.

Apart from the issue of uniform standards, what are the advantages of Federal administration, in your opinion?

Mrs. RIVLIN. May I answer?

Representative GRIFFITHS. Yes.

Mrs. RIVLIN. It would certainly make it easier to keep improving the system. If one only had to go to Congress and not 50 State legislatures for every kind of a change. Also it presumably would make it easier to get reforms of administration, such as the move toward simplifying the eligibility requirements and making it a less undignified system.

Mr. MORGAN. It would certainly make it possible to get rid of residence requirements which are now a very bothersome problem, because one State does not want to be responsible for all other States' people who may happen to move in. The only real way, I think, to get rid of residence requirements short of some complex pooling arrangement is Federal standards.

Representative GRIFFITHS. Why should people with small but above poverty income support a negative tax plan when the effect of the transfer is to level the poor up and the effect of the higher taxes is to level down those with modest incomes?

Mr. LAMPMAN. I think, Madam Chairman, the question is almost identical with the question of why we should have a progressive personal income tax. As you point out, it does narrow the differences between higher and lower income persons. The general justifications we have for progressivity in taxation apply as we move into the negative range in the same way that they do with the positive range as we now have established with our exemption levels. There is, I think, only the basic argument that we are all part of the same country and of the same communities, we all share the same general problems. We have developed a system of what we think is equitable sharing of costs of schools, of other community services. This would be a way of extending that general principle of sharing in the costs of community well being.

Representative GRIFFITHS. I have been sitting listening to the tariff hearings, too, and it seems to me that one of the really undeveloped resources of this country is our own consumer programs. If we could just make the exports apply so that the poor of our country could have something, make them into consumers, we would all get a little richer.

Given the existing assistance programs, what is the argument for separation of the income maintenance and social service functions?

Would you like to answer, Mrs. Rivlin?

Mrs. RIVLIN. I would really like to back that to Mr. Levine, because I think he has some strong views on it.

Representative GRIFFITHS. All right, good.

Mr. LEVINE. I am willing to try.

I think the basic answer is that it is very difficult to have the two put together without the feeling, whether justified or not, on the part of the recipient that something is being forced on him as a condition of getting this money. I think social services are, for very many cases, necessary and desirable. I think they are much more effective if they are accepted by the recipient purely voluntarily. Once you connect the two and the person knows that his check is coming in some sense through the social worker, I think both the income maintenance and the social services become less effective. That, I think, is the basic reason, Madam Chairman.

Mr. MORGAN. Well, the social workers themselves are very much opposed to the amount of time and energy they spend on regulatory work, eligibility requirements, paper work and so forth. Many of them were trained to provide counseling and real services to these people. If you go to their meetings, they are quite irritated at the time they have to spend enforcing rules, checking up on people, doing police work. They effectively find it very difficult to conduct the kind of services for which they were trained.

Representative GRIFFITHS. The testimony of the State of New York before this committee was that 95 percent of the time of their 35,000 social workers was spent on trying to decide in which category you fell in whether or not you were eligible for the money, and so on, and about 5 percent on doing any real assistance. In your judgment, if we had a negative income tax, would you be able to get rid of any of the 35,000 people employed in social service work in the State of New York?

Mr. LEVINE. I am willing to try that. I would not use the phrase getting rid of.

Representative GRIFFITHS. Well, that is a jocular phrase. We will be able to employ them elsewhere.

Mr. LEVINE. I want to make the point that there is a great need for people trained this way elsewhere. As we increase our employment program, the community action, education, things like this, we are beginning to feel shortages of trained people on the one side, at the same time as 95 percent of the social workers in New York are engaged in this checking activity. So I think, yes, we would be able to shift these social workers to much more needed jobs and jobs where we need people very badly.

Representative GRIFFITHS. And we would not have to pay them on the welfare rolls; that is, it would not be administration. At the present time, I think it is \$200 million of the money in New York is paid for administration. Surely, you could cut down on some of that administration in welfare.

Mr. LEVINE. Yes, and stop trained social workers from being administrators as such and putting them back into true social work.

Representative GRIFFITHS. From your work in the poverty institute on the design of the project, what do you anticipate to be the difficulties in administering a negative income tax?

Mr. LAMPMAN. Madam Chairman, there are apparently a great many difficult issues to be resolved in, first of all, drafting a statute for a negative income tax or an income supplement program or a family allowance that is income-conditioned—whatever we choose to call it. There are also many difficulties to be encountered in administrative regulations to be drawn and in actual carrying out of the intent of any legislation.

Representative GRIFFITHS. What are the problems in the definition of income? What is income?

Mr. LAMPMAN. In the definition of income, and this is a very good example of these difficulties, one has to decide which types of income are to be included and which are to be excluded in figuring the basis for the allowance or negative tax benefit. For example, should one include some of the forms of presently known taxable income? Tax exempt interest, for example, as I am sure you are very much aware, there are some people who have very high incomes, indeed, who now pay no income tax at all. If we follow the present definition of income for positive tax purposes, this might mean that some wealthy people would be eligible for a negative income tax allowance. This would be unseemly, I suppose, for most people.

So we would have to have a definition of income that includes tax-exempt interest. It may have to include various types of transfer payments that are now made and various types of subsidy payments that are received—capital gains.

Representative GRIFFITHS. That is, the social security, the farm program, and so forth.

Mr. LAMPMAN. Yes.

Mr. MORGAN. The critical one is imputed rent, for example. If you own your own home, what do you do about free rent?

Mr. LAMPMAN. In defining your income for tax purposes, we now allow certain deductions and certain credits. What would we do about the investment tax credit which many small businessmen are now eligible to take? I assume we would disallow that one.

What about oil depletion allowance?

Representative GRIFFITHS. We are going to write in a new one.

Mr. LAMPMAN. We are going to have to go through many such matters in defining income for negative tax allowance purposes.

Representative GRIFFITHS. We are going to write in a new one this week on industrial bonds, a million dollar tax exempt. The industry buys the bonds and get a tax-free interest rate and then literally pays rent to itself for the building and that is deductible.

Mr. Laird, of Wisconsin, asks if the individual will claim it. No, this is just the same people who got the investment credit last year are going to get this in the new tax conference report.

What about the accounting period?

Mr. LAMPMAN. The income accounting period is a matter that I think would be of great importance in designing a negative tax plan. Should one have the standard calendar year or fiscal year period for people on a negative tax benefit scheme?

Alternatives to that are to have a much shorter income period—say a quarter or 6 months period. Some people have urged that we should have a shorter period because some people will be in a situation where

their incomes run along at above poverty levels for the first 6 months of the year and then fall suddenly to, say, zero income for the next 6 months. If you have one income period rather than another, you are either more or less responsive to these intrayear changes in income levels.

Public assistance, it is worth noting, operates in most jurisdictions with a 1-month income period, not a year income period. So in this sense, one should consider that a 1-year period based on regular tax accounting would be a great departure from public assistance standards that now are in use.

Also, under the income period is the question as to whether you are going to try to keep payments current with income changes during the year or whether you are simply going to look backward over time, looking to the last 12 months or the last four quarters of income for determining the benefits to be paid in the current quarter? So there are important technical questions of this sort that need much consideration.

Representative GRIFFITHS. Under social security, you can draw \$150,000 in one month and lose your social security for that month and still draw your social security for the other 11 months.

Mr. LAMPMAN. One hundred and fifty dollars; yes.

Representative GRIFFITHS. You can draw any amount for 1 month.

Mr. LAMPMAN. Oh, I see, you meant \$150,000?

Representative GRIFFITHS. Yes.

Mr. LAMPMAN. That is right. The income period, in other words, is not fully a year in the social security case.

Representative GRIFFITHS. That is right. Of course, it is because you must allow for persons leaving their jobs, we are told. The thing you cannot have is a job that is a 1-year job. You cannot have an income over 1 year. So if you can just arrange to make the payment all in 1 month, you are really in clover.

Mr. LAMPMAN. That is true.

Representative GRIFFITHS. May I ask, How much Federal money is there in the New Jersey project?

Mr. LEVINE. Well, the ultimate cost is going to be between \$4 and \$5 million. I think out of our 1967 appropriation, I believe there was \$620,000, and I think there will be another \$885,000 going in this year's appropriation. We are not attempting to put it in all at once, but the overall cost will be roughly \$4 or \$5 million.

Representative GRIFFITHS. And there will be about 1,000 cases?

Mr. LEVINE. Yes—well, originally, they were talking about 800 in the experimental group. I think the number has gone up a little. It is very difficult to estimate the cost because you do not know what the effects will be on people's work and therefore, how much you will ultimately have to pay them. I think the new estimates indicate that a few more people will be put into the experimental group.

Representative GRIFFITHS. How long will the experiment run?

Mr. LEVINE. Three years.

Representative GRIFFITHS. And in that time, you hope to know what the effect of guaranteed income will be upon the work habits of men?

Mr. LEVINE. Yes, ma'am; what the different incentive rates will mean on the work habits of not just the men, of the adults and the working-

age children in these families, and also on the family stability and various other questions. We are going into fair detail, but I think the most important is the work habits.

Representative GRIFFITHS. Was it not discovered in the poverty programs that the first thing the poor wanted was a divorce?

Mr. LEVINE. That was in the legal services program. As a matter of fact, I believe it was in the Wisconsin legal service program, that they found the poor had in fact potential family instability built up without the money to get the divorce and in fact, once these services were made available, a good many of them did go to divorce.

Representative GRIFFITHS. I had a woman write me something about this and she had really quite a novel idea. She thought that the money should be sent in part to the wife and in part to the husband. You know, I thought it made some sense.

Mr. LEVINE. As a matter of fact, there are some arrangements in the experiment for how payments are made to families that have split up. Maybe Mr. Lampman can describe them. I do not remember.

Representative GRIFFITHS. Please do, Mr. Lampman.

Mr. LEVINE. Maybe we had better submit them for the record.

Mr. LAMPMAN. I would prefer to answer them later.

(The following was later submitted by Mr. Levine:)

1. So long as the family head and spouse are living together they must report their joint income monthly. Benefit payments are by check requiring joint endorsement.

2. Any family member, including either spouse who leaves the household and ceases to qualify as head, spouse of head, or dependent of the original unit causes the income guarantee to the remaining unit to be reduced by a scheduled amount (which varies according to status in family and guarantee level provided to the particular experimental unit).

3. Such a departing member(s) carries with him (her) (them) an income guarantee identical in size with the amount of reduction of the guarantee of the original unit. The tax rate of the original unit is applied to the income of the person(s) who left it, and to the total income of any persons who combine with him (her) (them) in forming a new unit.

Representative GRIFFITHS. All right, please answer them for the record. But why do you not consider, at least for some of the experiment, paying both the wife and the husband?

Mr. LAMPMAN. We initially proposed that we would write this as a joint check, as income taxes are filed jointly, and we would be proposing to require joint returns by all family units. So following that notion, the checks would have to be signed by both the husband and the wife in order to be cashed. You are suggesting that one constituent proposes that they be written 50-50, more or less, and sent to whatever addresses are named?

Representative GRIFFITHS. Yes. I did not think too much of them until I had three cases in 6 weeks of men who started drawing pensions and left for foreign countries. We are now supporting the wives on welfare, and of course, due to the fact that we are paying the pensions, I really do not understand why we do not do something about that. I have had the ambassadors of the foreign countries call in the men and we cannot get them to pay. And they are not reachable by process of law. It works out great.

Did you have some questions you wanted to ask, Mr. Laird?

We are delighted to have Mr. Laird present this morning. The first thing he wants to say is we should not call it a negative income tax.

Representative LAIRD. Thank you very much, Madam Chairman.

I am very interested in the project which is being financed by the OEO through the Poverty Institute at the University of Wisconsin. I think we should watch the results of this project very carefully, because I see in the year 1975 a tremendous welfare bill as far as this country is concerned if we continue along the present program level. With the publicity that is being given to the various welfare programs that we currently have, instead of having 50 percent of those eligible qualified, by the year 1971, we will be up to about 80 percent of those eligible qualifying. I believe the Supreme Court by that time will have done away with all residency requirements, as they moved in that direction yesterday. They also did away with the "man in the house" rule, which is going to add considerably to the program costs as far as the Federal Government is concerned. Having served on the HEW Appropriations Committee ever since that committee was created, I have watched these growing costs and felt that our system was not accomplishing what it was devised to accomplish, and that is to help those people that are the most in need. So I think we have to watch this study very closely. I had felt that the Social Security Administration should really finance this study and that it should have been done in the Department of Health, Education, and Welfare. They were very slow in moving. So, I commend OEO for going forward with this study. I believe that this study is most important.

I agree, though, that this is a very bad title. Negative income tax is not a good title. I would like to call it the guaranteed work program, or some other title.

Representative GRIFFITHS. That is a great idea.

Representative LAIRD. What I want to see is incentives put to work. I believe that this moves in this direction and does not put incentives on not working, as our current program does. This is the reason that I am interested in it. I think the Joint Economic Committee should be commended for conducting these hearings.

Representative GRIFFITHS. Thank you very much.

Do any of the rest of you have anything else you would like to add?

Mr. LEVINE. I would like to say the New Jersey experiment is called the graduated work incentive experiment for just that reason.

Representative LAIRD. Good. This negative income tax title bothers me a little bit.

Mrs. RIVLIN. I want to say the New Jersey experiment is going to be very interesting and I am very glad it did get funded, though not by our department. The 1967 amendments themselves provide a huge natural experiment in adding incentives to work. We can learn a great deal by watching what happens and collecting information, about women as well as men.

Representative LAIRD. The only problem is that your Department does move very slowly. As a matter of fact, it took your Department 6 months before it even submitted the supplementary budget request to carry out the effect of the new amendments to the social security bill. I do not believe that HEW can point with too much pride to the slow manner in which it moved in this area.

Mr. LAMPFMAN. In response to Congressman Laird's concern for the title or name for these programs, I think it is interesting that the

Kerner Commission in its report urged the title term "income supplements." It is in connection with that term that I would talk about a special program for the working poor and that it should be thought of as income supplementary, with a very minimum amount of disincentive for people to continue work and increase their productivity via retraining and skill improvement.

I agree that the words "negative income tax" is not a happy term.

Representative GRIFFITHS. I would like to say that I think almost anything we can do will be an improvement on the present welfare system—almost anything. The thing that the general public does not really realize is that we have built into this system real disincentives for work and that we are treating very unfairly a large group of people in this country, that we are not really giving them an opportunity. So I hope that we do come up with a program which gives them that opportunity and gives them a chance without, I trust, consigning to a permanent status some people on welfare.

Now, I feel that when you design a program that leaves out of it the women with children, you are aiding in making a permanent group of people who are going to draw welfare. And I think they have just as much right as anybody else to have a chance to work. I think you would probably discover that, in many cases, they are much more willing to work and would respond much better.

Once again, I want to thank you very much, all of you, for being here. You have been most cooperative and most kind. This meeting is adjourned until tomorrow at 10 o'clock.

(Whereupon, at 11:50, the committee recessed until 10 a.m., Wednesday, June 19, in room S-407, the Capitol.)

INCOME MAINTENANCE PROGRAMS

WEDNESDAY, JUNE 19, 1968

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

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

Present: Representative Griffiths.

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

Representative GRIFFITHS. The subcommittee will come to order.

I would like to express my appreciation to all of you for appearing here today.

We will begin with Mr. Fitch's testimony.

STATEMENT OF LYLE C. FITCH, PRESIDENT, INSTITUTE OF PUBLIC ADMINISTRATION, NEW YORK CITY

Mr. FITCH. Madam Chairman, I will make a few rather general comments, rather than a systematic exposition. The first comment is that the income-maintenance schemes which have been the subject of discussion here are focused on increasing consumption rather than productivity of the poverty-prone groups. In this full employment economy, increasing the consumption of low-income groups requires decreasing the consumption of higher income groups or else decreasing something else. This means pretty much that one has to decrease consumption of someone else, or else increase the consumption of a large class of people. In the public sector the possible candidates include expenditures on space, agricultural subsidies, defense-war expenditures—the only single category of significant size in this connection.

Who will take a reduction in order to increase the consumption of the poverty group? This is the great problem for me, seeing just where the something else is coming from.

We are told that bringing people who are now below the poverty line—as defined by the Social Security Administration—up to that line will cost about \$11 billion a year. Presumptively, that \$11 billion should come from higher income groups. The best way to get such a sum is from the personal income tax, to make sure it comes from higher income groups. This alone implies an increase in personal income tax collections of some 20 percent. So I take it that the present Congress and apparently a substantial majority of the voters would

now oppose any substantial redistribution of purchasing power which would involve higher taxes for higher income groups to increase the consumption of the lowest income groups.

Against this political fact is the fact that present public assistance programs are grossly inefficient and that present income maintenance programs suffer from lack of coordination.

Most income maintenance schemes, of course, begin with imposing a very high tax on any income earned by clients of the plans. We are all familiar with the 100-percent tax imposed by the conventional welfare formula; this has been somewhat modified, of course, by the recent amendment to the Social Security Act which allows AFDC recipients to keep the first \$30 of earnings per month and 30 percent of the excess, up to a cutoff point. So the effective tax rate is only 70 percent. This incidentally, is the rate which applies to a joint return on income of over \$200,000 a year, and a rate this high is alleged to decrease incentives of the rich, but the incentives of the poor are supposed to be immune to extraordinary tax rates.

Well, I doubt this. I think that if we are really serious about predicating income primarily on work, we would pay more attention to work incentives where the incentives are weakest. What we actually do, of course, is place the highest tax upon incentives to earn income where the incentives are lowest—on people who exist in the demeaning no man's land between work and welfare. Then we further impair incentives by other devices, such as payroll taxes, which reduce take-home pay, and therefore, immediately affect incentives.

Likewise, if we were serious about self-sufficiency, I think we would attempt to strengthen it where it is most fragile. In fact, the system actually impairs self-sufficiency in many ways; for example, through taxes like the tax on residential property, which bears most heavily on the poor; like the inflation we continue to tolerate which drives people deeper into poverty; like the income tax exemption for dependents which is of greater value the higher the income, rather than vice versa; like above-average prices in ghettos. All these things impair self-sufficiency.

Now, just a comment on the negative income tax. I submit that as a means of delivering purchasing power to people who need purchasing power it is better than the present public assistance system. For one thing, it gets away from a 100-percent tax rate, but negative income tax schemes themselves have to impose very high effective tax rates on marginal income or earned income of the poor in order not to cost too much. Tobin's plan for a 33 $\frac{1}{3}$ -percent rate, with a reasonably high floor, would cost an estimated \$40 billion a year. To bring the cost down the marginal tax rate on earned income must go up.

So-called social dividend plans, which give everybody income, differ little from NIT plans. That is, they differ little if social dividend plans are integrated into the personal income tax, as I think they should be. Incomes above a certain level—let's say incomes above average—would be taxed sufficiently to recapture the social dividend plus something extra to pay the cost of the social dividend to the poor.

Concerning the broader incentive effects of this family of income-maintenance plans, I have no more information than anybody else. I do have a conviction which I would like to see more thoroughly tested.

This is that any foundation income would increase the attractiveness of gainful employment by affording a substantial chance to increase living standards through gainful work. As things now stand, I am sure many people feel that they can never get off the bottom through work, that no matter what they do they can never aspire to anything more than bare subsistence. What some do is turn to illicit activities whose rewards ordinarily are not reached by the tax collector.

I turn now to some observations on training and jobs, which are closely related to the matter of incentives. In New York City this year some 30,000 youngsters will drop out of school. The number of drop-outs is rising. The same is true in Washington. The city's education and training programs are growing glaringly inadequate in their function of training the city's work force for its changing economy. The Human Resources Administration estimates that only 13,000 people a year are entering the city's various remedial training programs. Of those 13,000, only about a quarter are young people and, of the 13,000, possibly 20 percent go into permanent jobs. This is a pitifully small effort relative to the city's need. Then, like most great metropolitan areas, we are faced with desperate shortages of competent typists, secretaries, bookkeepers, and other clerical workers, along with managers, professional people, and the service people who make the city work, like plant repairmen, and even television repairmen, and computer servicemen. The idea of computers having to shut down because of lack of servicemen is rather ironic, because it was the computers who were supposed to put us out of work. The situation temporarily is the other way around; lack of people is putting computers out of work.

Well, anyway, the point is that there are lots of needs for people and there is a good deal of complaint that the jobs which the ghetto people could fill are, of course, moving out of the city. These are the goods-handling jobs, the manufacturing jobs, and so forth. So the frantic impulse which we see being followed by some of the distinguished people in the city is to try to get industry back or try to persuade it to stay in town. I think this is a misdirected effort. What we should be doing is mounting very serious attempts to train people for the jobs which are going to be available. These clearly are the white-collar jobs and the service jobs. It is here we see the desperate shortages.

So I would suggest that when it comes to the training and job situation, and talk of incentives, while it is certainly relevant and important, it runs up against the fact that one, we are simply not training people for the job available; two, the jobs that are available are on the whole desirable jobs and good jobs and represent an advance; and three, we should be doing something about it.

Now, this tendency which I have noted for the job concentration to be on the white collar and the service sides is nearly universal. Looking at the manpower needs projections of the Department of Labor and the National Planning Association, one sees very clearly that the great increases over the next decade are going to be in white collar and in service jobs, not in blue collar jobs, not in manufacturing jobs—the latter are slow growth categories.

Well, so far, there is a lag in recognizing this fact. The New York Human Resources Administration now projects a need for training about 100,000 people a year for 10 years just to catch up with the backlog of dropouts and other hard-core unemployed and to adapt the labor force to meet the changing needs of the New York City economy. This is to be compared with the 13,000 slots we now have, many of which are doing far less than adequate jobs.

At the moment, I am not very much encouraged, but one lives with hope and the isolated experiments and successes we have had thus far lead me to say that we are not utterly without resources or imagination. The question is whether we can take advantage of them.

(The prepared statement of Mr. Fitch follows:)

PREPARED STATEMENT OF LYLE C. FITCH

Because I appear after several days of discussion concerning general income-maintenance plans, public assistance programs and related matters, I will make some rather general comments on basic issues.

1. Attacking poverty by income-maintenance schemes implies emphasis on increasing consumption, rather than productivity, of the poverty-prone group. In our full-employment economy, this means reducing the consumption of the non-poverty group or reducing expenditures in some other sectors, so as to release more consumer goods or the means of producing them. Among possible candidates for public expenditure reduction are:

- a. Military and defense expenditures, the only category whose magnitude is sufficiently large to permit diversion on the scale required (assuming that such a diversion were otherwise "feasible");
- b. Expenditures on esoteric innovations, such as space and SST;
- c. Subsidy programs, such as agricultural subsidies, which primarily benefit the affluent; and
- d. Assistance to underdeveloped countries.

2. The amounts required to get the people who are below the "poverty line" (as defined by the Social Security Administration)¹ up to that line are very substantial, say \$11 billion a year. But this is only a first step toward what needs to be done to bring all Americans into the national economic and social mainstream. The poverty line for a family of four is about 38 percent of the median family income, and 30 percent of average disposable income of the country at large.²

3. The present Congress as a whole, and apparently a substantial majority of the voters, would now oppose any substantial redistribution of purchasing power, which would involve heavier taxes for higher-income groups to provide increased consumption for lowest-income groups. Nonetheless, costs of public assistance, over which Congress does not exercise year-to-year control, have been mounting rapidly, implying that some redistribution is taking place. And the amount of attention given to methods of delivering unearned income to people who don't have income, the gross inefficiency of the public assistance programs, and the lack of coordination among income-maintenance programs generally, indicate that something may be done in the fairly near future, even though the political atmosphere seems not overly receptive at the moment.

4. Most of the income-maintenance schemes devised thus far put what is in effect a heavy marginal tax on earned income. The case of the 100 percent tax on additional income earned by welfare recipients is well known. It has been somewhat mitigated by the 1967 amendment to the Social Security Act permitting AFDC recipients to retain \$30 a month, and 30 percent of the excess of earned income, up to a cut-off point. This amounts to a marginal tax rate of 70 percent on earned income, equal to the rate in the highest income brackets (applicable, for taxpayers filing joint returns, to income in excess of \$200,000 a year).

The effective rate on earned income can be reduced, as under various negative income tax proposals, but this means (a) increasing the number of people who will benefit on net balance, (b) increasing the amount of transfers required from

¹ The "poverty line" varies according to size of family and rural or urban status. It is about \$3,300 for an urban family of four.

² Per capita average multiplied by four.

the upper to the lower income groups, and thereby (c) corresponding increases in budget requirements which have to be financed by taxes on upper income groups.

5. Other types of income maintenance, such as family allowances³ (a) do not provide incentives to work, (b) do not reach substantial portions of the poverty-ridden population, and (c) benefit everybody from pauper to millionaire.

6. If we were really serious, in this ostensibly work-oriented society, about predicating income primarily upon work, would we not pay more attention to work incentives? What we actually do is place the highest taxes on earned income where the incentives to work are presumably the lowest—on the people who exist in the demeaning and miserable no-man's-land between work and welfare. The system impairs work incentives further by other devices which reduce take-home pay, such as payroll taxes (this is done partly for the purpose of keeping down tax rates in higher-income brackets, where work incentives presumably are strong).⁴

If we were serious about self-sufficiency, would we not seek to strengthen it most where it is most fragile? What the system actually does is impair self-sufficiency in numerous ways, as through other regressive taxes. We have recently been waking up to the fact that the property tax, mainstay of local government finance, grossly discriminates against the poor⁵ and discourages building the housing they need. The inflation which we continue to tolerate drives many people deeper into poverty. The income tax exemption for dependents is of greater value, the higher the income. Prices in the slums are typically higher than elsewhere. Goods available in the market are inferior; so are public services.

7. Finally, in the work-oriented society very many people—far more than published statistics show—are deprived of self-sufficiency because they cannot find work or steady work, or cannot find jobs paying wages which will support them and their families. It simply will not do to rationalize such conditions by saying that they exist because the marginal value productivity of the workers is low, or that minimum wage laws prevent the workers being hired. Such statements at best only indicate the existence of structural problems which have to be solved if we are to maintain a reasonable degree of social order and economic progress.

The \$11 billion extra transfer payments required to bring all households up to an arbitrary poverty line seems formidable; the amount is approximately equal to what will be paid out in public assistance this year. The \$40 billion cost of a Tobin negative income tax formula which imposes an effective marginal "taking" rate on earnings of only 33½ percent (for persons receiving both income and NIT assistance) seems quite out of the question. How about another way out?—seeking to funnel to the poverty-prone a larger share of the annual increment to gross national product. By the year 2000, with a 4 percent annual growth rate the annual gross national product, in 1967 dollars, will be about \$2,900 billion. Even taking into account other demands on GNP, this is adequate to provide consumption increases in the magnitude of 250 percent for households in the lowest quintile, 50 percent for households in the highest quintile, and in-between amounts for in-between quintiles.⁶ Such a radical redistribution

³ Over what present income tax deductions provide.

⁴ Social security taxes have only a nodding relationship to the amounts of social security benefits which individuals ultimately realize. The lack of quantitative correspondence between payments made by the wage-earner and the ultimate benefits he will one day receive doubtless affects the way he thinks about the wage tax: to unsophisticated persons who discount the future at high rates, the wage tax, by reducing take-home pay, probably acts as a disincentive. As far as employers are concerned, the payroll tax adds to labor costs and has effects somewhat analogous to those alleged for the minimum wage laws by decreasing the number of persons at the bottom end of the productivity scale who will be hired by the employer. By adding to wage costs, the payroll tax also raises prices a bit and adds its widow's mite to other inflationary pressures; moreover, organized employees are likely to demand that their share of payroll tax increases be absorbed by the employer.

⁵ See Dick Netzer, *The Property Tax* (The Brookings Institution, 1965).

⁶ The increases per quintile in this particular redistribution model are as follows:

Quintile:	Percent increase in consumption per household
First (lowest)-----	250
Second-----	200
Third-----	150
Fourth-----	100
Fifth (highest)-----	50

would give the lowest quintile average consumption expenditures of about \$10,000-\$10,500 a year in year-2000 (1967 dollars) compared to the 1967 figure of \$2,800-\$3,000. Even this "radical" redistribution would raise average consumption in the lowest-quintile households by less than 4 percent a year. This is a slow train out of poverty, particularly considering the size of the wage increases which labor unions (many of whose members are already above the bottom quintile) are demanding and getting.

According to my necessarily rough estimates, in 1966 the bottom quintile of households accounted for about 7.3 percent of total consumption while the top quintile accounted for about 40 percent. Consumption per household in the top quintile was nearly six times that of the bottom quintile. The radical redistribution would reduce the spread so that the average of the top quintile would be only about 2.5 times that of the bottom. But this implies also a radical redistribution of income. Data on income distribution in the post-World War II years indicate little tendency toward more even distribution; the proportion going to the lowest quintile of income recipients (families and unrelated individuals) was approximately the same between 1947 and 1965, and so was the proportion going to the two highest quintiles.

A redistribution might be brought about in part by reducing disparities in education and skills, lack of which now keeps people in poverty; in part by measures to raise work skills of present low-wage industry; and in part by reducing loopholes and other sources of inequity in the tax system and making it more progressive. Even if dramatically successful, however, such measures would benefit only the working population and their families. The substantial proportion of poverty and near-poverty households whose members are kept out of the labor force by age or disability (the proportion may increase over the next few decades) can be helped only by more adequate income-maintenance systems, meaning income transfers. Realistically, some part of the working population will still not earn enough income for living-levels considered adequate, and will require assistance by way of income transfers.

Hence I suspect that the problem of income maintenance will still be around by the end of the century, although gross national product and incomes overall will have greatly increased in the absence of war or economic calamity.

The more fortunate of our society worry a great deal about the impact of public assistance on incentives and self-sufficiency. I suspect that part of this concern is actually rooted in the fear that labor will no longer be available to do society's dirty work at subsistence wages. If, however, we are really serious about getting public assistance-prone people into the labor market, the obvious policy is to let them keep the lion's share of their wages. It is an upside-down world in which the highest effective tax rates are placed on those whose work incentives are presumably weak in order to protect those whose incentives are presumably strong.

Compared to the present public assistance system, I think that negative income tax plans appear to offer the best means for accomplishing the twin objectives of putting a floor of decent height under income and of improving work incentives. Even so, they have to impose very high rates on marginal earned income to keep the amounts of transfer required within conceivable limits. Otherwise, the best solution to the dilemma would appear to be a social dividend type of grant to all households, regardless of income status (though in practice those receiving substantial amounts of tax-exempt income might be omitted). All income above the social dividend would be taxed at progressive rates, and the rates would be adjusted with a somewhat steeper progression to recapture the amount of the social dividend at some specified level, say the level of median family income (before the social dividend). Rates on incomes above the break-even would be set so as to recapture the amount of the social dividend plus the amount needed to finance transfer to recipients below the break-even point.

As things now stand, a family of four with a median income—now about \$8,000—pays approximately \$800 income tax. Assume a foundation grant of \$3,000 and a tax schedule designed to capture the entire amount of the foundation grant.

In the first situation (before grant) income is \$8,000, taxable income approximately \$5,000, tax \$800. The tax is 10 percent of gross income and 16 percent of taxable income.

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

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

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

TRAINING AND JOBS

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

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

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

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

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

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

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

¹ Farm employment not included; declines between 1964 and 1975 are projected for both white and nonwhite.

² Figures may not add to totals because of rounding.

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

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

1. The proportions of incremental employment in white collar occupations, for both white and nonwhite, are much greater than proportions existing in 1964.

2. Within the white collar category the greatest increases, for both white and nonwhite, are in clerical and professional-technical subcategories. The occupations of managers, officials and proprietors show little change, relatively, and the sales category shows a relative decline.

3. The blue collar category declines relatively for white and for nonwhite, though blue collar employment is projected to pick up about the same total number of nonwhite workers as is white collar employment.

4. Within the blue collar categories the significant increase for nonwhite is in craftsmen and foremen; there is a small increase in the operatives subcategory but a sharp decline in the labor subcategory, which will account for only 4 percent of incremental nonwhite employment. Nearly a third of nonwhite incremental employment is projected to be in services, 8 percent in household and 21 percent in other.

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

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

In summary, there are many jobs and many people needing jobs. The first priority is equipping the people to handle the jobs, after which we can worry about whether there will be enough jobs available in the long run. Certainly this is an important question. Yet the bugaboo of automation and the computer taking over society's useful work has been abating. Owing to the fact that reliable accounts of job vacancies have never been developed, we do not know whether the number of people potentially available exceeds the number of jobs available, or vice versa. But such information, however desirable, is not absolutely necessary

for doing a better job of equipping available workers for existing jobs and tailoring existing jobs to the capacities of available workers. If ghetto people continue to be kept out of the mainstream by a wall of institutional and cultural obstacles, they will be increasingly frustrated.

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

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

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

Mr. LESSER. Thank you, Madam Chairman.

I have submitted a paper. Rather than read it, I will discuss it briefly.
Representative GRIFFITHS. We will put the paper in the record.

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

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

Finally, there is a group who are not physically able to work or mentally not able to work and for that reason have not been in the labor market or have not been real participants for any period of time. There are others who may be physically able to work but who should not work because of family responsibilities, such as mothers

with school age children. As I indicate, it is our opinion that this last group should not be expected to be active participants in the work force, although we recognize that the recent action by the Congress in enacting the welfare amendments indicate a contrary view.

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

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

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

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

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

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

Even with the increase in minimum wages resulting from the recent legislation, many of these workers will still remain poor. As I point out, it is our view that broader coverage and higher standards of min-

imum wage are necessary and would be productive in reducing the burden of income maintenance programs. We do not accept the notion that the Federal minimum wage will, in the overall, curtail employment opportunities. While admittedly, higher wages have an impact on costs from the employer's standpoint, when he determines the price of goods, minimum wages also have a major impact not only on the income of the workers involved, but on sustaining the health of the economy through boosts in purchasing power and additions to demand.

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

Representative GRIFFITHS. I could not agree with you more.

Mr. LESSER. Thank you.

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

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

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

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

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

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

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

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

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

Thank you very much, Mr. Lesser.

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

PREPARED STATEMENT OF LEONARD LESSER

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

Too many discussions of income maintenance are marked by suggestions which promise a panacea-like solution to the complex issue of how to assure an adequate income to all. It seems to me that the concept that any single device is comprehensive enough in its reach, sufficient in its effect and a socially acceptable device for all who need help as to meet the myriad aspects of income

maintenance is illusory and deceptive. From my own experience in dealing with questions of income maintenance, I am deeply convinced that a pluralistic approach is essential.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

RESOLUTION ON JOBS

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

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

who seek work, these commissions recommended that the Government be prepared to take up the slack.

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

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

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

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

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

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

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

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

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

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

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

This was made abundantly clear in the just released report of the National Advisory Commission on Civil Disorders. After a detailed review of the factors which have contributed to our urban riots, the National Commission recom-

mended that the Federal Government "take immediate action to create two million new jobs over the next three years—one million in the public sector and one million in the private sector—to absorb the hard-core unemployed and materially reduce the level of underemployment for all workers ° ° °."

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

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

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

RESOLUTION ON INCOME MAINTENANCE

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

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

The increase in the minimum wage this year from \$1.40 to \$1.60 for some 7.2 million workers still left them in abject poverty with a potential annual income of only \$3,200. Another group of more than nine million workers—primarily farm workers and workers in service industries—received a minimum wage increase of 15 cents an hour—from \$1.00 to \$1.15 an hour, which left their annual wage at \$2,300, below the poverty line.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A minimum standard for public assistance payments below which no State may fall;

A nationwide, comprehensive program of public assistance based upon a single criterion—need;

A uniform and simple plan for Federal-State financial sharing in cost of all public welfare programs;

Prompt extension of coverage and liberalization of benefits under the social insurance programs;

Strengthening and extending social services through public welfare programs readily accessible as a matter of right to all who need them;

Administration of all welfare programs receiving Federal funds consistent with the principle of public welfare as a right.

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

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

Representative GRIFFITHS. Mr. Rees?

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

Mr. REES. Thank you, Madam Chairman.

Until recently, economists have paid little attention to the effects of public assistance programs on the labor market. Now, under the stimulus given by such distinguished economists as Milton Friedman, Robert Lampman, and James Tobin, the neglect is being remedied and we are distressed by what we find. The findings suggest that public

assistance has severe perverse effects on work incentives. In my judgment, assistance programs should either be substantially changed or should be replaced with a wholly new Federal program of income maintenance.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

At the same time, we should not ignore the wealth of experience we have gained during the last few years in helping the poor. While it is fashionable in some circles to condemn the antipoverty program and OEO efforts, I would submit that there are several important lessons we have learned from this experience. Certainly, a birth con-

trol program is a cost-effective antipoverty effort. For \$100 million a year we can buy all the birth control we need to help the poor who want it and to whom it is acceptable in accordance with their religious and moral values and beliefs.

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

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

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

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

The issue at this time is to provide a combination of income and services, including housing, job training, and job creation, in addition to the type of services I mentioned earlier. To say—as many are fond of saying—that we can do all these things and that in an economy of \$800 billion, or whatever the latest figure is, we can spend \$30 or \$40 billion for the poor does not do any good. Nobody takes that very seriously. It is nice for exhortation and for Solidarity Day speeches. We have other priorities and needs that we have to consider. What is needed, I would suggest, is to increase the welfare expenditures, but at the same time to judiciously divide the increments—and

nobody can be against dividing something judiciously—between income maintenance and the various services that are offered now under OEO community action programs; the various Labor Department, HEW, and OEO job training and job creation programs; and also some forms of subsidies for housing to offer ghetto residents an opportunity to escape to a better environment.

Thank you.

(The prepared statement of Mr. Levitan follows:)

PREPARED STATEMENT OF SAR A. LEVITAN

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

THE NEGATIVE INCOME TAX PANACEA

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

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

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

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

THE POOR ALSO NEED SERVICES

Possibly the most crucial decision that supporters of negative income tax have to make is a choice between supplying income and services. To say that we can afford to raise income maintenance and improve services may be true, but hardly helpful. Assertions that settlement of the war in Vietnam would release \$30 billion for other purposes are not likely to materialize. As Otto Eckstein recently pointed out, "This cheerful prospect could easily dim over the next several years." He further suggested that expanding defense needs may absorb more than half of total resources released by settlement of the war in Vietnam, that existing civilian expenditures will expand and that the fiscal dividends from an increasing tax base will have to be allocated to reduce present deficits. If this is correct, little will be left for expanding welfare expenditures, unless we are willing to tax ourselves for that purpose, an unlikely development if the recent past is any indication. The recent welfare restrictions and the failure to fully fund the "war on poverty" even before the precipitous rise in Vietnam outlays are very indicative of administration and congressional feeling.

The minimum cost of a meaningful negative income tax would be about \$5 billion net increase in welfare expenditures. Unless the American public undergoes a radical change in its views, the first step in a negative income tax could exhaust total increments that society would allocate to welfare expenditures in two or three years, or possibly even longer. Therefore, it must be determined whether priority should be given to income maintenance above other forms of assistance to the poor. Despite the fact that wide gaps frequently exist between intended goals of welfare programs and implementation, it would seem premature to reject the wealth of experience gained from recent and earlier efforts to combat poverty. Some of the lessons that we might have learned from the recent experience can be summarized here.

1. Officials of the Office of Economic Opportunity have argued that birth control expenditures are the most cost effective efforts to combat poverty. Despite claims that OEO officials made in favor of family planning, the agency has dragged its feet in implementing such programs. It is estimated that an annual expenditure of about \$100 million would provide the necessary birth control devices and services to the several million women who may desire and seek such help. A strong case may be made therefore, to place a priority on an effective birth control program before income maintenance programs are expanded.

2. There is increasing evidence that providing free public education should start before age six. This seems to be particularly true in the case of children coming from impoverished homes who are frequently "retarded" and comparatively disadvantaged when placed in the same classroom with children from more affluent homes. The debilitating impact of many impoverished homes can be overcome if the children are provided a more wholesome environment at age three. This is the underlying concept of the year-round Head Start program. While it might be premature to conclude that Head Start is to be preferred to other forms of assistance to the poor, the available data suggest that this is an area where additional resources should be invested to build on the experience gained by OEO. Expansion of Head Start summer facilities is also necessary if impoverished mothers are to be given an opportunity to gain economic independence when they seek gainful employment. It would indeed be wasteful to limit child care facilities to places where children from poor homes can be deposited without giving them an opportunity for growth and development. To provide year-round Head Start facilities to all poor children age three to five requires additional annual operating expenditures of two to three billion dollars, exclusive of an additional cost to expand public school facilities.

3. The in-school Neighborhood Youth Corps is another income maintenance program worth considering. Regardless of the official rhetoric used to justify this program, NYC is an income maintenance program designed to encourage teenagers from impoverished homes to continue their education and not to drop out of school at age sixteen as they are permitted to do in most states. The evidence gathered from the experience of several school systems in large cities, including Washington, Pittsburgh, and Cleveland, seems to indicate that the program is successful in encouraging teenagers to stay in school. There are no data on the progress they make in school. However, given the widespread requirement of a high school diploma as a prerequisite to many entry jobs, it might be

argued that the tailor-made NYC income maintenance program which helps participating youths to obtain the credentials may in many cases be a more effective income maintenance program than the negative income tax. There are several million poor youths eligible to receive NYC aid, but enough funds are available under current programs to provide for only about a tenth of those who are eligible.

4. Despite the difficulties and problems experienced under the various training and job creation programs, many people have been served by these efforts and available cost-benefit studies seem to suggest that the accrued benefits to the individuals and to society from these programs have exceeded costs. Moreover, for those who seek employment, training and job creation programs are a preferred form of assistance than income maintenance.

The above random illustrations from experience of the last few years suggest that a great deal of present enthusiasm for the negative income tax scheme is an over-simplistic attempt to cope with difficult social problems. J. Douglas Brown, veteran economic expert of welfare problems, commented on the aforementioned petition by 1,200 economists who singled out a national system of income guarantees as the program worthy of their support: "Poverty . . . demands our utmost efforts in scores of directions. Our aim should be to eliminate poverty as a human condition in all its aspects, not to develop a pseudo-automatic subsidization of a dependent class."

GUARANTEED INCOME AND WORK INCENTIVES

How can we explain the widespread support for the negative income tax? Paul A. Samuelson supplies an answer, quoting Victor Hugo: "Stronger than all the armies in the world . . . is an idea whose time has come."

This explanation appears too pat. The idea of providing income to the poor is hardly new though the present public assistance system leaves much to be desired. It may be that reliance upon the negative income tax is an attempt to reach a facile solution to complicated problems. Having discovered poverty and desirous to correct past wrongs, many economists and others have come up with a simple answer, "Give them money."

Possibly the most difficult issue in achieving a viable public assistance system is to relate the level of benefits to labor market realities. Many relief recipients move back and forth between gainful employment and economic dependence. Economic incentives must be provided to encourage recipients to find gainful employment. However, it must be recognized that most jobs within the reach of deficiently educated and unskilled relief recipients pay no more than the income provided under public assistance. According to the *Manpower Report of the President*, more than 3.4 million people were working in 1968 at an hourly rate of less than \$1.00, another 4 million at a rate of \$1.00 to \$1.30, and over 10 million—nearly one of every five non-supervisory employees in private industry—at less than the statutory federal minimum wage of \$1.60 an hour.

Until last year the federally-supported public assistance law tended to discourage relief recipients from seeking employment since whatever income they received on the job was deducted from their relief payments. The only exception was a meager allowance for out-of-pocket work expenses. The old law amounted to 100 percent tax on the earnings of relief recipients.

The reluctance of Congress to change this practice is understandable, even though shortsighted. Any earnings exemption would raise the amount that the relief recipient may earn before they become ineligible to receive public assistance. However, since the thrust of the 1967 public assistance amendments to the Social Security Act was to encourage employability of persons on relief, Congress determined that the first \$30 of monthly earnings in addition to the work-connected expenses would be exempt before any reductions are made in public assistance payments and the balance of the earnings would be taxed at 66.7 percent rather than at the old 100 percent rate. The extent to which these incentives will encourage recipients to seek gainful employment is not known. Some believe that much higher incentives are needed to induce them to become economically independent. The Administration recommended that Congress exempt the first \$50 of monthly earnings and 50 percent of all subsequent earnings. To encourage public assistance recipients to participate in the programs enacted under the Economic Opportunity Act, Congress provided that the first \$85 and half of the additional monthly income earned under the provisions of the Act were not to affect public assistance payments. These more liberal income exemptions will be superseded on July 1, 1968 by the above amendments to the Social Security Act.

The dilemma is that low income exemptions are not adequate to encourage relief recipients to seek economic independence while higher exemptions mean subsidization of families above the poverty line. Negative income tax, while it might provide for greater administrative simplicity, is likely to be achieved at considerable cost and inequities. The tax would be uniform throughout the nation and would fail to take into consideration variations in costs of living between urban and rural areas as well as regional differences in cost of living.

NEEDED: AN ORDERLY LONG-RANGE COMMITMENT

Gimmicks will not right the presently deficient welfare system. What is needed is an additional commitment of vast resources which should be judiciously divided in providing income maintenance and in providing essential goods and services to poor people to improve the quality of their lives.

Since vast additional funds to help the poor are not likely to be forthcoming in the immediate future, the best contribution that we can make to the poor is to establish realistic priorities and implement programs which will continue to reduce poverty from the American scene. Assuming that during the next few years society is to boost funds in aid of the poor at an annual rate of \$2 billion—reasonable goal despite the exhortations that have become fashionable of late—a judicious allocation of the additional resources suggests that half of the additional funds be allocated to income maintenance and the balance be devoted to training, housing and improving the type of services now funded by OEO's Community Action Program. The need is to assure that the funds to fight poverty will be forthcoming in an orderly fashion.

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

I again want to express my appreciation to each of you.

I would like to say to you again, Mr. Rees, if you give the case worker or the Labor Department or any other person, including the Congress, the right to determine that the woman should stay at home, in general, she will stay at home. Fifty percent of all high school drop-outs are girls. Yet not a single girl was trained until Congress wrote into the law that at least a third of the trainees had to be girls.

The social security law is a horrible example. We wrote into that law sometime ago, over my objections, that the mother could continue to draw social security until the last child had reached 22 if that child stayed in school—although in theory the check is for the child. Now, that cost \$500 million. That is not done for those children. It would have been better to put the \$500 million into the education funds. It was done to keep the woman on social security.

The ADC program does this, too. Then she reaches 50. What are you supposed to do then? Go out and get a job?

Well, we fixed it up in social security, again over my objections. At 50, a disabled woman can draw social security on her husband's account. You will change the entire social security program. Why should a woman be permitted to draw if the husband himself could not have drawn?

We also have it set up because a woman is, on the average, 3 years younger than her husband, that she can draw full social security at 62. She can draw more social security as a widow than her husband could have drawn if he had survived and asked for the money at 62. So the Congress is set up on the belief that women do not work and that they have to be supported. You are never going to cure this welfare problem until this program is looked at realistically. Welfare is being generated by women. Therefore, you have to give them a chance to work, in my judgment. And, if you leave it to social workers or to the Labor Department, or to Congress, they are never going to work. Those few who have no skills will not have a chance.

I would like to ask you, Mr. Rees, would you support doing away with the minimum wage law if you had a negative income tax or any guaranteed income?

Mr. REES. I would not be willing to take that position at this time, because I think we still know too little about how a negative income tax plan would work. When we have some of the results of the experimental study of negative income taxes, when we see what this does to people's willingness to accept low paying jobs, then it might be possible to draw some conclusions about this.

I would view a negative income tax plan, or any public assistance program as being in effect, a kind of flexible minimum wage, because it does say to people that if a job pays so little that you feel better off not taking it and living on assistance, then you will turn that job down. But the point at which a person would feel that way will differ from one individual or one family to another.

Representative GRIFFITHS. Suppose you sent a guaranteed income into the State of Mississippi. Would you assume or not that the cost of getting someone to chop cotton might go up a little?

Mr. REES. It might go up; it might indeed. That is because chopping cotton is not now covered under the Fair Labor Standards Act.

Representative GRIFFITHS. What would you think, Mr. Lesser?

Mr. LESSER. Well, I think what disturbs me about suggestions either for elimination or stopping increases in the minimum wage, is that they completely overlook the point of view of the individual. I think to say to a person, you work full time all year round and you still have to be dependent on a program which really stigmatizes you as a second-class citizen, a program that pays you a benefit because you do not have something, you know, to make enough money is not defensible.

Representative GRIFFITHS. What if you send the money to everybody. We are not going to worry about picking out any group? Just send it to everybody.

Mr. LESSER. If you send it to everybody, as you do in social security the great advantage of social security is that when you reach 65, if you retire, you do get a benefit and it is not dependent on whether or not you have need—I think a program that broad really is a sort of demogrant to every individual, that just because of being an individual, he is going to get x dollars a month in that situation, then, I do not think you have the problems of the degrading effect. But what bothers me is that I do not think a negative income tax is that sort of a program.

A negative income tax still requires a declaration that your income is below a certain amount and it is on that basis that you get a payment. Now, if you look at the recommendations of the Public Welfare Advisory Council, we recommend a system of simple eligibility that is really no more than an affidavit. We objected to the midnight searches and the investigations that now go on under our welfare system. But those of us who are covered and pay income tax know that our returns do get checked and we are likely to have somebody come around and find out, whether our income is above a certain amount. That is fine. Nobody feels degraded because they are coming around to see that you had an income. But when a payment is dependent upon whether or not you do not have an income, and there will have to be checks by Internal Revenue, I think that this is still a program that will stigmatize. I

think that is different. That is why I say that is not a program which says every individual is going to get a payment whether your income is \$100,000 a year or less than \$3,000.

Representative GRIFFITHS. Assume that if you had a program of guaranteed jobs or guaranteed income. It has been suggested that actually, a minimum wage is there to keep union wages from going down during periods of high unemployment, would you think that this would lessen the union's interest in a minimum wage?

Mr. LESSER. Well, I think to the extent that you had a program of guaranteed jobs by Government, if they were guaranteed at wages that would keep people above a poverty level, the effect of that would be to strengthen the wage structure. Why should a person work at a job paying a substandard wage when there is a job he can get at a wage enabling him to live at a decent standard. I think it would have the effect of raising the level of wages in private employment jobs.

Representative GRIFFITHS. Would not the effect really be that if you had some sort of an income that was sufficient to keep you at a bare minimum, you would think a long time before you took a very difficult job at a low wage. Would you not ask for more? I would think the price of those jobs would go up.

Mr. LESSER. I think that might be so if you had an income at a decent level. I think part of our problem, and as you know better, being on the Ways and Means Committee, all the attacks on the welfare system actually relate to the issue of work versus income for not working—although I think most of the people on welfare really are people who cannot work. I think they should have the opportunity—I could not agree with you and Mr. Rees more—every mother should have the opportunity to work. It is the compulsion I am objecting to. But it is because welfare costs are rising, that the feeling that all these people can work is becoming more prevalent. Well, when you look at most of the people on welfare—certainly under the Federal categories, the aged, the disabled—they are not people who can work.

What I am really trying to say is that it is unlikely you could get a program that would really pay a person a decent income, even though he says, well, I will take that income, but I am not going to take this job that pays a very low wage. I doubt that we are close to that, really.

Representative GRIFFITHS. One of the real problems with the welfare system is that it actually keeps people from working. If work is the objective, if we are only going to be happy with everybody working, the real problem is that welfare as we have it set up now negates this possibility.

I had a letter from a woman in my district the other day who had five children. She could work for \$290 a month or draw \$270 a month for ADC. The ADC was nontaxable.

Now, this woman was working, but in addition to that, she was going to college nights. We are not really putting the emphasis at the right place.

Mr. LESSER. I think we would all agree that the disincentive of taking every dollar off is wrong.

Representative GRIFFITHS. It is ridiculous, absolutely ridiculous. So a guaranteed income might do something else.

I would like to ask you, Mr. Lesser, in the matter of jobs, what would be the effect of licensing plumbers, carpenters, and other building

tradesmen, to be on the job market so that they do not have to be a part of a union before they can practice a trade?

Mr. LESSER. Well, of course, there are many people practicing building trades who are not a part of a union.

Representative GRIFFITHS. I am sure this is true.

Mr. LESSER. Basically, as I understand it, the building trades will have a contract with certain employers that persons who are hired will meet certain standards and be a member of the union.

Representative GRIFFITHS. But would this open up the job market or not?

Mr. LESSER. I do not know that it would really open up the job market. I think we should do everything we can to see that the standards which are set for the trades or for any other job are reasonable in relation to the work that has to be performed, that persons are not barred from entering the trade because of their race or color or anything else.

Representative GRIFFITHS. What would be the effect on wage rates?

Mr. LESSER. Of licensing?

Representative GRIFFITHS. Yes.

Mr. LESSER. I do not know. I am not an economist.

Mr. REES. Might I answer that, Mrs. Griffiths?

Representative GRIFFITHS. Sure.

Mr. REES. I think the answer is that if the licensing arrangements imposed standards that are higher than the standards that are now in effect, the effect on wage rates will have to be to increase them. The difficulty with licensing arrangements is that sometimes the requirements are arbitrary. I recall some years ago—I do not know if it is still true—that in order to be a licensed plumber in Illinois, you had to have served your apprenticeship in Illinois. If you had served it in Indiana, you could not get your license.

It is not just the trade unions that have these restrictive provisions. You find it in some of the State laws on medical practice. It seems to me the effect of these is very clear; it is to increase the income of the practitioner. I do not see tightening licensing provisions as part of any sort of poverty program.

Representative GRIFFITHS. You do not think it will make any additional jobs available?

Mr. REES. No; on the contrary.

Representative GRIFFITHS. Mr. Fitch, do you have any ideas of the amount of income earned in illegal activities in New York City?

Mr. FITCH. None whatsoever, Madam Chairman. I would not even know how to begin making a guess. The first thing you would have to do is to decide what you are going to put in the category of illegal activities.

Representative GRIFFITHS. Well, I used to sit in a court and judge criminal cases all day. I would say pimping, numbers running, prostitution, a few of those things—these are illegal activities. And they pay mighty well.

Mr. FITCH. Yes; and burglary. I would agree that these are obvious cases. In the case of the policeman who takes coffee at the coffee shop and the building inspector who takes a little payoff for approving building plans, and other kinds of subtle and not so subtle graft which go on.

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

Representative GRIFFITHS. I would think it would, too.

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

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

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

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

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

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

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

Mr. FITCH. That I would agree with.

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

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

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

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

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

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

Representative GRIFFITHS. Picking up; yes.

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

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

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

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

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

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

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

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

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

Mr. LESSER. They marry the boss.

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

Representative GRIFFITHS. At least.

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

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

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

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

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

Representative GRIFFITHS. Supposing it is just better paid?

Mr. FITCH. Yes.

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

Mr. FITCH. You mean the Government work?

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

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

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

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

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

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

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

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

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

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

Mr. FITCH. I have no doubt that the deficient demand which Mr. Rees mentions discourages people from seeking training. But I am on the other side of the fence. I keep looking everywhere for Negro personnel. I will hire as many black people as I can in my own shop, partly because of our social conscience and partly because it is good

business. The same was true when I was an official of the city of New York. We kept up a lively search all the time for competent Negro secretarial and other office help. It is not easy to come by, Mr. Rees. It is just not.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Mr. REES. Could I respond to that?

Representative GRIFFITHS. Yes.

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

Representative GRIFFITHS. Yes.

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

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

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

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

Representative GRIFFITHS. I would think that in addition to welfare mothers, you really should have out-of-work teenagers—out-of-school and out-of-work teenagers—to see whether or not they use the

money to train themselves or just assumed that from then on, they were going to get money.

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

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

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

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

Mr. LESSER. No; I would agree.

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

Mr. LEVITAN. Yes.

Representative GRIFFITHS. You would say yes?

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

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

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

Representative GRIFFITHS. It is a myth.

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

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

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

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

Would you care to answer it, Mr. Lesser?

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

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

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

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

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

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

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

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

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

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

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

Mr. FITCH. Grossly inadequate for the most part.

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

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

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

Yes, Mr. Rees?

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

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

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

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

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

That is exactly what the report is saying.

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

After all, when you are not training these workers who are in dire need you do not have the construction workers, you do not have the

office workers, and you do not have the other workers which a growing economy needs and you are adding to inflation.

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

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

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

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

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

INCOME MAINTENANCE PROGRAMS

THURSDAY, JUNE 20, 1968

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

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

Present: Representatives Griffiths, Rumsfeld, and Senator Proxmire.

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

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

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

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

Mr. MILLER. Thank you.

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

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

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

now talking about cash programs much more frontally than we did before.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(The prepared statement of Professor Miller follows:)

PREPARED STATEMENT OF S. M. MILLER*

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

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

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

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

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

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

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

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

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

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

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

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

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

WHAT CAN AND CANNOT THE CASH PROGRAM DO?

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

It seems to me that three different sets of arguments are presented to support such a cash program. One is along the lines of achievement and

deviancy; the second is on the contribution to family stability; and the third is on the contribution to national or social stability.

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

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

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

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

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

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

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

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

them. Cash programs cannot solve these problems alone. They can contribute to their solution.

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

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

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

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

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

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

WHY WELFARE ROLLS HAVE RISEN

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

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

THE CHANGING NATURE OF CASH PROGRAMS

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

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

A second aspect of scope has changed. The welfare program was thought of as a part of the efforts to deal with the interruption of income during the depres-

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

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

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

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

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

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

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

A concern with inequality starts from the premise that the great issue of our society is not poverty but inequality, the *comparative* position of individuals and families. It is the relation of an individual to other individuals that is central to his feelings of well-being and satisfaction rather than his relationship to a fixed poverty line.* I believe that there has been insufficient attention in the Sixties to the fundamental issues of inequality. As a consequence, much of

the anti-poverty efforts cannot be effective because they are not redistributive so that they reduce the gap between the poor and the affluent.

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

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

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

ISSUES

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

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

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

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

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

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

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

(Incidentally, the current earnings exemptions and tax rates of the income incentives provision of the 1987 amendments encourage part-time work, making clear that welfare and work are intermixed rather than competing economic systems.)

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

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

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

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

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

CASH PROGRAMS CANNOT SOLVE PROBLEMS ALONE

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

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

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

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

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

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

The diversity of the poor and the intermixing of work and welfare support the importance of a cash transfer program. The inability of incentives to be

effective without opportunity to work lead to the importance of economic and labor market policies. Both cash and job programs are needed.

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

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

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

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

CONCLUSION

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

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

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

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

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

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

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

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

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

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

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

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

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

So now let us consider certain categories of individuals as *potential workers*. That category might include all able-bodied persons from 18 to 65 years of age except full-time students and except females who are caring for one or more children under 18. No doubt, we could think of

some other exclusions that might be necessary, but there is no need to list them here. My purpose is to explain the principle.

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

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

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

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

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

I think this system could be administered in an efficient and humane way, but I do not think that we should underestimate the difficulties. A kind of common law would have to be developed to guide the adminis-

trative, quasijudicial decisions as to whether a particular individual should be given an "excuse" for not working or for working less than an adequate amount of time during a particular time period. And probably there should be some provisions for appeal from such decisions.

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

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

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

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

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

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Is a Negative Income Tax Practical?

James Tobin,† Joseph A. Pechman†
and Peter M. Mieszkowski†

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

† James Tobin: Sterling Professor of Economics, Yale University; A.B. 1939, Ph.D. 1947, Harvard University.

Joseph A. Pechman: Director of Economic Studies, Brookings Institution; Irving Fisher Research Professor of Economics, Yale University, 1966-67; B.S. 1937, Coll. City N.Y.; Ph.D. 1942, University of Wisconsin.

Peter M Mieszkowski: Associate Professor of Economics, Yale University; B.S.C. 1957, McGill University; Ph.D. 1963, Johns Hopkins University.

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

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

The basic allowance can be regarded as the income guarantee. It is

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

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

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

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

The authors strongly support some sort of negative income tax (NIT) plan, and indeed we have, as will appear below, some specific proposals regarding basic allowance schedules and offsetting tax rates. But the purpose of this article is not to expound the merits of the negative income tax approach in general or of our proposal in particular. The primary purpose is the more limited one of examining some of the sticky technical problems that must be solved if any such

plan is to be implemented. The larger issues of social policy are doubtless more important for the ultimate national decision, but the technical problems are neither trivial nor peripheral—nor can they be wholly divorced from the policy issues. The technical problems are in our opinion solvable. An analysis of at least one plan, with specific feasible solutions suggested for most of the problems, should advance understanding of the approach and meet some lines of criticism. A secondary purpose is to provide rough estimates of the cost of several alternative NIT plans; these are presented at the end of the article.

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

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

I. The Proposals

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

The H Schedule would provide basic allowances ranging from \$800 a year for a one-person family to \$3,800 for an eight-person family. Under the L Schedule the allowances would range from \$400 to \$2,700. Two rates of offsetting tax are considered: 50 per cent and $33\frac{1}{3}$ per cent. Table 1 describes two plans: H-50 and L- $33\frac{1}{3}$. Two other possible plans are the H Schedule with a tax rate of $33\frac{1}{3}$ per cent and the L Schedule with a 50 per cent tax rate.

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

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

TABLE 1
BASIC ALLOWANCES, BREAK-EVEN POINTS, AND LEVEL AT WHICH PRESENT INCOME TAX SCHEDULE APPLIES UNDER THE PROPOSED NEGATIVE INCOME TAX^a

Family size (number of persons) ^b	Basic allowance (received by units with no income)	Break-even point (point at which no allowance is received and no taxes paid)	Level at which present tax rates begin to apply ^b	Present marginal tax rate at income in (4)
(1)	(2)	(3)	(4)	(5)
<i>H Schedule (with a tax rate of 50%)</i>				
1 adult	\$ 800	\$1,600	\$1,876	15%
2 adults	1,600	3,200	3,868	16
3	2,100	4,200	4,996	17
4 } including	2,600	5,200	6,144	17
5 } at	3,000	6,000	7,003	17
6 } least	3,400	6,800	7,857	17
7 } 2	3,600	7,200	8,100	17
8 } adults ^c	3,800	7,600	8,359	16
<i>L Schedule (with a tax rate of 33½%)</i>				
1 person	\$ 400	\$1,200	\$1,420	15%
2	800	2,400	3,007	15
3 } persons	1,200	3,600	4,633	16
4 }	1,600	4,800	6,279	17
5	2,000	6,000	7,963	19
6 } including	2,400	7,200	9,728	19
7 } at least	2,550	7,650	9,951	19
8 } 2 adults ^d	2,700	8,100	10,196	19

^a The tax rates are 50 per cent for the H Schedule and 33½ per cent for the L Schedule.

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

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

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

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

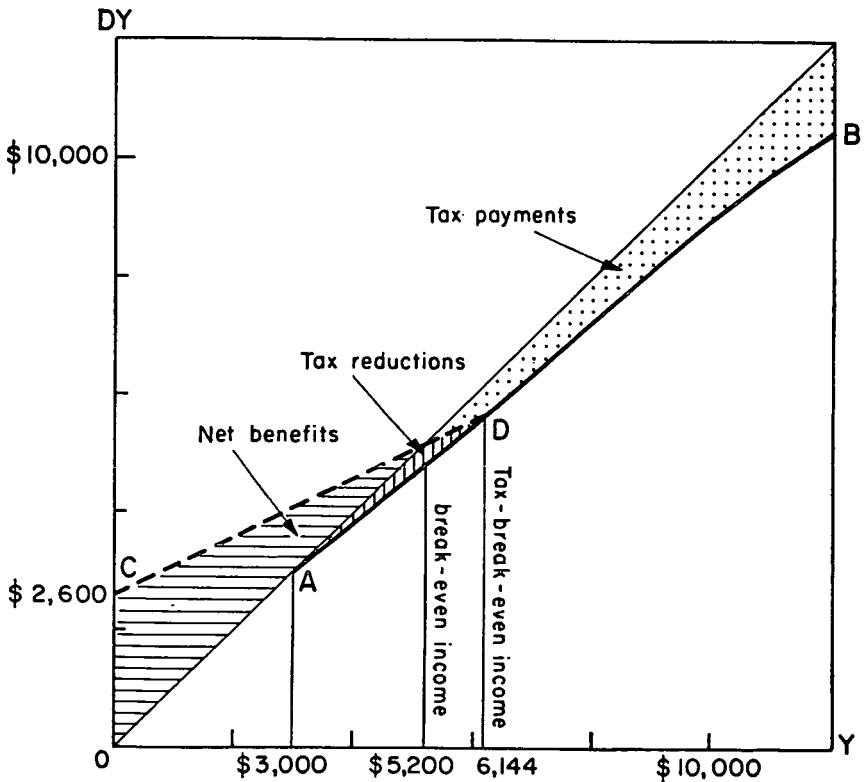
Table 1 summarizes the proposal for families varying in size from one to eight members. Column 2 gives the basic allowance, the amount to which the family unit is entitled if it has no other income. Column 3, which is simply Column 2 multiplied by two for the H-50 Schedule and by three for the L-33 $\frac{1}{3}$ Schedule, shows the "break-even income"; below it the family receives a net benefit equal to $\frac{1}{2}$ or $\frac{1}{3}$ of the shortfall from break-even income; above it the net benefit is negative, *i.e.*, the family pays a net tax. The net tax is $\frac{1}{2}$ or $\frac{1}{3}$ of the excess of the family's income over the break-even point so long as the tax so computed does not exceed the present federal tax liability. The income at which the two calculations are equal for typical taxpayers is given in Column 4, and the marginal tax rate applicable at that income under the regular tax schedule is shown in Column 5.

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

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

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

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



II. The Family Unit and the Allowance Schedule

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

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

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

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

In the vast majority of cases the factors governing family-unit formation or splits are largely non-pecuniary in nature. Nevertheless, it would be unwise to ignore the possibility that a financial incentive might cause families to break up, or to pretend to break up. Accordingly, the objective of scaling assistance to poor families of different sizes in proportion to their needs must be balanced against the possible incentive such a standard might provide for family disintegration. The basic allowance schedules shown in Table I were designed to strike such a balance. In both schedules the per capita allowance for the first

two members of the family unit is the same—\$800 in the H Schedule and \$400 in the L Schedule. Thus there is no incentive for a couple to define themselves as two single individuals. In the H Schedule the two \$800 allowances are available only to adults; otherwise there would be an opportunity for financial gain by setting up one-adult units in which a child is listed as the second \$800 member.

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

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

B. *Membership Rules*

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

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

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

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

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

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

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

In recognition of the additional expenses of college education, the

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

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

III. Definition of Income

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

A. *Receipts To Be Included in Income*

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

allowed. In addition to these obvious changes from the positive income tax base, a number of other modifications seem to be necessary:

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

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

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

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

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

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

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

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

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

B. Integration with Public Assistance Programs

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

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

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

States should therefore be encouraged to modify their rules to avoid

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

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

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

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

Whether assistance in kind should be abolished once cash assistance is increased in amount and in coverage is more doubtful. In general, we suggest that if public housing, the food stamp program and medical programs for the poor are to be continued, they should be justified, and modified, by considerations other than income maintenance. For example, under an adequate negative income tax the means test presently used in the determination of eligibility for public housing could be eliminated, and rent subsidies eventually could be eliminated. Eligibility for housing built under government programs would not depend on income levels. Public funds might still be made available by the government at rates below the market rate of interest, but these loans would be related to urban renewal programs and to the elimination of discrimination in the housing market—and not to con-

siderations of income maintenance. On the other hand, society will not allow anyone to be without essential medical care, even if his inability to pay for it reflects improvidence rather than poverty. Therefore, it is unlikely that direct assistance in kind in the health field can be eliminated until a comprehensive, compulsory health insurance plan is adopted.

C. *Integration with Social Security*

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

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

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

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

D. *Application of the Offsetting Tax to Wealth*

There are a number of arguments for and against taking wealth into account in computing the offsetting tax. The major argument

against "taxing" wealth is that *income* is the basic measure of ability to pay in the positive tax system. Reducing NIT benefits on the basis of wealth as well as income seems to impose a discriminatory capital levy on those with very low incomes. Moreover, the use of a comprehensive income tax base would prevent most "tax avoidance" on the part of recipients of NIT allowances.

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

In practice, the use of any except the harshest capital test would have little effect on the vast majority of poor persons. It has been estimated that only 39 per cent of all family units with incomes below \$3,000 have a net worth of more than \$5,000. The average net worth of all families in these income classes was \$7,609, of which owner-occupied homes accounted for \$3,204.¹

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

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

1. D. PROJECTOR & G. WEISS, SURVEY OF FINANCIAL CHARACTERISTICS OF CONSUMERS, table A-1, at 96, table A-8, at 110 (1966).

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

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

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

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

An alternative method of dealing with wealth is to disregard property income in defining taxable income and to impose an appropriately larger offsetting tax on capital. For example, a total of 15 per cent might be imputed to the family's net worth and taxed as income. The 15 per cent equals the sum of a 5 per cent rate of return plus the 10 per cent capital offset discussed above. This procedure has the advantage of correcting for differential yields on assets; it would even

impute a rate of return to cash holdings. To provide for the exemption proposed earlier, the imputation might be set at the rate of 5 per cent on net worth up to eight times the minimum allowance and 15 per cent above this point. This method has the additional virtue that the form filed by the family would require only two items of information—total family earnings and net worth—whereas the other method would require the family to report property income as well. On balance, there is little to choose between the two.

E. *Fluctuating Incomes*

It is well known that a progressive income tax based on a one-year accounting period imposes a heavier tax burden on persons with fluctuating annual incomes than on those with stable incomes. For example, under present law, the federal income taxes on a single person with an income of \$25,000 in each of two successive years total \$17,060; if the individual receives \$50,000 in one year and has no income in the second year, his two-year tax would be \$22,500, or almost a third higher. To reduce this inequity, sections 1301-04 of the *Internal Revenue Code of 1954* allow a measure of "income averaging" in federal taxation. Under these provisions, taxpayers are generally permitted to average their income for individual income tax purposes if "averageable income" (current year income minus 133⅓ per cent of the average of the four prior years' income) exceeds \$3,000.²

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

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

2. INT. REV. CODE OF 1954, § 1301, provides:

. . . the tax imposed by Section 1 for the computation year which is attributable to averageable income shall be 5 times the increase in tax under such section which would result from adding 20 per cent of such income to . . . 133⅓% of [the average income of the previous four years].

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

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

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

IV. Methods of Payment

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

Government welfare and other agencies have substantial experience

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

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

A. *Automatic Payments of the Full Basic Allowance*

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

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

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

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

B. *Declarations by Benefit Claimants*

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

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

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

The major drawback of the declaration method is that it would

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

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

V. Budgetary Cost of the Plans

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

We made four sets of cost estimates covering each of the two allowance schedules in turn at the rates of 50 per cent and $33\frac{1}{3}$ per cent.

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

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

The status under present law	H Schedule		L Schedule	
	33 $\frac{1}{8}$ % tax rate	50% tax rate	33 $\frac{1}{8}$ % tax rate	50% tax rate
A. Nontaxable	22.3	18.2	10.0	6.7
B. Taxable, income below break-even point	23.2	6.7	3.3	.2
C. Taxable, income above break-even point	3.8	1.1	1.0	.1
Total cost	49.3	26.0	14.3	7.0

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

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

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

6. *Id.*

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

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

In 1962 the gross rental value of owner-occupied dwellings was estimated to be \$37 billion. From the 1960 Census of Housing⁸ we estimated that about 12.8 per cent of the total value of owner-occupied homes was owned by people whose income was less than \$3,000. We estimate that imputing a 5 per cent return on owner-occupied residences would increase the negative income tax base by about \$2 billion and decrease the cost of plan H-50 by about \$1 billion. Other items, part of which would be included in the broader negative income tax base include: \$500 million of capital gains accruing to tax-paying units whose adjusted gross income was less than \$3,000, \$1 billion of unemployment compensation and \$2.2 billion of food consumed on farms.

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

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

8. 2 U.S. DEPT OF COMMERCE, BUREAU OF THE CENSUS, CENSUS OF HOUSING pt. 1, table A-3, at 1-5 (1963).

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

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

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

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

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

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

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

The course of action which we think best balances these considera-

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

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

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

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

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

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

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

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

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

those who have the greater economic needs or special crises which call for special help.

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

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

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

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

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

You raised the question as to why we need uniform national standards. I thought it would be useful to point out well-known figures, but they certainly emphasize this. For example, in March of this year, the AFDC payment per needy individual ranged from \$8.50 in Mississippi to \$61.45 in New York. Another measure that is perhaps just as useful,

that we have not emphasized so much, is the fact that there were 22 children per thousand under age 18 in South Carolina receiving AFDC help in the same month that there were 110 per thousand in West Virginia, States which are almost equal in per capita income.

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

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

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

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

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

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

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

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

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

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

That, I think, we sometimes forget.

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

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

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

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

We have available, while we are discussing and analyzing and studying all of the current proposals, a blueprint for immediate reform. For that reason, I want to call your attention again to the report of the Advisory Council on Public Welfare, "Having the Power, We Have the Duty," issued in 1966. This report was supported by the recom-

recommendations of the President's Advisory Commission on Rural Poverty in 1967, and of the Advisory Commission on Civil Disorders in 1968. Even if we opt for a different system in the end, whatever that may be, it is still necessary to bring about major reform for the residual load within the framework of public assistance. Here in this report we have many of the major steps that would be necessary.

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

(The prepared statement of Mrs. Winston follows:)

PREPARED STATEMENT OF ELLEN WINSTON

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

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

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

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

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

Historically, the Congress through the Social Security Act has made it possible for states to provide minimal income maintenance, and I use the term minimal advisedly, related to the fact that the federal government now matches up to \$75 on the average per month for an aged or disabled individual, \$32 for

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

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

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

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

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

Basically AFDC is for many of the recipients a short-term program, taking care of families during a period of crisis who then move into independent status

as their situation changes. In 1967, cases closed represented 42 per cent of the average monthly case load for the calendar year.

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

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

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

With more adequate income maintenance so that children can attend school regularly because they are decently fed and clothed, we should increase the proportion who move into independence. Under the present laws we tend to freeze the destitute into lifelong poverty. The 1937 legislation which permits a working parent receiving AFDC to retain \$30 per month and one-third of the balance of any earnings is a very limited concession to the efforts of the very poor to better themselves. We do not put such strictures upon the beneficiaries of other types of income programs.

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

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

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

Mr. Tobin, may I ask you, under your plan, if you had a family group on a negative income tax getting some support and a 15-year-

old girl in that family had an illegitimate child, would she file and draw on her own, or does she draw as the child of the father? Do you increase the allowance for that?

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

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

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

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

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

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

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

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

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

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

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

Representative GRIFFITHS. Exactly the same amount?

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

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

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

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

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

Let me remind you also that under our plan, if there were actual transfers from the parents to this hypothetical unit of young parents and their child, those transfers above a certain minimal amount are supposed to be counted as income for the purpose of determining benefit. So there is a protection in the suggested scheme against their con-

tinuing to receive, let us say, a lot of support from the parents involved, and also claiming money from the Government as if they were a completely self-sufficient unit.

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

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

Mr. TOBIN. Yes.

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

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

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

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

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

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

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

Now, of course, in his case, I think it would have been very difficult to reward him. He was doing mighty well—you could not have made

marriage to that woman with eight children more attractive to him. In some of these plans, you are going to have to make it better to be married than it is not to be married if you are going to have children raised in a legal family.

Mrs. WINSTON. Yes, up to a point.

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

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

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

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

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

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

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

Representative GRIFFITHS. My time is up.

Senator Proxmire?

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

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

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

Mr. MILLER. Around 3 percent.

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

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

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

Mr. MILLER. I am afraid you are right.

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

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

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

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

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

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

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

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

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

with Government subsidies. I think we have to look upon a new kind of job which is flexible, which accepts people who are not regular workers.

Senator PROXMIRE. Give me a couple of examples.

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

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

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

This is not a big program; I agree.

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

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

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

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

Senator PROXMIRE. You are not proposing that?

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

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

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

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

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

Dr. Tobin?

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

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

Mr. TOBIN. I am not sure we need to get unemployment by aggregate measure to a lower level than 3.5 percent in order to do the kind of job we have been talking about today. It is true that the higher we

have the rate of unemployment on a national aggregate level, the more specific efforts we will have to take to place unemployed workers who are in the category of poverty and who are unskilled, untrained, less well educated. More specific efforts will be needed because less of that job will be done by the natural forces of the labor market. That does not mean it cannot be done. I think it can be done, but we will have to make more effort and spend more money to do it if we have 3.5-percent unemployment than if we have three.

Representative GRIFFITHS. Mr. Rumsfeld?

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

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

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

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

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

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

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

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

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

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

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

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

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

Representative GRIFFITHS. Thank you for participating in the quorum.

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

Mrs. WINSTON. Yes.

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

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

Representative GRIFFITHS. Just put that in the record.

(The following was subsequently supplied:)

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

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

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

But I do not think that is basically the reason.

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

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

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

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

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

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

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

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

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

Representative GRIFFITHS. They do realize it?

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

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

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

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

Mrs. WINSTON. I am glad you brought that point up, because I would like to make a comment in connection with your earlier questions. We have no national family policy in this country. If we had a fairly clear-cut policy around which we could develop legislation and against which we could test legislation, I think we would help to cut

away some the underbrush. What we do now is simply take a step here and a step there, but without any solid, central, philosophical core.

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

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

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

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

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

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

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

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

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

ment to have a baby simply for the purposes of drawing an AFDC payment.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Mr. TOBIN. They are separable.

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

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

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

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

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

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

Senator PROXMIRE. You were against them for a while.

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

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

I would like to ask Dr. Miller to comment.

Mr. MILLER. I fundamentally agree with the point you are taking here. I think with this complex set of objectives that we have now, we have to move to much more selective sets of policies than we have had in the past. I think this is really what the debate is between the two of you, to what extent you rely upon typical aggregate measures

and to what extent you look at measures in terms of their redistributive quality, what effect they have on the poor in society as a result of one or another measure.

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

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

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

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

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

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

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

Mr. TOBIN. May I say something?

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

Senator PROXMIRE. Women.

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

Senator PROXMIRE. Especially.

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

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

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

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

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

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

Senator PROXMIRE. You are being very politically expedient, then, because you say the course of action you think best balances these considerations is Federal enactment of plan L—that is low—with a tax rate of 40 percent. “The basic allowances of this plan would then, we hope, be supplemented by individual high-cost-of-living States

along the line outlined above." Then you gradually move into your somewhat higher schedule, which is still quite modest.

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

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

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

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

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

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

Mr. TOBIN. That is absolutely right.

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

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

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

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

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

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

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

Senator PROXMIRE. That is right.

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

Am I making myself clear on this point?

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

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

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

I would like to ask Dr. Miller, you say at one point and call it a terrible circumstance that only one-quarter of the poor are receiving welfare aid in the United States. Mrs. Winston quoted a HEW study of June 1967, saying that 8½ million, or one-half of those eligible, are not receiving public assistance. So there is a difference. I take

it your more comprehensive definition of the poor would include, for example, Wisconsin farmers who are making 80 cents an hour on the average, even though they are the most efficient dairy farmers in the world, and have incomes in many cases, I am sure, in the poverty class, receiving no public assistance. I am not sure whether it is a terrible circumstance they are not receiving it. I think it is a terrible circumstance their prices are so low. But do you feel it would be desirable that all the poor should be receiving welfare aid, necessarily?

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

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

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

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

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

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

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

May I make one point?

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

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

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

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

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

Mr. TOBIN. It will do a lot.

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

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

Mr. MILLER. Participation.

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

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

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

INCOME MAINTENANCE PROGRAMS

TUESDAY, JUNE 25, 1968

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

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

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

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

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

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

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

Mr. HAZLITT. Yes, Madam Chairman.

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

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

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

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

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

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

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

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

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

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

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

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

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

This is to talk as if the "Government" were some separate entity that gets its money out of some fourth dimension. The truth is, of course, that the Government has nothing to give to anybody that it doesn't first take from someone else. The whole guaranteed-income

proposal is a perfect modern example of the shrewd observation of the French economist Bastiat more than a century ago: "The state is the great fiction by which everybody tries to live at the expense of everybody else."

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

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

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

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

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

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

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

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

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

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

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

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

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

I have talked here only of what should not be done, and have left myself no time to discuss what should be done. But if I may take

the liberty of stating, as I see it, the problem that faces your distinguished committee—I should put it this way: How can the Government mitigate the penalties of failure and misfortune without undermining the incentives to effort and success? I do not wish to underrate the importance of the first half of this problem, but it seems to me that the second half deserves much more earnest attention than it has recently received.

Thank you.

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

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

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

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

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

Representative GRIFFITHS. All right.

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

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

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

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

This commitment, however, has grown like Topsy rather than been planned. The methods we have adopted are totally haphazard provid-

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

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

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

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

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

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

In a country characterized by geographical differences, a wide range of educational attainment heterogeneity of race and national origin, and low tol-

erance for inflation, price increases become unacceptable long before a job is available for everyone able, willing, and seeking to work. If the latter promise of the Employment Act of 1946 were to be made real, even in a period of low general unemployment . . . the government would have to guarantee public service jobs to those experiencing long-term unemployment.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The fact that the negative income tax plan might be carried through in the near future and that a fundamental reform of the tax system does not presently appear feasible should not prevent us from moving toward consideration of the latter issue. Let me remind you of the progress we have made in redefining the welfare issue in recent years: we can redefine the taxation issue if we make the same effort. If we

should fail to do so, the negative income tax will undoubtedly land us in a more unfavorable position than exists at the present time.

Under these circumstances it is obviously impossible that I should provide the committee with exact figures. I have neither the resources, nor the access to computers, which will be required to work out the approaches which are technically—let alone politically—feasible. Indeed, I do not believe that the technical problems are critically difficult—there are plenty of technicians to work out feasible approaches once the problem has been defined. I would suggest, however, that the negative income tax may well be the initial step toward the twin goals of providing incomes to all as a matter of right and toward a more equitable tax system.

I would like to suggest to this subcommittee that our prime economic problem results from the fact that our present economic reasoning is based on fundamentally fallacious reasoning. The Council of Economic Advisers needs to reread John Maynard Keynes and to discover that he excludes from this analysis the very factors which are now most important.

Keynes argues in "The General Theory of Employment, Interest, and Money":

We take as given, the existing quantity and quality of available equipment, the existing technique.

We have adjusted our economic system to an analysis which is outdated. We must now discover the new model which will enable us to understand and control the economy in the current social setting; to do this we will have to develop great social economists of the stature of Schumpeter.

The guaranteed income is a necessity for the society in an era of cybernation. Now that we are understanding this reality, we must go on to discover the longrun implications of such a fundamental change and work to acquaint citizens throughout the United States with the new realities.

Representative GRIFFITHS. Thank you, Mr. Theobald.

Dr. Thursz?

STATEMENT OF DR. DANIEL THURSZ, CHAIRMAN, COMMISSION ON SOCIAL ACTION, NATIONAL ASSOCIATION OF SOCIAL WORKERS, INC.; DEAN, SCHOOL OF SOCIAL WORKERS, UNIVERSITY OF MARYLAND, BALTIMORE, MD.

Mr. THURSZ. Madam Chairman, members of the subcommittee, my name is Daniel Thursz, and I am here today to represent the National Association of Social Workers. I am chairman of its commission on social action. My professional position is that of dean of the School of Social Work at the University of Maryland in Baltimore.

I welcome this opportunity to present for the National Association of Social Workers the case for the guaranteed annual income as developed over a period of a number of years by our association.

Let me, before getting to my prepared text, make a few comments, Madam Chairman, about my presentation this morning.

I would say one of the concerns that this committee has had is that it has been subjected to a whole series of true believers who have a

simple answer to a complex problem. The problems of poverty in this country will not be handled by a single program, no matter how well developed. Our sad experience as social workers has been that every program carries with it certain limits; and no programs, as we see it, will be able to do the total job. My concern is that we at least accept the concept of responsibility which has been established in our country for many, many years. When we are told that to guarantee rights is a new concept in American history, I must point out that at least in the field of education, we, unlike many other countries of the world, have accepted the fact that the Nation as a whole has to accept the responsibility of guaranteeing to each child the right to an education.

And when people talk of morality, I would have to ask which is more immoral: To take from the affluent to help those who do not have the wherewithal to live, or to deny generation after generation the wherewithal with which to hope. Or, if you please, to punish, degrade, attack those to whom we give inadequate assistance?

In my own city of Baltimore, it was only 2 or 3 months ago that the welfare department was finally convinced that the checks for those on welfare might not have to be printed with a distinct color so that, as recipients cashed the checks, the stigma of being on welfare would be communicated quickly. I mentioned this because it seems to me that we are really fundamentally in the field of values, and we need to make some decision as to the sort of country we want to become.

Now, I do want to indicate what has happened to us as social workers, because the National Association of Social Workers is a professional organization with a membership of 50,000 individuals located throughout the country in 170 chapters. Our members are employed in governmental and voluntary, health and welfare agencies. A substantial proportion are employed in State and local welfare departments.

I presume that it is news when social workers attack the system for which so many work by saying that it is outmoded, inadequate, and cannot begin to do the job. I shall try to develop this view.

In essence, we believe that every individual in our society has a right to a certain and adequate income and that society as a whole benefits when this is realized. This goal can be achieved only through a combination of approaches. This combination includes:

First: The opportunity for employment, and I guess we are not as pessimistic as others are about the desire for people to work. Somehow, there are lots of other incentives in our society that prompt people to work, in addition to money.

Second: The improvement and expansion of social insurance. We realize that many Americans will be out of the poverty, above the poverty lines, if we use the social insurance scheme to provide them with adequate income.

Third: Some device for raising to an adequate income level those persons not in the labor force or those whose work experience is so insubstantial as not to enable them to qualify for adequate social insurance benefits.

Fourth: A reformed and reorganized public assistance program.

I will spell these approaches out in more detail in the course of my testimony. Before doing so, I would like to present a short description of the development of our association's thinking with respect to the

setting of a floor of income for all Americans, because I think it has substantial bearing on how we reached the conclusion that our present income maintenance system must be modified, improved, and extended.

Let me now talk about the association and how our social workers came to believe that our social assistance program was not working as well as it should be. We believe that it would not be enough to restructure the program by which we provide some financial security to people, but we have looked to qualitative and quantitative improvements in the public welfare program. We have sought for many years for exemption of earnings of employed children, the elimination of residence requirements, but we were not successful. The key recommendation of the 1962 Public Welfare Amendments was directed toward rehabilitative services to ADC families by trained personnel.

I will add quickly that we were wrong in our support of the 1962 amendments, when some of us suggested that by adding trained social workers, we could move people out of poverty—the problem of poverty is far more complex and you can provide all the caseworkers you want to people; if the opportunity for employment is not available, if we do not do something with housing, if we do not do something with racial prejudice, if we do not do a whole lot of things which social workers do not control and which are controlled and handled at a different level of government, then casework will fail, and casework has failed from that point of view.

We supported employment programs and we preferred employment programs to money grants for employables. Circumstances then required us to settle for a program of Federal participation in work relief which was not implemented legislatively until the Economic Opportunity Act, outside of the Social Security Act, initiated the community work and training program.

Now, as recently as 1962, we held that there was nothing radically wrong with our public assistance system that more adequate payments, the provision of a category of general assistance, and the elimination of residence requirements and the addition of trained staff would not correct. Although some of us had reservations about the means test and investigatory procedures, most of us sought correctives through more enlightened and compassionate administration of the program.

We have now come to the conclusion that this simply is not enough and that our public assistance program must be relocated in the spectrum of programs necessary for an adequate system of income assurance, and present systems substantially reformed and reorganized.

At our 1967 delegate assembly of the National Association of Social Workers, a program was recommended as follows:

First: The expansion of the general economy and of public service employment is required, since work will continue to constitute the major source of income for most American families in the foreseeable future. Adequate minimum wage administration should provide a floor for all earnings.

Second: The improvement and expansion of social insurances—old-age, survivors, disability and health insurance, unemployment and workmen's compensation—in order to make the fullest possible contribution to filling the gap that now exists between income from work and decent income for all citizens.

I must point out that we now have almost a million persons who are on social security and at the same time have to go to public welfare departments to obtain additional relief, since the assistance provided by one system of the government is simply not enough to permit us to live. Why we need two bureaucracies, and two systems to provide support to the aged is really beyond my comprehension.

Third: An expanded and improved system for raising to an adequate income level those persons not in the labor force or those whose work experience is so insubstantial as not to enable them to qualify for adequate social insurance benefits.

I might say that on the question of the specific program, there was a substantial difference of opinion in our membership with respect to the negative income tax or the family allowance approach. The association has not taken a position in support of one program or another. In part, we are caught in the same dilemma as the committee is caught. We recognize some of the limitations of both programs.

Yet we are convinced that the present procedures—the use of a means test, the use of public welfare departments to provide income support and the situation where each of the States sets its own level—simply cannot go on. We see it as destructive not only of individuals involved but to society as a whole. However, we suggest there is a need now, before we finally settle on one program or another, to reform and reorganize the public assistance program so that no person's income will fall below a minimum standard of adequacy.

We would suggest again the elimination of residence requirements, relative responsibility except spouse for spouse and parent for children, and the categories of assistance. We suggest that such a public assistance program could be administered in a way that protects the individual's dignity, privacy, and constitutional rights.

We suggest that much can be done today to improve our present system while we gear up for a new program, whether it be a program of negative income tax or a program of family allowance.

Finally, I would like to point out that there is an enormous cost to our society of a permanent povertystricken segment of our population. The cost is not only economic. The cost, which can be called a social cost, is not only the degradation and alienation of millions of citizens and the violence and destruction that inevitably results from hopelessness amidst affluence. It also includes the wasted lives, the loss of productive and contributing taxpayers and consumers, the new, yet unborn generations of alienated youth and the possible loss of the most fundamental objectives of our American society.

There are enormous social consequences to inaction on the matter of income maintenance. I would submit that there are equally positive social consequences to action now to give to all Americans income support and income opportunity.

Our members for the past several years, throughout the country, have been publishing articles and doing some fundamental studies, evaluating various proposals for the various programs for guaranteed annual income. I would be most willing, Madam Chairman, to submit these articles as well as the full text of my testimony to your committee.

(The remainder of the prepared statement of Dr. Thursz follows:)

PREPARED STATEMENT OF DR. DANIEL THURSZ

Our Association has a long history of support for the Social Security Act and its old age, survivors', and disability, Medicare, public assistance, and Medicaid titles. Over the quarter century and more of the life of the Social Security Act, we have appeared frequently before Congressional committees to argue for a comprehensive non-categorical program of public assistance which would provide for:

- (1) Adequate assistance payments;
- (2) Elimination of residence requirements;
- (3) Some retention of earned income;
- (4) Elimination of relative responsibilities, except that of spouse for spouse and that of parents for minor children.

We have argued that these revisions in the public assistance titles would move toward making it a reasonably adequate program of supplementation of the basic benefits provided as a matter of right through Title II of the Social Security Act.

Long before the 1966 report of the Advisory Council on Public Welfare, we supported the key recommendation of that report, namely, that the sole basis for eligibility for public assistance should be that of need.

In 1961, our Association welcomed the invitation from the then HEW Secretary Abraham Ribicoff to assist him in developing a series of amendments to the public assistance titles in the Social Security Act, which eventually became the 1962 Public Welfare Amendments to that Act. Our approach, and that of the HEW and the Congress, was not a restructuring of public assistance, but qualitative and quantitative improvements.

Although we sought, as we had over a period of a number of years, some exemption of earnings of employed children and the elimination of the residence requirements, we were not successful. The key recommendation of the 1962 Public Welfare Amendments was directed toward "rehabilitative services to ADC families by trained personnel."

Some of us who were involved in that Advisory Committee argued that a program of public works and subsidized employment should be developed to deal with both the unemployed father on ADC and to obviate the necessity for application for public assistance for unemployed parents. We preferred employment programs to money grants for employables. Circumstances required us, however, to settle for a program of Federal participation in work relief which was not implemented legislatively until the Economic Opportunity Act, outside of the Social Security Act, initiated the community work and training program.

At our 1964 Delegate Assembly these growing doubts as to the viability of the public assistance program came to a head when there was adopted an income maintenance statement that indicated that the Association "favors a passage and implementation of Federal legislation that would insure (1) income as a matter of right in amounts sufficient to maintain all persons throughout the nation at a uniformly adequate level of living; and (2) the provision of payments in the most dignified and efficient manner possible."

At the same Delegate Assembly, we indicated that "we stand for the abolition of the means test in the archaic form in which it is applied in state and local administration of public assistance," noting further that this means test "nullifies the objectives of guaranteeing to every individual in our society the right to an adequate and certain income, and does violence to basic human values."

In adopting these policies, we recognized that we were now charged with spelling out in considerable detail how we believe we should go about assuring income as a matter of right in amounts sufficient to maintain all persons throughout the nation at a uniformly adequate level of living. We recognized further that while members of our Association supported this declaration as a matter of principle, reservations would develop as we began the outlining of specific details for achieving a program dedicated to this principle.

Over a period of almost two years, we developed what we saw as the elements of an adequate program of income assurance and then, to prepare the participants in our 1967 Delegate Assembly which would be called upon to

pass on this program, we instituted a series of regional seminars at which this proposal was outlined and discussed.

This program for income assurance which was adopted at our 1967 Delegate Assembly is as follows:

(1) Expansion of the general economy and of public service employment is required since work will continue to constitute the major source of income for most American families in the foreseeable future. Adequate minimum wage legislation should provide a floor for all earnings.

COMMENT

We supported in 1967 extension and improvements in the Fair Labor Standards Act and are now supporting the Clark Emergency and Training Act of 1968 and the O'Hara Guaranteed Employment Act.

(2) Improvement and expansion of the social insurances—old age, survivors', disability and health insurance and unemployment and workmen's compensation—in order to help make the fullest possible contribution to filling the gap that now exists between income from work and decent income for all citizens. Such expansion should include more complete coverage, a substantial increase in benefits, extension of medical care to all, and, with respect to unemployment compensation, in addition the application of Federal standards and the lengthening of the period in which payments are made.

COMMENT

We support increasing social security benefits by 50%, to be financed by raising the wage base substantially and from the general revenues to cover the cost of prior service credits. Further, we support extension of contributory health insurance to the total population.

(3) An expanded and improved system for raising to an adequate income level those persons not in the labor force or those whose work experience is so insubstantial as not to enable them to qualify for adequate social insurance benefits. The two most promising approaches to this objective are the following:

(a) A federally administered universal benefit system, possibly using the income tax mechanism, under which all persons would receive payments designed to lift the income of all those below the poverty line to an adequate level.

(b) Children's or family allowances and allowances for the aged to an adequate level of income and based solely on such criteria as age, family status, and the like.

COMMENT

There is a substantial difference of opinion in our membership with respect to the negative income tax or family allowance approach. The Association, however, reserves its position as to the choice of programs which seem to have the best chance of being adopted in the reasonably near future, in order to make contribution toward the objective of a guaranteed minimum income for all.

(4) A reformed and reorganized public assistance program that would provide a Federal guarantee so that no person's income would fall below a minimum standard of adequacy and be based on financial needs as the only criterion for eligibility. Such criterion would eliminate, among other matters, residence, relatives' responsibility, except spouse for spouse and parent for dependent child, and the categories of assistance. Administered under considerations that would protect the individual's dignity, privacy, and constitutional rights, this program would serve as a significant interim measure until other programs could be developed and also as the ultimate guarantor that no one because of socioeconomic reasons or the lacks and deficiencies in other income provision arrangements shall be without a decent level of income.

COMMENT

The 1967 Public Welfare Amendments, particularly the AFDC freeze and the discriminatory requirement for work and training for mothers, demonstrated to us again that the means test approach in public assistance "does violence to basic human values."

In our judgment, current efforts to separate services from the determination of income eligibility, substituting declarations for case by case investigation are forward steps, which we want incorporated in the assistance program of the future. However, we would see such a program as much diminished in size,

essentially a residual program, and designed to supplement an income provision system based upon rights.

As further background for this presentation, we are offering for the files of this Committee reprints of two articles that have been published in our Association's magazine *Social Work*, and a paper prepared for our 1967 Delegate Assembly by Dr. Alan D. Wade, who is now Dean of the School of Social Work at the Sacramento, California State College, entitled "Lifting the Poor Out of Poverty".

One of the articles which we are filing "A Way to End the Means Test" by Dr. Edward E. Schwartz, George Herbert Jones professor at the School of Social Service Administration, University of Chicago, develops what Dr. Schwartz calls a family security program which utilizes the Federal income tax system to provide a federally guaranteed minimum income which would be set at any one of three levels, varying from a minimum maintenance of \$3,000 a year to a modest, but adequate level of \$5,000 per year.

Another article entitled "Alternatives in Income Maintenance" by Arvin L. Schorr, Editor of our publication *Social Work* and HEW Deputy Assistant Secretary for Individual and Family Services, presents six distinctive approaches to income maintenance identifying their basic assumptions and controlling issues, and rejects or locates each approach within the system that will take shape over time.

We have not attempted to determine the cost of this four-part program we are suggesting, but are certain that during these hearings you have received from various witnesses, particularly the economists, the cost of instituting some kind of income assurance program. Such estimates may well have varied from a low of \$11 billion to a possible high of over \$30 billion. However, we do want to note that if significant and affirmative action is taken with respect to job guarantees, including a minimum wage of no less than \$2.00 an hour, if the social insurance system is extended and improved in its old age, survivors' disability and health phases, and if unemployment compensation is extended and improved, the cost to be carried by income supplementation devices such as the negative income tax or children's allowances and a reorganized public assistance system would be proportionately reduced.

There is an enormous cost to our society of a permanent poverty-stricken segment of our population. The cost is not only the degradation and alienation of millions of citizens and the violence and destruction that inevitably result from hopelessness amidst affluence. It also includes the wasted lives, the loss of productive and contributing tax payers and consumers, the new, yet unborn generations of alienated youth and the possible loss of the most fundamental objectives of our American Society. There are enormous negative social consequences to inaction on the matter of income maintenance. There are equally positive social consequences to action now to give to all Americans the income support and/or opportunity.

We welcome this opportunity to participate in this dialogue on guaranteed annual income and pledge the efforts and resources of our organization in the further extension of public discussion on the need for assuring all Americans a decent level of income.

Representative GRIFFITHS. Thank you. Without objection, we will be glad to receive them.

(The documents referred to are included in vol. II as appendix 18.)

Representative GRIFFITHS. Mr. Tyson?

STATEMENT OF LUTHER TYSON, DIRECTOR, DEPARTMENT OF ECONOMIC LIFE, BOARD OF CHRISTIAN SOCIAL CONCERNS, METHODIST CHURCH, WASHINGTON, D.C.

Mr. Tyson. Madam Chairman, members of the subcommittee, my name is Luther Tyson, I am the director of the Department of Economic Life of the Board of Christian Social Concerns of the United Methodist Church. My area of specialization in graduate studies has been the fields of the sociology of religion and social ethics. I am testifying on behalf of the National Council of the Churches of Christ in

the United States as a member of its committee on the church and economic life.

The National Council of Churches is composed of 33 member Protestant and Orthodox Christian denominations, which in turn have an aggregate of 42 million members. I mention this merely to indicate what kind of organization the National Council of Churches is and not to imply that I am attempting to speak for all these denominations or their members. I am speaking on behalf of the general board of the National Council of Churches, which is its governing body. The general board is composed of representatives of the member denominations in proportion to their respective membership, selected by the denominations according to their own procedures. It numbers 255 members, and includes men and women, both clergy and laity.

The general board meets three times a year to set policy for the National Council of Churches. One way in which it sets policy is by acting on policy statements proposed after careful study by program units subsidiary to the general board but composed, like it, of denominational representatives of specialized competence.

It is in one of these, the committee on church and economic life, that the policy on which this testimony is based originated. For 2 years, a study committee of economists and other specialists worked on the subject of guaranteed income, and their recommendations formed the basis of the policy adopted by the general board after deliberation, debate, and amendment by the program board of the division of Christian life and mission, an intermediate representative body.

I cite this history to indicate that this policy was not arrived at hastily, impulsively, or inadvisedly. When finally acted upon by the general board, the vote was 107 for, one against, with two abstentions.

Madam Chairman, I think perhaps I will not read all of this. It is in your record. I would like rather to make some comments.

Representative GRIFFITHS. We shall be glad to have your comments, and your statement will be printed in the record in full.

Mr. TYSON. I note the question of values has been touched on by three of your speakers. In terms of specificity, the language of social ethics raises this question concerning guaranteed annual income: Why should a rich man's cat lap cream while a poor man's son suffers from malnutrition? Or why should the least advantaged in society function to stabilize the rate of inflation? Why should those persons be the safety valve of the economy?

Now, to raise this kind of a question is not an idle exercise in axiology. The answer is fraught with social and political consequences. It challenges our inherited values supporting our national economic policy.

I would like to limit my remarks to two major points. The first is that transfer payments must be seen as an investment in personality development and in household security. Very briefly, I will sketch a microanalysis of the value system of the ordinary household—that is, a family unit which produces motivated children who are capable of enjoying life, of exercising their social privileges, and of meeting their social obligations.

The fundamental proposition concerning the household is that its basic goal is a noneconomic function. Too often, we define these functions in terms of economy only, which then skews our analysis in terms

characteristic of the economy. The primary function of the household is to transmit cultural values through socialization and to manage individual tensions within a small face-to-face group.

Now, the basic product of the household is the socialized individual, and it is the service of this individual which the economy needs in order to perform its primary function, the production of goods and services. So there is this economic dimension to the function of the household.

It generates within it motivation for economic performance, and it generates, manages, and disposes of wealth as resources for its primary output, the socialized individual. This is achieved through exchange in the occupational market, the consumers market, and the capital goods market. The goal of the economy of the household then, is to generate motivation appropriate to occupational performance through the mechanism of the socialization of the child and the management of tensions of family members.

Within this broad goal, we find certain kinds of functions within the household. Each one of these functions rests back upon a basic value assumption. Within the goal sector of the household economy would be included the willingness to assume an occupational role, the willingness to be employed, the capacity to earn, the balancing of skills, competence, training, and entry into productive work and the valuation of industry. This has often been called a work ethic, and this is certainly a needed input into an economic system.

It is generated primarily not in the economy—I emphasize this—it is generated primarily outside the economy in the socialization processes of the child. Now the household also generates motivation for a wide spectrum of activities other than economic, including learning, service, worship, and while the household is more than a resource for the economy, its product is a necessary and a basic need of the economy.

In pursuing this goal of the motivated person, the socialized individual, the economy of the household must adapt itself to the changing situation of the general social environment. This would include now primarily technological change.

This is not new. This has been going on, of course, for centuries. But it is at a new rate. A certain portion of the resources of the household must be allocated for continuous maintenance of occupational motivation, and if the household does not have this input whereby it can generate this continuous motivation, it will be lost and it is lost to the total system, it is lost to the economy. Then it cost a whole lot more to recapture it, to regenerate it. It takes years; it takes a generation.

The roles of the household economy in this adaptive function of being able to ride with change in society center around spending. This includes spending for health, being able to enter the job market and work daily and to have the health to do so. It also includes recreation, education, training, spending for the basic standard package of living, which includes personal savings; for the invisible costs of living—spending for status, which relates the household to other formal and informal associations in society and defines who the household is and what it is, and incidentally, the children in it—all of this based upon an attitude toward consumption and its evaluation.

The household is conditioned through interaction with other collectivities, which includes not only the standards of life, but includes discretionary styles for enhancing the life of the members of the household—religion, health, travel, leisure, and the realization of the basic values of the household structure.

A third function within the household centers in what is termed the integrative sector. It deals with the organization of the family's occupational roles. The roles in this sector of the household center around the improvement of occupational capacities through reorganization of the role of each family member—going back to school, for instance; taking job training as an example; consumption patterns and socialization techniques. It includes leadership for creating new occupational capacity or improving the old; it includes the valuation of innovation in family economic performance.

And such questions as who allocates household funds—these all enter into this particular function of how does the household spend its money in order to be able to meet this kind of change.

Now, within the household economy, the value sector functions to process motivation in the family. Roles are organized around the processing of appropriate motivation relative to economic performance, the developing of techniques in tension management, the integration of the techniques for the socialization and tension management by the division of labor among adults, or supplying supervision, nurture, and the whole question of valuation of motivation.

The point I wish to make is this, that these primary functions of the household require a continuous input of resources from the total social system. One of the most important ones is constant flow of income. And it is impossible, it seems to me, in the field of ethics to judge a family as being not motivated, as being unworthy when the very things we know from the behavioral sciences and from ethical analysis which motivate the family are not inputs into the family. And if we are going to really make secure the household in a rapid era of change, then these millions of families are going to need special transfer payments in order to be able to develop the very facilities necessary to process and to socialize persons in family structures.

The output, then, is the motivated person, and this is what we hope is achieved. Therefore, we do not get people locked into a social system of deprivation and poverty, but it is an investment in personality and into the household during periods of rapid social change.

The second point I wish to make centers around an ethical distinction between work and leisure. Because this constantly comes up in one form or another, sometimes disguised, when we are beginning to talk about incentives, let me pose a question. Does a person who is living from past investments represent a person who is working? Now, what is work? Work broadly defined means any human activity directed toward achieving objectives, whether or not any remuneration is involved.

Work narrowly defined is activity for the sake of specific economic gains. It is the exchange of labor for wages. Remember, narrowly defined, it is the exchange of labor for wages.

Now, then, a person who is able to make a claim upon a total social system because a father or a grandfather or a great grandfather made a good investment, is this person working? Then should this person

receive income from the total social system? Is this a legitimate moral claim against the system?

Well, our society would say "Yes." Why? Because of a necessary function in the total system. One of the primary ingredients for a functioning economy is that of the supply of capital. This is one of its sources—out of savings—so therefore, there is a claim in perpetuity for income to be transferred into this household because of this prior function; in other words, the person is working.

But I submit that this person is working in the broadly defined definition and not in the narrowly defined definition, certainly not in a definition of exchange of labor for wages.

What, then, is leisure? Well, narrowly defined, leisure may be seen as idleness, and this is what so many people are worried about, what happens to the idle poor? I was pastor one time in a community where the median income was over \$15,000 a year, and I was somewhat worried about the idleness of some other kinds of people in society. It is not just the poor who are idle.

This may constitute a major problem for a total social system, and you do not cut it off at the poverty line.

Narrowly defined, leisure then may be seen as idleness, sort of lolling around the pool. But leisure broadly defined is the creative use of the free time. This will most often include the pursuit of social objectives; for example, serving as a volunteer in hospital service.

Now, I submit that these two definitions begin to fade into each other, labor and work, if you use the two broad definitions. Broadly, leisure is the creative use of free time, and this will include the pursuit of objectives. Broadly defined, work means any activity directed toward objectives whether or not remuneration is involved. So we are involved here in trying to define a policy for determining family income for activities—one of which has historically been defined as economic work, and the other has simply been defined as a claim against the total system for being human.

Now, then, I want to use an example I began with to illustrate why I think there may be an ethical claim which can be made against a total economic system by those persons who are not narrowly in the work force. This person who supplies capital and then gets a claim against the total social system in perpetuity I have said performs a vital function in the economic system. What about that person who is laid off when we raise the tax rate by a 10-percent surcharge and takes \$6 billion out of the Federal Government's budget? This policy will result in a 1-percent rise in unemployment, which will be around 800,000 projected, maybe in the next 12 to 14 months, which will also include several million persons, persons related to this head of the household. Are these persons performing, in the broadest sense, work? Are they in the broadest sense achieving an objective of the total social system? I submit that they are, because this is the safety valve activated by societal policy decisions.

Just look at a Phillips Curve. It describes our primary safety valve for handling creeping inflation.

These unemployed persons "take it." Are they not then performing a function in the general social system which generates a claim for transfer payments? I submit generally that a strong ethical case can be made for this particular point.

The last point I would like to make is the summary statement of the policy of the National Council of Churches. We read the literature for about 2 years and we discover that no ethical criteria had been established in the literature for adjudging income maintenance programs, and so these six were developed by the research committee:

First, such transfer programs should be available as a matter of right, with need as the sole criterion of eligibility; (2) it should be adequate to maintain health and human decency; (3) it should be administered so as to adjust benefits to changes in cost of living; (4) it should be developed in a manner which will respect the freedom of persons to manage their own lives, increase their power to choose their own careers, and enable them to participate in meeting personal and community needs; (5) it should be designed to afford incentive to productive activity, and should be designed (6) in such a way that existing socially desirable programs and values are conserved and enhanced.

Thank you very much.

(The prepared statement of Mr. Tyson follows:)

PREPARED STATEMENT OF LUTHER TYSON

GUARANTEED INCOME

The National Council of Churches is grateful for the interest of this committee in the subject of guaranteed income, and wishes to congratulate the committee on its forward looking approach to one of the fundamental aspects of the problem of poverty in our nation—the issue of income maintenance.

We note with interest that no less than four presidential commissions dealing with related subjects during the past two years have presented recommendations looking in the direction of some form of guaranteed income.

The Commission on Technology, Automation and Economic Progress, reporting in February, 1966, said:

“We feel strongly, however, that a better integrated and more comprehensive system of social insurance and income maintenance is both necessary and feasible at this stage of our history . . . The Commission recommends also that Congress go beyond a reform of the present (welfare) system and examine wholly new approaches to the problem of income maintenance. In particular, we suggest that Congress give serious study to a ‘minimum income allowance’ or ‘negative income tax’ program. Such a program, if found feasible, should be designed to approach by stages the goal of eliminating the need for means test public assistance programs by providing a floor of adequate minimum income.”

In June of 1966, the Advisory Council on Public Welfare stated:

“For the nation as a whole, a floor under income constitutes a clear declaration of conscience and of practical intention to eliminate poverty . . . the greatest potential for strengthening income maintenance for the poor is through immediate improvement of the social insurance and public assistance program.”

The President’s Commission on Law Enforcement and Administration of Justice recommended in February, 1967, that:

“Efforts, both public and private, should be intensified to reduce unemployment and devise methods of providing minimum family income.”

Most recently, in March, 1968, the National Advisory Commission on Civil Disorders asserted that:

“Our longer range strategy . . . is the development of a national system of income supplementation to provide a basic floor of economic and social security for all Americans.”

The views of the National Council of Churches on this subject are contained in a basic policy statement on “Guaranteed Income” adopted by its General Board on February 22, 1968. That policy statement forms the basis for this statement. A full text of the policy statement together with a staff paper is attached.

The key sentence in the policy statement affirms that “*the National Council of Churches endorses the concept and desirability of a guaranteed income.*” We

wish to share with the Commission in summary form the reasoning which underlies that conclusion.

Our first premise is a theological one, rooted in the Christian understanding of the plan and purpose of God in creation. We believe that the riches of nature and the fruits of human ingenuity and productivity are intended, in the providence of God, to be shared and enjoyed by all his children, not hoarded by some chosen (or self-chosen) few.

Through the centuries of mankind's history, because developed resources and technological skills were scarce, poverty for some was inevitable, although even during the ages of scarcity, the Church has maintained a consistent protest against unnecessary and immoral inequities between rich and poor.

Today, as far as our American society is concerned, we have clearly crossed the great divide from an economy of scarcity to one of abundance. We now possess the technological and productive capacity to eliminate dire poverty and want from this nation. Having the capacity to abolish poverty, we have the moral obligation to do so. As the General Board put it in another policy statement, adopted in 1966:

"Our burgeoning productivity makes possible, and our Judeo-Christian ethic of justice makes mandatory, the development of economic policies and structures under which all people, regardless of employment status, are assured an adequate livelihood.¹

In this connection, we wish to take the occasion explicitly to disavow and repudiate certain pseudo-Christian arguments which are frequently put forward to condone continuing poverty and injustice. One is the contention that poverty is "good for the soul," a basis for self-discipline and hence spiritual growth. True, there is a place in Christian doctrine for *voluntary* poverty as a means of self-discipline and as a witness to humility and servanthood. But this has nothing to do with the kind of grinding, degrading, humiliating *involuntary* poverty which is the lot of over thirty million citizens of the world's most affluent nation. Nor does the undeniable fact that a good many poor people have "risen above their poverty" in some sort of triumph of self-fulfillment and spiritual achievement provide any defense for the perpetuation of great pockets of involuntary poverty in a nation which has the resources to guarantee income at levels permitting minimum health and comfort. No one will deny any man the right to remain poor if he wishes, either for religious or secular reasons; but no one in an affluent society has the right to demand that other men remain poor "for the good of their souls."

A second false argument sometimes heard in religious circles is that the plight of the poor is God's punishment upon them for their sins. The self-righteousness of this argument on the lips of the affluent is a moral offense, and the falsity of it is apparent upon the most superficial review of the composition of the poverty population and the nature of the causes and circumstances surrounding their poverty. To be sure, the poor are sinners, as all men are sinners; but there is no causal connection, at least not on any wholesale basis, between the degree of their sinfulness and the depth of their poverty. Any lingering doubt on this point can be quickly dispelled by a cross-section review of the morals of the rich.

The most spurious of all the pseudo-religious defenses of poverty is the proof-texting which quotes the words of Jesus from the Gospels: "For you always have the poor with you." Even the most superficial reading of the passages in which these words are found reveals that Jesus was not uttering a socio-economic prophecy, but using a very immediate situation to teach a moral truth. And part of that teaching was that the Christian has a responsibility to do all that he can in behalf of the poor. In Christ's time this could legitimately mean charity. Today, in our view, it means primarily hard work in behalf of the elimination of poverty.

The second basis for the position of the National Council of Churches on guaranteed income comes from our appraisal of the present welfare system. In view of the abundant documentation which will be available to the Commission from the work of the Advisory Council on Public Welfare and other sources regarding the woeful inadequacy and the dismal defects of our present welfare set-up, we will confine ourselves in this statement to a simple quotation from our basic policy statement:

"As presently designed and administered, however, the public assistance programs fail to provide the answer and frequently violate the human dignity of

¹"Christian Concern and Responsibility for Economic Life in a Rapidly Changing Technological Society." A Policy Statement of the General Board, February 24, 1966.

the poor. Many of those in need are not covered by any of these programs. In most states, payments even for those covered are inadequate, often grossly so. Recipients commonly lose most or all of any supplementary income they may earn. They are subjected to humiliating tests, which in some cases place a premium on family disruption."

The above was written, incidentally, prior to the passage by the Congress in 1967 of further punitive amendments to the social security laws—amendments which make a bad system even worse.

The ultimate flaw in our present maze of welfare laws and categorical programs is that none of it is designed to eliminate poverty; but rather to perpetuate it. This is not to say that welfare programs have done no good. Doubtless they have kept a good many poor people from starving or freezing to death. The tragedy is that at the same time the system has been geared, by design, to such low levels of benefits that it has perpetuated the clients' poverty with all the accompanying frustration, hopelessness and despair.

We believe the time has come for this nation to find a better answer to the problem of hard-core poverty than the present patchwork of welfare. We believe some form of guaranteed income can provide such an answer.

A third consideration which underlies our support of guaranteed income has to do with a very fundamental appraisal of our present socio-economic order which so largely ties income to work and so highly prizes remunerative employment as the principal means of establishing human identity and worth.

We recognize the ambiguity of the evidence regarding the probable impact of automation on the nature and availability of employment. Although it is clear that in the short run the abundance of human needs and desires is sufficient to provide work in productive and/or service industries for all who can be trained, qualified and motivated to work, the longer run picture in this regard is more uncertain. Whatever the future may hold in respect to the availability of jobs, it is our opinion that a society of abundance should begin early to search for ways of making human life meaningful and human dignity assured which are not so tied as in former scarcity times to jobs and toil and paychecks. We believe that those who are charged with exploring the possibilities of guaranteed income should have such considerations in mind as they pursue their assignment.

This is not to say that we regard the guaranteed income as a panacea for all the socio-economic problems of families or of the nation, or as a substitute for programs of human resource development and full employment. On the contrary, our basic policy statement says: ". . . a greatly expanded program for providing meaningful jobs could bring many of the poor above the poverty line and greatly enrich our entire society. Such a program is urgent, both because productive activity enhances human dignity and because there are myriads of tasks that need to be done."

The point we are trying to make is that the value system which we have inherited from the era of scarcity puts an evaluation on the role of work, defined as compensated employment, which may prove inappropriate for the era of abundance into which we are now moving. We suggest that a guaranteed income, properly designed, may contribute significantly to the re-evaluation of the nature and meaning and significance of work in the transitional days which lie ahead.

In the meantime, we have faced, as every responsible discussion of the guaranteed income concept must face, the issue of the effect of such a plan on incentives to work. We are simply not prepared to buy the notion that minimum level income guarantees will seriously undercut work incentives. Some of the hardest working people we know have plenty of money and security. One of the most inhibiting factors to work incentive, on the other hand, is malnutrition and the frustrations associated with hard-core poverty. Furthermore, one can hardly conceive a system better designed to produce dis-incentive to work than those present welfare programs which tax all earned income at the rate of 100% by taking away from welfare grants dollar-for-dollar all that the client earns.

Our conclusions on the issue of incentive are summarized in the policy statement as follows:

"The charge is often made that a policy of guaranteeing family income would destroy the incentive to work. As noted above, for many of the poor, employment is not a solution. Nevertheless we recognize that motivation must carefully be taken into account by any plan for assurance of income. Many proposed income assurance plans are designed to encourage the earning of additional income, rather than discourage it as some present programs do. Furthermore, motivational research is revealing various sources for incentives besides the economic, such as

prestige, power, and social usefulness. Indeed, access to income may strengthen motivation and liberate creativity."

Despite its rather intensive studies of the issue of guaranteed income, the National Council of Churches does not feel that it possesses either the resources or the competence to undertake to spell out and defend any specific plan for implementing the concept. This is a task for experts in economics and political science. The National Council policy statement does set forth some criteria which it believes should be observed as guidelines in designing any concrete plan for guaranteed income. These are stated as follows:

"(1) It should be available as a matter of right, with need as the sole criterion of eligibility.

(2) It should be adequate to maintain health and human decency.

(3) It should be administered so as to adjust benefits to changes in cost of living.

(4) It should be developed in a manner which will respect the freedom of persons to manage their own lives, increase their power to choose their own careers, and enable them to participate in meeting personal and community needs.

(5) It should be designated to afford incentive to productive activity.

(6) It should be designed in such a way that existing socially desirable programs and values are conserved and enhanced."

In conclusion, the National Council of Churches expresses its intention to press for development and implementation of a feasible program of guaranteed income for the American people, its purpose to encourage and facilitate the widest possible public discussion of the concept of guaranteed income among the constituency of the churches across the nation, and its eagerness to be of any reasonable service to the Committee in furtherance of its assignment and to those who may follow up on its work through implementing legislation.

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

All of this time, we have been worrying about whether or not, if you gave people some money, it would lessen the will to work. I would like now to change the question.

Supposing we did give everybody some money. Now, you can start off by assuming that it is not going to be a really bountiful sum of money. It is going to be as small as we can manage. But we give it to them. What would the effect be, in your judgment, upon our curtailing all other programs that would help those people into a meaningful stream of employment?

That is, we would say, well, you have some money; there is no need for us to do anything for you. Do we not really begin, then, to create a permanent welfare class, without any real concern about it? Or would you think that would be true?

Would you like to answer?

Mr. THEOBALD. This is where I have disagreed very strongly with Professor Friedman. He has seen the guaranteed income-negative income tax as a method of eliminating all kinds of social service. It seems to me that we should only talk about eliminating all other forms of financial payment. It seems to me this is a meaningful goal.

What happens then? Once the guaranteed income is available as a matter of right, one fundamentally reforms the relationship between the social worker and the client. Until the client can react humanly with the social worker and object to bad treatment without fear of losing his welfare rights, there is not much a social worker can do for a client.

Representative GRIFFITHS. Well now, for instance, in Detroit, I believe the auto manufacturers have picked up 17,000 of the hard-core unemployed and they have really worked with them, trying to give them jobs. And these are very good jobs.

If you gave people a guaranteed annual income, would it not lessen the willingness of private industry to take on this type of operation?

Mr. THEOBALD. We have to either decide that the world is going to continue to be the same or that it is going to change fundamentally. I disagree violently with most of the intellectual establishment because they seem to believe the year 2000 is going to look like the year 1967. Herman Kahn's book, "The Year 2000," is a prime example of this pattern. I do not think that the world will be the same.

We have to find a way to bring up children in a world in which they perceive toil—which is doing something that you do not want to do—as unnecessary; and look at work—which is doing something meaningful for yourself and society—as necessary. If we continue our efforts to prop up the old system without moving into the new system, we will never adapt in time.

Any new social system will make the old system work less well. But we must decide whether we are going to try to create a new system before the old system collapses.

At the present time, we are putting all our effort into keeping together a collapsing system, and I think we should be aware of that fact.

Representative GRIFFITHS. Do I not detect that you have a very old idea in your own statement? Are you not really consigning all women to their homes to rear children?

Mr. THEOBALD. Madam Chairman, I come from a meeting of the American Association of University Women, where I spoke over breakfast this morning. I said to them that it is time women join the revolution of the powerless which includes, as I see it, the minority groups, the poor, the students, and, I would hope, women. I hope that we are moving both men and women into a future in which it is not necessary to travel the freeways twice a day to do your work. This is becoming an obsolete pattern in a communications era. So many of us could do our work sitting at home using the telephone and the teletype and the Telex instead of traveling.

What I am saying is that we need a new form of community in which all will relate to that community, where both men and women would be free with much more time to do what they want to do.

Representative GRIFFITHS. Then it seems to me that if this is your idea, as large a sum of money will have to be spent on training programs and other things in the world as you are going to spend on a guaranteed annual income, or maybe larger.

Mr. THEOBALD. I think this is Mr. Thurston's point that a guaranteed annual income is only a first step. Abraham Maslow has pointed out why. He has said that so long as you lack a guaranteed income, you cannot possibly think ahead.

A welfare worker on a platform I was once on said it is very difficult to think about the future if you are hungry. I think this is what we have to understand, that people cannot conceivably think about their own future or their children's future until, as Mr. Tyson has said, there is money coming in as a matter of right. Then they can start to develop themselves.

The reason people will not accept this view is because they adhere to a different psychological theory, that of Professor Skinner. He said we only respond to positive or negative sanctions or, as I prefer, the

whip and the carrot, and that if we remove either the whip or the carrot, people will become beer-swilling bums. I do not share this point of view.

Representative GRIFFITHS. What do you suppose, Mr. Tyson, would be the effect of a guaranteed annual income upon marriage?

Mr. TYSON. It might make it more interesting; I am not sure.

Representative GRIFFITHS. I think it is possible that you should reward people for marrying.

Mr. TYSON. Madam Chairman, I think that with about a third of the labor force, a little better now, in the labor market being women, what would happen is that probably we would find an immediate kind of—it might really actually underwrite a certain kind of instability, and I do not want you to hold that against the concept.

The immediate effect might be this. Why should a woman be married to a person who refuses to support her and her children? We make so much, you know, of marriage, and it is the sort of nice, middle class thing to do. I approve of this; incidentally. I have performed a lot of them.

But in the long run, I believe that it will strengthen the family, it will strengthen the household. Now, then, what will this do as far as other programs are concerned?

I trust two concepts here. One is out of sociological theory, the emergence. You just never know what is going to be. You can do A, B, and C, and you get something you cannot predict. We have to be sort of open ended on it, and if we want guarantees on it, like income, you are not going to be able to say, I know with a predictive certainty what this consequence is going to be. But I believe that if we strengthen the family at the point of this income flow whereby you are able, then, to socialize personality, then you are dealing with the hard, basic causes of ingrained poverty, that persons under those circumstances will become creative working people, they will want to be.

But this cannot happen magically, somehow or other, through deprivation. We have somehow or another invented a belief that the more is kept from the family or the more it must prove its needs—the shoes are actually worn out—then, we have created motivation. When the family has no choice in the marketplace concerning education or training, then we guarantee to ourselves a system which is going to experience built-in failure.

I would be hopeful, really, that it will strengthen family life in the long run.

Representative GRIFFITHS. Mr. Hazlitt, what, in your judgment, would be the inflationary effect of a guaranteed annual income plus all these additional programs to bring people into the work stream?

Mr. HAZLITT. Well, we already have a great deal of inflation, even without the guaranteed income or the negative income tax. We have had a deficit in the budget for 32 out of the last 38 years. We have had a deficit in the last 8 years, we have a deficit in the present fiscal year which is the highest in the last 23 years.

And even after the new tax bill has been signed and so on, we still face a deficit of probably \$5 billion or more for fiscal 1969.

Now, these deficits which have been running over a period of 38 years feed inflation. They have fed the inflation that we already have.

People today are taking as a matter of course the assumption that the dollar, having lost 4 percent or so of its purchasing power in the last 12 months, is going to lose at least that much in the next 12 months. This is one of the reasons, for example, why interest rates are at the highest levels in our history, because the people who lend money feel that when they get it back next year, it will have 4 percent less purchasing power and therefore, if they are nominally getting 7 percent, they are only getting about 3 percent, and so on.

I do not think it is possible to fix what the cost would be of the guaranteed income tossed on top, as it more or less would be, of everything else. Possibly there would be some reduction in direct relief, but I have cited a total of \$110 billion a year that we are already paying now for various forms of welfare.

Of course, a lot of that is education, but even if you deduct education, veterans' payments, and so on, you still have a Federal, State, and local bill in excess of \$70 billion a year for welfare payments alone.

The result of the inflation we have already had and the inflation we still face is that all of us, the aged particularly, are worried about what is happening to the dollars we have saved.

Now, Dr. Tyson seems to be worried because some people seem able to live on income from previous savings. A lot of people feel that the money that they have been able to put aside in their working years is not going to be enough to take care of them if we have a runaway inflation. I think that the result of this guaranteed-income plan, especially if the negative income tax is used as an entering wedge, will be to enormously increase the inflation of the past. If Congress adopts any of these proposals, it will lead us into the Latin-American type of inflation which we have seen over the last 20 years, in which the value of the currency falls 50 percent in a single year, and in which the value, say, of the three outstanding Latin American currencies—of the Argentine, Chile, and Brazil, to go no further—is less than one one-hundredth of what it was 20 years ago.

This is the kind of thing we face if we take up these proposals.

Representative GRIFFITHS. I would like the rest of the panel to answer next time. My time is up for the moment.

Senator Proxmire?

Senator PROXMIRE. Mr. Hazlitt, do you see no escape from the present welfare system, with its total disincentive to work? You said that years ago, you wrote an article for a New York Times publication in which you tried to provide a way of getting out of it, that you found you were in a dilemma, that it would cost so much that it would not work.

So can we do nothing about this?

Mr. HAZLITT. As an inflexible automatic system, it would not work. I remember some 10 or more years ago talking to some of the Social Security people here and suggesting this device as a way of dealing with the income of the people between 65 and 72 who were not then allowed to earn more than a certain small amount. I remember that the official I spoke with said the device sounded like a good idea. It has since been put into effect through a small range.

Now, these things can be done on a trial scale within certain limits. There are a lot of things, for example, that you can play with. You might try reducing relief payments by \$1 for every \$2 earned,

within certain limits. Or let us say a man, starting with zero income of his own, gets a relief payment of \$60 a week. Then out of the first \$20 he earned, he might be allowed to keep \$2 out of every \$3; out of the second \$20 he earned, he could keep \$1 out of every \$2; and out of the third \$20 he earned, he could keep \$1 out of every \$3.

Senator PROXMIRE. You think this might be a good principle? Certainly it is right at the heart of your philosophy, as I understand it, that you should have an incentive to work, and the present welfare system does not provide it?

Mr. HAZLITT. Precisely. We do not need to say "Look, the present relief system is bad in this or that respect; let us have an entirely different system. Several of the "substitute" proposals, for example—the tapering-off subsidy of the negative income tax—could be tried tentatively in the direct relief system. But if you adopted this in an inflexible, all-inclusive way, you would get into very serious problems.

Senator PROXMIRE. May I just interrupt at that point to refer to the presentation of Dr. Tobin of Yale. He has a fine little booklet on the negative income tax in which he spells out in detail what he is after, he describes it as more of a work incentive system, really. I think if they changed the name to work incentive system instead of negative income tax, they would get a lot further with Congress with it.

I cannot see anything wrong, and I think many people would agree that we should provide a guaranteed income or a supplement income of some kind to people who cannot work. I think maybe we can make that much progress.

Would you agree to that extent? They cannot work, they are just unable to work for physical reasons or mental reasons, or some other disqualifying reason.

Mr. HAZLITT. Congress has dealt with that problem, of course, as you know, Senator, over the last 30 years when it put in categorical relief for the blind and the disabled.

Senator PROXMIRE. It is not comprehensive, though.

Mr. HAZLITT. Well, no, but you could add other categories like mental reardation or things of that sort. More categories could be added.

But they should be watched. One of the things I think should be done, certainly, when we add more categories or types of relief, is to do it only on an annual basis, so that they have to be reviewed by Congress, and expire automatically unless reviewed. It is depressingly easy for more and more types of relief and welfare payments to get themselves built in, and to become permanent whether they are good or bad.

I have worked out here a small schedule just to show how a tapered-off subsidy of the NIT type works out.

If I were asked to propose alternatives to the guaranteed income, the chief one I would think of would be repeal of the minimum wage laws.

Senator PROXMIRE. As an alternative for the —

Mr. HAZLITT. Guaranteed income.

Senator PROXMIRE. It has been presented to us by other panelists during these hearings as quite the reverse. They say if you have a guaranteed income, one thing you might be able to dispose of is the minimum wage.

Mr. HAZLITT. I think it is the other way around. The minimum wage laws are today the principal cause of existing unemployment. I do not know how much time I can take here to argue on this, but I will simply refer to the fact that I am certainly not alone in holding that the minimum wage law creates unemployment. Among eminent economists who have made this point are Profs. Yale Brozen, Arthur Burns, Milton Friedman, and James Tobin. The minimum wage creates much more serious unemployment among Negroes than among whites, and has created a terribly serious unemployment among Negro teenagers—among all teenagers, but especially among Negro teenagers.

Senator PROXMIRE. Well, the guaranteed income would certainly begin to provide a basis for eliminating that.

Mr. HAZLITT. It would protect them in their unemployment.

Senator PROXMIRE. It would mean that people would have a minimum income. The thrust behind the minimum wage is that a person simply cannot live on a payment of less than a certain amount. If you pay a person \$1 an hour these days, in view of inflation and so forth, he cannot possibly support any kind of a family. He probably has trouble getting along himself.

If he has a minimum income that is guaranteed, then that aspect of the minimum wage, at least, is no longer valid.

Mr. HAZLITT. In that connection, this is just the illustration that I had in mind. We have at present \$1.60 an hour as the minimum wage. Now, for a 40-hour week, this means \$64 a week would be the minimum wage. So what we are doing is this: We are saying that anybody who cannot earn \$64—that is to say, who is not worth that to a specific employer and therefore cannot get employed—we are saying that if he is only capable of earning \$60 a week, he should not be allowed to earn it.

Senator PROXMIRE. The minimum wage is not comprehensive at all. It does not apply to intrastate commerce for small business, does not apply to many kinds of economic activity.

Mr. HAZLITT. The exceptions that are made make it less bad than if the exceptions were not there. But I am talking about the general principle that is being applied.

What do we do with such a man? We tell him that he is not allowed to work for less than \$64 a week. So we are under obligation, then, to pay him at least that because we have denied him the rights to work for that—or the right to work for \$63 a week, anyway.

Suppose, the negative-income-tax principle is in effect as applied to the direct relief system. Where a man had zero self-earnings per week, he would get a relief payment of \$64, let us say, because the minimum wage was forbidding him to earn less. Therefore, his total weekly income after the relief payment would be \$64. If he earned \$2 of his own, he would get a relief payment of \$63, making his total income \$65. If he earned \$30, \$15 would be deducted from his relief payment. He would be down to \$49 relief payment, plus \$30 earned, which would mean a \$79 total income.

Now, if he got \$64 of self earnings, he would then have been on this system, so he would still be getting \$32 of supplementary payments. So he would now be getting \$96. This total income would go up until he got \$128 a week. But then he would be getting twice as much as if he had been originally earning \$64 a week and had never got on

the relief rolls in the first place. This is the kind of dilemma you get into on these graduated proposals.

Senator PROXMIRE. As I say, I think you would have to modify the minimum wage, perhaps.

Mr. HAZLITT. There are modifications that can be experimented with, but I am skeptical about them.

Senator PROXMIRE. Let me ask this: As a matter of technical fact in response to the partial answer you gave to the chairman, why could not adequate taxation take care of any inflationary problem? I am not saying it would be politically feasible, necessarily, but you can make any transfer payments you want and stabilize prices by a tax system; is that not a simple economic fact?

Mr. HAZLITT. Well, the implication there is that we are undertaxing rather than overspending. I think what we are doing is overspending, and the cure is not raising taxes.

Senator PROXMIRE. But if you have a program that costs \$30, \$50, or \$100 billion, in order to provide a minimum payment to people with low incomes, you can take care of the inflationary impact of this by simply increasing your taxes to meet it, is that not correct?

Mr. HAZLITT. It is only possible up to a certain point.

Senator PROXMIRE. I am not saying it is necessarily politically feasible, but I am saying that as a technical economic matter, you can do this?

Mr. HAZLITT. I do not think so, because if the South American countries today—

Senator PROXMIRE. But they do not do it; that is their problem. They do not have an adequate tax system.

Mr. HAZLITT. Exactly. So we get to a point where expenditures get to a certain level and the politicians in power do not dare to levy an equivalent tax.

Senator PROXMIRE. You are shifting the answer. I am saying you have a tough political problem; that is something we have to face. But from an economic standpoint, you can make whatever payments you want as transfer payments provided your level of taxation is enough to raise the revenue to make the payment?

Mr. HAZLITT. I do not think you can separate the economic entirely from the political possibilities on that.

Senator PROXMIRE. I am sure you cannot, unfortunately.

Mr. HAZLITT. But I mentioned the fact that inflation today is world-wide; although the dollar is only worth 36 cents today as compared with the 1939 dollar, the dollar is still among the far more respectable currencies. The French franc went down the drain so many times that you cannot count them. And this is what happens invariably when you get your Government expenditures above a certain level. It is the tax system that breaks down, the collectability of taxes that breaks down.

Another thing you have to figure is this, that you cannot raise revenues in proportion to tax rates. As a matter of fact, if you go back and look at the 1964 debates when we were lowering tax rates, the argument of the administration then and of the Congressmen who voted for it was that if you lowered the rates you would get higher revenues and you would have increased prosperity.

Senator PROXMIRE. I voted against that, but I was wrong in that sense. I was right, of course, but I was wrong in the sense that revenues did increase.

Mr. HAZLITT. Any way, I do not think this problem is soluble up to an indefinite level. We are reaching the ceiling of the revenue that we can raise. We are getting closer to that all the time.

So all I am trying to say is I do not think the Government can just automatically assume that the more it hands out, the more it can take from somebody else. It has to figure what the whole effect will be on the incentives of the taxpayers.

Senator PROXMIRE. My time is up, but I shall be back.

Representative GRIFFITHS. Mr. Rumsfeld?

Representative RUMSFELD. Is it correct, Mr. Hazlitt, that you have indicated in response to Senator Proxmire's questions that you would be in favor of, on a modest basis, experimenting with the concept of a negative income tax for people over 65 and people unable to work?

Mr. HAZLITT. Well, that is already in the law within a certain range.

Representative RUMSFELD. I understand that.

Mr. HAZLITT. Yes.

Representative RUMSFELD. Obviously beyond what is in the present law.

Mr. HAZLITT. Yes. That is a small segment to which the proposal could be possibly adopted on a wider scale than it is now.

Representative RUMSFELD. Possibly adding new categories for mental illness, mental retardation.

Mr. HAZLITT. Possibly, yes.

Representative RUMSFELD. Social misfits and people who cannot work.

Mr. HAZLITT. Covering disability and blindness and so on, yes.

Representative RUMSFELD. Your comments on the minimum wage were interesting. I have noticed recently that some proposals have been introduced because of the fact that individuals have lost jobs because of recent increases in the minimum wage. These proposals have been introduced to try to see that they could retain jobs or by having the difference made up through Government payments. And even though the minimum wage is not comprehensive, the fact remains that matching people with jobs is difficult and when the minimum wages goes up, marginal decisions go the other way. I think it would be useful if hearings would be held in the Congress on this question so that we could understand with more precision exactly what the effect of it is.

Mr. TYSON, you opened with two or three questions. As I recall one of them—possibly you could read it—was "Why should the least advantaged function to stabilize inflation?"

Mr. TYSON. Yes.

Representative RUMSFELD. Would you read that?

Mr. TYSON. Why should the least advantaged in society function to stabilize the rate of inflation? Why should these persons be the safety valve for the economy?

Representative RUMSFELD. Right. Why should they have to be?

Mr. TYSON. What is the moral basis for this? We are talking about policy.

Representative RUMSFELD. Why do they? There is a difference between why should they and why do they.

Mr. TYSON. I do not know anybody who suggests that they should; they are.

Representative RUMSFELD. They are, and the problem is what is an alternative to it?

Mr. TYSON. What is the rationalization for making this the basis of policy, enacting policy which you know has this result?

Representative RUMSFELD. I guess the answer has come out in your questions and answers, and I must say I thought your comments on this were excellent. I do not know anyone who agrees that they should. The question is finding some alternative, which is, of course, one of the reasons for these hearings. Goodness knows that question is one that Senator Proxmire and others have pursued in these hearings and previously. It was on the minds of many involved in voting on the tax conference report. The Council of Economic Advisers gave statistics on it. It is not a happy prospect.

Mr. HAZLITT, did you note when Mr. Theobald said that income derived from whatever source must be subject to a progressive tax at the Federal level. Thus current practices, which give favored treatment to certain kinds of income, would be eliminated. He says that the author of the book explicitly proposes the elimination of favored treatment for capital gains and interest on municipal securities, interest payments, casualty losses income splitting, and so on.

What is your reaction to that?

Mr. HAZLITT. Well, of course, that covers a lot of territory. I would like to take up one of those items, and that is the elimination of tax exemption on bond income. Now, the U.S. Government, the Federal Government, for I do not know how long—I think it was under Franklin Roosevelt and goes back 35 years—Franklin Roosevelt said that the U.S. Government would not issue any more tax-exempt bonds. This was an act of self-denial. Meanwhile, however, the municipalities and the States have continued to issue tax-exempt bonds.

Now, the Congress has always had the power to ask for a constitutional amendment that would prohibit the issuance of tax-exempt bonds.

Representative RUMSFELD. I was asking a more basic question.

Mr. HAZLITT. I am just taking this one case as an example. The other thing that Mr. Theobald is proposing is that completely justified deductions should not be allowed. If a man pays out \$10,000 in interest, that is a real outgo; it is not a fraudulent thing. He does not have it to spend.

Representative RUMSFELD. I do not think this says there is anything fraudulent. This is suggesting that these types of tax reforms would be—correct me if I am wrong, Mr. Theobald—but it is my understanding from reading it, that this statement says that these types of tax reforms would be a good thing for society. My question is do you see reasons why they would not be?

Mr. HAZLITT. I was just taking that as one example.

Suppose a man is not allowed to deduct the interest he pays on the mortgage on his house. Suppose he pays \$1,000 interest on a mortgage and he is not allowed to deduct that. It is a real expense, because when he pays this, the income that is left to him is \$1,000 less. Why ignore this?

Representative RUMSFELD. The answer to those who favor tax reform is that if you altered the exemptions in some ways, there would be the hope and the likelihood and, in fact, the political necessity for lower tax rates in the process. So it is not what the net take is going to be. This country is going to go on and we are going to need certain tax revenues. The question is where we take it, how we take it, what the tax rates are and how they affect our changing society.

Mr. HAZLITT. Removing these exemptions will bring about inequities.

Representative RUMSFELD. But would this bring about worse inequities than exist?

Mr. HAZLITT. If a man has a \$6,000 income and pays out \$1,000 in interest, he is paying out real money, and he has only \$5,000 net income. Should he be taxed higher than another man who also has \$5,000 net income but is not paying out anything? It would be unfair to the man who is paying the interest. This is what I am saying. It would introduce an inequity that Congress has hitherto tried to keep out.

Representative RUMSFELD. I have two quick questions.

Dr. THURSZ, you said that there are "lots of other incentives that prompt people to work besides income." Could you list the "lots" for me?

Mr. THURSZ. I may be stuck on how many you want.

Representative RUMSFELD. Fifteen, twenty.

Mr. THURSZ. Well, surely, status is one. In addition, people work because there is satisfaction in the accomplishment of whatever that task is. We have many examples, right in this Congress, of persons who do not need to work for income. We have in the Kennedy family an outstanding example of persons who have worked diligently and hard, not for income.

It seems to me that at all levels, there is a psychological gain from work. We do live, and I would agree with Mr. Tyson, in a society that looks upon especially the male as a person who is expected to be gainfully employed. There are some psychological as well as social consequences from not being employed. Especially when one is poor. I think somehow when one is rich, one can find other activities that might be considered work but do not bring about income.

I think the real problem that we face is the problem that we have skirted around. I do not think there is much disagreement among the panel as to what ought to be in terms of the person who is aged or disabled or the person who is mentally retarded or mentally ill. Nor is there much difference of opinion in this panel as to what ought to be the goal for the male. I think most of us would agree that an opportunity ought to be developed and he ought to be given training and help so that he can take a part in the work market.

Mr. HAZLITT. I think that such "reforms" would be grossly inequitable, for the reason that the permissible deductions were made after long study and debate on the part of Congress, and they have been continued year after year, after cross examination of witnesses as to what constitutes income and what is not income, what is a valid deduction from income and what is an invalid one. To disallow them all in one sweep is the most unwarranted thing one could do.

Representative RUMSFELD. I think he has not suggested that they be disallowed in one sweep, but that they be disallowed after long hearings and thought.

I must say I do not have the admiration for our tax system that some do, and I do not have complete admiration for the process which developed it, either. It seems to me it is a patchwork quilt which resulted from special pressures that have developed over the years and which resulted from the use of closed rules and that it does not serve the best interest of society. I think it is a terrible thing that his Congress of the United States has not undertaken broad tax reform.

I am not saying that these are what ought to be changed, but I do think that we can find a better answer rather than simply saying that these developed from careful thought on the part of Congress.

Mr. HAZLITT. That was my broad answer because you asked for a broad answer. Now, I started to discuss a specific exemption before broader questions were raised. That had to do with tax-exempt bonds. Congress could at any time submit a constitutional amendment to forbid the States and localities to issue any more tax-exempt bonds. But what is being proposed here is that the States be permitted to issue tax-exempt bonds and that Congress and the Federal Government simply disregard their tax-exempt status—pay no attention to it and tax them anyway. This would be breaking faith. It would not be due process of law. This is what I am talking about.

Of course, even if you stopped issuing new tax-exempt bonds, you would still have the old outstanding tax-exempt bonds on which people would be getting tax-exempt interest.

Representative RUMSFELD. I see.

Mr. HAZLITT. But the Government cannot just go back on its pledges. It must respect legal tax exemptions.

Representative RUMSFELD. Well, I do not happen to feel that the position that was in the recently passed tax conference report on tax-exempt bonds is a good one; but I do not see anything in this paragraph relating to tax-exempt bonds.

Mr. HAZLITT. Well, it referred to all the deductions now allowed. I think it referred to—

Representative RUMSFELD. Oh, by implication, it did. You are quite right. It said all exemptions.

Where I think there is a need for clarity is when we come to the question of the woman, the mother with children. There I think Congress has moved gradually away from a position it took in the 1930's. At that point, the entire program of welfare which exists today was a program designed primarily to keep mother off the labor force, at home, and which recognized—at least Congress attempted to recognize that it was an important contribution to society to have a mother be at home to take care of her children. That was 30 years ago and the situation of women has changed. But we have now come with the 1967 amendments to the opposite philosophical stance where we say in effect, all mothers ought to go to work. It seems to me that that is the area where some very important policy formulations have to be developed. Because when we talk about all mothers going to work, we need to examine the consequence in terms of the children, in terms of the labor market, in terms of what kind of jobs. One could argue that to put all mothers who are alone at home without husbands, with children, in the labor force would be destructive to the economy. One could argue that no matter what plans we work out, it might be destructive for children. Surely, there is no major saving of money to the Congress or to the people of the United States by taking all mothers on

welfare and forcing them to go to work. To send them to work means the establishment of day care, of all sorts of arrangements, and the discovery of jobs that simply do not exist today, jobs that are for unskilled people who have to be home by 3:30.

So I have gone further on your question, but it seems to me that many mothers do want to go to work. Seventy percent of the mothers on welfare in New York City want to go to work. But the jobs do not exist.

Representative RUMSFELD. My time is up. I would just like to conclude this period of questioning by congratulating Mr. Tyson for, in his statement, indicating exactly what the vote was in his organization on this issue. We have heard many people before committees in Congress say they represent 42 million people, as you do, and leave it right there. I commend you for pointing out that your views represent a board of 225, of whom less than half voted. I do not mean that critically, because that happens in the Congress and it happens in political elections all over this country and it is a fact of life. But I admire the fact that you put it right on the front of your paper.

Mr. TYSON. It was a pretty good vote, wasn't it?

Representative RUMSFELD. One hundred and ten out of 225, with 107 for, one against, and two abstentions.

Representative GRIFFITHS. Mr. Theobald, would you answer Mr. Rumsfeld's question?

Mr. THEOBALD. I would like to make several comments:

First, it seems to me that Mr. Hazlitt is extremely naive, which is not a pattern I would normally attribute to him. Tax exemptions are a privilege. Some of them are given for a period of time and cannot be withdrawn. I would agree there are great problems. I said in my testimony that new tax patterns will have to be worked out. It is going to take time and effort, much more than merely hearings. It is going to take an enormous effort of Congress in conjunction with a great many technicians; we do not presently have the mechanisms to do the job. However, Mr. Hazlitt's apparent argument that once we have given somebody a tax privilege at some point, the privilege can never be withdrawn seems remarkably unreasonable, particularly as he argues that all privileges given to the poor should be limited to 1 year.

In other words, if the poor get a privilege it can be withdrawn at any point. If the rich get a privilege it should be their forever. That seems to me intolerable.

Let me deal with the effect of a guaranteed income on women for a moment. I think one of the things that is happening among young people is that marriage is becoming a contract which has to be a permanently meaningful contract to each of them. I think there is less and less willingness to accept permanent marriage vows simply because of societal pressures.

I think the guaranteed income will give freedom to women and this will lead to more meaningful marriages and also more willingness to break marriages when they are not meaningful. I do not think that this is a disastrous thing to happen.

The third point is that no one is suggesting the introduction of the guaranteed income, given our present revenue situation. No one is suggesting that the guaranteed income can be introduced given present patterns of expenditure. I think we must begin arguing about our

priorities for the approximately \$40 billion of annual increase in wealth in America.

What are we to do with the \$40 billion increase in production? If we continue to allow the unions and big business to use power to get all of that dividend, it is obvious that nothing is going to be left for the poor under these circumstances, if we try to give anything to the poor, we are going to create inflation.

I would like for the last time—but I am sure it will not be the last time—to kill a myth. The prime economic myth in this country is that people are worth what they get. This view is based on an extraordinary piece of economic analysis which was conceived in the 1870's. It is based on the following assumptions, that all firms are small, that there are no labor unions, that there is no Government activity, and that information moves perfectly. All of those assumptions are necessary to prove that each person gets what he is worth. In today's world, this is nonsense. People get what they get because they have political power, because the society has given them political power. What we are talking about, Madam Chairman, when we talk about the guaranteed income is an issue of political power.

We have so far allowed the national dividend, which has now risen to \$40 billion, to go to those who already have resources. Are we now willing to look at how we provide resources to those who have not?" The techniques we use are not as important as the overall issue. Do we believe the poor have rights? I think we must face this problem urgently because we are being pushed by the poor. We must begin to design a route which will lead to more resources for the poor, even if I, as a responsible economist, recognize that all the job cannot be done tomorrow. But unless we start planning it will never be done; because next year all the money will still be needed.

Perhaps I can state one final thing. We were told in the early 1960's that we could not afford the guaranteed income. Then the Vietnam war came along and we could afford \$30 billion for this purpose. The money is there for things we decide to do.

The question is, our sense of national priorities. These hearings must in large part be about our set of national priorities and national values.

Representative GRIFFITHS. Thank you very much. You are also saying that if we establish such national priorities, we are going to level out the incomes in this country to a greater extent. It has been said that the minimum wage is really supported by unions so that they can then ask for more money for themselves. But if we determine that the productivity of the country is repaid in some way to the poor, then we are bringing their incomes up closer to that of the working middle class. Would that not be true?

Mr. THEOBALD. Yes.

Representative GRIFFITHS. So you can assume that you are going to have great resistance to it, because those who have the power are going to try to say if you give the poor this, then we are entitled to more. Right?

Mr. THEOBALD. Right.

Representative GRIFFITHS. And there you create the inflationary spiral?

Mr. THEOBALD. But this is what I meant when I said that unless we face the value issue, unless we educate the American people to the reali-

ties of this era, unless we recognize that in this era, not everybody can work, that there must be an income floor, there is no way to bring in a guaranteed income. The guaranteed income is not primarily a fiscal question, it is a question of restructuring power.

Let me, for example, state that I am convinced that we are going to have to move in the not too distant future to seeing a job as a responsibility once somebody says, "I want to do a job," he is going to be required to do it. Strikes, for example, will not be a tolerable form of activity in the sort of world we are moving into. Our society has become so complex that strikes no longer do what they are said to do, which is to affect the relative rights of labor and management; rather they affect the consumer and the public. This world is too complicated to tolerate strikes. In a sense, I am convinced that the society has to say to a worker, if he decides to do a job, that he has to do it; if he decides to leave and not do the job, that is his privilege but he must do the job if he stays.

The guaranteed income implies long-run social change, as well as a short-run tidying up of the welfare system. It is a change in the total social system in which we are going to live.

Representative GRIFFITHS. Thank you. I think that is a very good statement and I hope I live to see the day when we can not have strikes.

Now, let me say I would like to return to your statement that you feel that a guaranteed income will make a more meaningful marriage or that we are moving anyhow toward that. I agree that I think this is very possibly true. I think one of the greatest criticisms of the present welfare system is that it has broken up families, and it certainly has. We are rearing 5 percent of the children in America today on aid to dependent children, largely without fathers. In the very briefly foreseeable future, it is going to be 10 percent of the children.

Now, I would like to turn, Mr. Thursz, to your statement that the first thing you are going to have to consider in a woman's going to work is the welfare of the children. I will agree with you on that. But why do you want to concern yourself with what it does to the employment cycle of the world? Why is this a problem? If you are going to consider whether or not it puts other people out of jobs, then are you not really relegating women here again to a second-class citizenship?

Mr. THURSZ. You are quite correct, Madam Chairman. I would not. I am perfectly willing to make a decision on the basis of the family and the needs of children. I was reacting to the many statements that are made that these women ought to make a contribution to the economy. I was raising certain questions as to, first, the viability of such a plan, whether this really does represent a contribution to the economy; and secondly, I was expressing my own awareness of the limited nature and number of jobs available for women who have to carry on the responsibility of raising families. Again, if I can use Baltimore as an example, we have jobs available in Baltimore for women that tend to be beyond the beltway. The transportation involved requires approximately an hour and a half to two hours to get to these jobs. Most of these women live in the inner city. If we are really to help these women to work while continuing to assume what is their responsibility, the responsibility in most cases of being

the one parent, and if we want these women to be back home at the point where the schools end.

Representative GRIFFITHS. Of course, we do not have to do that. Now you have set up day care centers and there is lots of money there for it—at least I hope we get it through—so you do not have to get women back home at 3:00, 3:30, or 4:00 o'clock. You are going to have the child taken care of. Isn't it true that one of the problems you face now in the welfare system is you have no father in the home, the woman does not work, she does have income. But she does not get up. The children never see a parent who works. They do not know of anyone who gets up to go to work. As a result, they do not get up to go to school.

I have been told that this was one of the things that the poverty program did in Detroit. They sent people around to wake women up to get them up to feed the children breakfast and get the kids to school. They felt it was a very worthwhile endeavor.

Mr. THURSZ. Madam Chairman, I would agree with you completely in your statement that the present welfare program is destructive to marriage and to the lives of the people who have to live under the system. I would submit that the guaranteed income program would do a great deal to foster marriage in the sense that it would not require the husband to desert, it would not require the mother to insist on being single in order to support her children. I would like for women to have a choice, to be able to go to work and to be helped.

Representative GRIFFITHS. But the reason that you cannot give them the choice is because you do not give them the choice. You give the choice to a social worker and there are too many social workers who are men who are already convinced that women should stay at home. They do not have the choice.

Mr. THURSZ. Mrs. Griffiths, I am delighted that the social worker's image now is a male image. We have made some good progress.

Representative GRIFFITHS. At least the supervisors are, and unfortunately, they seem to feel that women should stay at home. So that in reality, you are not giving the woman a choice. You see, we enacted a law that said that we were going to have equal employment in this country and what does the EEOC do? In the very first decision they hand down, they tell the newspapers that they can still advertise "male wanted" and "female wanted."

Mr. THURSZ. Madam Chairman, I would like to remove that responsibility from a social worker. I would like for the decision to be made by the person involved.

Representative GRIFFITHS. But it never will be if you give the administration the choice. How can you make it be the woman's choice?

Let me tell you that Mr. Cohen personally called me to tell me how amazed he was that 70 percent of the women in New York City really did want to go to work. Well, my answer, Mr. Thursz, is that the other 30 percent did not understand the question. Anybody would want to go to work.

How are you going to make it so that they have the choice and not the social worker or not the system?

Mr. THURSZ. Madam Chairman, I am suggesting, and I think our association has suggested that social workers are to be out of the business of giving money to people. If we accept one or the other plan

for guaranteed income, it would effectively remove social workers from a decisionmaking task vis-a-vis the person who is getting a check, because the check would not come through a social work establishment, it would come directly to them in a dignified manner. Our goal is to give self-determination to these people, not social work determination, so that we are not in disagreement on this question. This is one reason why we support a guaranteed income scheme. Our hope would be that then social workers would be able—I think Mr. Theobald put it very well—to be involved in a relationship with a person not as one who is holding a stick or a carrot, but a relationship of confidence, where there would be the ability to come freely to a social worker and say, we do not want to take your advice. From the very beginning of the social work profession, we have said we are not in the business of making decisions for other people. But we have been forced, and perhaps we are guilty, too, as part of this system that developed in the thirties which matched income as well as counseling, we have been forced to take on the role of a parent or an authority which is not the role that the social workers are to play today vis-a-vis people who need income support from society and are entitled to it.

Representative GRIFFITHS. Thank you.

Mr. Rumsfeld?

Representative RUMSFELD. I know Mr. Hazlitt can defend himself much more eloquently than I, and certainly to a great many more people through his writings, but it is my understanding of his response to my question that he did not quite say what Mr. Theobald suggested he said. It is my impression that Mr. Hazlitt indicated that certainly he was not opposed to some changes in the present tax system, but that changes should be made only after careful thought, attention, and analysis as to what would be the effect on the "power," to use your word, Mr. Theobald.

For example, I have supported tax exemptions, and credits, I supported President Kennedy's proposal for a tax credit to encourage the expansion of plant and facility. I have recommended tax credits for pollution equipment to try to bring the private sector into this problem area. I have done this knowing all along that I basically disagree with the concept and do not like this patchwork tax system, but because we were not getting any basic reform, and therefore you have to try to recommend changes so that we can meet the needs of the society today.

As I recall, you favored the tax credit for plant expansion.

Mr. HAZLITT. Yes. Well, first of all, Mr. Congressman, I wanted to thank you for setting the record straight on what I said about the present exemptions and deductions. I did not say that they should be there forever because they were already in there. Congress has the right to reexamine these each year and should reexamine them each year and may make some changes. But I suggest these changes should be based on the merits of each particular exemption.

Now, I favored the tax credit, or at least a more rapid depreciation of plant and machinery. But I also would like to take this opportunity to say that I think that a very promising approach is made in Congressman Curtis' bill, who is a member of your committee, on what he calls the Human Investment Act, which is the granting of a 10-percent tax credit to employers who take part in a training program or retraining program for workers. I think this is—I would not want to endorse

it flatly without further study—but I think it is something that looks on the surface like a very promising approach and ought to be very seriously examined by the Congress.

Representative RUMSFELD. I cosponsored that with Mr. Curtis and there must be 150 cosponsors in the House and Senate. There have not even been any hearings held on it. There are arguments on both sides. I happen to think it would be a way to get the private sector into the task of undertaking a greater portion of the training of the marginally unemployed. It is not going to solve the problem of the very hard-core unemployed, but it would leave the other Government programs freer to deal with the hardest of the hard core by taking more of the marginal, the ones that it is not currently economically feasible for corporations to train, and making it economically feasible to train them.

Mr. Tyson in his statement, Mr. Hazlitt, lists six guidelines.

Mr. HAZLITT. Yes.

Representative RUMSFELD. He calls them six guidelines. If it were possible to design something that met those guidelines, what would be your position with respect to it?

Mr. HAZLITT. Well, if you just take guideline No. 1: "It should be available as a matter of right, with need as the sole criterion of eligibility"—this seems to me the essence of the whole guaranteed income proposal, and I think this whole business of making an income available as a matter of right, whether somebody is making any effort to work or not, is something that should not be allowed as a criterion in the beginning.

Mr. RUMSFELD. Yes. This is what you get to in your last paragraph, where you say how can Government mitigate the penalties of failure and misfortune without undermining the incentives to effort and success? You are saying you do not wish to underrate the importance of the first, but you feel that the second half deserves much more earnest attention than it has?

Mr. HAZLITT. Yes.

Representative RUMSFELD. Mr. Theobald also said in his answer to Mrs. Griffiths that in this era, not everyone can work. I do not know what "can" means, but I do not think it means able in the sense you were saying. I got the feeling you were thinking in the broader sense. We had already dismissed and agreed on the people who are not able, meaning the ones who are physically handicapped or blind or mentally ill, and so forth.

It seems to me you were getting down to this issue that I think is basic to the question: Do you believe our society is developing in such a way that automation and technological changes are going to create a circumstance where a group of people will not be able to find jobs and that this underlies your feeling that, therefore, this society or any society should of necessity, to avoid having them just exist without any means of support, deal with them?

Now, I do not think Mr. Hazlitt believes that automation or technological changes are going to lead to a circumstance where we are going to, of necessity, have a group of people for whom there are just not jobs. From what I know of his feeling, he believes that automation and technology will lead to more jobs, and that the problem is not in fact providing for people for whom there are no jobs, but finding

ways to match people with jobs that are being made available and with job training. Is that fair to both of you?

Mr. HAZLITT. Fair to me, yes.

Mr. THEOBALD. Can I respond thus? Let me start from an old economic statement, that employment has moved through primary level; agriculture and mining; and through the secondary stage; manufacturing; and now the bulk of employment is in services. I think we now have to make a sharp distinction between administrative services, such as banking, which are going to be taken over by the computer, and human services, which are not. I would suggest that our problem is that many human services are not suitable for being carried out as a job. I think I may need to challenge the view of our chairman by saying that perhaps some people would rather not go out to work but rather be permitted by the society to see rearing their children as work. I think if we would justify raising your children as work, so that people did not feel in a sense that they were bums simply because the main thing they are doing is working with their children—

Representative RUMSFELD. What do you do for a promotion?

Mr. THEOBALD. I think one statistical change would do much to straighten up economic policy. I suggest that we include in the national economic statistics the value of a woman's work in the home. I share your view that we should provide an opportunity for women to work. But I am not sure I share your apparent belief that it is better for them to leave the home.

Representative GRIFFITHS. I would like to say to you, Mr. Rumsfeld, I think that tax bills have so many loopholes in ratio to the number of the words in the bill.

Senator Proxmire?

Senator PROXMIRE. I would like to ask Mr. Theobald, in the first place, on the cost of this proposal you make, I realize it is hard for anyone to make a computation, but it would be most helpful to us if you could make some sort of an estimate. Dr. Tobin stated that one of his proposals, computed on the basis of 1962 prices, and of course, the prices would now be higher, would be \$49.3 billion. Now, this provides for an income of \$800 per person, with a somewhat smaller payment for children, a total payment, as I recall, of \$3800 for a family of eight, and a 33 $\frac{1}{3}$ -percent tax rate. So that it means, of course, there could be a real incentive for people to work and to move away from this.

I assume with present prices and perhaps with a termination of the Vietnam war and with the fiscal restraint we are exercising, it could be bigger than \$49.3 billion by quite a bit. This is really a tough problem for us.

Mr. Hazlitt, the points he has raised are genuine political problems to everybody in Congress. We have to find that money somewhere. We have to impose heavier taxes on those who are politically very powerful. How do you suggest we do move in this area?

Mr. THEOBALD. I quite frankly do not know the costs. I think this is a political-technical question. When a decision was made to create a Common Market in Europe nobody knew exactly how to get to the Common Market. If we are going to move on economic reform, we have to have a time schedule. It is not going to be done in 1 year. It is

going to be a rough job. Indeed, I am not sure our society is capable of that reform.

It is quite critical that we start immediately to educate Americans to the reality of the world in which they are. I think we are doing a pretty poor job of it. The main thing I am presently interested in doing is to find ways to bring information about the real issues of the day to the American people and I am working with something called INFO 1968, which is designed to bring this year to people across the country information about education, human rights, income, health, youth and the whole question of urban living.

Senator PROXMIRE. Now, you know what a very, very massive, tough, difficult, uphill job this is. For that reason, it would seem to me to be best to the extent that you can that you take advantage of the present attitudes rather than try to climb hills that maybe we do not have to climb. This is why, when you said you find that a third of the people favor something like a negative income tax or guaranteed annual wage, the same Gallup poll revealed that people overwhelmingly favored a job, favored the Government as an employer of last resort or residual employer. This was in every income category. This seems to me something you can really work on and make substantial progress on, especially if you provide that those who cannot work, which I think almost all would agree with, would be provided with some sort of income. Why not take advantage of this situation to move in the direction of residual employment, especially since, from an economic standpoint, it seems to me more satisfactory; that is, those who produce are certainly less of an inflationary burden than those who simply consume and produce nothing.

Mr. THEOBALD. I suppose my slick answer is that I have never been interested in the possible, I am interested in the impossible. There is a reason for this.

Senator PROXMIRE. You are afraid you would succeed.

Mr. THEOBALD. Yes, I am indeed afraid I would succeed. I think the guaranteed job route is a route which leads us back into slavery and I use that word without apology.

Senator PROXMIRE. On, now, come on; really?

Mr. THEOBALD. Yes, really.

Senator PROXMIRE. Slavery?

Mr. THEOBALD. "Slavery." I am using that word quite deliberately.

Senator PROXMIRE. In what sense?

Mr. THEOBALD. Because we will be confronted in the guaranteed job route with the very people who cannot otherwise find jobs. This is by definition the goal of this program. The Government as an employer of last resort assumes that if people cannot be fitted into existing public or private jobs, then there should be a place where people can go and get a job. What will be the characteristics of these people?

Senator PROXMIRE. We had an experience with this to a limited extent in the great depression, where we had the WPA having people do all kinds of things.

Mr. THEOBALD. You are not making the critical distinction between a period in which the problem was a demand problem and a period in which the problem is a skill problem. In the great depression, it was a demand problem and there were many people whose energies could be used to do many jobs. Here we have a skill problem. The guaranteed job

program says we will pick up all the people at the very bottom of society. What are they going to do? May I refer you to my published statement.

Senator PROXMIRE. They will work and in your statement, you say this is the kind of thing at which we should work not only more intensively, but more intelligently. This is something I think you can get great support for in the Congress. Place more emphasis on education. We know how this pays off in so many ways.

Mr. THEOBALD. Let me say why I believe what we must not say to a person, "You must hold a job and as a consequence of holding that job, you get an income." Rather, we must decide as a society that we have a profound societal responsibility to provide an income and to help find an activity which will be meaningful to the individual. I am not suggesting that we give the person who is now employed an income and then provide no human services. Many of these people can be moved into activities but first they must find motivation. The Government, as an employer of last resort, will not motivate them.

Senator PROXMIRE. You say we have a profound societal responsibility to find them meaningful activity. If we do that who is going to mop the floors in this building, who is going to wait on tables?

Mr. THEOBALD. Robots.

Senator PROXMIRE. Who is going to do all the other things that are not pleasant, not fulfilling for most people?

Mr. THEOBALD. I am afraid where we probably do not agree is that I believe we already live in a science fiction world. The time it will take for us to get ready for the fact that we do not have to do unpleasant jobs and to teach our children to live with a science fiction world means we must begin to change now.

Senator PROXMIRE. But we do not live in that kind of science fiction world now. There are unpleasant jobs now, probably will be for the next 10 years.

Mr. THEOBALD. The guaranteed income helps to abolish unpleasant jobs because it makes it necessary to pay for jobs that are unpleasant at rates above the guaranteed income level. As the rate for unpleasant jobs rises, the market mechanism acts to develop machines to do unpleasant jobs. At the moment, our market mechanism is working against us.

Senator PROXMIRE. I see your objective. This is something that maybe eventually is going to work out. But meanwhile, we have this very hard, tough problem; we have the people who are overwhelmingly against your proposal but for a proposal that does lead to a better life, does lead to a better opportunity. I would feel inclined to push that faster and harder and expect that maybe the Theobald world will develop sometime for our grandchildren or great grandchildren.

Mr. THEOBALD. The time to find out that you have not enough gas to fly across the Atlantic is when you are less than half way across. What I am afraid of in your proposal is that will get us "more than half way across the Atlantic" because we will not realize the need for social change.

Representative GRIFFITHS. I think that both programs have something of this built into them; that is, that a guaranteed job might result, as you say, in slavery, but a guaranteed income might also result

in a permanent welfare class, that much more emphasis must be put on the fact that the guaranteed income is not going to replace very much in the way of expenses, that you are going to have to have much more money added to this as you bring people into a meaningful existence.

Now, I will let you continue.

Senator PROXMIRE. I take it, Mr. Thursz, that you would agree that we should not insist on a dollar-for-dollar loss for a person who is on welfare and gets employment?

Mr. THURSZ. Yes, sir. I agree.

Senator PROXMIRE. On the basis of your very real practical experience in social work and with, I presume, the city councils and so forth, what can we do to achieve this? It seems to me it has been developed by almost every witness who has been here.

Mr. THURSZ. I am very concerned that even at the present time, the program is not funded so it can take place. While the 1967 amendments make this possible, the funding is such that in very few States today is there any implementation of the incentive provision. I think that this is crucial. It makes absolutely no sense to tax somebody 100 percent as they begin to go to work. This has been one of the major failings of our system. I think the desire to keep mothers at home is partly to blame. But I do think that this is a good step ahead, one of the few good things in the 1967 amendment.

Senator PROXMIRE. You should simply emphasize that on the Federal level. It would seem if we do not, the States and localities will, because of the terrific political pressure they are under, insist on the 100-percent tax.

Mr. THURSZ. Yes, they would. Senator, I am intrigued by Secretary Cohen's proposal of, at least as a transitional step, establishing the so-called welfare program on a national basis, operated nationally without the request that States match funds, et cetera. I think we have come to the stage where we could really do this and this would be a further step ahead. Because as long as we depend on certain State actions to implement what is national policy, largely funded from national coffers, we find ourselves sabotaged along the way. I think that Secretary Cohen's proposal for a Federal welfare program, administered by the Federal Government, in the same way as the Post Office is administered, hopefully more efficiently, will be an answer.

Senator PROXMIRE. I would like to ask Mr. Tyson—first, congratulations on addressing yourself to the problem which I think is so fundamental of what we are going to do about the unfortunate use we have made of our poor people, the marginal workers, as our price stabilizers. That is a question that the economic profession has not addressed itself to, the Congress has not, and we continue to follow our policy on the basis of votes we have had in the last few days. Can you identify any present day society in which the poor people are not the price stabilizers? Even the English, as advanced as they are, that is the policy they have established in the recent months. They have adopted a tough fiscal program that has increased unemployment for the marginal workers. Where can a free society look, or at least a society where you do not have a rigid control of manpower such as you have in the Communist state?

Mr. TYSON. I believe there has been some experience with this in Scandinavian countries, where they have guidelines for bargaining.

Senator PROXMIRE. Wage-price guidelines?

Mr. TYSON. We have tried to do this in our society, doing it purely voluntarily, this, of course, being in basic agreement and accord with our value presuppositions. I understand, for example, that in Sweden, there is a statistical index for productivity and this is then related to industries, broken down in particular industries.

Senator PROXMIRE. Are you familiar with their level of unemployment?

Mr. TYSON. At the present time?

Senator PROXMIRE. In Sweden over the past few years?

Mr. TYSON. It has been fairly stable.

Senator PROXMIRE. Can you put it on a comparable basis?

Mr. TYSON. Two percent, 2.4 percent.

Senator PROXMIRE. If they figured it the way we do, it would be 2 or 2.5 percent?

Mr. TYSON. In Swedish experience, we have had anywhere from 1.1 or 2 on up. The 1958 high was 2.5.

Senator PROXMIRE. Their statistics are quite different, they are based primarily on unemployment compensation.

Mr. TYSON. It is hard to make these comparisons, but they do have an index on productivity which is related to particular industries and then these guidelines on bargaining within this range. The public expectation here, and we are coming back to a primary factor as far as prices, the public expectation is that you bargain within these ranges.

Senator PROXMIRE. Could you say in Sweden, within the basis of your knowledge and experience, that the poor are not the price stabilizers? Because the unemployed are by and large frictional—after all, there are some people between jobs. You always have young people out of school taking the time to find the job they want, and so on.

Mr. TYSON. I would say it is a far more successful system, and trying to think of the reasons why, I think it is in this guideline area of bargaining. Also, there is a public attitude toward unemployment which is different from our own attitude.

Senator PROXMIRE. Is this true in West Germany, too?

Mr. TYSON. West Germany, France.

Senator PROXMIRE. What about the public attitude toward unemployment that makes it possible for them to keep it lower?

Mr. TYSON. It is an expectation, I think, on the part of the citizenry that public policies will be such as to maintain low levels of unemployment, that politically, it is not tolerable. I think in France; it is something that may be happening in France.

Senator PROXMIRE. They have had more inflation, too, have they not, than we have?

Mr. TYSON. Right, but this becomes politically intolerable and it is a social control over public policy.

Senator PROXMIRE. They try to cope with their inflation by the relationship between productivity and wage increases in a more disciplined way than we have?

Mr. TYSON. Yes.

Senator PROXMIRE. So they would not have the kind of cost push.

Mr. TYSON. Their wages have been under greater control there than they have been here.

Senator PROXMIRE. On page 4, you have a very, very incisive indictment of our present welfare system. At the same time, it seems to me that Dr. Thursz' suggestion that we should try to reform it and build on it rather than throw it out and replace it seems very practical to me. Do you think it is hopeful? Do you think we just have to be pretty radical about this?

Mr. TYSON. There are certain aspects of it. If you mean, are we going to get rid of some sort of supportive social service institution, my response to that is no.

Senator PROXMIRE. Should we even want to? Does not the social worker perform a tremendously useful service?

Mr. TYSON. Right.

Senator PROXMIRE. Should we not have more and better trained social workers?

Mr. TYSON. Correct.

Senator PROXMIRE. If we follow a strictly guaranteed income payment or income maintenance payment, are we not likely to lose the value of social workers?

Mr. TYSON. I do not think this will affect the value of the social worker. It will simply give him a new job definition that perhaps he has been seeking instead of budget making.

Senator PROXMIRE. How do you keep him from just being a busy-body? If people get their income, why should somebody stick his nose in telling them what to do with it?

Mr. TYSON. These are supportive mechanisms of counseling which we always need. They may turn into outpatient clinics for mental health. I can see psychiatric social workers doing this particular kind of function, instead of being primarily policemen in a system to be sure only people are on it who need to be on it.

Senator PROXMIRE. If you are a mayor in a city today or on the city council, you have a tough problem of trying to raise enough money to meet your budget and it gets to be one of the toughest problems in the world. If you have an income maintenance system, it seems to me one of the first areas you think of cutting would be your welfare worker. After all, the welfare worker now is necessary in part to justify in part at least holding welfare costs down.

Mr. TYSON. I think you have indicated some pressures that would develop in the welfare system if this occurred, but I think the welfare workers themselves are redefining roles and job definition to take this into account. Certainly we would no longer see the kind of detective work that has been associated with this man in the house business. But you would redefine your functions. They would be supportive functions for supporting the kind of internal organization of family where it no longer would be within the income maintenance brackets. It would be vertically mobile; this would be one of the strong societal inputs into the system, so people would not be locked into a minimum income bracket but move vertically through it. We might see it as one of the primary resources for vertical mobility.

Senator PROXMIRE. My time is up. I want to say I think this is an extraordinarily stimulating panel. I think it is a great thing to have people with such divergent views here expressing them to us. It has been a fascinating and most useful morning.

Representative GRIFFITHS. Thank you very much.

Thank you, Senator Proxmire.

I want to thank each of you for being here. It has indeed been fascinating.

The committee will adjourn until tomorrow morning at 10 o'clock in room S-407 of the Capitol.

(Whereupon, at 12:30 p.m., the committee recessed to reconvene at 10 a.m. Wednesday, June 26, 1968.)

INCOME MAINTENANCE PROGRAMS

WEDNESDAY, JUNE 26, 1968

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

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

Present: Representatives Griffiths and Rumsfeld, and Senators Proxmire and Percy.

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

Representative GRIFFITHS. In view of the fact that the House convenes this morning at 11, and I understand Dr. Burns, that you are obliged to leave early, may I ask you to begin with your statement?

STATEMENT OF EVELINE BURNS, PROFESSOR EMERITUS, SCHOOL OF SOCIAL WORK, COLUMBIA UNIVERSITY

Mrs. BURNS. Thank you Mrs. Griffiths. Perhaps I should begin by identifying myself for the record.

My name is Eveline Burns, I am professor emeritus at the School of Social Work at Columbia University, but I am appearing today in behalf of the Citizens' Committee For Children of New York, of which I am a member and which I think you know, Madam Chairman, is very much concerned about the welfare of children.

I must also apologize for the fact I do not have a written statement, because the appearances were arranged rather too late.

The citizens' committee, as you might know, is interested in children. We started off by being interested in all kinds of services for children, and the further we went in our efforts, the more devastating to childhood did we realize that poverty can be. Therefore we have been increasingly concerned about childhood poverty.

We note, for example, that in 1965, one-sixth of all the Nation's children under 18 fell below the current accepted poverty level. This means a total of 12.5 million children in all. And you will recall this poverty level is one which roughly can be described as saying it allows for an expenditure of about 75 cents a day per head for food.

Another 6.6 million children are barely above that line. We noted, as we looked at the different programs and their impact on children, that children are at a disadvantage in our income maintenance programs. They are at a disadvantage in a number of social insurance programs; more particularly, for example, the child in even a moderate

sized family under old age and survivor's insurance, where the family benefit is cut off by the maximum limit, and this means that the larger the family, the less adequate can the payment be.

But more than that, we notice that in regard to one of the major threats to childhood economic security, namely, family breakdown, with which I think your committee has already been concerned, this is not protected by the more favorable social insurance programs, but is provided for only by the very unsatisfactory aid to families with dependent children program, unsatisfactory both in its conditions and in the levels of income which are provided for the family.

More than that, however, we have observed that a major threat to the security of children is the risk of being a member of a fairly large family or a member of a family where the father, even though he is employed, is employed at earnings which are too low to permit the maintenance of the entire family above the poverty line.

We were very much impressed with the fact that when one looks at this total of 12.5 million poor children, about half of them come from families where there are five or more children in the family, and furthermore, about 5.5 million of them are in families where the father or the mother worked throughout the entire preceding year. In other words, this suggests that there is a special kind of problem of childhood poverty at the present time which none of our programs are providing for, this risk of being a member of a family which is too large to be supported by the father's earnings.

This led us to look at the children's allowance program as a possible instrument for dealing with all types of childhood poverty. We had a conference last fall; which I believe you have just received a copy of the proceedings.

Representative GRIFFITHS. Yes, thank you. An excellent report.*

Mrs. BURNS. We tried there to explore its implications and went into it as open minded as we could. We came to the conclusion that this was an instrument which should indeed be seriously considered in among our programs. I gather that other witnesses before you have described the children's allowance system, and I shall not take the time, therefore, to go into detail except to say that this is a program which provides cash payments to the parents or parent in a family. It is paid in some proportion to the numbers of children, and with no reference to whether or not the family is in need as demonstrated by any kind of means test condition.

We liked it because it gets money into the families in proportion to the number of mouths to be fed, which is not the case in even some of our social insurance programs. It is administratively simple because there is no means test; because it is universal families are not deterred from asking for the payments to which they are entitled. There are no complicated tax forms for the family to fill in, as is the case with the negative income tax, and it is not divisive. Too many of our programs today tend to divide the community into two groups, the people who pay and the people who get. In this case, it is a universal payment; all parents would get it in some proportion to the numbers of their children.

*"Children's Allowances and the Economic Welfare of Children," the report of a conference, Citizens' Committee for Children, of New York. June 1968. Copy in committee files.

I would like, however, to spend the rest of my time dealing with some of the objections to this program. One objection that I see very frequently made is that it will not deal with the whole poverty problem. Obviously, it will not. It certainly will not do anything for childless adults. But as one looks at the currently popular negative income tax proposals, one observes that even those are not going to do very much across the board for all adults and all children. So far as I know, practically none of the proposals, except possibly Professor Tobin's, fill as much as 50 percent of the poverty gap, and he does not propose to fill 100 percent of the poverty gap. Consequently, in one sense, it seems to us the problem you face is one of priorities. If you have a limited amount of funds to devote to the purpose of raising incomes, are you going to try to do a little bit for everybody across the board, or are you going to concentrate and do much more for one group?

We at the Citizens' Committee for Children, with our great concern for children, feel that it is children who should have the priority. We would rather see more done for children than a small amount done for everyone. We have chosen children.

We also, however, frankly admit, of course, as I think everyone would, that no one measure alone is going to deal with the whole poverty program. Children's allowances are not a panacea, any more than the negative income tax or any other one program is a panacea. And I am sure other witnesses before you have drawn your attention to the variety of other special kinds of measures that have to be taken—training, job opportunities, and so on, making birth control available to families, and a whole series of related positive programs.

Another objection is that the children's allowance is said to be an inefficient method of dealing with poverty. This is one of the favorite cries of our economists at the present time. It is indeed true that the children's allowance will make some payments to people who are above the poverty line. But I would draw your attention to the fact that even the negative income tax, once it has incentive features built into it, inevitably involves payments to people above the poverty line if it is going to be in any way minimally adequate in terms of the size of the negative income tax. So even the negative income tax is not, in the economists' terms, wholly efficient.

Furthermore, we have observed that there are various ways of dealing with these alleged inefficiencies. For example, the benefit to the higher paid family, the family with higher earnings, can be very substantially reduced, first of all by removing the present exemption for dependents and the minimum standard deduction, something which in any case would be desirable, because if ever there was an inefficient method of providing help to families, it is doing it through the exceptions and deductions under the income tax system, which gives absolutely no help to the people who need it most and the most help to the people who need it least, because the exemption and, the deduction come off the top marginal bracket, of course.

So first of all, we say this alleged waste or inefficiency whereby some of the funds, a sizable portion of them, would go to higher income people in the first instance; can be reduced by abolishing the exemptions and standard deductions.

Second, you can make the allowance taxable, and third, there are various additional tax choices, some of which were proposed by Dr. Brazer, who has a paper in this report of ours but who, I gather, was not able to appear before you.

Representative GRIFFITHS. Yes.

Mrs. BURNS. He has been thinking of some rather ingenious ways of trying to recoup by additional charges on the income of higher income people, and has estimated that you can very substantially cut down the extent to which the rich benefit.

The third objection is that it is going to encourage population growth. All I can say about that is that all the evidence we have indicates that there is no evidence one way or the other. We asked Dr. Whitney, in the report that you have, I think, received, this children's allowance report—Dr. Whitney is a very well-known demographer—to survey the evidence for us as to what was known in other countries, since we do not have this system, about the effect of children's allowances. He came to the conclusion, and I would concur in it because I made some preliminary studies some years ago, that there is no evidence that this does indeed have the population stimulating effect.

Another objection is that parents will not spend the money on their children. Again, I would say that all the evidence, and this was concurred in by the four foreign representatives who were reporting to our conference on the experience in their own countries, all evidence indicates that a very large majority of parents are deeply interested in their children and do not squander allowances and money they get in riotous living of one kind or another rather than spending it on their children.

The other big problem, of course, that you have to face is the problem of costs. Now, on the question of costs, I take it that any of us who are seriously thinking about doing something about poverty have got to accept the fact that costs are going to be extremely large. Everything has to be paid for and we are not going to make any real dent by the income maintenance programs on poverty of every kind, on the problems of poverty, unless we are indeed prepared to contemplate very sizable expenditures, whether that is negative income tax, whether it is any kind of social dividend or demogrant, whether it is something like the children's allowance—it is going to be costly. You will find in this volume we prepared a series of estimates of the different costs of the different programs, but I do not want to take time at the moment from the other members who are testifying. If later, you wish to have some of this information, I can give it to you. All I have to say is that one has to remember, it is very fashionable today to talk about cost-benefit analysis. We can only grasp the real significance of cost by looking at it in terms of the benefit. And you have to make up your mind, how many people do you want to benefit? How many children do you want to bring out of poverty? All the children are going to cost a great deal. A smaller number of children is not going to cost as much. And we have a range of costs depending on the variety of children's allowance plan one selects.

But the real point is we are not going to get anywhere in this business, it is almost, in my way of thinking, social hypocrisy if we say

we want to do something about poverty, but we are not prepared to spend any money on it.

I would like, if I may, Madam Chairman, to rest the general analysis this way, and you probably will want to ask me something about bits of it later on.

Representative GRIFFITHS. Thank you very much, Mrs. Burns. Mr. Dumpson?

STATEMENT OF JAMES R. DUMPSON, DEAN, SCHOOL OF SOCIAL SERVICE, FORDHAM UNIVERSITY

Mr. DUMPSON. Madam Chairman and members of the subcommittee, I am James R. Dumpson, dean of the School of Social Service of Fordham University and former commissioner of welfare of the city of New York. While I intend to be brief, let me thank you and the committee for this opportunity to share with you our views on this one aspect of economic security. In my judgment, there is no issue of domestic social policy more urgent at this time than the reform of income transfer programs. Dr. Burns and I appear before you jointly on behalf of the Citizens' Committee for Children of New York and my statement should be read together with hers. Representing a group of active and interested citizens, lay and professional, who are dedicated to the welfare of all children, we have seriously considered the question of strategies for income maintenance.

We are convinced that programs in health, education, housing, and social services generally cannot succeed unless we attend to the problem of family and child poverty that grips millions of Americans. We also feel very strongly that children's allowances are a much undervalued option for dealing with this problem and not sufficiently considered in the United States. We are determined that people understand this alternative. We are convinced that given such understanding children's allowances will rank high among the programs to be enacted once we are prepared as a nation to implement our oft-stated national commitment to the importance of the physical, social, and emotional well-being of all of our children.

You have heard earlier in these hearings from former Assistant Secretary Lisle Carter who has spelled out a rationale for children's allowances. Professor Morgan of the University of Michigan has told you of Dr. Brazer's approach to a recoupment scheme which Dr. Burns just referred to which could make children's allowances economically viable.

I should like to speak from my special vantage point of a former commissioner of welfare for the city of New York. For 7 years, as head of the largest welfare department in the country, I carried responsibility for the welfare of thousands of children living in temporary care arrangements, or in permanent arrangements which were never meant to be permanent, as well as for thousands of other children living with one or two parents on inadequate incomes, I have developed considerable conviction about what must be done and I should like to share my views with you very briefly.

Very simply, something must be done to break the cycle of dependency, deprivation and poverty. We will never achieve this aim with

demeaning, inadequate financial grants. We will never achieve this aim if help which is given is seen as a matter of charity. We will never achieve this aim if the manner of giving and the nature of what is given separates one group of children from another.

I am convinced that the stigma attached to our present public assistance program, a stigma that is inherent in its old English poor law tradition and its conflict with dominant American values makes it impossible to reform that program to meet the needs of those who are and those who will be financially dependent. It is a system that incurs and perpetuates contempt for those who are poor. It is a system that confuses cause and effect; that demands a different code of morality for its beneficiaries than is demanded of those who are not its direct beneficiaries. It reflects a public policy which denigrates the child and his parents, an approach to aid which makes a child feel that he and those around him are less adequate. Somehow, no matter how we feel about the sins of the fathers—or should I say the mothers—in national self-interest we must find the way to rear a new generation of children who do not perpetuate the dependency, and therefore the suffering of their parents and I would ask us to remember that illegitimacy is not created by relief. HEW surveys have shown that four-fifths of all out-of-wedlock children are not receiving public assistance. But let there be no question or mistake about it. Dependency in our Nation is a second-class status. It erodes and corrodes the spirit and body of those who are dependent. Our present public assistance program—and that happens to be the major income transfer program for millions of children and their parents—perpetuates the suffering, the human erosion and human corrosion of those who are dependent. I tell you this from my intimate knowledge of the poor and the recipients of public assistance. This is not a happy or attractive status for millions of Americans. Equally important, it is not a state of affairs that America dare continue to support or perpetuate.

A children's allowance program with an adequate benefit level in this sense is a takeoff program. It promises a floor of income which can be counted upon as a right. It assures the nutrition upon which adequate intellectual and physical growth depend. It offers the clothing, the shelter, the school supplies without which a child cannot do what a child must do at school, in play and with his family. In short, a children's allowance is a device for assuring a floor, an underpinning for all children. It offers an opportunity for a child's parents to achieve adequacy as parents, to achieve a measure of self-direction—control over the decisions that every parent has a right to make about his or her own family. It is a major step in removing the stigma of financial dependency, in reenforcing a positive constructive self-image of poor children and their families. It can remove financial dependency as one of the causes of repeated out-of-wedlock births and thus permit us to identify and focus on measures to deal with the many other causes of out-of-wedlock births in this country. By introducing a guarantee of adequate, equitably provided income for those who are in financial need, we may even relieve the nondependent of any contempt they hold for the poor and any guilt that accompanies that contempt. This, in essence, is what I, as a former welfare commissioner in the Nation's largest city and a former director of child welfare in that same city, see in the program proposed.

Obviously, fiscal considerations, differences in regional standards, and a variety of program complexities may not make such a program enough. However, a guaranteed children's allowance would make enough of a difference so as to remove from the poverty status large numbers of those who are now well below the line and will have high payoff as a program of income maintenance. The details will not be repeated here by me because you have heard them from others. But, I must comment that the experience of 62 countries cannot be ignored.

There is another aspect of children's allowances, also mentioned by Secretary Carter, which we at Citizens' Committee see as particularly important. I call attention at this time to the universal character of the program. This is a moment when people are talking much about the poor and programs for the poor.

I must confess some concern with divisiveness in this country, with a view that government is only for the unfortunate and the suffering and even with a view that only those who are technically poor in terms of the categories of the Office of Economic Opportunity or the Council of Economic Advisers are our concern. The truth is that there is inadequacy in many groups and at many levels and that the basic underpinning has value at many levels. And the notion of something shared by all children, available to all of them because they are children both reflects our national commitment and responsibility and is a move against the divisiveness which is of some concern to all of us.

I need hardly tell you that we give high priority to jobs, a guarantee of job with adequate salary for every adult available for and able to work; to reform of the social insurance system; to an adequate supply of housing that people can afford, and to high quality integrated education. Our committee has worked intensively in these areas and I need hardly tell you of the high priority we give to the elimination of all forms of racial discrimination in every area of our national life and of all expressions of racism which contribute to financial dependency of large groups of Americans. We urge major reform of public welfare in the direction of mandated affidavits, nationally mandated minimum standards, separation of the issue of need from the issue of general social services. These reforms have been spelled out by others and, indeed, are in the general direction of the recommendations of the Department of Health, Education, and Welfare. However, we believe that the reforms would be incomplete and that a major gap would exist unless at an early date this country were also to enact a children's allowance program, and a significant one at that. The exact figure must, of course, be worked out in further research and in balance of a variety of considerations. Tentatively, we are talking of something like \$50 a month per child, not as a firm recommendation, but a sum we mention today as a way of signifying that we believe that a significant allowance is what is necessary rather than a mere token one.

For those who do not need the money, a combination of taxation and a recoupment scheme of some sort is necessary and others more technically prepared than I have discussed this before you. But for all children there must be this grant, a check to arrive once a month, to unify our child population, to signify our national responsibility for them, and to provide that floor under development out of which a responsible, participating, and unified citizenry may emerge.

Thank you.

I shall be glad, of course, Madam Chairman, to answer when you are prepared to ask them.

Representative GRIFFITHS. Thank you very much, Mr. Dumpson.
Congressman Ryan?

**STATEMENT OF HON. WILLIAM F. RYAN, A U.S. REPRESENTATIVE
FROM THE 20TH DISTRICT OF THE STATE OF NEW YORK**

Representative RYAN. Thank you, Madam Chairman. I am privileged to appear before your Subcommittee of the Joint Economic Committee this morning, and particularly to join at this table two such distinguished experts, and I might also add, distinguished New Yorkers.

I am pleased that our former New York City welfare commissioner, now the dean of the School of Social Work at Fordham, is here, and Dr. Eveline Burns, who has made a major contribution to the deliberations of your committee.

I should like to commend you, Madam Chairman, for your foresight in calling these hearings and giving us an opportunity to discuss the question of income maintenance. I can really think of no idea in recent times which has moved from the wilderness of theoretical speculation into the arena of serious policy discussion with the rapidity of the guaranteed income concept. These hearings constitute an important forum for discussion.

It has been widely recognized that income supplementation, which is presently carried out largely through public assistance, is a national problem, and, as such, should be dealt with nationally. Standards should be national, and the burden of costs should be distributed nationally.

The present total national expenditure for public assistance is \$5.1 billion annually.

The average AFDC benefit ranges from about \$8 per month per person in Mississippi to about \$51 per month per person in New York, Wisconsin, and Minnesota. Surely, this disparity is not reflective of the differences in the relative cost of living in these States. The result is that one State is being forced to pay for the social outcasts of other States, who are, of course, indicative of a national social problem.

New York City's welfare load in fiscal year 1969 will cost \$1.346 billion, of which \$516 million is paid by the Federal Government. The remainder is the burden of the city and State governments—city, \$399 million; State, \$431 million.

In preference to the present welfare system, therefore, there should be national welfare standards, with a much larger share paid by the Federal Government. This was the conclusion of the report of the National Advisory Council on Public Welfare issued in June 1966, now 2 years old.

However, I believe that ideally there must be a shift entirely from conventional welfare programs to a Federal income maintenance or "guaranteed income" approach. There are several basic reasons for this approach. In the first place, under an income maintenance system the only criterion for assistance would be need. There would be no artificial requirements. Secondly, the income supplement function would be divorced from social services. Thirdly, income maintenance

would provide income supplements to the working poor, families below the poverty line who are now excluded from welfare benefits. Fourth, the application process would be greatly simplified and dignified, and administration would be improved. Fifth, there would be a much greater incentive to work.

Some of these advantages might accrue from a greatly modified national welfare system. However, the achievement of all of them could only be obtained under a guaranteed income plan.

Recent guaranteed income proposals derive from two rather different philosophical underpinnings.

The first, represented by Robert Theobald, who testified yesterday, suggests that the "work ethic" is an anachronism in a society as wealthy as ours and that persons should be guaranteed the necessities of life, so that they can dedicate themselves to higher pursuits. Then work will be done only because it is personally satisfying.

The second approach believes guaranteed income is *less* destructive of the work ethic. It contains financial incentives for the recipient to work which the present welfare system lacks. It is further appealing because it can operate more efficiently and economically than welfare, and because it greatly reduces violations of personal liberties, which are now all too characteristic of the present welfare system. My own sympathies are with the latter position.

As the sponsor of the first, and thus far the only, bill to have been introduced in Congress to provide a system of income maintenance, H.R. 173331, I have a great interest in seeing this discussion move forward. Let me summarize H.R. 17331 briefly for the purposes of the discussion this morning:

H.R. 17331 establishes a maximum annual payment based on approximately two-thirds of the personal exemption plus minimum standard deduction for each member of the family. Translated into dollars and cents per month, this equals \$50 for the head of the family plus \$39 for each dependent. A family of four with no other income whatever could expect \$2,004 per year. Additional payments will not be made beyond the sixth dependent, so the maximum payment for a family of seven or larger is \$3,408.

My bill proposes a 50 percent "tax" on work earnings. Benefits are reduced by 50 cents for each dollar of work earnings. A higher "tax" as now exists under most public assistance programs, destroys the financial incentive to work. A lower "tax"—for example the 33 percent which has been proposed in some guaranteed income plans, would either necessitate lower base benefits, or would permit persons well above the poverty line to receive benefits and greatly increase the cost of the program.

The system would be administered through a Bureau of Income Maintenance located in the Treasury Department. Persons wishing to apply for benefits would make application by submitting quarterly income statements. They would receive monthly maintenance payments based on the deficiency of their earnings. Since there would be a reasonable time lag for administration, the May check might be based on income during the January-February-March quarter.

The administrative procedure for checking the accuracy and honesty of applications would be similar to the Internal Revenue System now in force for checking positive tax returns. All applications would

be scrutinized for internal inconsistencies, errors, and suspicious claims. But only a small fraction—perhaps one in 15 or 20—would be subject to full investigations on a random sample basis. This spot check system would prevent most willful cheating and would replace the present demeaning practice of routine intrusions into the private lives of all welfare recipients.

The level of benefits proposed in my bill—a guaranteed minimum income of approximately \$2,000 for a family of four—is still below the poverty line. However, they are above the AFDC average benefits in all but 12 States.

At this level of benefits the gross cost would be \$8.1 billion to the Federal Government. However, since this program would replace about 80 percent of the existing \$5.1 billion welfare costs, there would be a saving of approximately \$4 billion in total Federal and State welfare costs. Since the Federal Government pays some 60 percent of the welfare costs, the Federal saving will be about \$2.4 billion, and the States will save \$1.6. On balance, therefore, the program will cost the Federal Government some \$5.7 billion—\$8.1 billion minus \$2.4 billion—and save the States \$1.6 billion in existing welfare costs. Thus, the net cost will be \$4.1 billion.

At this level the income position of nearly 80 percent of present welfare recipients will be improved. More significantly, nearly all of the 22 million Americans, who now live in poverty but do not receive public assistance, will get some income supplementation.

Ideally, the poverty gap should be closed entirely. However, to close it solely by means of a guaranteed income system would cost in the neighborhood of \$25 billion yearly. The principal reason for the geometrically increasing cost in the problem of "leakage" to the nonpoor. If the maximum benefit for a family of four is \$2,000, as my bill proposes, and work earnings are "taxed" at the 50-percent rate, then all benefits will cease when total income reaches \$4,000 per year.

However, if the maximum benefit for a family of four is placed at \$3,000, then every family of four with income of less than \$6,000 will be eligible for some benefits; and there will be a great deal of "leakage." Even to increase the maximum benefit from \$2,000 to \$2,400 for a family of four will double the cost of the program.

As I pointed out, one difficulty with a base benefit of \$2,000 is that 12 States now have higher average AFDC benefits. The assumption of my bill is that in these States the Federal income maintenance benefit would pay the first \$2,000, and the welfare program would make up the difference between that and whatever level it is now paying. So that if a welfare standard for a family of four in a given State is \$2,400 a year, the Federal income maintenance program would pay the basic \$2,000, and the welfare program would pay the last \$400. The recipient in those few States would be no worse off. And, of course, in the majority of States, where welfare benefits are below the standards of H.R. 17331, the recipients would be considerably better off. Where the Federal income maintenance benefit is supplemented through welfare, section 1604 of my bill provides that, as earnings increase, welfare benefits are to be reduced by two-thirds of earnings, until welfare benefits are eliminated. Further earnings reduce income maintenance benefits by two-thirds of earnings, until the position of the recipient is identical to that of a recipient who was never receiving welfare, at

which point income maintenance benefits are reduced by 50 percent of further earnings. This formula is necessary to harmonize the income maintenance system with supplementary welfare in those States where it will continue.

Let me mention several significant advantages of the income maintenance system envisioned in H.R. 17331, as compared with the existing welfare system.

Perhaps the most important is the establishment of a national standard of assistance based on the sole criterion of need. This would eliminate the confusion of diverse State criteria and levels of benefits. It would save those parts of the country which now have the heaviest welfare burdens the most money.

In New York City, with nearly one person in nine on welfare, a substantial portion of this welfare cost would be saved to the city and State, making it available for other needs.

A national income maintenance system would reduce the migration to the cities by rural residents ill-equipped for available city jobs.

It would remove the indignities and intrusions into personal matters which now characterize the welfare system.

It would provide an incentive to work for people receiving benefits.

It would free social workers to perform needed and wanted services and eliminate the welfare bureaucracy's police functions.

I think that it has been nearly universally agreed that the present public assistance system is not working. However, it should be clear that an income maintenance system or a guaranteed income—although it can improve upon the income supplementing functions of welfare—is not, and cannot be in and of itself a solution to the poverty problem.

Let me take a few moments to describe what I believe income maintenance *is*, and what it *is not*:

It is, clearly, a system of income supplements for two groups—individuals and families with no income, and also the working poor. A family of four with no work income, under my bill, would receive \$2,000 annually. A family of four with \$2,000 work income would receive \$1,000 in benefits for a total income of \$3,000. Thus, work incentives are built into the system. It is important to keep in mind that this is a program for persons capable of working. Otherwise, it makes no sense to build in work incentives. For the aged, it makes much more sense to establish a higher basic benefit under a federalized old age assistance program. The disabled would be offered an option to continue on aid to the totally and permanently disabled, or to shift to income maintenance.

I might point out that this program is not a substitute for jobs; indeed, it cannot work unless expanded manpower programs are available so that those who want to work can find training and employment. Nor is it a substitute for unemployment compensation. A subsistence benefit is of marginal use to a regular wage earner who is suddenly thrown out of work for a temporary period. Increased unemployment benefits are necessary to take care of him.

Income maintenance is rather a residual program for the chronic low-income family, the underemployed, the mother with dependent children, and other categories of persons only able to work part-time or sporadically.

Let me make it clear that this is not a program to pay people not to work. That label is much more applicable to the existing welfare

system, which in most cases taxes work earnings at 100 percent. An income maintenance system, on the other hand, would have built-in financial incentives for a recipient to better his total income position *by working*. That is why a parallel job program is such an important complement to a workable income maintenance system.

There is in section 1605 of my bill a provision designed to permit low-income seasonal workers to benefit from the income maintenance system without taking unfair advantage of it by deliberately not working part of the year. Section 1605 provides that, if total annual income exceeds 150 percent of exemptions plus minimum standard deduction, any benefits which were collected during any part of the year must be repaid at a 50 percent rate. In the case of a family of four, this is \$4,500 yearly. Thus, if a migrant agricultural worker with three dependents earned \$3,000 during the summer months, but was idle during the rest of the year, he could keep the \$500 income maintenance benefit. However, if a skilled worker with three dependents earned \$5,000 during an 8-month period and collected benefits during the other 4 months, he would be required to pay back \$250.

Since I introduced H.R. 17331 on May 16, I have received the benefit of wide comment and analysis from interested parties. I'd like to share with the committee some suggestions which I am seriously considering incorporating into the next draft of the bill when I reintroduce it.

First, it has been suggested that the husband and wife should be entitled to \$50 monthly each, instead of \$50 for the head of the family and \$39 for each dependent. I agree that this would be more equitable.

Secondly, there should be a limit on assets. For example, benefits might be reduced by 10 percent of assets over \$10,000.

Third, full-time students should not be eligible for benefits.

Fourth, there should be deductions from stated income for medical care and exemptions of earnings by children under 16 and gifts up to \$100 yearly.

Fifth, there should be a statutory escalator provision adjusting the level of benefits upward according to a new low-income consumer price index which would be established in the Department of Labor.

Finally, let me raise for discussion one possibility of which I am not fully convinced but which might cast an income maintenance program in a different light. That is the question of a mandatory work program which would provide that any adult in a recipient family, which has received at least 75 percent of the maximum benefit for a period of 9 months or more, may be required at the discretion of the Federal Government to accept employment in a public employment program, retraining program, or basic education program where such programs are available in the immediate geographic area. Otherwise, benefits would be reduced by 10 percent per month till they are exhausted. The work program would have to pay at least the minimum wage. Participants in the basic education program would continue to receive income maintenance benefit payments. Persons over 60 years of age, mothers with small children, and the disabled would be excluded.

In certain areas such as small towns with only a handful of beneficiaries, the administrator might decide that it simply would not be worth the expense to establish a training program.

This kind of work training program puts the burden of establishing an acceptable job program or basic education program on the Federal

Government before beneficiaries can be disqualified. Needless to say, regulations would have to be drawn very narrowly to prevent administrative abuse.

In summary, a Federal income maintenance program is a sound proposal which can be enacted in the near future. Few proposals have been received with such intense interest and discussion as this one. I believe that income maintenance is a key part of a multiple strategy for breaking the cycle of poverty. That strategy needs to include job creation and training; it needs to include higher benefits under social security for the elderly and the disabled; and it also requires expanded programs in areas such as intensive education and health and social services.

A system of income maintenance to replace the present inefficient and inadequate welfare system must, in my judgment, be a central part of that strategy.

Representative GRIFFITHS. Thank you, Congressman Ryan. Mr. Hicks, may I ask, in view of the limited time, that you confine your remarks to about 8 minutes?

**STATEMENT OF W. B. HICKS, JR., EXECUTIVE SECRETARY,
LIBERTY LOBBY, WASHINGTON, D.C.**

Mr. HICKS. Yes, ma'am.

First, I would like to apologize for not being here on time, but I did not understand the nature of the appearance. I thought that I would be the fourth witness to be heard individually.

Representative GRIFFITHS. I see.

Mr. HICKS. In the interest of time, I shall simply summarize the nature of our objections to guaranteed annual income proposals.

Our first objection is that we feel it is unfair to the working taxpayer of the Nation to expect him to carry an additional burden of welfare costs. We do believe that this is a welfare system, no matter how it may be described.

Our second objection is in the economic area. We feel that there is no question but that the establishment of a minimum income for all citizens, regardless of their productivity, will only have much the same effect that minimum wages have; that is, it will force other wage levels up correspondingly. A person will not put out the extra effort to earn extra money so long as he realizes that he could earn the same by not working. So what we feel it would do is add to the wage-price spiral of inflation and that this, in turn, will reduce the effectiveness of the guaranteed annual income to the point where it will be necessary to raise that level by law in order to make it effective, and this in turn will lead to a new boost in the wage-price spiral of inflation; that the ultimate end of this can only be an inflationary expansion to the point where the economy just bursts at the top.

We have another objection, of course, which is on its effectiveness. Insofar as helping people to make themselves productive, we feel that it fails to meet the needs of those persons who need specialized programs of training, of health care—that is, if we are to assume that it will replace existing welfare programs—and that it will not encourage work by those who are able to support themselves.

In sum, we feel that it is bad from the viewpoint of the taxpayer who has to pay for it; we feel it is bad from the viewpoint of the recipients; and we feel that it is bad from the viewpoint of both in the arena of the national economy and the inflationary spiral as it exists today.

Thank you.

(The prepared statement of Mr. Hicks follows:)

PREPARED STATEMENT OF W. B. HICKS, JR.

Mr. Chairman and Members of the Committee:

I am W. B. Hicks, Jr., executive secretary of Liberty Lobby. I am here to present the views of our 15,000 member Board of Policy, on behalf of nearly 200,000 subscribers to our monthly legislative report, *Liberty Letter*. The Board of Policy, consisting of patriotic Americans in every state, has specifically voted to oppose the institution of any kind of "guaranteed annual income" scheme.

Liberty Lobby opposes the basic concept of government income maintenance programs, and we would strongly oppose any attempt to enact legislation putting the idea into effect, whether in the form of cash payment, negative income tax, or other socialistic program.

The several proposed plans, while differing in detail, have the same basic approach and goal. The philosophy behind them is that every citizen, no matter how indolent, has an inherent right to be supported in a comfortable manner by the taxpayers. The goal is a massive redistribution of wealth, of a degree as yet unheard of in the United States. "Poverty" will be ended by the simple expedient of allowing unproductive people to live as well as if they were working, and contributing to the American economy. Every citizen would be promised that, no matter what the reason for his failure to support himself and his family, he will continue to receive from the government payments keyed to a predetermined schedule.

We feel that these hearings will serve a useful purpose if they bring the dangers inherent in the "guaranteed annual wage" to the attention of the American people. For, in spite of fact that the possibility of this travesty on the American tradition of hard work and individual initiative actually becoming law seems remote to most of our people, many highly influential Americans have indicated that that this will be the area in which the next major push toward a socialist America will take place.

Reliable columnist Paul Scott reports that the President himself was directly responsible for the inclusion of a guaranteed annual income recommendation in the report of his National Advisory Commission on Civil Disorders. Significantly, the President has appointed a Commission on Income Maintenance, the announced purpose of which is to develop a plan guaranteeing each American family an income of at least \$3,000 per year, and then promoting public support for the plan. Ben W. Heineman, the Commission's Chairman, has stated that: "One of the commission's main objective will be to sell the idea of a guaranteed annual income as one of the best ways to fight poverty and head off further racial troubles in the large cities. This won't be done overnight."

The idea of the guaranteed annual income is actively supported by at least two of this year's major Presidential contenders. It has become one of the main demands of the so-called "civil rights movement," which seems to get most of what it wants.

Our first major objection to the guaranteed annual income, and this applies equally to all of the various schemes under consideration, is that it is simply unfair to the productive people of the United States. It amounts to a massive confiscation of the earnings of hard working taxpayers to support people who, in many case, are able-bodied and capable of working, but who prefer to live as parasites on the backs of productive Americans.

This committee would find it instructive to carefully consider the words of Dr. Robert Theobald, one of the principal formulators of the guaranteed annual income scheme. Dr. Theobald has made it perfectly clear that he feels that any guarantee plan enacted by Congress would be only the first step. He has stated ("The Guaranteed Income, P. 233):

"We will need to adopt the concept of an absolute constitutional right to an income. This would guaranteed to every citizen of the United States, and to

every person who has resided within the United States for a period of five consecutive years, the right to an income from the federal government sufficient to enable him to live with dignity. No government agency, judicial body, or other organization whatsoever should have the power to suspend or limit any payments assured by these guarantees."

This kind of thinking, while it might be repudiated by more politically minded proponents of the guaranteed income, is a logical extension of every one of the income maintenance plans under consideration. And the Committee should keep in mind the fact that it will be the low and lower-middle income taxpayers who will suffer most from the adoption of this massive socialism as the public policy of the United States.

Our second objection centers around the question of cost. This Congress need not be reminded that the United States is currently running the largest deficit in peacetime history. The institution of a guaranteed annual income scheme bound to lead to an inflationary spiral, as the minimum income pushes the entire wage structure upward. Workers will demand more to work and, poverty being relative, the break-off point for government income supplements will correspondingly rise. There will be no stopping this spiral until it bursts our entire economic structure.

No exact statement of the cost of the proposed income maintenance programs can be drawn up, but some of the estimates are highly revealing. For example, James Tobin, a former member of the Council of Economic Advisers, has proposed a version of the negative income tax scheme, under which the "break-even" point at which all federal supplements would stop could go as high as \$7,500. He estimates the cost of this plan at \$14 billion per year. And, significantly, this would not eliminate the need for existing public welfare expenditures. Tobin has stated that an "adequate program" of income maintenance, sufficient to eliminate most present public assistance expenditures, would cost as much as \$25 billion per year. These figures, it should be emphasized, come from an economist who supports the guaranteed annual income, and not from an opponent seeking to defeat the scheme by overestimating its costs to the taxpayers.

Thirdly, we feel that it is apparent that the establishment of any one of these income maintenance plans will do violence to the principle that individual initiative should be encouraged. We believe that, in the limited cases where welfare is justified, the idea should be to help the recipient back onto his feet, encouraging him to become a productive, taxpaying member of society.

A "pay without work" plan would have a diametrically opposite effect. It would encourage its recipients to remain on welfare—and, make no mistake about it, the income maintenance plans under consideration today are nothing more than welfare programs with impressive sounding names. The recipients of a guaranteed cash payment or of a negative income tax would thus lose any incentive they may have had to improve their positions in life. The poor, supposedly the beneficiaries of this socialist breakthrough, are thus seen as being as much victimized by the socialist theorists as are the taxpayers themselves.

We recognize that the force of this argument applies with slightly less force to the negative income tax variation, which would give its recipients only a percentage of the difference between their earnings and what is set up as an "acceptable" break-even figure. Under Milton Friedman's scheme, a family would lose only \$1 of its government benefits for every \$2 it earned. However, it is clear from our experience with conventional relief programs that this will not be adequate to prevent recipients from refusing to work at all. Experience has shown that many, if not most, welfare families will settle for \$3000, for example, even if allowed to keep half of an additional \$1000 earned by working.

Finally, we totally reject the argument advanced by some advocates of an income maintenance plan that the adoption of such a plan would eliminate the need for additional welfare expenditures. Such a contention is based on the false assumption that poor people are poor simply because they have too little money, and that poverty could therefore be eliminated by giving them as much money as is felt necessary.

In fact, there are basically two distinct classes of poor people, the problems of neither of which will be solved by a guaranteed income. First, there are those poor people who are in need of public assistance through no fault of their own. These, the untrained, the blind and the mentally ill, for example, have need of specialized programs, which can best be provided on the state and local level. Any income maintenance program would be meaningless in solving their problems.

Then there are those poor people whose poverty is directly related to their own unwillingness to work and take advantage of the opportunities open to them

under the American free enterprise system. These loafers will, judging by local welfare experience, happily accept their government payments under an income maintenance program, and spend them on unnecessary items such as liquor and automobiles. When the "guaranteed income" is gone, they will be back for more conventional welfare assistance.

At this point, Professor Friedman might be prepared to tell them that they are out of luck. But as a fact of political life, we know that the additional assistance will be provided. The taxpayers will therefore be burdened with not only the huge cost of the new income maintenance program, but with most of the existing expenses of maintaining costly welfare programs.

For these reasons, we believe that the socialistic idea of guaranteed annual income should be squelched before it reaches the point where legislation on the subject is given serious Congressional consideration. The American taxpayer is tired of seeing his earnings confiscated and given to people who refuse to work, and he will not tolerate the expansion of this principle to the extent contemplated by the income maintenance schemes under consideration here.

Thank you.

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

I would like to thank all of you. I think your statements have been excellent.

Dr. Burns, in Canada, I understand that there is approximately as much illegitimacy as there is in the United States, but that in addition to this, there are many women living alone with their children, where the father or husband has left the family. Do you think that this is because of the child allowances, or do you think that this is endemic to our whole social system today? Do you think there is something else that explains this?

Mrs. BURNS. I am not quite sure I get the full purport of your question. I would not be able to answer yes or no on the question of whether there is as much illegitimacy in Canada.

Representative GRIFFITHS. I live next to the border of Canada. Some of our very enterprising reporters have gone over and done a long series of articles on illegitimacy in Canada. They discovered that Detroit alone did not have the problem, and that ADC did not raise any more problems of illegitimacy than child allowances in Canada, of women living alone with children.

Mrs. BURNS. There is a suggestion that the fact that women living alone with children—is your suggestion that this is being fostered by the child allowances?

Representative GRIFFITHS. I want to know. Do you think this is what is causing it, or do you think something else is happening in the social structure?

Mrs. BURNS. I think something else is happening in the social structure.

Representative GRIFFITHS. What, for instance?

Mrs. BURNS. I think there are two things, slightly different. One is that it is true that the figures for out-of-wedlock birth, for example, are going up in the population as a whole. The second thing I would suggest is that we have really never before known how many broken families there are. We are all very much concerned, I am sure you are as well, about this tremendous rise in the aid to families with dependent children program, which is indeed a shocking social fact. But I think part of that is that we do not realize, we did not realize until in 1935, the Social Security Act formally committed the Nation to accept responsibility for families with these particular characteristics. Until then, we never knew how many there were. One of the

troubles is that now we have defined the kind of families for whom we accept responsibility and we begin to discover to our horror that the broken family is indeed a major cause of poverty which we have hitherto rather neglected.

The children's allowance is indeed one way of helping to meet this problem. It does not entirely resolve it, because after all, the children's allowance does not give a payment to the mother; it gives a payment to the child, in respect of the children.

So I think this disturbing state of affairs—we will put it this way—the apparent growth of this type of family is something that goes way beyond whether or not you have children's allowances or whether or not you have aid to families with dependent children, except for the fact that once you have these programs, for the first time, society realizes how many cases of this kind there are.

Representative GRIFFITHS. I would like to ask both you and Mr. Dumpson to respond to the question. In one of the columns this morning, there were suggestions that the best way to handle this problem of welfare would be to send the money back to the States and let them handle the projects. Would you agree that this is the way to do it or not?

Mr. DUMPSON. Certainly, Madam Chairman, I would not. I would be violently opposed to that. I think, as Congressman Ryan has pointed out, dependency in this country is a national problem. The States are not equipped to think in terms of national problems. Rather, they think in terms, understanding, of needs, conditions, and priorities for the State. One need only look at the great variance in public assistance benefits in the States that are not attributed to variations in cost of living. I could identify for you certain rather disturbing incidents that have happened in individual States based on State policies that do not recognize the mobility of the American population, which is a requirement of our economy, or national goals and priorities insofar as human need and human resources are concerned. If we think in terms of national interests and the rights that accrue from national citizenship we had better not leave to the States the definition of welfare standards or the monitoring of those standards.

Representative GRIFFITHS. As a matter of fact, we are holding these hearings because, for all practical purposes, the States have broken down. They are the administrators of welfare, and they have done a very poor job.

Mr. DUMPSON. I could not agree with you more, Madam Chairman. That is why I am interested, as far as children are concerned, in looking at a national program that centers responsibility at the Federal Government level and that looks at children as children of the American society rather than children of the individual 50 States.

Representative GRIFFITHS. We have had one complaint that the poor are never told what they are entitled to, and since you ran the welfare department in New York City, why do you not tell them. I think they are entitled to know.

Mr. DUMPSON. I think they are entitled to know, Madam Chairman, and I think if there is anything that the Welfare Rights Groups have contributed to the administration of public welfare, I think they have taught us as public welfare administrators, that we have not done our job properly, that we have not informed them of their

entitlements under the law; unfortunately, they have had to force administrators to meet that responsibility.

We did not do it for a variety of reasons. One reason is that many administrators and their staffs have felt that the poor, those who were recipients of service really did not have anything to contribute to the administration of welfare; that they knew what was best for them; and that we would give them what we thought the law said they should have. We have since been forced to change that mentality, happily, and entitlements, I think, are going to be published in the 50 States, or certainly will be if the welfare recipients have anything to do with it.

Representative GRIFFITHS. Frankly, I think if Congress has anything to do with it it will; I do not think that these people should not know what they are entitled to.

Do you think that if there were an income maintenance program, there would be any percentage of the recipients who would require no other services?

Mr. DUMPSON. Madam Chairman, my conviction is that a large number of people who are dependent on public funds for support, given adequate income maintenance, will be as self-directing as those of us who are not dependent. There will still be a number of people, however, who will need services. I think that number of people is not confined to the financially independent group. I think there are a lot of us who are financially more affluent than the financially dependent, who will need social services at one time or another in our experience. So by separating income maintenance of whatever form from social services or social support, we may even reduce the number of people whom we now think need social services of a variety of types. We will identify them, whether they are in the dependent or non-dependent groups. We will also, therefore, provide self-directing opportunities to those who are now financially dependent through an income maintenance scheme.

Representative GRIFFITHS. I am hunting for a way to save money, and you are the first person to suggest that there might be a chance to save some.

Mr. Ryan makes the point that a national system of income maintenance would stop the move to the cities. Do you agree, Mrs. Burns?

Mrs. BURNS. Well, I think it would help, but it is not that I believe so much that people move in order to get higher welfare benefits; we have very little hard evidence one way or the other about that fact. The general impression seems to be that this is not why people move. They have moved in order to get better opportunities somewhere, more jobs. Then they get to the cities or to the metropolitan communities and they find that in a number of cases, the jobs are not there; then they have to seek welfare.

However, I think an adequate universal guarantee would mean that more people would be able to stay in their own communities. They would not be, so to speak, compelled to move out for whatever reason, whether for jobs, or, as some people believe, allegedly for higher relief payments. But I do not think the second is the real reason why people come.

If people were assured of a minimum guarantee in their own communities, they might be more inclined to stay there, and, therefore,

not intensify this terrible problem we are having in the cities at the present time of being the place to which people come, because the idea is somehow or other that this is the place where more jobs are available.

Representative GARRIUS. I would think that if this would be one reason for voting for a national income maintenance program, a very good reason. But since I have had experience with this, I have learned that the moment you say that it would stop the immigration to cities, I feel sure that it will actually lose votes for the whole program.

Mrs. BURNS. I would not say it stops it, you see. I say it may hold it down to more manageable proportions.

Representative GRIFFITHS. Because the real truth is that a lot of communities are now solving their problems by making it impossible for people to live in their areas so that they go into the cities and get more money. This unhappily is not looked upon by this Congress as a national problem. So I think we are back about where we were 125 years ago, and we are building up to the same sort of explosion.

Mrs. BURNS. Do you not think, Madam Chairman, it is also partly a question of one's belief about incentives? Some programs will reduce—I stress the word reduce—the flow to the city, not cut it off entirely. I think this is tied up with a question of incentive. I would very much disagree with Mr. Hicks, or at least I would not share his fears so much. I think I have more faith in the American society and its social system than he has. I am inclined to feel that at any level we are talking about in regard to a minimum guarantee, it is low enough to leave a very sizable margin, thanks to our level of productivity, between what you can get on a guarantee and what you can get from participating in production. In other words, we can realistically say to people, if you can participate in production, you can indeed enjoy a higher standard of living.

Second, Mr. Hicks, I have the greatest faith in the American advertising industry, which from this point of view is our major safeguard. It exists to keep people absolutely dissatisfied with what they have and always wanting more. I think we have not reformulated our concerns about incentive and our thinking of it in regard to contemporary American society. I suspect there will be, indeed, a relatively small number of people who will be happy to live on \$2,000 or \$3,000. I am quite sure that number is going to be very small because of these features that I refer to about our economy.

Now, if this is so, then to the extent that the cities can indeed get over the idea that these are places where, if you go there, you can get jobs better yourself, some people are indeed going to move.

Representative GRIFFITHS. My time is up.

Mr. Rumsfeld?

Representative RUMSFELD. Mr. Ryan, I would be curious to know if you have discussed or if you would discuss for us, the problem of the differences in cost of living in various parts of the country. You know well the difficulties we have in the postal system today. The Federal Government pays postal workers the same across the country. They are standing in line for these jobs in areas with a low cost of living, and in areas of high cost of living, the turnover is tremendous and there is a great waste in training. So it is a real problem. Does your program account for that?

Representative RYAN. I think that in refining this proposal, it might be appropriate to consider some kind of geographic differential. However, it should not be such as to encourage migration. When we are talking about a minimum income, \$2,000 does not go very far in any part of the country. It is just a minimum amount wherever one lives.

Furthermore, it seems to me that, if this program were administered as a national program, it would improve the economy of all regions of the country.

I also said in my statement that when I reintroduce the bill, I might include some kind of escalator clause adjusting the level of benefits to the cost of living.

Representative RUMSFELD. Do you recommend that a cost-of-living escalator be with respect to national standards?

Representative RYAN. In respect to the income maintenance benefits.

Representative RUMSFELD. Now, you also state, as I recall, that you feel national standards should govern public assistance eligibility.

Representative RYAN. Yes; I am talking in terms of the national assumption of the welfare obligation of this country. But I am also suggesting that we should move from the conventional welfare system, whether administered by the Federal Government or the States, to a program of income maintenance. On the criterion of need, benefits would be made available according to a formula, and I have suggested one formula which I have projected at a cost of \$4.1 billion net.

Representative RUMSFELD. That is based on what level of unemployment? What is your standard base? How do you figure that?

Representative RYAN. We figured that out calculating the number of people who would be beneficiaries times the benefits. It is a complicated formula.

Representative RUMSFELD. Is that not going to change, for example, just with the recent tax increase?

Representative RYAN. I do not think it is going to change with the tax increase. It is going to fluctuate in terms of the economy.

Representative RUMSFELD. That is what I am talking about.

Representative RYAN. Whether or not we really try to promote a full employment economy—the more we do to create jobs, the less we are going to pay out under this system.

Representative RUMSFELD. But the trouble with that is that the tax increase, coupled with budget cuts, is going to create greater unemployment.

Representative RYAN. That is a matter of dispute among economists. I happen to agree with you. It is one of the points I raised in connection with the debate on the surcharge package. There will be fluctuations; nevertheless, if we are really going to face up to the question of eliminating poverty in this country, not only should we think in terms of an income maintenance system, but we will have to think in terms of a full employment economy, which is going to create jobs. We must answer the question: How are you going to create jobs for people willing and able to work and how are you going to train them?

Representative RUMSFELD. I would like to congratulate you, Mr. Dumpson, on your candor with respect to how we could improve our Government programs. It was a very refreshing statement.

Mr. DUMPSON. Thank you.

Representative RUMSFELD. Mr. Hicks, Mr. Ryan has come up with a price tag. I notice one of your objections is cost. What if his proposal, instead of ending up with a net additional cost of \$4.1 billion, was an absolute washout with present welfare costs, so that there would not be any increase in cost? Would that make it more acceptable from your standpoint?

Mr. HICKS. From the viewpoint of the objection that we feel exists in terms of cost; yes, sir. If the hypothetical situation worked out as suggested. However, we cannot see how this can logically happen. Let us face it, poverty is a matter of relativity. The advertising industry, much lauded here previously, has in fact created a lot of poverty in this country from the viewpoint that people do feel themselves worse off when, in fact, they are relatively better off than poor people have even been in any society in any civilization that has ever existed. I think that any person who works in welfare can tell you that the possession of a television and plenty of transistor radios and a princess telephone and an automobile are considered basic needs by the average poor person in America today, items which would not have been considered a basic need of poor people in the 1930's.

Representative RUMSFELD. Let me ask you this: You draw a distinction between those who have legitimate needs—you mention the blind and the mentally ill, for example—and loafers, anyone who is able to work and is not working. What if you included along with the blind, the physically disabled, the mentally ill, and the mentally retarded, the other category that some of the experts have dealt with; namely, the person who just socially cannot adapt, the person who is a misfit no matter what his economic status, people who need help and are going to get it one way or another, and it is clear that we are not going to have full employment in this country; we know that. When we have a tax increase, alter Federal spending, when there are changes in the economy because of inflationary factors, we are directly affecting and using the very bottom of the economic spectrum to adjust our economic situation. We know that.

I do not think you would feel, and I certainly do not feel myself, that there is any particular reason why that group of people should in fact be used to moderate the cycles in our system without any compensation.

Now, would you feel that is a valid group to add to the other groups—the blind, etc.—you included?

Mr. HICKS. I think there are more acceptable solutions, sir. For one thing, you overlooked one Government program that has had more impact on making this type of person unemployable than the tax increase or any of the other Government programs that have ever been put into practice. This is the minimum wage. Why are so many people unemployable? Because there are so many jobs, so many tasks to be done in our society that cannot be done at a wage that fits within our minimum wage laws.

Representative Rumsfeld. I quite agree. We have discussed in other hearings the fact that there is no question but that if you unrealistically lift the minimum wage, you are going to drive people out of jobs which, under the new minimum wage, are not economically feasible. There is no question of that.

Mr. HICKS. In the House barbershop, for example, I went the other day and asked about getting a shoeshine and was told that they had not had a shoeshine man there for a period of 3 weeks; since the riots, in fact. There was nothing wrong with shining shoes. I cannot get my shoes shined except in one place on Capitol Hill—one barbershop. All the other barbershops do not have any shoeshine men. Why? Because there is no reason for a person to shine shoes for a living. I have shined shoes myself in the past. I do not see what is wrong with it, if it is the only thing you can do and it is a service which people need. But somehow, our governmental schemes for solving these problems always end up costing the taxpayers more and producing nothing.

Representative REAVER. Mr. DUMPSON, in your statement, you say that something has to be done to break the cycle of dependency and poverty. I think most can agree that that is important. I think we can also agree that the present system is not working very well. Then you say we cannot achieve this aim with demeaning and inadequate financial grants. You say that we will never achieve it if the manner of giving, and the nature of what is given, separates one group of children from another. You also say we will never achieve this aim if the help which is given is seen as a matter of charity. That is a statement which keeps popping up in these hearings. Could you expend on it a bit? You are pretty positive about it, obviously. You use the word "never." I would like to be convinced. I would like to hear what you have to demonstrate that that is an accurate statement.

Mr. DUMPSON. You see, as Commissioner of Welfare, with a staff a large number of whom perceived their function as dispensing charity, I was aware that staff frequently made decisions to give or withhold on the basis of individual personal judgments. Charity became a personal experience; it denied the concept of right; it was demeaning to the recipient. Let me give you an illustration of what I mean.

In New York City, we had no limit on rents, no limit as to what a family would pay for rent. It was a rent allowance as required by the market. We had a number of families who were evicted because of nonpayment of rent, because the rent allowance was inadequate in the grant. When I would go to the staff and remind them that we had no policy that required imposition of a ceiling as long as it was determined to be reasonable by a trained housing consultant the staff member would say to me, Commissioner, I only pay \$85 a month rent and I refuse to authorize a request for \$120 or \$150 a month rent to a "relief family."

That is the personal judgment, the intrusion of an individual's personal value, that comes as part of the "charity concept" of giving to people. If it is a matter of right with an objective criterion, in which personal judgment, personal prejudices, if you will, about what the poor should or should not receive at a given moment, are removed, as in a guaranteed income program, and as in children's allowance scheme where no one can say, "this kind of child, born out of wedlock is somebody that I object to"; or "my personal values are against illegitimacy and I will withhold"—"I do not care what the law says or what the policy says"—it is the personal criterion that I believe is implicit in

the concept of charity that I would like to eliminate. If by charity one means social justice or love of neighbor then this is another concept of charity, and certainly I would support that one. But, I am rejecting personal judgment as *the* criterion for giving or withholding of financial assistance to those in need.

I am talking about charity where we are back in the 18th century with what we in social work refer to as the "Lady Bountiful attitude" who goes and gives what she wishes to give in terms of her value system, in terms of her priorities as to eligibility, as to the kinds of people, the norms of behavior that she approves. It is this that I refer to, and we will never achieve the elimination of poverty in my judgment, and none of income maintenance programs will ever be successful or effective as long as that personal judgment element is part of the giving.

Representative GRIFFITHS. Senator Proxmire?

Senator PROXMIRE. Mrs. Burns wanted to comment, I believe.

Mrs. BURNS. I just wanted to suggest that Dean Dumpson is probably saying that the real problem is that this kind of charitable attitude reflects itself upon the recipient, that these people begin inevitably to feel themselves as less worthy, less deserving, rather as outcasts. I think one of our big problems with the continuing relief population, and more particularly with the aid to families with dependent children, is this feeling of the women themselves that they are somehow outcasts, that in the end, it saps all their initiative and all their feelings of self-respect, because they feel they are so thoroughly disapproved of.

I think both Mr. Dumpson and I would feel that one of the really important things is to deal with this feeling of hopelessness, of inability, of unworthiness on the part of the people that we support at the moment through the public assistance system. That is what is wrong with the charitable approach.

Representative GRIFFITHS. Thank you.

Senator Proxmire?

Senator PROXMIRE. Mr. Ryan, I want to join our chairman in commending you on an excellent statement. This is the most persuasive program we have heard in our hearings. I think it is so good because it is so practical. Your emphasis on the cost of the program, spelling out in detail what you think the cost is and giving us a chance to consider whether that is accurate or not, your very emphatic concern with providing work incentives and improving the incentives over the present situation. Many of us agree that there is now a very strong negative incentive against working. Then your recognition that this would not solve all of the problems. Income maintenance is a part of it, a beginning part of it, an important part of it, but only part of it.

I would like to ask you first, in connection with this, why do you argue that, as a second reason for the program, the income-supplement function would be divorced from social services? Is there not a danger that if you divorce the income-supplement service from social services, that you do lose a very positive and useful function in our society, and that you do not have a way of getting the social services to operate effectively where they should?

Representative RYAN. I do not think they have really operated effectively under our present welfare system.

Senator PROXMIRE. I do not think they have, either, but I wonder if you want to divorce them?

Representative RYAN. I think Commissioner Dumpson's statement sort of hit at that. I would say the income maintenance benefits ought to be provided on a criterion of need as a matter of right. Clearly, in our society, we can go on to provide more and more social services, and we should, whether they are health services such as we are developing on a community basis, or whether they are social services that are provided through housing programs. But once a social worker becomes involved in the question of income, what allowances are going to be paid, for instance, under the present system, whether or not there are going to be allowances for clothing for school or Easter outfits, or whatever the issue may be, then that is an invasion of the personal privacy of the individual and reflects on his dignity. So I would think it is an advantage to keep them separate.

Senator PROXMIRE. But I wonder if you want a divorce or a marriage counselor. What I am saying is here perhaps you want to find some way in which you can harmonize what the social workers can do in a constructive and positive way to offer advice and help to people who may or may not want to take it.

Representative RYAN. I think you can.

Senator PROXMIRE. At least it will be available to them. If you had been elected mayor of New York when you ran in the last election—

Representative RYAN. Perhaps I am fortunate.

Senator PROXMIRE. Perhaps so. You are a good Democrat and they elected a good Republican, so it is unfortunate. But supposing at that time, or shortly after you had been elected, we had enacted something of this sort on a more substantial basis. And supposing under these circumstances, you, being faced with a problem of holding down your budget, were challenged by your city council, who would tell you, well, your social workers, how important are they now? We have an income supplement system, these people have an income; we have to keep our budget down as stringently as possible, we will just have to economize here if we are going to keep our taxes within reason. Would you not feel a vulnerable position if you are going to preserve the constructive operation by social workers?

Representative RYAN. I do not really think so. I think in the first place, under this program, the city of New York would save half a billion dollars which would be available for other needed services.

Secondly, I would advocate a real extension of neighborhood social services in terms of health services, mental health clinics, and services and counseling available through our public housing, urban renewal, and neighborhood conservation programs.

Senator PROXMIRE. I am sure you would advocate that. I just wonder how powerful that would be, how strong it would be to continue that program.

Representative RYAN. I have no doubt that this could be put into effect and continued. One of the problems with the current welfare program is that so much of the time of the trained social worker is not really spent at all in counseling or in helping the families, but is spent in the redtape of administering the program.

Commissioner Dumpson can go into that from a great deal more experience than I can. But my experience with so many social workers in

the department of welfare is that they spend an inordinate amount of time on paperwork and never put in sufficient time and talent, which they have, in counseling the families, working with them. So I think it is an advantage to take that area out of the concern of the social worker.

The social worker can and should help in terms of counseling people in consumer economics. These programs are being financed under OEO and should be expanded in order to help people get the maximum value for the dollar which they obtain through the income maintenance system.

Senator PROXMIRE. Let me ask you another part of the proposal you have. You would cover all the poor, including, as you say, the working poor. Presumably, this would cover the dairy farmers in Wisconsin, whose income is now 50 cents an hour. It would cover a lot of small businessmen whose incomes are very, very low. But this would be a nightmare to administer, it seems to me, because there are many, many arguments that if you could devote sufficient auditing talent, some of the farmers would be paying higher income taxes than they pay. You would have to devote a lot of auditing talent, presumably, to literally millions of farmers and millions of small businessmen all over the Nation if you are going to provide an income supplement to many of them who show on their income taxes an income far below \$2,000 a year. Can you work this out practically?

Representative RYAN. I think you can. I think this is just a matter of administration.

Senator PROXMIRE. It is a matter of administration, but—

Representative RYAN. We have a very complicated internal revenue system in this country. Through a spot check system, I think this can be accomplished without getting into the details of the dairy industry, with which I do not profess any particular familiarity.

Senator PROXMIRE. It is rather easy for a person who is not self-employed, who does not have a farm or small business or something of that kind. Certainly with the wage system we have and the requirement for reporting for big business and big employers, that would not be so difficult. But it seems to me that you might have quite a tough problem for many, many persons who are self-employed.

Representative RYAN. Is it really any different from the problem the Internal Revenue Service faces in checking and auditing returns in any event?

Senator PROXMIRE. Yes; because it is much bigger. A very substantial majority of our farmers pay no income taxes because their incomes are so low. All of them would have to be brought under it. A very large number—I do not know if it is half or not, but I would not be surprised if it were—of the small businessmen in this country, of the more than 4 million small businessmen, pay no taxes. Now, maybe some of them should. I am just wondering how big an administrative problem you have here.

Do you have a comment?

Representative RYAN. We are constantly improving the efficiency of our administrative setup. I should think with the use of a spot check system and a computerized system, we could reach this problem.

Senator PROXMIRE. Mrs. Burns, do you want to comment?

Mrs. BURNS. Yes, I would like to comment on that, because this aspect of it, Senator, of the negative income tax, has always seemed to me to be one of the real difficulties and one of the reasons why I personally would prefer, if we want to do anything about guaranteed income, to use what we call the demogrant. That is to say like a children's allowance, where you pay a certain sum of money to people under any circumstances merely because they are people. As you know, many other countries do it for children and Canada and a few other countries do it for the aged. The stated sum is paid automatically. Hence, you do not have all this trouble at the beginning of determining how much you shall pay to each individual family, because what you do at the end is you have your grand reckoning up, as one might say, between the citizen and his government. You can count the allowances you have received like any other income. Then you determine where you want to draw the line: How many people are to pay tax, how many are not, and what the rate of progression would be.

You then have, it is true, the same old problems the income tax system still has in collecting money, but I think it is a much easier job to do this once a year, rather than periodically determining how much money, how much income these people are going to have, particularly in cases where declared anticipated income differs from the realized income; particularly when it falls short of anticipated income.

Senator PROXMIRE. That is a very intelligent observation.

Congressman RYAN, is the 50-percent tax rate low enough? It seems to me it is so important in this program because of the bias of the people in this country and the bias of the people in Congress for a work program. Dr. Tobin, of Yale, suggested 33 $\frac{1}{3}$ percent. In fact, he has a carefully worked out plan which would provide for 33 $\frac{1}{3}$ -percent tax.

I know it is very difficult and increases the cost when you do reduce the tax rate, but if we can get it down below 50 percent, or perhaps graduate it so that people with the very low incomes would have more of an incentive to work and taper it off as their income became higher, so you would have more than 50 percent for those in higher incomes. Something of that kind, it seems to me, would be more acceptable to Congress, would enable you to change the name of this, which I think is very important, to a work incentive program rather than a negative income tax. I think you would have a lot better chance of selling it to the Congress and to the people as a work incentive program.

Representative RYAN. I appreciate the point you are making, Senator. I touched on that in my statement. What I tried to do with the 50-percent tax was to strike a balance. I said a lower tax, for example, the 33 percent that has been proposed would necessitate lower base benefits, or would permit persons well above the poverty line to benefit and therefore increase the cost of the program. I suggested 50 percent in an effort to arrive at what seemed to me not an unreasonable cost for a program which we are trying to sell at this time to the Congress of the United States. I think we can sell a program to the Congress which is a \$5 billion program—not this year.

Senator PROXMIRE. I think you did a good job of selling this morning.

Representative RYAN. Not this year, but it is coming.

Representative GRIFFITHS. I would like to ask a couple more questions, and then the Members of the House, I am afraid, will have to go and we will leave this to the Senate.

I would like to say that I think many people feel that this is a program, if such a program were set up, to help black people. As a matter of fact, how many white people would gain income from this as opposed to blacks?

Mrs. BURNS. They are certainly in the majority among the poor, far in the majority.

Senator PROXMIRE. You say white people are in the majority?

Mrs. BURNS. Yes.

Representative GRIFFITHS. Would it be something like 20 million whites, as opposed to 10 million blacks?

Mr. DUMPSON. Over half of the poor in the United States are non-black.

Representative GRIFFITHS. Of course, the largest number of the poor are white. Would you mind saying, what do you think is the reason that white people simply accept the situation and raise little or no objection?

Mr. DUMPSON. Madam Chairman, I really do not know, except that I suppose it is impossible for a person who is white to really know the experience of being nonwhite in America, like what it means and feels like to be considered as less entitled, less an individual.

Representative GRIFFITHS. Of course, is not one of the answers that they have accepted the theory that it must be that they are personally wrong?

Mr. DUMPSON. Yes.

Representative GRIFFITHS. Whereas black people realize that there has been discrimination against them.

Mr. DUMPSON. Yes; and I think this is what the Kerner report was getting at when it used the term, "racism," which too many people associated with the more bizarre aspects of racism that we used to think of in the 1930's. Racism to me now means a mentality that says that the black man is an inferior being and moves from that orientation in all relations with him and all perceptions about him. This is, I think, the definition of "racism" that the Kerner report advanced.

I think this is part of what you are getting at when you ask why. It is almost an unconscious, subtle kind of self-image of self as white that says other than white is inferior, second class, and then all these other things pertain therefore to that status.

Representative GRIFFITHS. But black people have not really totally bought that, whereas poor white people apparently have bought the idea that if you are poor, it must be something you yourself are responsible for.

Mr. DUMPSON. That is right, and that is why I would like to come back to something the Senator said about separation of services from income maintenance.

One of the dangers of associating, of interlocking services with income maintenance, whether it is children's allowances or whatnot, is that it carries with it the idea that if you are in need of money from a source other than your own, the reasons for your need are your own personal inadequacy. Frequently, as I know as a former commissioner

of welfare, a great many, the overwhelming majority of people who are dependent on public assistance are dependent because of factors outside of themselves. It may be discrimination in employment; it may be discriminatory union practices. It may be the absence of adequate low-income housing, it may be poor schooling, inadequate education, unavailable health services or poor health services; or the attitude that says if you are dependent you are less a person. It may be a variety of factors outside. The minute you put income maintenance and social services in the same structure, you are saying you need this money because we have to help you personally become adequate. That is one important reason for separating them.

The other is that I happen to believe in universal availability of social services. I am not dependent upon public assistance, but tomorrow morning, I may need a family counselor. I may need a child guidance clinic. I may need a variety of social services that have nothing to do with the absence or presence of income.

Then finally, we have found from bitter experience that developing and administering social and health services for a particular economic class, particularly if that class is the economically needy, means that those services are poor services; to wit, look at the municipal hospital services of New York City?

Senator PROXMIRE. Poor in the sense of inefficient?

Mr. DUMPSON. Inefficiency and standards. Once you focus a service system to an economic class, you can bet your bottom dollar that that service system is going to be inefficient, poor quality and low standards, because it is associated with a low status group.

Representative GRIFFITHS. Poor white rural and smalltown America is also discriminated against, and bears also the challenge of the weather. This may be the thing that makes some poor, or the price of crops. But second, they are dependent also upon the power structure in small towns, the fact that those in power refuse to lend money to people with good ideas that could bring industry or could create job activities in those towns. So that discrimination comes in a lot of forms in a lot of areas.

Permit me to thank all of you for being here. Mr. Ryan, I am sure, and I have to go because we need to vote, but Senator Proxmire and Senator Percy will be here. We need to cast a few votes for HEW and try to stop a few cuts.

Senator PROXMIRE (presiding). Mr. Dumpson, along the line that I was questioning Congressman Ryan, how would you feel about putting more emphasis on this as a work incentive program, calling it that, orienting it in that direction, and take advantage of the public attitude expressed last Sunday by the Gallup poll report that two-thirds of the people, people in every single category, \$10,000 and above, \$7,500 to \$10,000, the poor—everybody favored this and by a big margin—white, black, all people. Members of Congress, I think, favor this kind of thing. Why not recognize, as I think so much of the emphasis by Dr. Tobin the other day and by Congressman Ryan this morning was, that this is to a considerable extent a work incentive program, intended to get away from the deadening welfare effect that people will not take jobs because they will lose their welfare check. Can we do that?

Mr. DUMPSON. If we are doing that as a strategy for interpreting to the American people why this is necessary, I will buy it.

Senator PROXMIRE. I think that is an honest way to do it, because I think that is what this is.

Mr. DUMPSON. I do not use "strategy" there as an invidious thing. But I would like to point out two things: You said you felt that the overemphasis on the employment route as a way of eliminating poverty has not been effective. The opportunity for full employment in the real sense of those terms, I think, is a pipedream.

Second, there are large groups of people, to wit, children, millions of children, for whom a work incentive program as a basis for support is absolutely meaningless. I think the time has come for the American public to face up to its responsibility to children.

Senator PROXMIRE. There is no question in my mind, no question I am sure in the mind of most Members of Congress, that those who cannot work, whether they are children or have some handicap—

Mr. DUMPSON. They are the overwhelming majority, sir.

Senator PROXMIRE. In that case, you can make a very strong case. I do not know of any responsible group that would oppose a program of assistance for people we know cannot work. I think a children's allowance, a program for children, is irresistibly appealing. I wonder if we could use this to slow down the other approach?

Mr. DUMPSON. My own knowledge of the development of programs or categorical programs in the country has been that we have almost gone the demogrant route. We have aided populations of the Nation by aid to physical disability, or what have you. I think I am really saying, or what Dr. Burns is saying, is let us start with that top priority group in our population, namely, children. If you can achieve a universal guaranteed income—maybe I part ways with Dr. Burns here this morning—if we can achieve that tomorrow morning, let us do it. I think we cannot. But until we can, let us go the way that recognizes the rights of children to decency.

Senator PROXMIRE. Mrs. Burns, before you go, did you have something you wanted to say?

Mrs. BURNS. Unfortunately, I have to leave at 11:30. I do not think it would put an obstacle in the way of achieving a more adequate guarantee. For one thing, if you look at what is happening to our social security system, which has now been in force over 30 years, you have to agree that in 1935, it would have been quite impossible for a hearing like this to have taken place in Congress. That responsible people would have been sitting around talking about guaranteeing income to everybody or guaranteeing income to children—it was just incomprehensible and inconceivable. What has happened is that as the social security system has been in force all this time, as we have come to realize more about the magnitude, the nature or the causes of loss of income and the inadequacy of present approaches, more and more we are moving toward some kind of a guaranteed income. It is because we have seen that whereas before 1935, we felt the American enterprise system was going to be destroyed if we gave rights to benefits through the social insurance system, we have lived with it since then. We have discovered it is all right. It works. People get used to the idea and see it is all right.

I think if you had a children's allowance system which departs radically from the other programs in that you do not have to be insured to get it, you do not have to prove need to get it, you get it because you are a child—we should begin to accustom the American people to the idea that it is indeed an efficient and economical way of getting money payments into families, and that we can use the tax system to recoup as much as we want from the people whom we do not, so to say, want to help. I think this would accustom people to the idea because, as I said to you earlier, my own feeling is for the long run—if you ask me what is my longrun objective, it is not all this fussing around with negative income taxes and declarations before and throughout the year, and so on. I think the better way would be to say how much we think people should have and pay it to them regardless of income; maybe we want to begin modestly; but give people a right, a payment, and then have an end-of-year reckoning through the income tax.

As I said earlier, Canada and other countries do this for their aged. I would like to see us begin with children, because they are the neglected group.

So I do not think this would put off more adequate alternative systems of a universal guarantee in the end for everyone.

Senator PROXMIRE. You and Mr. Dumpson have made a very eloquent appeal for children's allowance, but I think what we need is some specifics on it. I understand the 62 countries that Mr. Dumpson referred to in his statement that have it, in most countries, it is grossly inadequate, pitifully inadequate.

Mrs. BURNS. Except in France.

Senator PROXMIRE. Except in France. If we had an adequate, comprehensive children's allowance, how much would that cost?

Mrs. BURNS. I had some figures here just now.

Senator PROXMIRE. You might indicate how much per child it would provide.

Mrs. BURNS. You see, Senator, there are all kinds of children's allowance systems. They differ according to the level. Supposing you said you wanted to pay \$25 a month to each child.

Senator PROXMIRE. You are experts on this. You tell us what you think would be adequate. Is \$25 per month per child adequate? It does not sound like it.

Mrs. BURNS. No, let us take the figure we were talking about, \$50 per month per child. This is a rough estimate, because you probably would want to pay less as the number of children in a family increases.

Senator PROXMIRE. That sounds like the income tax exemption, which is \$50 a month, \$600 a year.

Senator PROXMIRE. What would be an adequate amount?

Mrs. BURNS. We took for the purpose of argument, say, \$50 per month per child. That would cost, by the time you have removed the exemption, which we think you should do at the same time, and by the time you have taxed the allowance, you could reduce the cost to about \$28 billion.

Senator PROXMIRE. You say you remove the exemption. In other words, if you had an adequate income and you had children, you would get no exemption on your income tax for your children?

Mrs. BURNS. That is right. You see, all families under this system would get the children's allowance. So all families would then lose the right, according to what we would suggest, would lose the exemption and the standard deduction. The allowance would be taxable. And furthermore, some of these proposals which are included in that report which I think has been sent to you of our conference on children's allowance have provided for additional recoupment features so that the cost, if you use one of the proposals Dr. Brazer suggested, would drop to about \$12 billion.

Senator PROXMIRE. If you did what again?

Mrs. BURNS. If in addition to the two things, dropping the exemption and taxing the allowance, and you put in further refinements in the income tax which Dr. Brazer has a series of suggestions on, you could, by one of his proposals, reduce the cost to about \$12 billion.

Senator PROXMIRE. The further refinements would not mean a fundamental change in something that has nothing to do with children's exemptions, would it?

Mrs. BURNS. No.

Senator PROXMIRE. If you reformed the income tax to provide for a reduction of the oil depletion allowance, for instance.

Mrs. BURNS. No, we leave all those other horrible things to somebody else to figure out. This is just a refinement which would relate specifically to an additional tax you would have to pay, related to your children's allowance—a certain percentage, in other words, that you would be adding to your tax once your income exceeded a certain level.

Senator PROXMIRE. I notice on welfare payments for children, they vary by age in some jurisdictions. A smaller child might be somewhat less expensive than an older child. They eat less for one thing. Would you allow for that?

Mrs. BURNS. Senator, at the present time, there is a very large number of alternative proposals available. For example, you could say that you do not pay it for the first child—Britain, for example, does not pay it for the first child. You can say that you pay more for the older child than the younger child, which is what Canada does. You can say conversely that you pay less for the older child than for the younger child, because there are more children in the family. At the moment, the Citizens Committee is investigating a number of these alternative possibilities.

Mr. Brazer, for example, has a grant at the present time to explore the variety of alternatives, but in each case, what you have to remember is each alternative will change the numbers of children you will bring out of poverty. So what you have to do is a balancing up job. You have to say if we did it this way, this would happen. Another way would be to say we just reduce them all down the line with the numbers of children regardless of ages. There are all kinds of possibilities.

In each case what we are trying to do, and we shall hope to send the material to you when we get it done, is to work out how many children would you move out of poverty if you had this kind of system and what would it cost? How many children would you move out of poverty if you had another kind of system. We feel that the idea is sufficiently important at the present time so that the next stage, to get

it into effective consideration, we must be able to present people with a series of alternative plans. It is up to you, our Representatives and Senators, to decide how many children you want to bring out of poverty. You can do it with this plan or this plan, and it is going to cost this amount or this amount.

Senator PROXMIRE. Senator Percy?

Senator PERCY. Thank you very much, Senator Proxmire.

Mr. Chairman, I would like to commend our chairman, Mrs. Griffiths, for having these hearings. I am deeply distressed that I have not been able to be here more frequently. But I think we will all benefit tremendously by reading the hearings. I am particularly pleased to be here for Mr. Dumpson, Mr. Hicks, and Mrs. Burns.

I understand you have to leave, Mrs. Burns.

Mrs. BURNS. I am very sorry, sir.

Senator PERCY. I am very sorry, too. Thank you for being here.

I would like to see if I can draw out from the two of you in your differing points of view a common set of facts. In the testimony Mr. Hicks has given, he has divided the poor into two distinct categories—those who are unable to work, such as the blind, the crippled, the maimed, and the like—and those who have a disinclination to work.

Would we agree, first of all, on the number of impoverished people in this country? Mr. Dumpson, would you care to throw a hard figure out and give us the number of people that you think are, by our standards, impoverished?

Mr. DUMPSON. Somewhere, Mr. Senator, between 30 and 35 million people.

Senator PERCY. Mr. Hicks, how would that compare with your judgment on what you would consider impoverished people?

Mr. HICKS. Well, No. 1, as I said earlier, before you came, Senator Percy, poverty is a matter of relative standing.

Senator PERCY. Well, by your standards, then.

Mr. HICKS. By my standards I would like further to point out that I do not necessarily feel that all the persons who are blind or who are incapable of working for some reason or another necessarily fall into the category of impoverished people. So I really do not have any way of distinguishing the figures. I would have to accept, I suppose, that a cut-off level has been drawn from the point of view of annual income in order to arrive at Mr. Dumpson's figure. So, statistically speaking, I could not argue with that except to say that perhaps some of the persons who fall into that category—in fact, probably a great number of them—are persons who have relatively great amounts of wealth. They own property, they may have sources of income that are not taxable and, therefore, I am sure that statistically speaking we reflect many more poor in this country than actually exist.

Senator PERCY. Well, let us say, then, that there are conservatively at least 25 million impoverished people in this country. You have divided them into these two categories of those who have a disinclination to work and those who, for causes beyond their control can't work—the blind, the maimed, the crippled; and I think you have included also those who lack an education.

Mr. HICKS. Yes, sir.

Senator PERCY. How many would you say fall in each of those categories? Do you have any rough proportions in your mind?

You get the impression from some people that large numbers of people are poor because they just do not want to work, they are lazy. Now, by your standards, how would you divide up this 25 million people?

Mr. HICKS. I have no way of saying, sir, and for this reason we did not approach this whole question from a statistical point of view, simply because we did not have the kind of statistics available to us on which to do it, No. 1, and No. 2, we do not feel that that is necessarily significant.

We have, in fact, even accepted the proposed cost figures of the proponents of guaranteed annual income as being valid. We have not attempted to say that these are wrong or right or anything else. We have just accepted them for that reason.

Senator PERCY. Would you have a feeling that a very large number of people are impoverished because of their own laziness or disinclination to work, wanting to ride on the back of someone else if they can get a free ride?

Mr. HICKS. Yes, sir; I would.

Senator PERCY. Would you say it constitutes half or 25 percent of the impoverished in this country? Is it significant or is it insignificant?

Mr. HICKS. I would say of the impoverished people I know, it constitutes better than one-half.

Senator PERCY. Do you know many poor people?

Mr. HICKS. Yes, sir; I do.

Senator PERCY. Do you think they would be representative?

Mr. HICKS. I am not sure. That, I have no way of knowing.

Senator PERCY. Mr. Dumpson, you have spent your life in this field. What proportion of the poor that you have worked with—and you have worked with a vast cross section—do you feel are impoverished because they are lazy?

Mr. DUMPSON. Mr. Senator, I would hate to put a percentage to it. But I would say it would be less than 1 percent. Let me give you the warrant for even that estimate. If one takes the public-assistance population of the United States, that represents only one-third of the poor people within this 30 or 35 million that I have talked about; the figures verified by public welfare departments throughout the country indicate that roughly 94 percent of those receiving public assistance are children under the age of 18, the adults caring for those children, the blind, the crippled, and the aged.

Now, if I translate that same formula to what I know most intimately, New York City's public welfare system, that 94 percent in the categories holds. Then one asks, What about the 6 percent? Are those willing to work, the lazy and so forth?

My answer is "No" because half of that, 3 percent, are working full time and receiving supplementation to low income. That brings us to 3 percent.

Of that 3 percent, in a study that we did in my own department back in the early 1960's, we found that that 3 percent so-called employable, able bodied if you will, had more than two disabilities to employment. They were functional illiterates or had been in prison and were rejected because of a prison record or they had been involved with alcoholism or narcotic addiction, or one or more of the other social disabilities that rule them out of the potential labor market. So I come back to less than 1 percent of those who are poor who I think Mr. Hicks

might properly say are unwilling to work. And among these are a good number who lack the energy to work due to unmet nutritional needs. These are my experiences. These are the statistics I have been working with.

Senator PERCY. I think Mr. Hicks has been very fair in putting in category 1 with the blind and the mentally ill, also the untrained. A man who cannot read or write cannot even be a gas station attendant.

For those who are untrained, Mr. Dumpson, is it your feeling again that these are essentially lazy children or parents who did not want their children to get an education, or is it something in society beyond the control of the untrained today that brought about their condition of inability to adapt to a sophisticated economy and to make their way on their own? Is society to blame or is it, again, laziness, disinclination to do anything by the individual?

Mr. DUMPSON. It certainly would be, in my judgment, Senator, the social system, and particularly the inadequacies of the educational system that have (a) not provided the motivation, that have not devised the curriculum that addresses itself to the needs of the society in the 1960's and 1970's. It reflects in large parts of our country the discriminatory practices in education—that means that segregated education, of course, that means inadequate, low-quality education. For the most part, I am saying that the causation be in the socioeconomic deficits of our system, outside of the individual, and over which the individual has little or no control.

If we want to address ourselves to the so-called functional illiterates and why they are there, it means reorganizing the educational system rather than looking at the individual as a person who just does not want to avail himself of educational opportunities.

Senator PERCY. Many people who oppose social welfare use such terms as "socialism"—that is sort of a nasty word in a free economy and society. They leave the impression that much of poverty exists because of laziness and all of those characteristics which conjure up mental images in the minds of the white and black population that work and go out and do their job and earn their money and support their own family. When they conjure up such an impression, it creates a resistance factor then in society to social welfare work.

Do you feel that those people perform a disservice to society when they constantly castigate the poor in terms of the lazy and those who want a ride on someone else's back?

Mr. DUMPSON. Yes, I do. I think some do it unwittingly, lack of information, with the absence of facts. As to the term "socialism" when used as an epithet to discredit a program in our political system, I am reminded of the fact that, when the Social Security Act was enacted by Congress, there were a series of court cases, and I believe sections of that act had to go to the Supreme Court. One of the charges made against the Social Security Act of 1935 was that it was "socialistic." I doubt that even those who characterize large sections of the poor as being lazy and indolent, and so forth, would be willing to give up the social security system as we now have it.

Senator PERCY. Could I make a short statement and then ask Mr. Hicks another question?

My own experience in social welfare work is miniscule compared to yours, Mr. Dumpson. You know I have come to you through the years

for advice and counsel and help, but I came as a student, trying to learn. I have gone around the country to other such people as yourself who have spent their lives in social work. I have been essentially an employer, 25 years in one company. We had 13,000 employees, and I employed great numbers of people from the west and the southside of Chicago. Thousands of people have come up from Alabama, Mississippi, Georgia, who could not read or write, many of them with no training and no skills, into a highly sophisticated business. So I have had some experience.

My own impression is very much as yours: a very, very small number of people do not want to work. They do not want to work for many reasons. Maybe they are ill, maybe they have been malnourished as children. I am sure Mr. Hicks, if he has the flu, has a disinclination to want to go to work. Some of these people, I think, have the flu throughout their lives. They just do not seem to have the getup and go. It is not necessarily laziness. It is that they have been raised on beans and they have not had milk and they do not have resistance to disease. They get a cold and it lasts all winter.

We have tried as an industry to work with these people and have tried to overcome the curse of society on them that has created this condition.

I do not know if your figure of 1 in 99 is right or not, but I would say, even if it is 2 in 98 or 3 in 97, it is certainly not in the category of 50-50.

I would like to ask Mr. Hicks, who is here as our guest—and we appreciate his being here—if he wishes in any way to modify the impression that he left that maybe half of the impoverished are just lazy?

In what proportion, in your own experience, would you now put those whom we need to help and those for whom there is just not anything you can do to help because they are not going to work no matter what you do?

Mr. Hicks. Perhaps I suffer from the impressions of the average American voter, born through reading the newspapers and observations in my personal life rather than the great benefits that must accrue to someone who is in social welfare work and is able to observe these statistics from a much closer viewpoint.

No. 1. If we assume that Mr. Dumpson's figure is correct, then surely there could be no objection to including in any welfare or guaranteed income proposal an exclusion for those who are capable of working where jobs exist for them but they do not work. If they only constitute 1 percent, surely they would not harm the system by being excluded.

But I do not accept those figures, because, as I say, I suffer from the impressions that the average American voter gets from reading the newspapers and from my own personal observations. I could go on at great length with my own personal experiences with the poor people in this area, because I am an employer, have been for 10 years in this area. But I would just use one example.

We have had what purports to be a cross section of the poor come to Washington—women, children, able-bodied men of various races. I do not pretend that the problem of poverty or laziness is confined to one race. We see feature stories in the newspapers concerning the ef-

forts of one local citizen to help these people better their lot out at Resurrection City, like going out voluntarily, at no cost to the inhabitants, and digging a ditch to lay a sewer line which is necessary if they are to have showers in their community. He works all day in the hot broiling sun by himself, surrounded by able-bodied men, if we are to believe the newspaper reports, who absolutely refused to lend a hand, who in fact when he asked them why they will not help him, they say, "We came up here from Mississippi to stop digging ditches, we are not going to start digging ditches now."

Now, digging a ditch is not a glorified position like being a corporation executive, but I get the very distinct impression that the reason why so many of these poor will not dig a ditch is because they feel they are entitled to a desk and a white-collar job regardless of their equipment for it or their training for it or their ability.

Now, it does not take much training to dig a ditch. Yet these people who were in bad need of showers admittedly refused to aid this volunteer of their own race who was there trying to help them by even filling up the ditch behind him.

Now, I do not see how this is of any help in proving Mr. Dumpson's point at all. I think it in fact would tend to prove that my position, whether it is wrong or right, is the position of the American people and politically it has to be reckoned with.

Senator PERCY. First, on digging the ditch, I am happy to say that I was out one Sunday morning at Resurrection City and spent a couple of hours out there with my son-in-law who wanted to see the people from West Virginia. I was very happy to find a volunteer from Chicago digging that ditch. They were down about 5 feet at that point and he had five other associates from the camp working right there with him digging the ditch. Apparently, they must have been shamed or inspired to go back to work. So the experience that you have related is not totally true.

I have been very disappointed that the people in the campaign did not see fit to clean up Resurrection City themselves and it had to be done at public expense. I think this is a great mistake that they have made. But I am not free from mistakes in my life, either.

Did I infer from your statement that there is any modification in your figure of 99 percent or 1 percent? Do you want to change that in any way? We have agreed there are about 25 to 30 million impoverished people. Mr. Dumpson very clearly, through his research, says 99 percent are impoverished through inability to get work, from causes beyond their control. You have left the impression that it is 50-50. Do you want to change that in any way?

Mr. HICKS. I would like to change that in that I have stated that I feel many persons are included in the impoverished who do not feel themselves to be impoverished.

Senator PERCY. I thought you did concur finally that there are about 25 or 30 million.

Mr. HICKS. I just could not argue the point, sir. I do not know.

Senator PERCY. All right.

Mr. HICKS. But I am sure there is a great variation on this. So I would not want my feelings on the great number, the percentage, to be translated in terms of 15 million lazy people in this country. I would not want to stand on that.

Senator PERCY. Do I take it you would disagree with the family allowance suggestion made by Mr. Dumpson, that there be a children's allowance provided and that this would be totally in disagreement with the spirit—

Senator PROXMIRE. Would the Senator yield? In the first place, I want to compliment the Senator from Illinois and both witnesses for a most fascinating colloquy. I think the Senator from Illinois' questioning has been extremely skillful. It has been one of the best examples I have seen in the 11 years I have been in the Congress of a very fine and competent job of bringing out very pertinent information.

I interrupt the Senator only to say that I have to leave and that he is now in charge. He deserves the promotion.

Senator PERCY (presiding). This is when the Republicans seize control. We have been waiting for this. Thank you very much, Senator Proxmire.

Could I learn now whether or not you do oppose children allowances and take the position and put the Liberty Lobby on record against children allowances?

Mr. HICKS. I could not do that, sir, because we have not taken a vote which, to my knowledge, would directly reflect the feelings of our board of policy membership on this question.

Senator PERCY. Well, do I interpret your testimony as being opposed to any form of, as you call it, socialistic system of allowances? I think if I read it correctly, you said any form of negative income tax, guaranteed annual wage, or whatever it may be.

Mr. HICKS. That is right, sir; yes, sir.

Senator PERCY. Do I interpret you, Mr. Dumpson, as saying you believe in some form of income maintenance and you want it to take the form of children's allowances?

Mr. DUMPSON. Unqualifiedly; yes.

Senator PERCY. Do you or do you not oppose, then, Mr. Dumpson's proposal for minimum maintenance, sustenance, for a family based on number of children?

Mr. HICKS. I cannot, sir, because our board of policy has not, to my knowledge, cast a vote directed to this particular point.

The problem here is that we do have a form of allowance for children already in existence in the country in the form of the income tax exemption.

Senator PERCY. Right. And ADC.

Mr. HICKS. Yes; and existing welfare programs, right.

Senator PERCY. Do you support ADC?

Mr. HICKS. We have taken no vote on that, either, sir.

Senator PERCY. In principle, would you say your inclination would be to support it or oppose it? Do you think there is anything wrong in principle with ADC as a system?

Mr. HICKS. I would think that I would find much to object to in the technical ways in which it is administered and its lack of connection with offsetting controls that would do something to discourage the high rate of illegitimacy in this country as opposed to encouraging it.

Senator PERCY. As Mr. Dumpson suggests, we have an allowance for children; do you feel that this would provide further incentive for more illegitimate children?

Mr. HICKS. No, sir; not more illegitimate children.

Senator PERCY. Well, more children?

Mr. HICKS. More children; yes, sir. I do think there is a great political danger in such a program in that there are many, many people who are very concerned about population explosion in this world who might wonder if it is the proper thing to do to put a premium on childbearing. I do not know, but, as I say, our board has not expressed itself.

Senator PERCY. I might have misunderstood you, then. I thought you had said that one of your objections to ADC is that it gives an incentive to illegitimacy rather than discourages it.

Mr. HICKS. Yes, sir, ADC does. But I am saying that the child support program as proposed here this morning, as far as I can see, would not encourage illegitimacy any more than it would encourage the having of legitimate children, in other words.

Senator PERCY. Mr. Dumpson, I think you and I would agree that there are many things wrong with ADC. I think it has much area of improvement that needs to be worked on. But I wonder if you could comment from your own vast experience whether or not illegitimacy is really created as a result of our welfare system. Do women really have more babies in order to get more money? Do they really feel this incentive system that is presumed to have been established in welfare is adequate incentive to have families of 8, 9, 10, 11 children?

Mr. DUMPSON. Senator Percy, when I wanted to be very flippant in dealing with this canard as Commissioner of Welfare, I used to say it seemed to me people had forgotten some very basic lessons in biology when they equate the conception of a child with a desire for additional income under the dehumanizing conditions that the policies and administration of public assistance require in many localities. I do not believe that there is any relationship between our ADC program and the increase in out-of-wedlock births.

I would like to point out that by count four-fifths of all of the children born out of wedlock are not on the ADC program. The increase in out-of-wedlock births parallels the increase in out-of-wedlock birth for those not on ADC. But when one looks at the public assistance levels, the payment levels, just out of sheer commonsense, it seems ludicrous to me to think that a woman would be willing to conceive a child for something like \$2 or \$3 more a month and to go through the kind of intrusion into her privacy for the rest of the minority of that child just because she wanted to get \$2 or \$3 more a month by the addition of a child.

I am convinced out my own experience, to say nothing of statistics, that there is no relationship between the ADC program and the increase in out-of-wedlock births. That is not to say that I do not deplore the increase in out-of-wedlock births, whether it is on ADC or off ADC.

Mr. HICKS. May I comment on that?

Senator PERCY. Yes, sir.

Mr. HICKS. There may be a misunderstanding of what I understand to be the basic conception of ADC in this area. It is not that I would contend that a person would purposely have an illegitimate child as an income-producing mechanism. This, as you point out, is ridiculous. It is just that the having of children, to a person who has no income, should be discouraged. Now, if a person feels that a child can be sup-

ported and there is no discouraging factor there—thanks to the help of ADC—and I might say that ADC applies its effects. They are no doubt felt differently, for example, between the State of New York and the State of California. I think the State of California has a much more ambitious ADC program than any other States, so naturally there would be different effects. But this element of lack of discouragement from having a continuous series of illegitimate children, thanks to, in part, the fact that the person knows that these children will be supported in large part at State expense, not only prevents the use of birth control by such people, but it also, I think, in some part discourages attempts to remarry. These are the arguments, rather than that people actually produce babies as an income mechanism.

Senator PERCY. I am glad to have that clarified.

I have just two additional areas that I would like to explore for a moment. In your own testimony, Mr. Hicks, you mentioned that the first category, the class of poor people—the untrained, the blind, the mentally ill, for example—have need for specialized programs which can better be provided at State and local level. I certainly support the principle of doing as many things as we possibly can at those levels. I am worried, though, about the ability of poorer States, ability of some States and localities that have a very high proportion of poor, and I am worried about the heavy load some of those areas might have when it is a national problem, because people move. If they do not get an education in some Southern State and they cannot get a job there, their inclination is somehow to come North and they end up on the welfare rolls, not prepared for society there.

Could you give us some idea, considering the millions of impoverished people, how in your judgment, the States and local governments can support sufficient specialized training and welfare programs?

Do you feel that the income-producing capability of our States and our local communities today, with the pressures that they have had for mental health, highways, law enforcement and everything else, is adequate to do a good enough job in this area? Because you have dealt the Federal Government completely out of this field, a field in which they are now deeply involved.

Where are we going to get the money at the State and local level? Let us assume in principle we all agree, let us do it locally if we can. How are they going to do it? Where will they get the money from? This is a very specific policy position you have taken which is in sharp contrast with AFL-CIO, Chamber of Commerce, NAM—anyone else who has really studied this program—that you can be very specific on, I hope, because it is in your approved statement here and must have been approved by your board.

Mr. Hicks. Right, sir.

In connection with this, of course, we do feel that far too great a percentage of the taxable income of this Nation is coming to Washington, leaving far too little available to States and localities for use in programs of this sort. It is sort of illogical to say that money can only come from Washington, because in fact we all know that the money can come only from the people of the United States and their productive enterprises that are not located in Washington. They are located in California, New York, Texas, in all the States that somehow seem

to be short of money. The answer is simply to not funnel so much of the income of these States to Washington but allow them to keep it within the State and use it in the State on the necessary social services.

But there are intermediate answers. There are such things as Federal grants with no strings attached to States in this area; that is, where the program is not spelled out in detail to which a State can apply the money. That is one.

But actually, in this objection, we hoped to cover two areas: not only the need for the State to have control of their programs in the localities, but also the danger posed by the guaranteed annual income proposals to the general operation of these types of welfare programs even on a local level administered by Federal officials. Because we are certain to find, I am sure, that if a guaranteed annual income is provided through the use of computers, refunds on income tax—in other words, if it is a depersonalized service administered from Washington or from IRS headquarters around the Nation, there are going to be many millions of poor people who have need of social services who will never be discovered simply because there is no reason for them to approach a social service in a locality to obtain money.

I would say that Mr. Dumpson—I am sure Mr. Dumpson would have to agree that most of the needy cases, persons who need medical attention, who need mental health care that are discovered by social workers are discovered because the people or some member of their family came to the agency for money. Once you remove the need for them to come to the agency for money, you have broken your contact with them and these services will never be administered in many cases.

Senator PERCY. Could I get back to my question? Let us assume that you are either the mayor of New York, Washington, D.C., or Chicago. Under the principles that you have enunciated, more should be done locally. In fact, you are not going to look to the Federal Government at all for any of the welfare services that are to be provided and that you yourself have stipulated they are to be provided. How are you going to get the money today? I am not talking of general principles or theory or start the country all over again and this is the way it ought to have been done. Today, you are the mayor of one of these large cities. How are you going to finance the programs that are required and do it locally?

Mr. HICKS. Well, you want to know how. I would say today the thing to do would be for the Congress to pass a law appropriating to the State governments a portion of all the Federal income taxes that are paid by the inhabitants of those States. That would be my answer, with no strings attached.

Senator PERCY. I think that is a good answer. There I think you have hit on something that is widely supported, certainly by the Republican Party. I have cosponsored a bill for block grants. But it is still the Federal Government granting it back to the States and communities. In other words, you are not dealing the Federal Government out. You are saying they should be a collection agency, but should refunnel the money back to the States and local agencies in order to carry these programs out. So we are not as far apart as might appear. It is just a procedural system. You are not saying the Federal Government has no role. You are saying they should not have the direction of every aspect of the program, we should have more local

control. All they should do is raise the money and refund it back to the people. The one thing we do efficiently down here is collect taxes and raise taxes. We do not spend it quite as well. We can spend it better back home, administered back home by Mr. Dumpson and others.

But I do not think if the Cook County public aid program depended on raising money in Chicago it would do anything other than degenerate. We would have anarchy practically on our hands, because the mayors face the problem the minute they start raising taxes in the city. This drives business out of the city, the affluent leave the city. You leave nothing but the poor in the cities.

So really when you get down to this thing, what you are saying is you have to have Federal collection, it has to come out of the Federal collection, but administered locally. That is a vast difference from what you have said here, that it should be done at the State and local level.

Mr. HICKS. Sir, I did not say you had to do this. You asked me specifically what could we do today. By "we" I assumed you meant the Congress of the United States. This is what we could do today.

Senator PERCY. Right.

Mr. HICKS. I do believe that the percentage of the wealth of the American people that is being sent to Washington in the form of Federal income taxes could be greatly reduced if the Federal Government did not try to solve all these problems from Washington and let this extra income then be taxed by the States and localities. Admittedly they cannot do it now. But people cannot make ends meet now. No wonder they object to increased local taxes. Why can they not make ends meet? Because the Federal Government is taxing them more and more and more. If the Federal Government would slow down its spending and its taxing, then I think we would see an entirely different situation in the States and the localities.

Senator PERCY. Of course, as you well know, a vast proportion of our Federal taxation goes for defense—past wars, present wars, the present Defense Establishment. The amount left over for the welfare programs is a percentage which is a rather modest proportion of our total budget. You would not want to leave the impression that most of this Federal revenue goes for social welfare programs?

Mr. HICKS. No, sir; I realize it is a relatively limited amount. I guess when you take social security into account, probably it is in the vicinity of \$25 billion a year that goes for some form of social welfare in the Nation.

Senator PERCY. But that is not general revenue at all. That is just an insurance fund. The Federal Government is just a collecting agency.

Mr. HICKS. It is not held separately, though. The general income of social security is expended for other purposes.

Senator PERCY. Yes.

Mr. HICKS. We are aware of that. But no, the answer is to eliminate expenditures even in defense, where they can be eliminated.

We can certainly eliminate foreign aid. The needy of other nations should by no means be so important to us that we would neglect the needs of our own needy citizens. But we are still continuing to spend money on foreign aid. We are appropriating half a billion dollars for IDA, half a billion dollars for the Inter-American Development

Bank. We are spending money like water up here in Washington that does not need to be spent, that if we did not collect those taxes the localities could do a much better job of taking care of their citizens.

Senator PERCY. My last question relates to the areas of the distinction between a guaranteed annual income and working toward some form of insuring that everyone who wants to work can find useful employment in this country. I ask it because I think Liberty Lobby is one of the best known lobbies in Washington. Do you feel strongly that we have no right, or no responsibility, to provide a guaranteed annual income—and I am not myself sure we have that responsibility? Do you feel that there is a difference, though, between trying to create a society where everyone who really wants to work, has a job, and a society with a guaranteed annual income?

Mr. HICKS. Yes, and furthermore, we think there are specific things that Congress could do in this area. We have said on many occasions before committees of the Congress, for example, that there should be a greater, a higher, level of exemption from income taxes. This would prevent persons who are capable of earning only \$4,500 or \$5,000 a year from having to pay any income tax. It is ridiculous that a person would have to pay income tax at that level of wages. Yet some do.

We have called for it in a lowering or elimination of the minimum wage laws. We feel that the minimum wage is by and large the greatest responsible factor for unemployment in the Nation, particularly in the area of untrained teenagers and persons of low mental capacity who really are not capable of holding down a job that pays \$1.40, \$1.65, who knows where the minimum wage will go next.

These are just a couple of examples. But we certainly are in favor of seeing everyone in this Nation who wants to work have a productive, satisfying task to do which contributes to others in somewhat the same proportion as he receives wages from it.

Senator PERCY. Being realistic, although I do not know much about politics, but I would just assume that it would be difficult to roll back the minimum wage laws of our State legislatures as well as our Federal Government now.

I agree with you that there is a real possibility that these laws have created a condition of unemployment. Would you then favor—and I am trying realistically to find an answer to that problem. Would you favor, for instance, having business receive a supplement, being the difference between what a man is really worth—let us say an unskilled, uneducated man, worth maybe \$1 an hour—and the minimum wage, providing that the company guarantees that it will then train and educate that person so he will be worth at the end of the training period the full minimum wage? I have a bill in to implement such a program. I have now surveyed over 8,000 small businessmen and have had 1,200 replies back from them. An overwhelming majority indicate that the minimum wage is a problem for them in their small business, but they would provide substantial additional employment if they had such a proposal, but they cannot afford to do it now, their profit margins are too narrow.

Mr. HICKS. Well, rather than make a snap judgment on how this would fit in with the policy positions taken by our board of policy, I would rather disassociate my remarks from our official position. But as an employer, it seems to me that such a proposal, provided that it did

have a time limitation on it so that it would not constitute a subsidy on a continuous basis of the employee—

Senator PERCY. Oh, yes.

Mr. HICKS. Would be attractive to many employers. I think it would be attractive to me as an employer.

Senator PERCY. Mr. Dumpson, would you want to make any closing comment before you leave? We are very, very grateful to both of you for being here.

Mr. DUMPSON. I want to add just one phrase to Mr. Hicks' and your comment about full employment, that full employment be guaranteed with full recognition of the interest and capability and potential of the individual. I am going back, Mr. Hicks, to what you had to say about the shoeshine boy.

Yes, there is dignity in all labor. But if that boy or that man has a potential for other than shining shoes, then I hope there would be an opportunity for him to move up into employment opportunities, either under private enterprise or under government, that would take into account that capability and that potential.

Mr. HICKS. I could not argue with that.

Senator PERCY. Mr. Hicks, would you care to make any closing comment?

Mr. HICKS. Only that we welcome the opportunity to appear before this committee. We do feel that it is essential that our point of view have an opportunity to be presented to Members of the Congress. We think it is essential both from the viewpoint of keeping the record straight for future generations and also from a political point of view. I think we honestly feel that we represent the point of view of the average American voter and we hope we have fairly presented that today.

Senator PERCY. The final meeting of this committee on this subject will be held tomorrow in this room at 10 o'clock. The subject, "Guaranteed Income, Case For and Against." The Honorable Tom Curtis, ranking minority member of this committee, and I might add parenthetically, a candidate for the Senate from the State of Missouri now, will appear, and Mr. Ronald Hays of the Committee on Economic Maintenance of National Catholic Charities.

I wish to thank you both very much for being here and for your valuable contribution to our proceedings. The hearings are adjourned.

(Whereupon, at 12:25 p.m., the committee recessed, to reconvene Thursday, June 27, 1968, at 10 a.m.)

INCOME MAINTENANCE PROGRAMS

THURSDAY, JUNE 27, 1968

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

The subcommittee met, pursuant to recess, at 10:05 a.m., in room S-407, the Capitol, Hon. Martha W. Griffiths (chairman of the subcommittee), presiding.

Present: Representatives Griffiths and Rumsfeld; and Senators Proxmire and Percy.

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

Representative GRIFFITHS. The subcommittee will come to order.

Gentlemen, I want to express my appreciation for your being here. Thank you very much.

Mr. Hayes, will you begin?

STATEMENT OF RONALD C. HAYES, INCOME MAINTENANCE COMMITTEE, NATIONAL CONFERENCE OF CATHOLIC CHARITIES (DIRECTOR, SOCIAL SERVICES DEPARTMENT, MICHIGAN CATHOLIC CONFERENCE, LANSING, MICH.); ACCOMPANIED BY MSGR. LAWRENCE J. CORCORAN, SECRETARY, NATIONAL COUNCIL OF CATHOLIC CHARITIES

Mr. HAYES. Madam Chairman, members of the Subcommittee on Fiscal Policy, I have with me Monsignor Lawrence Corcoran, who is Executive Secretary of the National Conference of Catholic Charities. He will be able to assist me and answer any questions you may wish to ask.

Representative GRIFFITHS. Thank you, Monsignor, for coming.

Mr. HAYES. The case I present today for a guaranteed minimum income represents the current thinking of the Income Maintenance Committee of the National Conference of Catholic Charities of which I am a member. This committee was created over a year ago to study the various proposals for guaranteed income maintenance. Our committee has attempted to examine the issues involved primarily from the vantage point of philosophy and theology and toward the goal of social justice. We have done a great deal of study and expect to finalize our recommendations for the National Conference of Catholic Charities within the next few months.

By guaranteed annual income we mean a federally assured income provided to all who are unable to work, unemployed because of lack

of employment opportunities, and who are employed but receiving an inadequate income. Such a program would establish in Federal law a guarantee that there shall be a minimum income below which no family's income shall fall. The purpose of a guaranteed minimum annual income is to assure that everyone may live in decency and dignity and with relative economic independence. It should eliminate the financial problems of poverty. There are aspects of poverty which money alone will not correct, such as the whole range of health and social services, vocational counseling, and consumer education. While a guaranteed income might remove the need for many of these services, this is not its primary purpose. We look to the guaranteed annual income for minimal financial stability and security for those unable to obtain this for themselves through gainful employment, for maintenance of income when other resources fail or are not feasible for certain individuals, and thus for protection against poverty.

Varieties of social legislation and assistance programs have been developed in this country during the past 30 years. These programs have failed to bridge the gap between the affluent American society and the 60 million individuals who are poor or exist on a near-poverty income level.

To peoples of other countries, wealth and opportunity are synonymous with the word "America." To 60 million Americans, these words are hopes and promises—as yet unfulfilled. These 60 million Americans are the poor or deprived who are an integral factor in the national poverty statistics. Despite their economic level and their cultural and environmental experiences, these individuals are creatures of God, creatures who are not enjoying the goods created by God for all men. These are the victims of social, economic and technological progress.

Formerly a poor person was regarded as having determined the quality of his life—he had chosen to be poor. His poverty was an indication of his lack of ambition and laziness. This attitude viewed man as the sole creator of his destiny. This attitude was reflected in welfare programs which "self-righteously" gave less than necessary to recipients so that they would be motivated to move out of their dependence. In depriving these recipients of an adequate subsistence, welfare programs seemed to impugn their human dignity and human freedom. On this level of operation, poverty was regarded as a purely economic issue.

The current attitude toward poverty involves not only economics, but politics, morality and, hopefully, justice. The poor are now increasingly recognized as individuals who cannot always cope with the obstacles imposed by their environment. These are the victims of prejudice, bigotry and incompetent educational programs. Though a man is willing and able to work, he is poor in spirit as a result of hopelessness and frustration.

Thirty years have passed since the enactment of social insurance programs providing old-age, survivors' and disability insurance; unemployment and workmen's compensation to persons with an employment record. Also, public assistance programs have been in operation which were designed to meet an individual's need and maintain him at a level consistent with good health and decency. And still an amazing amount of dependency continues. Amendments to adequate

social insurance programs in the course of time have either seriously limited the effectiveness of these programs or caused the beneficiaries to endure further indignities in their time of dependence. States are loathe to enact laws which modify realistically the amount of payments consistent with the rise in the cost of living. A struggle continues in some States to raise the level of public assistance to a minimum level.

The old welfare system is obsolete and in need of a change. The new understanding of poverty and of the poor has resulted in programs designed to help people help themselves out of poverty. The Economic Opportunity Act of 1964 states, "It is therefore the policy of the United States to eliminate the paradox of poverty in the midst of plenty, by opening to everyone the opportunity for education and training, the opportunity to live in decency and dignity."

For over 60 years this Nation has enjoyed a strong, healthy economic growth. Total employment has tripled and the Nation's output of goods and services—in constant dollars—rose about 9 times. The personal consumption of the typical American has increased more than 4 times. In 1966 the gross national product reached a seasonable adjusted rate of \$759.1 billion, an 8.5-percent increase over 1965. The rise in 1967 was to an estimated \$784 billion. Indications are that if this rate of productivity continues to rise, it can reach a high, in 1968, of \$842 billion—an increase of 7.5 percent. The figures reveal the growth and development of affluence in this country—an affluence that does not extend to all citizens.

To understand better the problem of poverty let us first establish a poverty level. Opinions vary about the income necessary to maintain an "adequate standard of living" for an urban family of four, but in 1965 Mollie Orshansky of the Social Security Administration Office of Research and Statistics determined the poverty threshold for this family constellation to be no less than \$3,130. This same family group would be considered near-poor or in the low-income—but not poverty—level if they had less than \$4,075 as an annual income. For farm families the poverty line is 30 percent lower. The median income of four-person families in this same year was \$7,490, nearly two and one-half times the poverty nonfarm threshold of \$3,130. The poverty criterion for a nonfarm individual was \$1,540 and the low-income criterion was \$1,865.

In March 1967, more than 60 million Americans had incomes so low that they were considered poor or near-poor by the Social Security Administration basic poverty index. Approximately 60 percent of all poverty is due, directly or indirectly, to unemployment, underemployment, part-time employment and, when employed, substandard wages.

Over two and a half million households were on the poverty roll even though the head of the household was gainfully employed at a full-time job. Included in these households were 6 million of our Nation's children. For these families the probability for staying poor is high. "Low incomes carry with them high risks of illness, limitations on mobility, and limited access to education, information, and training. Poor parents cannot give their children the opportunities for better health and education needed to improve their lot. Lack of motivation, hope, and incentive is a more subtle but no less powerful barrier than

lack of financial means. Thus the cruel legacy of poverty is passed from parents to children."

Though there has been, and continues to be, improvement, the number with incomes above the poverty index yet below the low-income level remains almost unchanged. No upward adjustment was made to take account of the higher standard of living that a rising real income makes possible for the majority. The Nation's poor are fewer in number but the difference between what they have and what the rest of America enjoys is greater. In 1964 the poor were farther way from the mainstream of American good living than those in the poverty inventory in 1959. The gap widens as our Nation's productivity increases each year. The record of progress is not encouraging for all. The nonwhite population, though now in better straits, continues to experience poverty at a rate more than three times that of their white fellow Americans. For nonwhite youngsters in large families, the prospect of a childhood free from poverty grows dimmer. This is the plight of the employed poor.

Approximately 40 percent of all poverty is suffered by those who are not, or who, because of physical or emotional disability, should not be employed. Our senior citizens comprise 25 percent of this group.

In 1967 persons 65 and over formed less than 10 percent of the total population, but comprised 16.2 percent of the Nation's poor. The current ratio of the poor older person has risen to 18.2 percent. Senior citizens remain the most poverty-stricken group in the Nation. More than half of elderly poor live alone, and the majority of them are women. In almost all situations the only constant sources of income—if any—were benefits provided by the Social Security Administration. In December 1964, the average payment to an aged beneficiary was \$79 a month—\$948 a year—\$592 a year less than the established poverty index. Overall analysis estimates that 35 percent of all social security beneficiaries in 1965 were living in poverty. An additional 38 percent would have been poor except for their benefit checks. Only about one-fourth could have lived above the poverty line in the absence of the social security benefit. Social security benefits alone are not adequate to fight the war on poverty. The proportion in poverty of this group is more than 2½ times as high as among those 18 to 64.

Over 15 percent of those in poverty cannot be brought to economic productivity. They are the chronically ill, the handicapped, disabled, and the mentally ill. Included in this figure are women who are sole parents and should not be required to work full time.

The recent Public Welfare Amendments—1967—elaborated and expanded the old program. Aid to families with dependent children (AFDC) provides assistance whether the father is absent from the home or is in the home. There is still incentive for fathers to work. Where AFDC was needed as a result of unemployment, the average time the family has needed assistance has been 9 months. When the need is due to incapacity or loss of the main wage earner, the average time a family requires assistance is 3 years. At any given time, about 1 million families with more than 3 million children receive assistance under this program. At the present time payments total approximately \$2 billion, 55 percent coming from federal funds.

The present program does not demoralize the family life of the recipients to the degree as had been under ADC. However, with an

average income of \$142 a month for a family of four, poverty still dominates the scene of their existence. Though participants in this program are granted extended social and medical services, the cry for a decent income persists.

Our Nation's rural population continues to dwell in poverty. The risk of poverty for the farm dweller is twice as great as that prevailing among the rest of the population. These rural working poor need, not only a higher minimum wage, but benefits of collective bargaining and of economic protection programs which are currently nonexistent.

The foregoing are a few examples of the plight of our 60 million individuals who exist in poverty or who, though employed, live on an economic level which deprives them of an honorable, dignified existence.

The 1967 Public Welfare Amendments can serve as a foundation for improving and expanding public welfare services. In Federal programs in which the States share responsibility, this responsibility should be on an equitable basis across the Nation. Unless basic human needs for food, clothing, shelter and health care are adequately provided for, it will be impossible to develop an effective service system.

The poverty roster today seems to record our past failure to end the scourge of poverty. We must differentiate and provide for the diverse groups among the poor.

Poverty can be reduced appreciably by improvement of existing social welfare programs for income support which are designed to meet the needs of the elderly, of mothers of young children and of others who cannot work. Job training and equal employment opportunity should be available to those who are willing and able to work. Extension of educational facilities to today's young people will not only tend to ease the current poverty gap but will be an economic and social assurance for them as the adults of the future.

We believe that all citizens are entitled to a decent level of living with adequate housing, clothing, food, education, medical care, and social service. It is important that every effort be made to insure that as many people as possible are employed; but when there is no job for them and when they cannot be trained for an available job, then the Government is obligated to both work toward helping that person to become economically independent and to provide him with the means for a decent and dignified living in the meantime. It would appear that some methodology for providing a guaranteed minimum income would be a good answer.

We are not prepared to propose a particular methodology since we are still in the process of studying various possibilities. Our inclination at this point is to favor some experimentation with several methodologies as we phase into a national program for the provision of a guaranteed minimum income.

We cannot overcome poverty until we insure that all families have a decent level of income. It will take a great deal of other programs and services, also, to insure family independence, sound use of money, and the relief of other problems related to poverty conditions, but a minimum decent income will be essential.

The present systems of income maintenance in the United States do not guarantee a minimum income at a level that would permit reasonable subsistence and decent living. I believe this is so because people

who work are not generally concerned with the unemployed, because our culture has provided many of our citizens with a kind of "self-evident" notion that those who do not work should not eat, and because most U.S. citizens are simply not aware that there are millions of people through no fault of theirs who are hungry and impoverished in the United States.

It is evident that material need is widespread in our country and that we still lack an effective, impartial, and humane system to meet the need. A guaranteed annual income has been proposed as a generic approach to overcoming this deficiency. As study and debate of the guaranteed annual income increase, certain issues and problems emerge. These must be faced openly and incisively. Many perplexing questions must be answered and many doubts settled. The following are some of the issues.

1. *An issue of major proportions is the very basic one of entitlement*

We submit that every human being has an inalienable right to a decent minimum of subsistence and that this right emanates from his nature and worth as a living person. The following quote is relevant:

Every human being is a person. By virtue of this he has rights and duties flowing directly from his very nature which are, therefore, universal, inviolable and inalienable * * * Every man has the right to life and to the means which are necessary for the proper development of life; these are primarily food, clothing, shelter, rest, medical care and finally the necessary social services. A human being also has the right to security in cases of sickness, inability to work, widowhood, old age, unemployment or in any other case in which he is deprived of the means of subsistence.

This was written by one of the giants of history, Pope John XXIII, in the encyclical "Pacem in Terris." He specifies these rights as universal and inalienable; and it doesn't seem disputable.

Accepting that premise—if many "qua man" as inalienable rights to these basics of life, we then ask upon whom falls the grave duty to make that theoretical entitlement become a fluid reality? In other words, who is obliged to deliver the goods when title claims them? His colleagues and neighbors? Yes. By their good will and benevolence? No. The "good will—condescension" attitude has too long pervaded our American scene. It has been wrapped up in the word-concept, "dole," distasteful but still rampant. Many European countries erased the dole idea years ago.

Recently a prominent American in public life said:

Welfare should not be considered as an inalienable right of the poor but something of a gift granted by people who earn their own way to those who cannot or will not work.

A statement like that sets back 30 years the poor of our Nation. Such a fallacy in positioning the origin of subsistence rights—though still somewhat popular—should be followed by a quote like this one:

"You are not making a gift of your possessions to the poor person. You are handing over to him what is his."

This was spoken by Pope Paul VI in the encyclical, "Development of Peoples." The basics of life to the needy are never a gift nor a dole but "what is his;" they belong to him; the poor person has title to them. Another statement pertinent to his question is from the Vatican Council:

The right to have a share of earthly goods for one's self and one's family belongs to everyone.

How else do you say "entitlement"? There is no other way.

Returning to our question—Who must deliver the goods to the entitled persons? Neighbor citizens formally organized in a government offer the only practicable and therefore proper resource. It is here that commutative justice—one to one—transfers individual obligations to distributive justice for delivery of entitlement by a nation for all. The individual and the common good demand this merge: in social justice.

We must now ask, how do we move the entitlement theory of distributive justice into daily practice? Obviously this must be by law. City or State laws, however, do not have the overall capabilities to accomplish this and many States would renege for a hundred excuses. In a country, the common good of the whole national family is at stake. Only Federal law can deliver a fair share of his belongings to every man.

As a matter of record, the entitlement concept—for persons qualified under the law for public welfare—is at times explicit and implicit in the Social Security Act; furthermore scattered Federal and State policy releases have tried to apply the entitlement theory. Recently the report of the National Advisory Council of Public Welfare urged that all welfare programs receiving Federal funds be administered consistent with the principle of public welfare as a right.

That's a nice principle. However, unknown, unasserted, unenacted, and unstatutized rights are de facto no rights at all on the kitchen table. The theory of distributive justice will remain an abstraction until translated into statutory right and then to doorstep application.

2. *A second major issue derives from the "work-ethnic" of the American culture*

This attitude is expressed in such phrases as "if you don't work, you don't eat," and "an idle mind is the devil's workshop." This attitude is inclined to a prejudgment of all persons who do not work as being lazy, indolent, parasitic, and therefore evil. A nonworking person is suspect of not wanting to work, and the burden of proving otherwise rests upon the person. This finds practical expression in the effort to keep public assistance grants at an amount lower than the lowest paying job.

This "work-ethnic" attitude springs from the early stages of the industrial revolution and has paralleled the development of our economically oriented culture. It identifies work with an occupation which is materially productive, and assigns to it the highest value. Thus a plantworker and an industrial executive still receive higher remuneration than employees on equivalent levels in other occupations. By way of a quasi-extension of work acceptability, other occupations are assigned a value, such as physicians, lawyers, nurses, teachers, social workers, and politicians. Some of these, such as teachers and social workers, are reluctantly encompassed in the acceptability orbit as evidenced from the fact that their salaries, in spite of their extensive educational background, are often less than the wages of industrial workers.

It has long been apparent that everyone cannot and should not work at a production-type job. This becomes more apparent as we observe the increase in the "labor-force" and the vast changes being wrought by automation-cybernetics. It can no longer be desired that all should labor in the strict sense of the term. We can anticipate that the greatest talents and potential of all citizens will contribute to a society of great creativity and human fulfillment. A broad variety of skills, talents, energies, and knowledge will be acknowledged as valuable in the new American culture, deriving in part from automation-cybernetics. We need not fear that a lack of labor will doom our productivity. This will continue. Rather the greater problem will be the development of prudent uses of leisure time.

3. *A related issue is the fear of abuse in a guaranteed annual income system.*

Many fear that this will encourage debilitating idleness, undermine ambition, and destroy initiative. It should be pointed out that a guaranteed income is not proposed as a correction for dishonesty, delinquency, and corruption. Other programs are needed to remedy these problems, although families with sufficient income to live in decency and dignity can be expected to produce less delinquency and crime. Further, there is reason to expect a guaranteed income to precipitate less dishonesty and abuse than our present welfare systems produce.

Where it is possible to build into a guaranteed income system a plan for work incentives, this may be desirable as a practical and strategic measure. Such an approach, however, may detract from the basic premise upon which a guaranteed income rests: that all families are entitled to a sufficient income to live with decency and human dignity. By their very existence they have a right to live in decency. It is generally accepted that people have a right to live. We believe that human living is not just breathing and moving. A basic weakness of our society today is that we have not established standards for decent and dignified human living. The lack of attention to those who are impoverished, hungry, and discriminated against is a problem which knowledgeable citizens with respect for human dignity must correct. It is necessary that the people know about these conditions and it is important to promote respect for human dignity.

Representative GRIFFITHS. Mr. Hayes, will you stop for just a moment? Senator Percy is going to have to leave.

Senator Percy, would you like to ask some questions?

Senator PERCY. I would hate to interrupt.

Representative GRIFFITHS. We would be pleased for you to do so. You go ahead with questions if you would like to.

Senator PERCY. I am sorry I must leave for Chicago, but I do have a few things in mind.

You were here yesterday, Mr. Hayes, during the questioning of Mr. Hicks of the Liberty Lobby and Mr. Dumpson from Fordham University. Would you care to comment from your own experience whether or not the figure of 25 to 35 million impoverished in America is approximately correct?

Mr. HAYES. I would say that is approximately correct and in general, the statistics Mr. Dumpson gave I would accept. I believe the March issue of the Social Security Bulletin brings the poverty figure

to 29.7 million in the strict definition of poverty—I believe it is \$3,335 for a nonfarm family of four. It raises the figure including the near-poor by another, it seems to me, 15.2 million. If you include the institutionalized and certain other categories of people who are actually poor in some cases, it is more.

Senator PERCY. The Liberty Lobby divided those people into two categories, first those who could not work because of the physical handicap or lack of skill and training and secondly, the lazy, the indolent, those who did not want to work. From your own experience with the National Conference of Catholic Charities, approximately what proportion of people would fall in the first category, and then the second, the simply lazy who just, as I said yesterday, want to ride on the back of the public, which is the impression given out by so many people that that is why there are poor people.

Mr. HAYES. I would have to venture a guess as you asked me to from my own experience. I certainly would not expect the category of the lazy to be any more than 3 or 4 percent.

Senator PERCY. So you would concur with Mr. Dumpson, then, that we are really talking about the impoverished of this country being in that condition because essentially of conditions being beyond their control for 97 percent of that category and the lazy or those who do not want to work are a very minuscule proportion, 2 or 3 percent.

Mr. HAYES. I would not expect that so-called lazy proportion to be any greater than in any other category.

Monsignor CORCORAN. Could I say something?

In my own opinion, we would be best advised to speak of those who for some reason or other are not inclined to work or might not want to. Lazy is a judgmental term, and so is indolent. Lots of reasons go into their not wanting to work, and I think we could try to find out what those reasons are.

Senator PERCY. I think that is a very good point. As I tried to point out yesterday, the poor tend to be susceptible to disease on a much greater scale. They are often malnourished as children; their period of having even a common cold runs much longer. Their death rate is much greater than middle-income people. Just as I do not feel like getting up and going to work when I am ill, many of those people are in that condition months on end. Yet it might appear to society as though they are just too lazy to go to work.

Another impression that has been given out is if we got into the condition of guaranteeing income for people, it might provide an incentive to have more children. Do you think there is any truth in the common comment that women have children in order to get more ADC money? Have you ever seen any evidence to support that statement so frequently made by people in political oratory?

Mr. HAYES. No; not at all.

Senator PERCY. Do you feel most people who are able to work, physically able to work, would want to work, and would prefer working to being on some welfare roll?

Mr. HAYES. My experience would suggest that that would be overwhelmingly true.

Senator PERCY. So that in your experience, if some more assured means of income maintenance were worked out, would you feel that

we would be destroying incentive, initiative, enterprise, and in effect rewarding people as much if they did not work as if they did, providing there were safeguards?

Mr. HAYES. No; I think that social science studies show to the contrary. It would not destroy incentive.

Senator PERCY. Would you feel that a first step toward field of trying to find a better way to conduct our welfare programs more consistent with a sense of dignity, might be greater assurance of employment for everyone who can work, and doing everything we can to see that the skills and education are assured and guaranteed to anyone who does not have, and try really to open up work opportunities as the first major step? Because now we do not have assured work for everyone who wants work. We know right now we have tens of thousands of youths in this community, Washington, who want to work who cannot find work.

Mr. HAYES. Yes; I believe such a plan is preferable. We indicate that later in the paper and I believe a plan such as the one you referred to yesterday is a possibility for introduction of legislation, I presume, that from your statement sometime soon, would be the type of thing that would be very effective.

Senator PERCY. I would simply like to commend our chairman for these hearings and express my deep regret that I have been unable to attend all of them. But I assure her I will read every word of them, and study them. I think we can almost go back to a Republican statement, if I can recall it correctly, that we might use as a guide here. I think it was in a position paper used in a committee which in 1959 was set up by Dwight D. Eisenhower. I happened to be the chairman of it. We had Governors, Senators, and Congressmen on it. Mr. Gabriel Hauge, economic adviser to the President then, helped develop a phrase which I think fits in very closely to what you are talking about: that we should strive in American society to place a floor under the pit of human disaster and raise the ceiling over individual expectancy. I really think that is what we are trying to do and I think this will be very much a bipartisan effort as we work to find a better way to make our welfare programs in this country more productive for the Nation and most importantly, to the individuals themselves.

Thank you.

Representative GRIFFITHS. Thank you, Senator Percy, for being here, and thank you for your contribution.

You may return to your paper, Mr. Hayes.

Mr. HAYES. Thank you.

4. *One of the most crucial issues is the relationship of guaranteed annual income to employment*

While recognizing the deficiencies of the "work-ethic" and the necessary cautions attached to a work incentive plan, practically everyone would agree that work, broadly conceived, is beneficial for many reasons. It accounts for the production of goods and services and it provides a livelihood for families. Of great importance also is the fact that it contributes to human development by providing for the perfecting of skills, for a sense of accomplishment and for a sense of personal fulfillment. These are noneconomic, but very important values.

A guaranteed income program, therefore, must be related to employment opportunities. Even more, it might well be harmonized with a guaranteed employment program. Any consideration of guaranteed income must give serious attention to this companion guarantee.

The importance of this consideration is multiplied by the expectations of the general public. People are probably far more ready to accept the idea of guaranteed employment than they are to accept a guaranteed income apart from any consideration of work.

A dual guarantee might be the ultimate solution: guaranteed employment opportunity for those able to work and guaranteed income for those who cannot or should not be employed.

5. *Another major issue which must be resolved is the question of full participation by all members of society in the decisions affecting their lives*

There are many dynamics of social change operating today and drastic change is taking place. Within this current of social unrest and change, it would seem to be more crucial than ever to involve as many people in our society as possible in the decisions and actions for change. The motivation, the drives, the incentives, and the needs are there for the full participation of all of our citizens in these societal changes. Our next failure with the poor and the dispossessed will occur when we make the decisions for them on the burning social issues of our time. An effective plan for avoiding this error of self-righteousness is a guaranteed minimum income. Economic independence is essential before the disadvantaged will be able to participate fully and equally in the decisions of the communities and society in which they live.

There is a crisis confronting the United States which stems from the demand of the powerless to control their own lives. The basic debate must not, therefore, be permitted to drift into concerns about the details of how we set up devices to provide incomes to the poor; this is primarily a technical question. The fundamental question is whether we will, or will not, concede the right of each man to participate in the decisions which determine his destiny. It would seem that a democratic society cannot escape this responsibility.

6. *Serious attention must be given to the cost of a guaranteed income system*

We are not prepared to estimate the financial outlay for the various plans which have been proposed. This will vary from plan to plan. It would be advisable to develop demonstration projects which would test the different plans and provide a basis for determining cost.

Fundamentally, the question of cost is a question of commitment and conviction. If we as a nation are committed to the elimination of poverty and opening opportunities for decent living for all citizens, and if we are convinced that a guaranteed income system is the best way to accomplish this, then we will be willing to commit our resources to finance it.

While there must be much more study and experimentation before the solutions to poverty are found, it is primarily in the methodology where the weaknesses or strengths of the program will be reflected. We propose the following criteria as guidelines in the further development of a guaranteed minimum income:

1. It should be available as a matter of right, with need as the sole criterion of eligibility.

2. It should be sufficient to insure that recipients have a decent and dignified living.

3. It should be available to all families including those who are employed but do not receive adequate incomes.

4. It should provide for adjustments for differences and changes in the cost of living.

5. It should provide for freedom of the recipients to manage their own incomes and to participate in meeting their personal and employment needs.

6. It should be developed as part of a broader economic independence program which would also assure—

(a) Work for the employable, to the extent possible;

(b) The creation of as many jobs as possible by government and private enterprise;

(c) Training with marketable skills for all who can be trained and employed;

(d) Auxiliary services such as vocational counseling, educational programs for home budget management, et cetera, to assist in the further development of economic independence and individual initiative.

7. It should not discriminate against families because of marital status or size of family.

By way of example, some application of the criteria to some of the proposed methods of guaranteed annual income might be helpful.

One of the most publicized methods is the negative income tax. This would probably fit most of the criteria. No clear indication has been given, however, on how this would fit together with a guaranteed employment plan. This might not be sufficiently intelligible to low economic groups, and might not even reach some persons. It would demand strong supportive services to bring it to many persons who do not now submit an income tax form, and to assist many others in executing a form.

Another plan is that for children's allowances patterned after the Canadian plan. In Canada, these are not intended as to eliminate poverty but to equalize wages according to the size of the family. All families, rich and poor, receive the allowances. In addition, it is a questionable practice to predicate the income of a family on children, making the child the breadwinner, so to speak.

Some have suggested enlarging the public welfare program as the basic plan for guaranteed annual income. We have already spoken of the welfare program—it does not provide sufficient income, it is not sufficiently accepted as a right, does not provide freedom for the recipients to manage their own incomes, and does not enable recipients to manage their own lives.

Perhaps the most serious obstacle to the establishment of a comprehensive income maintenance system lies in the attitude of people. This must be given extensive consideration. Much study, explanation, and discussion will be necessary for a long time to come. We hope that these hearings will be a major contribution to this study and debate. We have the same hope for the President's Commission on Income Maintenance.

We favor the ardent pursuit of an equitable guaranteed income program. We favor the abolition of the kind of power over other human beings which our present welfare system requires. We recognize that this will lead to profound changes but we believe that these changes are essential if we are to live in the world we are creating for ourselves. We need to examine our present systems, applying the above criteria, and develop a plan for eliminating the terrible scandal of poverty.

Let us not, therefore, allow the debate on the guaranteed income to bog down in technicalities. Let us try to help the society gain an understanding that new methods of distributing resources are the precondition for the new social structure which we so urgently need.

Let us reaffirm the policy of the United States, as stated in the Economic Opportunity Act of 1964, and “* * * eliminate the paradox of poverty in the midst of plenty, by opening to everyone the opportunity for education and training, the opportunity to live in decency and dignity.”

Thank you.

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

Senator PROXMIRE, would you care to inquire?

Senator PROXMIRE. Yes, thank you, Madam Chairman.

Mr. Hayes, you take a position that a guaranteed income should be provided for all Americans who are unable to work or unable to find work, I think is the way you put it. Have you made any estimate of the cost of this program?

Mr. HAYES. No; I really have not.

Senator PROXMIRE. The net cost. Obviously, if the benefit actually paid under this program were x billion, you would perhaps be able to eliminate some programs which we have now which would be unnecessary if people received this basic payment. But you have made no estimate of your own?

Mr. HAYES. I really have not. I have read a number of statements and I have to rely on the economists.

Senator PROXMIRE. Well, of the estimates you have read about, do you have any notion—any “ballpark” estimate—of what this cost might be?

Mr. HAYES. No; I do not.

Would you, Monsignor Corcoran?

Monsignor CORCORAN. No; I suppose it would depend upon the type of plan. As I recall, they vary anywhere from about a net of \$8 billion to a net of \$38 billion. Depending on which plan you would undertake.

Senator PROXMIRE. The Tobin proposal went from about \$7 billion to \$49 billion. But even the \$49 billion program was not a program that would cover everything. It would cover the kind of necessary payments to people who are poor that we would probably have to have. It would not eliminate, for example, social security, although all of us feel it should not be eliminated; it is something people paid for and they are getting.

Although the cost is \$50 billion or more, you would agree, would you not, you and Monsignor Corcoran, that if you have a program for as little as \$7 or \$8 billion, obviously, you would have to be paying people, say, \$400 a year, which is what one Tobin proposal started

at, the family of eight getting something like \$2,700, clearly not enough. You would have to have a great many additional payments to make it at all satisfactory.

Right now, we have what many people regard as almost full employment, at least very high level employment, very low level unemployment. If the Vietnam war ends, which we hope and pray it will, soon, and the 3 million jobs which are directly or indirectly dependent on the Vietnam war are gradually terminated, some of those jobs obviously will be provided by other alternative programs that we can begin at that time, but not all of them by any means. Then the program becomes even more costly, does it not?

MONSIGNOR CORCORAN. Yes.

SENATOR PROXMIRE. You see, this is the practical problem we have. I think virtually everybody agrees that we ought to do all we can to overcome poverty. It is a great investment for all of us to help people have a chance to become educated and to work and to work productively.

Let me ask, Mr. Hayes, when you say "those who are unable to find work," how stringently would you exercise that determination?

MR. HAYES. Well, I would include those who cannot find suitable work.

SENATOR PROXMIRE. Who would define suitable?

MR. HAYES. Well, I am not sure how we would determine that. But I would think there would be certain measurable skills and certain ways to measure interest.

SENATOR PROXMIRE. Would you require a man to take a job that was available. Say he was a man who had some kind of white collar job, clerical job, and there was a job available doing hard manual work at a low wage. Would you require him to take that?

MR. HAYES. I am not sure. I think I would—I think in a situation like that, I would have to rely on these auxiliary devices that I referred to in here to work with an individual, since each would have different kinds of motivations and so on, and work with him toward the goal of resolving that problem and helping him to be interested in that job if it were possible. I think if he were not interested in the job, it would not work anyway.

SENATOR PROXMIRE. Well, not interested—Mr. Theobald had the notion that if you based this on a work program, the way he put it, you would have slavery. You know, to be pragmatic about it, this work ethic, there may be something wrong with it, but it is something that a lot of Americans believe in and a lot of Members of Congress believe in. If you want to get a program that is going to go into effect in the reasonable future and get popular and congressional support and be adequately funded, it seems to me you have to be pretty emphatic on the work side and do all you can to require those who are able to work to work even though the job may not be exactly what they want.

MONSIGNOR CORCORAN. May I say something?

SENATOR PROXMIRE. Yes.

MONSIGNOR CORCORAN. This is akin to the debate which has gone on for years, as you know, in unemployment compensation. I would think on a program like this, we might start with the same approach and criteria that are used in unemployment compensation and get it

going and continue to try to refine this particular problem. It would seem to me that considering the number of years we have had this same problem with us, I do not think it could very well be resolved before we institute such a program as this. I suppose that this might in a certain sense lend some support to those who are trying to solve it.

One of the meanings, as I am sure you know better than I, is that there is a body of opinion which thinks there ought to be some Federal standard on suitability of work and so on instead of leaving it up to the States, where you have a great variety of different requirements.

But all these things are going to be debated for a long time to come. I think we might get underway with what criteria we presently have.

Mr. HAYES. I think I would also like to add that I do not think a program should be based on a premise that people must work in the sense that you used it.

In the first place, I think that the American society has to begin to prepare for the eventuality of the impossibility of everyone being able to work in that sense.

Senator PROXMIRE. We are a pretty long way from that. You see, the trouble is not perhaps with people who are more affluent and have had probably an easy time and are maybe a little bit guilty about the fact that they have had their parents pay for their education and they have had a lot of advantages. It is the fellow who has struggled hard and does not have much more of an income than the poverty level. Maybe he is earning \$4,500 or \$5,000 a year and supporting a family. He is paying taxes, maybe not much Federal income tax, but all kinds of other taxes—sales tax, property taxes, and so forth. He works, and he works hard, and he does not like his job. Many people do not. It is hard to say that most do not, but many do not. It is a repetitious job, perhaps, a tough job, maybe physically unattractive in a lot of ways. He can understand giving income to people who are blind and ill and so forth, but to give income to those who are able to work and just do not want to do a job that is unpleasant; it is very hard for the kind of person I have just described to accept it and support it. I must say I have a lot of sympathy with his viewpoint.

So why would it not be practical to be pretty strict on this kind of thing and rely on the unemployment compensation system we have now?

Mr. HAYES. I think you could.

Senator PROXMIRE. And stick with it for quite a while. In fact, it is hard for me to see why we should ever get away from that. I think work is likely to be a disutility for the lifetime of just about everybody in this room. It is great to be in the Senate or the House. Or to be a teacher or a priest. But there are many things that you do not do but you have to do in order to support your family.

Monsignor CORCORAN. I think that this is a problem in a sense. I think that so much of the discussion does focus upon this Mr. X, how many there are who are going to not want to work or not want to take this job. I would think in the long run, that this would not be the major problem. I have a little more confidence in human nature. I think most people like to be occupied in doing something.

Senator PROXMIRE. I think they like to be occupied in doing something. But we have these unpleasant jobs. We are going to have them.

Suppose we go along with the negative income tax and the guaranteed income and people's incomes are higher and they have the option. I am not sure if I had the option of an income or working in a garbage collector's job or something of that kind, I would go out and do it. I hope I would. I am not sure I would.

Monsignor CORCORAN. I had a relative who was a garbage collector and he used to speak to me very proudly of it.

Senator PROXMIRE. I think with good reason. I think that is a job in which you can take pride. I think all jobs are. But as I say, we all are human and we must recognize that.

My time is up.

Representative GRIFFITHS. Mr. Rumsfeld?

Representative RUMSFELD. Mr. Hayes, just to pursue this line, you said to Senator Proxmire we have to prepare for the eventuality that not all people will be able to work. I take it that that is an underlying basis for your position.

Mr. HAYES. It is certainly one premise on which we base our statement and I was using work in the sense that I thought he was using it, more in the sense of labor.

In other words, there will be a necessity to define work as the contribution to society, not necessarily the toil type of work that we think of. In the paper, I refer to jobs such as teachers, which are still not, you know, in some ways, escaping from the work-ethic concept.

Representative RUMSFELD. You do not call that work?

Mr. HAYES. Well, by the fact that our society reflects on their salaries comparable to industrial workers, for example, by in many ways paying industrial workers even more. I think that is part of the result of that attitude.

But I think there are a lot of work contributions that people will be able to make to society which will be productive for society and which will be economically rewarding.

Representative RUMSFELD. But you do not call them work?

Mr. HAYES. He was not calling it work, I do not think.

Representative RUMSFELD. Do you?

Mr. HAYES. I would in the definition I just gave; yes.

Monsignor CORCORAN. Could I amplify that a little bit, reflecting on the puzzled look on your face?

Representative RUMSFELD. Please do. Because it seems to me this world is so far from perfection that I have a great deal of difficulty believing that one of the premises that underlies the testimony that has been given is a valid one. I just do not believe that the technological changes and the automation that is taking place is going to lead to a situation where a great many people will not be able to participate productively in society. I think, conversely, that the changes that are taking place will create more and more jobs, more and more needs, and that well, as a world and as a country and as a people here in this part of the world, continue to find differing ways, to be sure, but every bit as many needs.

Mr. HAYES. That is what I am agreeing with. I just did not agree with using the word "work" in the sense of labor that would not include nonphysical work.

Representative RUMSFELD. I do not think anybody is going to talk about work meaning physical. If you define it that way, I suppose you

could say it is physical to move a pencil across a page, and if a poet can find a market for his poems, that is work.

Mr. HAYES. That is what I am saying, that that kind of contribution will be increased in the future rather than the increase of the type of work that we usually refer to as labor. This is why I am agreeing with you, I think, in what you are saying.

Monsignor CORCORAN. I think that this designation of the term "work" grows out of the effort we were making to try to get it away from the original industrial revolution concept of work. And even in our society today, that "work" has a certain relationship to and is given a value in terms of its productivity of material goods. This attitude gives a lesser value to work such as the service categories.

Now, poets are not really considered of very much worth in our society. What I am just trying to do is trying to explain the reason why that statement was there.

Representative RUMSFELD. Well, what percentage of the people in the country are actually involved, personally, in producing something?

Monsignor CORCORAN. It is less and less, and that is the point. But at the same time, in the general attitude of people, this is still the primary value type of work in their minds.

In other words, we would not be saying that the other type is not work in the broad sense and that is the reason why I frequently speak of work in the broad sense, referring to all types of employment including the service categories and everything. But in the very technical sense work throughout the growth of our present economy was considered a production type of work. Even in my memory, someone who was going to some other type of thing, more of a service category, was not considered too high on the scale.

Representative RUMSFELD. As you talk and elaborate, I sense that possibly, we are not as far apart as it might have seemed as to what is going to come in future years. Notwithstanding that fact, I have to question why you relate that premise to this particular program. It seems to me the program would have to stand or fall on something apart from that, because I do not see anything about this program—maybe you can elaborate on this—that will offer any better substitute for what presently exists for having the society adjust and in fact recognize and reward new things that previously had a lower level of reward or recognition. If in fact there is an increasing need or desire for poems, to take something that is not work under your definition—it would be terribly hard for me—then I would suspect that the society would adjust and if there were a demand for poems and a desire for poems, there would be more books on poems and more people would become interested in writing poems and the reward for writing poems—fame, dollars, whatever it may be—would automatically adjust. Is this not true?

If your concern is matching people with the needs in a changing society, which is what I sensed you suggested was a problem today, and indeed it is, then I am asking what is a better substitute than what we have? What we have is not perfect. But to those who would suggest that it is not perfect, I guess, falls the responsibility to suggest what is better. I get the feeling you are suggesting this is better and I do not see what the relationship is.

Now, do not ask me to repeat that. I could never do it.

Mr. HAYES. I am not sure I have your question, but, if your question is what is the relevancy of that argument being put in here as an issue, we were trying to suggest that one of the major objections to a guaranteed annual income is based on that premise and that we do not believe that is necessarily so.

In other words, if the work-ethic attitude is going to be the basis for our society arguing this case, then we believe that it ought to be brought to the attention of the public and recognized that this comes out of our culture and that it has to be modified in order to meet the needs that exist.

Representative RUMSFELD. Then would it be fair to say that you were really not quite saying what you meant when you said this was a premise underlying your program; rather you injected this into it in order to overcome an objection to the guaranteed annual income program, not that this solves it but it is a valid objection.

Mr. HAYES. I did not mean a premise that underlies our proposal, but I meant that one of the premises that underlies our proposal here means that it is not necessary for everyone to labor in a sense that a lot of people are taught, but that it will be necessary for us to recognize that there are many ways for people to contribute to society and that those new kinds of labor will be in the development. In that sense, I thought we had no disagreement.

Representative RUMSFELD. Thank you very much.

My time is up.

Representative GRIFFITHS. The point that bothers me very greatly is the assumption that everybody is owed a living. Supposing everybody chooses to collect. What do you do then? Who pays?

Mr. HAYES. Well, the paper presumes that we will be committed to a solution to the problem and that we have the resources with which to solve this problem. Those are big presumptions. Of course, we come here with some convictions out of our own value systems and we just offer them as our opinions.

Representative GRIFFITHS. In my judgment, everybody is owed a job. Society should be so set up that everybody has a chance to work. Once you fail that, then I will agree that the rest of us may owe you a living. But I just cannot buy the idea that you begin with the premise that everybody is owed a living.

Mr. HAYES. I would agree with your statement, too, but I would include that in the idea, the premise that they are owed a living. In other words, they are owed a way to make a living. It may be that they are given an opportunity to work for it. But if they cannot have employment, if no opportunity is available to them to work—I think we make that fairly clear in the paper—then I believe we do owe them a maintenance.

Representative GRIFFITHS. Then I find great difficulty with the suitability of work. I frankly cannot follow this. I think this is one of the largest problems in the whole welfare program and I cannot understand somebody who comes in before this committee and says to me, I am not going to work at that job. Well, my answer is, if you had a chance to work at that job and you did not, as far as I am concerned, you can go hungry. Why not work?

Now, one of the things that has impressed me in the whole welfare program is, for instance, women who do not want to do housework.

Yet historically, women are well equipped to do this and they have been trained to do it from babyhood practically. Yet you can see it in every single city today; you will see women who are left widows perhaps at 50, who have never done anything but maintain a home, and will choose to work in a department store on a split day at \$8 a day and pay their transportation back and forth, rather than work in the city of Detroit for \$14 a day keeping house.

Mr. HAYES. I have commented on that point a little bit earlier. I do not know if you want to add to that, Monsignor?

Monsignor CORCORAN. The only thing I can say is I, too, think that is one of the biggest problems in the whole thing. I think that expression of it that you have made certainly underscores one side of it.

I think the other side of it is the question of how far would you go in forcing people to work at a particular type of job. I certainly would not think that we would remove all types of encouragement and even some pressures to do that. But how far you would go to actually force them to take this job is a pretty hard thing to determine.

Representative GRIFFITHS. I had a man write me the other day who is now 56 years of age. He is an engineer. He has lost his job because his company was purchased by another company. He made \$30,000 a year. How far would you go in forcing him to come down on his income? Obviously, this man could probably get a \$5,000-, or \$6,000-, or \$10,000-a-year job. It seems to me if that is the only job that is available, that is suitable.

Monsignor CORCORAN. It would seem to me that if he had a job like that offered to him, he would take that in preference to a \$3,000 minimum guarantee of income.

Representative GRIFFITHS. I would assume so.

I talked with a computer specialist one evening on a plane and he told me that in his judgment, before this century was out, American society would be broken into two groups: those who work and those who do not. Now, I would like to say that one of the things on which some emphasis should be placed is that many of the jobs that should be made available now are things that only the Government can do. Here is a great area of need.

I live in the Great Lakes region. One of the things we need is a very pronounced antipollution program or this vast resource of water is going to be lost. But only the Government is going to be in a position to do this. So we have to put some emphasis on the fact that some of this money that is going to be spent to create jobs is for things that the Government needs to do and only the Government can do.

If you actually had a minimum income for everyone, do you think it would lessen the pressures on society to create other types of jobs? Would it lessen the inclination of great industries to reach into the hard core unemployed in cities and take them on, as it were?

Mr. HAYES. I would not expect it to lessen the incentives. I think there will be comparable increases in their drives to success in their business ventures and so on. The motivation is likely to be as great or perhaps greater.

Representative GRIFFITHS. I think it would be less. I think there is great danger you would create a permanent welfare class.

Monsignor CORCORAN. One of the things you mention is the almost, you might say, prior program, or certainly a companion program, of a

guaranteed employment type of system for those who are able and willing to work. This would be a joint thing with the government, both Federal, State and local, and private enterprise. I think that the fact that this is not only discussed, but certainly there are measures before the Congress now suggesting it in terms of legislation, indicates that that incentive for reaching into the ghetto, the inner city, and so forth, has to be stimulated by the Government. I think that this would still be a part of the total program of any guarantee, whether it is employment or income, and the guarantee of income would be to those who are unable to work.

Representative GRIFFITHS. I had a letter the other day from an engineer who had applied a little engineering analysis. He was all for a guaranteed income. He said part of the restlessness that occurs in American society today is because, for a large group of American society, they are overpaid; for another large group, they are underpaid. Then you have a group equally worthy who cannot get jobs at all.

Now, I really think he had something.

Monsignor CORCORAN. I could not help but say, if you will allow me a comment on that, please, a little facetiously, but I have never found anybody who thought he was overpaid.

Representative GRIFFITHS. I agree. We have had a newspaper strike in the city of Detroit now, one of the longest ones in history. Some of the people who are striking have less than high school educations and have been making as high as \$30,000 a year. So you could suggest that somebody out here, with a high school education, who does not have a job at all, might assume that he had a right to something. At least I would think that was true.

Now, Mr. Theobald suggests that the way we are going to have to pay for a guaranteed annual income is to take the gains in productivity, tax it away, and apply it at the lowest level. I live in a city where the automobile companies operate and I would assume that this means you are going to tax away part of that income, away from the autoworkers, and give the money at the lowest level. Would you assume that this would be the only way in which it can be done?

Mr. HAYES. I would not personally assume that is the only way. But it is certainly one method that we have read about and we propose here that there be some demonstration, some experimentation in various methodologies so we can discover what is the best.

Representative GRIFFITHS. If this is the way we are going to do it, we are going to have a lot of organized opposition.

Mr. HAYES. I am sure of that.

Representative GRIFFITHS. Mr. Curtis, we are pleased to have you. Would you proceed with your statement?

STATEMENT OF HON. THOMAS B. CURTIS, A U.S. REPRESENTATIVE FROM THE SECOND DISTRICT OF THE STATE OF MISSOURI

Representative CURTIS. Thank you so much.

Let me apologize to my fellow panelists for being late. I would like permission to file my printed statement and have it in the record.

Representative GRIFFITHS. Feel assured that it will appear in the record.

Representative CURTIS. I shall proceed to make points I want to emphasize.

Representative GRIFFITHS. Please do.

Representative CURTIS. I think we have to answer a very important economic question before we proceed much further on whether we have a guaranteed annual income or as I propose instead, the guaranteed opportunity to earn an annual income. A crucial question in this issue is whether automation or cybernetics or whatever term one wants use for rapid technological advancement creates more jobs than it destroys. I had the pleasure of being on a panel with Dr. Robert Theobald, who is advocating the guaranteed annual income, Dr. James Tobin of Yale, and Dr. Milton Friedman, all of whom were advancing various refinements of the negative income tax. After we had presented our papers and during the questioning by the audience, I asked this very question—does automation create more jobs than it destroys? Are there more jobs going begging today in our society than there are unemployed?

Now, I argue that the evidence is very clear if we will look at it that we have more jobs going begging than there are unemployed. There is a refinement to this question. Some will go on to say that even if there are more jobs going begging than there are unemployed, automation or cybernetics tends to render economically useless the unskilled and the semi-skilled, because the new jobs created tend to require higher skills and higher proficiencies. Automation they say, thus renders certain people economically obsolete.

Now, many of the guaranteed annual income theorists have made that bald statement, and further allege that this will be increasingly so.

Well, I think it is about time that this not be treated as a dogma, because I happen to think the evidence is to the contrary, but I do not want my conclusions treated as dogma, either. If I thought that it were true that automation was on balance destroying jobs and that there were more unemployed than there were jobs available, or that there was a segment of our people who have been rendered economically obsolete, I would say yes, you have to go to something like a guaranteed income—even the society of Queen Elizabeth's day had the poor laws. Society is going to take care of its disadvantaged, thank God, because of this great humanitarian streak in human beings to take care of people one way or another. The question is how do we do it best?

Now, proceeding from that base, I have been urging that our committee, the Joint Economic Committee, and other committees to get into this business of finding out by studying automation and cybernetics and seeing what the facts are. To my regret, we still do not have the statistical series of jobs available which was required, as I recall under the Manpower Training and Development Act of 1962. We have not kept up our Dictionary of Occupational Titles. It should be looseleaf. Automation is so rapid these days that the very nomenclature of job skills changes radically and rapidly. Skills that used to be in demand are rendered obsolete, new skills are coming in. We need to develop these statistical tools in order to be able to answer this basic question of job creation and job destruction.

I think it is clearly true that the unemployed are not capable of filling the jobs that are going begging, but the problem of capability does not rest in lack of inherited abilities, it rests in their lack of training and education.

This suggests a heavy thrust toward training and retraining. But we cannot stop at that level. We are not going to take the unemployed, the people who were cottonpickers and are displaced because the cotton picking machinery has come in, or the ditchdigger who has been displaced because the ditch digging machine has come in, or the elevator operator because the automatic elevator has come in, and put them in many of the jobs we see going begging.

One of the big areas we need to develop is social workers, health workers in our hospitals, in education, just to have enough teachers and people to train other people. The problem is much more difficult than simple training as I try to describe it. It is getting someone who has a good job to do some necessary additional training on the job or at night school to take one of these jobs requiring higher skills, thus leaving his job, which is a good one, available to someone on the lower level of job skills. This is a constant upgrading on the ladder of skills. It is by this process that you begin to shunt in these people who right now we would tend to call unskilled or semiskilled.

Now we come to another key question that must not be begged but must be answered. I think the answer is clear that automation creates more jobs than it displaces, because it increases specialization and opens up areas of employment to people whom a less specialized society could never offer employment to. Let me illustrate.

I had a deaf man come into my office about 3 months ago, I mean really deaf, the Helen Keller type where the only way he had learned to talk was lipreading and you could not understand him very well. He could not even listen on a telephone. He somehow or other had trained himself, or gotten trained, to be an accountant. Query—who would employ an accountant who could not answer the telephone or could not communicate with anybody except by writing it down?

Well, he wanted to get a civil service job. So I checked with our civil service people, and I am really pleased with what is going on there. They have a division to see what can be done about people with these kinds of handicaps. Actually, this fellow had a plus. Because there is enough specialization you could put him over in a corner and keep feeding him figures or whatever bookkeepers do and he would not be distracted by going to coffee breaks.

Well, this story had a happy ending. He has a job.

The only reason I emphasize the rehabilitation area is to point out that as these specialties come in, more and different skills are needed. Just yesterday we had before us in Ways and Means, my good colleague, Mrs. Griffiths and I, the electronics industry. They were talking about the high labor cost in certain areas of their work. It is repetitive work. A person with a low IQ actually does it better than a person with a high IQ, because the high IQ person tends to get distracted and daydreams, and so forth. Again, I do not want to beg this question, although I feel the evidence is so strong that really, automation has created opportunities and will continue to increasingly create opportunities so that people with peculiar aberrations can find jobs. The word "idiot" in Greek intrigues me always because it does not mean a person who is on the low scale alone; it is a person who could be a genius. It is someone who is exceptional. So I use the word "aberration." It is someone who has a streak of something different.

During World War II, digressing a bit, the circuses began to run out of midgets because the demand for midgets in the airframe industry where they could get inside the planes and weld in small areas was so great. But it illustrates a point.

If these things are true, we have great opportunities. Our greatest underutilized economic resource is these very people that others are talking about being rendered economically obsolete and, therefore, we have to put them on the shelf.

Dr. Howard Rusk, a world-famous rehabilitation expert, in his rehabilitation approach, says he assumes that there is no one who cannot be rehabilitated. That is a great ideal. This is not really true, but it is a great thing to think, because I think it does get us on the track where we find that many, many can be rehabilitated.

Then you have welfare, as it should be, in my judgment, to put people on their economic feet and to take care of the residual who need help. But this will be such a small portion of our society that I do not think there would be any difficulty at all.

Now, two final points, if I may. As we have moved forward in automation, we find tremendous increases of leisure time—leisure time for all of our people. Leisure time is time that you direct as you see fit. When we went to the 5-day week, this was a great thing, which incidentally created untold jobs in the recreational field. And incidentally, here is a place where we have great need for people. Mr. Reuther and others were talking about going away from the 40-hour week and I argued, why try to change that, because I think that is a pretty good work unit. I think if you work less than that, you tend to get a little rusty or you accentuate moonlighting, two-job holding. Why not talk in terms of the 11-month year, because this is the way we really are going. I would like to see it and I think it makes good economic sense. Then if we get to realize that, maybe we can start talking in terms of something that appeals to you and me; namely, the sabbatical year.

Representative GRIFFITHS. For Congressmen?

Representative CURTIS. And incidentally, in the management branches of our industries they almost have this type of program.

The other economic point is that back in 1900 or 1920—just to pick a time—a person who had learned a skill through high school or grade school—it usually was not high school—could count on that skill as a livelihood for his lifetime. Through automation, we are finding that skills are rendered obsolete so quickly that probably in a single lifetime, you have to relearn a skill two or three times. I think this trend will increase. This shows us something not to be worried about, but rather that we should direct attention to the need to get our laws restructured, particularly our tax laws. I have written about this in detail in the book I wrote, "87 Million Jobs." We must improve the mobility of labor, both geographically and within categories of skills.

My final point is that one of the greatest deterrent forces today is the labor unions. I can make speeches in their behalf, but on the other hand, they have so much power and they have been using it so irrationally, that I must point out that they have such a vested interest in the job structure as it is now, both geographically as well as what crafts and what skills and how jobs are carved out, that they fight improve-

ment in our political structure, in the tax field and all other areas. They actually lie behind why we have not developed jobs-available statistics. The AFL-CIO does not want it. They do not want the Dictionary of Occupational Titles really kept up to date, and undercover, they fight it.

So if these theories of mine are right, it is indeed guaranteed opportunities that we need to talk about, and we need to think of the unemployed today, even the hard core, as our greatest underutilized economic resource.

(The prepared statement of Representative Curtis follows:)

PREPARED STATEMENT OF HON. THOMAS B. CURTIS

THE GUARANTEED OPPORTUNITY TO EARN AN ANNUAL INCOME

The guaranteed annual income, like a guarantee of happiness, has a direct and simple appeal. The proponents imply that poverty can be wiped out in a single stroke by giving a subsidy to the poor. If poverty is a lack of income, then the solution is obvious; provide the income necessary to raise the poor family or individual above the poverty level. The beguiling simplicity of the idea is its most attractive—and dangerous feature. The writers of the United States Constitution resisted this simplicity and spoke of government providing for the pursuit of happiness, not happiness itself. So I think we must resist the present day simplicity and speak of providing for the opportunity to earn an income, not providing the income itself.

The trouble with this seemingly new theory is that the more we learn about poverty, particularly hardcore poverty, the more we realize that it is not just an economic problem. It is a problem with deep cultural, emotional, and political roots. In truth, hardcore poverty in the United States is as much a state of mind as a lack of money. Merely providing direct money payments to the poor will not solve the poverty problem. In fact, I believe that providing a guaranteed annual income would perpetuate poverty and might even make it worse.

As a matter of fact, the term "poverty" must be more clearly understood. In the United States today, it is definitely *not* subsistence-poverty which is the term developed in the western world over the past seventeen decades as a scientific word of art, which is used in the United Nations and applied with a real and practical meaning to most societies in the world today. The term *poverty* as used in the United States today can only mean comparative poverty—the disparities in income, food, clothing and shelter which are perhaps inevitable in a free society. This new concept has little relation to subsistence poverty, albeit it is descriptive of a very real and important bundle of social and economic problems. A very helpful study in this area is Rose Friedman's *Poverty: Definition and Perspective*, (Washington: American Enterprise Institute, 1965).

In my opinion, the guaranteed income would harden the poverty subcultures in our society. It would make millions of individuals wholly dependent upon some new form of welfare check and give them the feeling that they had no chance to obtain more. This is why I am opposed to the guaranteed income and why I believe it would be a cruel mistake to adopt it as public policy.

There is a better, more realistic and more enlightened way to fight comparative-poverty. It is by guaranteeing opportunity. Or as Abraham Lincoln put it, by affording every man "an unfettered start in the race of life." But before explaining how I think we can do a better job of guaranteeing opportunity, I want to discuss why I think adoption of the guaranteed annual income would be a major mistake.

A complete evaluation of the guaranteed income requires the skills and insights of an economist, sociologist, philosopher, and psychologist. For some reason, the economists seem to have made the subject their own special province. Admittedly, economists can provide a part of the answer. They can tell us something of the cost and of the alternative uses to which we might put our resources. But economists can tell us very little about the social, cultural, and psychological effects of the guaranteed income. And, in my opinion, these are critical.

I suppose that is part of the reason why I am here. Just as I feel that war is too serious to be left to the generals, so do I believe that the outcome of the guaranteed income debate is too important to be left to the economists. As a

lawyer-politician by profession and an economist by avocation, perhaps I can contribute a different and, I hope, useful point of view to the discussion.

Before examining the concept of the guaranteed income, I think it would be helpful if I stated the basic assumptions upon which I am proceeding.

First, one of the major objectives of our society should be the rapid reduction of comparative-poverty with the ultimate goal of its virtual elimination within a reasonably short time, so that standards of living are truly free choices of living, differences, not superiorities or inferiorities, and what measures less in dollars may well measure more in terms of human happiness.

Second, our economic and social system has produced unprecedented successes in eliminating subsistence-poverty and in reducing comparative-poverty over the years. In the postwar period alone, the number of persons in comparative-poverty has been reduced by an average of 700,000 a year. This is hardly a record of failure that justifies basic and far-reaching changes in our social and economic system. In fact, such changes might destroy the sources of our success and impede further progress.

Third, in spite of our successes, substantial numbers of Americans continue to live in comparative-poverty. As yet we have found no answer to the problem of the passing of poverty from generation to generation, nor have we found the proper approach to attacking the intractable islands of comparative-poverty and stagnation that exist in our otherwise prosperous and advancing society.

Fourth, as presently being developed, our welfare system is incapable of eliminating poverty and actually helps to perpetuate it. It not only falls short of providing adequate relief to those while they are in need, but it fails to provide the opportunities to make self-supporting citizens of welfare recipients.

If we can agree on these basic assumptions, then we are faced with deciding what is the best way to eliminate chronic hard-core comparative-poverty. Basically, I think we have only two choices. We can guarantee income to the impoverished, or we can guarantee them opportunity.

For my part, I choose opportunity. Guaranteeing opportunity is better for the country, and it is better for the individual. There possibly will always be some people for whom subsidization is the only way out. The chronically sick or disabled and certain mental defectives are cases in point. But for the vast majority of the poor, habilitation (largely education) and rehabilitation are attainable goals. What are the advantages of this approach over the guaranteed annual income?

Guaranteeing opportunity promotes individual dignity; guaranteeing income weakens it.

Guaranteeing opportunity recognizes that a man grows with responsibility; guaranteeing income denies his capacity for growth and self-sufficiency.

Guaranteeing opportunity is the humane approach to defeating poverty; guaranteeing income in effect says to millions of the poor: "We can't use you, we don't want you, but we won't let you starve."

Guaranteeing opportunity helps to eliminate poverty; guaranteeing income simply helps to alleviate it.

The idea of a guaranteed annual income for all citizens as a matter of right is not new. The expression itself has a daring, modern ring, but the concept was discussed by utopian thinkers as far back as Edward Bellamy in the late nineteenth century. Thirty years ago, Francis Townsend proposed a guaranteed income of \$200 a month for aged. His plan was not adopted, but it influenced the passage of social security and was a major factor in making the aged a powerful political force in American life.

What is new is that the idea for a guaranteed annual income is now receiving powerful support from eminent scholars and social thinkers as a solution to the problem of poverty in the midst of plenty. Advocates include liberals of both the modern and classical schools. Any plan having the support of such a disparate and growing body of intellectuals demands the attention of those of us who operate in the area of public policy.

How has the idea gained such momentum? You will recall that it was only a few years ago that the notion that America was an "affluent society" entered the conventional wisdom. We admitted to our affluence almost with a sense of shame or guilt, rather than with justifiable pride in the achievements of our system. The public sector, it was said, was starving, while most individuals were glutted with goods.

The picture was undoubtedly overdrawn but it left its impact. Professors, pundits, and publicists began to dramatize—and sometimes overdramatize—the

fact that a sizable minority of our fellow citizens were living in comparative poverty in spite of the general affluence. The Conference on Economic Progress claimed that over 40 percent of our people were poor or deprived, notably without any clear definition of the words "poor" and "deprived". According to Dr. James Vadakin, Professor of Economics at the University of Florida, "The plain fact of the matter is, however, that no such recognized criterion (a poverty line) exists." (*Washington Post*, Sunday, June 23, 1963, p. B4).

While the extent and nature of poverty often was exaggerated, the point was driven home forcefully that millions of Americans live under substandard conditions and—even more important—many feel little hope (or is it desire) of ever bettering their lot. Their concensus that something was wrong with the present programs, many of which they had helped design, was really a remarkable admission. They who had supported ever-expanding social welfare programs over the years were admitting that these programs largely bypassed the poor and were arguing that specific measures aimed at poverty were required. Thus the poverty war was declared.

I believe that it is fair to say that thus far the war on poverty has been a great disappointment. Most of the programs are not new and still have potential, but they were pushed too fast and without coordination with each other in a desire to produce quick and dramatic results. Even more to the point, the war on poverty was launched before anyone knew how to fight it or had studied carefully the techniques of those who had been fighting it for years. Those responsible for conducting the "war" acted on the basis of beliefs and dogmatic assumptions rather than tested facts arrived at from hard research. This is perhaps the most important reason for the failure of the program.

Now we are threatening to make the same mistake with regard to the guaranteed annual income. My suggestion is that before we undertake what would be a major social revolution, we investigate thoroughly and with open minds what the consequences would be. I think we are likely to find that undesirable side effects of the plan would far outweigh any benefits that we might hope to realize.

Those who propose a guaranteed annual income, or—what is simply another approach to the same goal, the negative income tax—do so for a variety of reasons. All advocates of such a plan would, I suppose, base their support to some degree on humanitarian grounds. Poor people should be helped by society. I, of course, would agree. The question is how best to do it.

Some proponents of the plan believe that machines soon will do most of men's work and that unless the link between jobs and income is broken, mass unemployment and human suffering will result. An interesting thought perhaps, but it is one which elicits little professional support and no verification either from history or recent experience.

Let's study and debate these crucial questions, not beg them or bury them in dogma. Does automation create more jobs than it destroys? Do the jobs automation creates require more brains and less brawn? Are sufficient jobs left (and created) to employ all the people in the lower i.q. percentiles? There seems to be ample evidence to support an affirmative answer to all three of these questions.

For example, Dr. Yale Brozen of the University of Chicago determined that between 1951 and 1961 20 million new jobs were created and 13 million jobs were destroyed, leaving a net gain of 7 million jobs. The problem of America has always been labor shortages and this shortage has been more, not less, acute since World War II. Mass unemployment has certainly not been a problem for our economy. Furthermore, the emphasis of technological development on jobs requiring higher and higher skills does not imply that there will not be enough jobs available for workers with low skill levels. As the economy has expanded, the unemployment rate for blue collar workers declines much faster than the rate for all workers—from 10.1 percent in 1958 to 4.2 percent in 1966 compared with an overall unemployment drop from 6.8 percent to 3.9 percent over the same period. The Report of the National Commission on Technology, Automation, and Economic Progress concluded that the overall demand for less skilled workers will not decrease from 1965 to 1975 although their relative share of the labor force will decline.

Others propose the plan because it seems to offer a simpler and less costly way of helping the poor. The complex array of public and private programs, which comprise the welfare-poverty establishment, could be dismantled, they argue, once the poor directly got what they are alleged to need most, i.e., money. Even if this goal were desirable, I doubt whether it could be achieved. Somehow the most minor Washington agency, after having long outlived its original pur-

pose, manages to survive. How much more difficult it would be to substitute direct money payments for the welfare-poverty power structure.

No, I believe the guaranteed income, negative income tax, or child allowances would be superimposed upon already existing welfare and poverty programs. Interestingly enough, the proposals of Dr. Milton Friedman and Dr. James Tobin prescribe just this: a guaranteed annual income along with an array of welfare and poverty-fighting measures. The trouble with this scheme is that it fails to take into account the human and political realities. To the extent society devoted resources to guarantee income, its commitment to the costly and slow-acting structural correctives would weaken.

Whatever the differences in detail or in justification among the various plans, they are essentially the same in their implications. Each plan is revolutionary because it would break the link between income and work. Each would enshrine in law the concept that society owes every citizen a living regardless of his willingness or ability to work. The lazy and shiftless would benefit as much as the deserving.

We all know individuals who secretly believe that society owes them a living. But, fortunately, society has not yet been willing to concede it. In our culture one generally receives income in relation to his contribution to the production of goods and services. For those unable to work, our public assistance programs have stood as a basic income guarantee, however inadequate. But the guaranteed income scheme omits the test of need and gives income as a matter of right alone. I think the right to public support, to the extent the public is able, exists, but only where the need has been established with reasonable certainty. When the need has not been established, there can be no intelligent program designed to eliminate the reasons for the need.

In my view, the guaranteed income approach would create deep social divisions in society; it would tend to perpetuate poverty and might even worsen it by its impact on economic growth; and it would create a host of administrative problems whose solution would require greater social control of the individual. Furthermore, it would require a new and radically different federal constitution which should be of concern even to academic political scientists.

To treat abnormalities, one must first be able to understand normality. Today in America we are beginning to look at a person's full life—his tender years, his years of education, his productive years and his years of retirement. We have been developing the mechanisms and the programs for spreading a person's lifetime income from his productive and earning years to the non-productive years. The first mechanisms developed were in the nature of savings from the productive years to provide for retirement pensions, annuities and retirement systems. At the same time, we were developing the mechanisms whereby people could pool their common risks against an untimely diminution of earning capacity from (a) death, (b) disability through accident or sickness, (c) interrupted earnings resulting from e.g. military service and economic downturn, (d) and now obsolescence of skills. So since World War II we have been developing the mechanisms to spread income forward in anticipation of earnings from the more productive years to the less productive years through consumer credit to buy homes, consumer durables and now wisely to provide the capital investment for education. A great deal of today's consumer credit constitutes real savings inasmuch as the expenditures do relate to increased wealth and increased earning capacity, not to mention increased standard of living of the debtor. It is indicative of this understanding of lifetime income that income averaging techniques, crude as they are, were introduced into the federal personal income tax laws in 1964.

The emphasis needed for further development lies in phasing-in individuals and phasing them out of the labor market. One does not abruptly—or should not abruptly—enter the labor market or retire from it. The better retirement systems we are developing permit a phasing-out utilizing in different ways the talent perfected by experience of the older citizens. The better educational systems use a variety of phasing-in mechanisms.

Above all we are beginning to understand that people are not committed full time in the labor market. The eight hour day and the forty hour week attest this. Hopefully we will begin to move more broadly into the eleven month year and possibly to the concept of the fallow seventh year—the sabbatical leave. However, the women in our society are increasingly developing work patterns of great interest, entering the labor market prenuptially only to retire for the period of raising children, and then to reenter later on a planned part-time basis which frequently develops into full time employment again.

As rapid technological change continues, skills change and become obsolete. No longer can a skill learned in the formative years assure lifetime employment. Training and retraining on or off the job are increasingly a part of the work pattern. The hard realities of training the unemployables are that they will not be capable of learning the higher skills demanded in the jobs newly created by automation, but those with jobs must be trained and willing to do so, to take the new jobs thus leaving their old but needed jobs available to those below them in the ladder of skills if they too will train. The unskilled and semi-skilled with training will fit into the jobs left vacant by those upgrading their skills.

This process requires understanding, study and constant research to identify the jobs going begging and the skills and training needed to fill them. Just as the rehabilitation program for the physically handicapped requires cooperation by employers to identify the jobs they may have which a one-armed man, for example, might productively fill, so the rehabilitation program for the comparative poor will require similar cooperation and understanding.

Let us consider for a moment the major objections to the guaranteed income. First, to what extent will common agreement be possible in the support and implementation of a guaranteed income? Assuming both the economic and political feasibility of some plan of guaranteed income, would this assure sufficient and broad enough support to avoid disruptive conflict and social disorganization?

The value system of Western Man has for centuries associated work with income. It is a Judeo-Christian ethic with special emphasis incorporated in the Protestant norm in American society.

Specifically, can a right to income without work be adopted without creating deep cleavages and conflicts in our society? Is it possible to have a dual set of values and norms; one predicated on income for work and one on income without work? Isn't it possible that the existing gulf between the middle-class culture and the sub-culture of poverty will be deepened and problems of national cohesiveness and accommodation be aggravated? In fact, another serious rift may develop within the lower economic class: between the approximately one-third of all American families that earn income above the poverty line but below the national median and those families receiving government subsidies. At a time when many analysts discern a growing alienation of the poor from the mainstream of American society, the divisive tendencies fostered by income guarantees are clearly anathema.

Any special system is composed of many interrelated units and functions. Any drastic change in one part of the social system will affect the total in many unforeseen and unpredictable ways. We have never been able to predict the total impact of change. Increasingly and frequently we have learned that the treatment of a social problem may produce additional problems and, in the final analysis, the treatment may be worse than the disease. The "side effects" may leave the patient worse off than before.

For example, the adoption of a form of income guarantee would have serious and disturbing effects on the future of private philanthropy, perhaps leading even to the virtual elimination of the private sector's role in solving social problems. A "side effect" such as this would be quite serious. In 1966, American private philanthropy totaled \$13 billion, 8.6 times more than the expenditures for the OEO war on poverty that year. And as Richard Cornuelle points out in *Reclaiming the American Dream* (Random House: New York, 1963), private organizations excel in pinpointing and reacting to particular problems in specific areas. They have the adaptability and flexibility of response to these problems that government efforts have rarely shown and they are subject to the demanding discipline of the marketplace. If, however, the government guarantees sufficient income to meet basic needs, private charities would have a real task in convincing donors that any need for private efforts still exists and the valuable contributions of private charity could well be lost.

Second, the plan would help to perpetuate welfare as a way of life by sacrificing social services designed to eliminate the causes of need for an income guarantee. Proponents of guaranteed income plans fail to distinguish between those families and individuals who could and would make good use of an interim guaranteed income grant and those who would not. They also fail to distinguish between those in poverty and those who lead decent lives, although having no margin for waste or luxury. They would create a costly program—ranging from \$5 to \$24 billion a year—that would spread our resources . . . (cost estimates for programs from an article by Dr. Robert Lampman in *Social Action*, Nov. 1967).

The provision of this "social conscience money" would lull us into a sense of complacency about the poverty problem and divert our attention from the critical need to provide remedial services to the hard-core poor.

In order to solve the problem of comparative-poverty, we must be concerned with much more than providing income. For many of the comparative-poor, providing income would not mean a better diet for the children, improved medical care, more adequate housing, or a move into self-sufficiency. There is evidence that prolonged chronic relief is a factor in the acceptance of a dependency state.

Any real remedy to this chronic poverty must be concerned with cultural change, with an alteration of attitudes toward life and work. This change is particularly required in the urban slums where apathy, social inadequacy, and an inability to cope with the environment are breeding-grounds for a form of self-perpetuating poverty that could infect the rest of the population with a host of social ills.

Our resources are ample. However, they must be spent efficiently, that is where they are needed and in an amount sufficient to do the job. This means a deeper commitment and a more intelligent strategy. It means that individuals must not be encouraged to remain in the poverty cycle. Conversely, they must be given specific assistance and direction and not just left to drift for themselves subsisting on a new form of dole.

Even at that, it will be a long and difficult job marked by many setbacks. But I believe our goal can be reached if we concentrate our resources on the areas of need and if we move ahead at a pace consistent with our growing knowledge and understanding of the problem. In this way progress replaces promise in the war on poverty.

We should constantly strive to strengthen our public and private retirement systems and provide basic protections against financial hazards and hardships, including catastrophic illness and unemployment, against which the individual has no control. But it would be a great mistake to direct our attention and resources from the real poverty problem in this country. The poor themselves recognize the most fruitful course. A Gallup Poll published on June 15, 1968, recorded 45% of Americans with incomes under \$3000 a year as opposed to a guaranteed annual income. They overwhelmingly supported—83% to 16%—a proposal to guarantee enough work for each family to earn \$3200 a year. The guaranteed income proposal ignores this valuable insight of the poor into their own plight and would instead put millions of self-respecting citizens on a new and unwanted dole.

Third, the guaranteed annual income would slow down the rate of economic growth by reducing incentives to work and save. Automatically providing an adequate minimum standard of living to any citizen would be sufficient to eliminate incentives to work for most of those unemployed or those earning less than the minimum standard level. Those who earn only slightly more than the minimum might also decide not to work at all. Admittedly, the adverse incentive effect differs among plans, but in every instance there is at least some negative incentive effect. The result would be a lower gross national product and a lower rate of economic growth than would otherwise exist.

A recent empirical study by Professor Lowell E. Gallaway of the Wharton School of Finance and Commerce on the "Negative Income Tax Rates and the Elimination of Poverty" is helpful in this area. It throws some interesting light on the individual's labor market response to the receipt of transfer payment income. Professor Gallaway thinks the evidence of his study establishes a basis for a skeptical view of the contribution which the negative income tax can make to improving the income position of poverty groups with a relatively high degree of labor force participation. Certainly, further study is needed in this area. The Council of Economic Advisers comments: "There is an abundance of assertion and anecdote regarding the impact of work incentives on low-income Americans but very little real knowledge. "Assertion" and "anecdote" are hardly a solid foundation for the adoption of income guarantee proposals. (*Washington Post*, Sunday, June 23, 1968, p. B4.)

Economic growth also would suffer to the extent that a guaranteed annual income weakened incentives to save. With an annual income assured, the future for many individuals would become more certain. Families would be less likely on the whole to save for emergencies, retirement, death, and disability. The pressure on business to make substantial contributions to employee pension funds would also be less urgent, and this source of capital accumulation could decline sharply as well. The likely result would be a higher rate of current consumption, less saving, and a slowdown in the modernization and expansion of plant and equipment.

This is a direct threat to employment opportunities for all those able and willing to work. Such opportunities directly depend upon a high level of investment in the future. The creation of new jobs for our rapidly growing labor force requires substantial growth of investment spending. Moreover, increasing technological progress raises the amount of capital equipment per worker and thus the investment costs of keeping a worker employed and providing the new jobs. The amount of investment required to create a new job in manufacturing has been rising steadily and now is \$19,600 compared to \$14,300 only ten years ago. If we guarantee income, it seems to me that we also would have to devise some scheme to guarantee saving.

The fact that the guaranteed income would have an adverse impact on economic growth grossly understates the real costs of the plan. The proponents have said that it would cost about two percent of the GNP. This is misleading in itself, since a more accurate measure of cost to the society's producing element would be a percentage of personal income, after deducting transfer payments and other non-taxable items. But even this cost would be higher if the guaranteed income resulted in a lower level of personal income than would exist in its absence.

Finally, discussions of some form of income guarantee have exhibited a marked indisposition to consider the administrative problems of such a program. Finding workable solutions would require an intensive research effort. Even at that, no income guarantee program, contrary to the hopes of some advocates, could be run without a large-scale administrative organization and an increased degree of social control of the individual.

The first problem is that of defining income. Certainly income as defined in the Tax Code would be unacceptable. It is for this reason that any simple negative income tax is not feasible. Two computations of income would be required. First, a person would reckon income for regular income tax purposes. If this computation yielded a net income figure which was low enough to entitle the program to a tentative refund, he would then have to make another computation which in effect added back into his income items excluded in the regular tax computation. The one-half of capital gains excluded from taxable income is one example of income which would have to be added back before a person could claim a "refund". Tax exempt interest is another example.

The second problem is that of fluctuating income. Would we want to permit people to concentrate income in one year and claim a refund in the next year because their income in that year was low? Not everyone is in a position to reallocate income between years, but some people are able to do so. A person could, for example, realize capital gains in one year and capital losses in the next year, claiming a refund in the second year because net income is so low. Business profits and losses often can be shifted between years. Even for the poor and well-intentioned, underpayments and overpayments would be frequent because of unexpected work layoffs, sicknesses, accidents, etc.

The third problem is that of the weight to be given to wealth in determining entitlement to a payment from the Federal Government. Presently, under public assistance programs, savings a source of funds for family support is taken into account. But the regular income tax computation takes no account of wealth. However rich a person may be, he might show a negative income in a year and pay no positive tax. The loss might make him eligible for a refund under a negative income tax unless wealth were taken into account in determining eligibility.

The fourth problem arises from the definition of the filing unit. Thus, under the regular income tax a husband and wife may elect to file joint or separate returns. Suppose the husband earns all of the family's income. Should the wife be permitted to file a separate return and claim a negative income tax refund?

If, in the light of these objections, we do not take the guaranteed income route, then how do we eliminate comparative-poverty? First we should take stock of what we are already doing. The fact is that we are doing a great deal. Between 1950 and 1965, the total public and private effort to reduce poverty and human suffering increased 97 percent, measured by constant dollar per capita annual expenditures for health, education, and welfare. During the same 15-year period, the share of the total output of the U.S. economy devoted to these purposes rose from about 13 percent of GNP to over 16 percent. And if we compared this more properly with personal income, these percentages would be even greater. This would be an impressive performance under any circum-

stances. It is particularly significant in the light of the other heavy and increasing drafts on the economy for defense and space.

One of our first jobs is to make certain that we are spending health, education and welfare funds with the greatest efficiency possible. This is not the case today. Much of our anti-poverty effort is wasteful, redundant, and ineffective. Before even considering vast new outlays on programs such as the guaranteed annual income, we should be certain that we are making the best possible use of the funds now being spent.

In this connection, I think it is essential to review existing policies and programs to determine the extent to which they actually impede the war on poverty. For example, our urban renewal programs have primarily benefited the middle third of the Nation, while many of the poor made homeless by these programs have been pressed into other slum areas or areas about to become slums. Our farm programs have poured out hundreds of millions of dollars, but rural poverty persists, and there is evidence to indicate that the distribution of income has actually been worsened because of our agricultural programs. Certainly they have done little or nothing to improve the quality of education or to update the skills of our rural citizens who are particularly handicapped in the urban environment.

We ought also to determine whether the application of our child labor laws may contribute to the unemployment of young people. Minimum wage laws deserve particular scrutiny. Recently, authorities including Prof. Arthur F. Burns, former Chairman of the Council of Economic Advisors, Prof. James Tobin, a member of President Kennedy's Council of Economic Advisors, and the National Federation of Independent Businessmen, have found that the present application of minimum wage laws renders large numbers of low productivity workers unable to find steady employment.

We also need to know more about how our tax laws impede geographic mobility. It makes no sense to have our tax laws continue to regard a man's legal residence for tax purposes as the place where he works for today nearly 62 percent of our people own their own homes and are not going to pull up family stakes just to enable the breadwinner to accept a challenging but perhaps temporary job two hundred miles away. A recent study by the University of Maryland's Curtis C. Harris, Jr., determined that by 1975 Washington, D.C. will need 422,000 more workers while nearby Philadelphia will lose about 222,000 jobs. Existing tax laws would hardly encourage a Philadelphia resident to accept temporary employment in Washington, D.C. while seeking a new job. (Figures on job projections from *Business Week*, June 22, 1968, p. 112).

Another field for study is the tax treatment of individual educational expenses and its impact on upward job mobility. Our unemployment compensation program also could be improved to assist in the reduction of poverty. For example, under the encouragement of the Manpower Training Act of 1962, all states now permit an individual to take training without loss of unemployment benefits. However, we still do not relate improvement of the unemployment insurance system to improvement of our training, rehabilitation and retirement programs and correlate these programs.

We should also determine the poverty-creating effect of the present income limitations applied to those aged persons receiving social security retirement or survivor's payments. We need to know more about whether the aid-to-dependent children program actually encourages illegitimacy by discouraging remarriage of an AFDC mother, and whether the so-called "man-in-the-house" rule, in effect, contributes to the break up of families and the perpetuation of poverty. We also need to review the extent to which public assistance programs create an incentive for beneficiaries to withdraw from the labor force because of the deduction of earnings from benefits received.

In addition to taking a hard look at present programs and policies, we must remember that economic policy has an important contribution to make toward eliminating poverty. This means that we must strive to maximize economic growth which results in increased wealth both to provide jobs for our rapidly increasing labor force and to have resources available for the fight against poverty.

We have been entirely too much concerned about increasing economic activity (GNP) and too little concerned about being certain that that activity is increasing the true wealth of the society of which the physical wealth is the lesser part. There is not sufficient realization that the greatest wealth a society can

possess constitutes the skills of the people and the accumulated knowledge with its ready availability within the society. Our tax laws, for example, do not treat employer or personal expenditures for education and training as capital expenditures—which I believe should receive specific tax treatment.

It also means that we must avoid inflation. The constant erosion of the purchasing power of the dollar since the end of World War II has pushed millions of individuals living on fixed incomes below the poverty level and made life even more difficult for those already impoverished. Because of inflation, the purchasing power of social security benefits, even after several increases, has barely kept pace with the rising cost of living.

The federal government must bear particular responsibility for this damage caused by inflation. Every since the Employment Act of 1946, we have been trying to maintain employment largely by relying on the spending of government. The result has been more or less chronic inflation and a steady erosion of the dollar's purchasing power. In the last few years, the irresponsible spending levels maintained by the Johnson administration have speeded this inflationary decay—spreading poverty rather than prosperity, especially among the Nation's lower income groups. In fact, the recent passage of the tax surcharge clearly reflected the failure of the Administration's excessive fiscal policy. Inflation must be halted, and a change to responsible government spending levels must be the first step.

Finally, general economic policy can make a contribution to the elimination of poverty by promoting occupational and geographical mobility. In an age of rapid technological change and adjustment it is important that government and private business policies help to promote the maximum of flexible response to changing conditions among our labor force.

There is another precondition to the success of specific and selective anti-poverty measures. That is, the abolition of all unjustifiable discrimination in employment and education based upon race, creed, age, sex, physical handicaps, or whatever. In the opinion of many, we have made great strides toward this goal. However, in the opinion of others, we may have gone backwards by failing to distinguish between discrimination based upon real differences which properly require differential economic treatment, and discrimination based upon unreasoned prejudice. Whatever the present movement may be, a sizeable amount of unjustifiable discrimination exists as a structural barrier . . . discrimination as a barrier to equal opportunities for all of our citizens.

It would be very helpful in this connection if labor unions, particularly those which use the sanction of government to bind minorities through union shop provisions, open their doors to equal membership opportunities to all persons, particularly to members of minority groups. In many places and in many jobs, union membership is a condition of apprenticeship or employment from a practical if not a legal standpoint. Where this is true, business efforts to find job opportunities for minority Americans can be successful only to the extent that labor unions, with the cooperation of management, not its behind scenes condonation or encouragement which frequently exists, abolish discriminatory practices in their own membership and training programs. Today the values which occur from passing skills from father to son as it were must be realized within a structure which does not exclude others from learning and following these occupations.

Aside from these general considerations, our specific policies to combat poverty must emphasize alleviation, rehabilitation, and prevention.

Alleviating poverty means that every person in need, which means a person facing a basic economic problem the solution of which is beyond his own or his family's capabilities, should have relief from the community as a whole—to the extent it can afford it. I emphasize the requirements of need. This is what divides me from those who advocate a guaranteed income given to all as a matter of right. I see nothing intrinsically wrong with the requirement of tests to determine need. Whether a means test is acceptable or not is usually a question of how it is administratively determined. The means test obviously should be given so that it infringes upon the rights and dignity of the individual receiving the assistance in the most minimal way. And I have already indicated that technical problems connected with the guaranteed annual income would require the government to find out a great deal about the individual in order to insure that the intent of the guaranteed income law is carried out in practice.

One of the shortcomings of our present public assistance programs is that benefits are unrelated to specific needs and so are frequently too low to meet

even minimum needs established by the states themselves. On other instances, states continue payments after the specific needs have actually disappeared or are within the ability of the individual to make them disappear. Rehabilitative social services are the essence of good welfare programs. The purpose of welfare is to provide income during the period a person is getting onto his own feet again, or getting onto his feet in the first instance.

Our public assistance programs also bypass many of the poor. The federal government today shares the cost of aid to the blind, aged, permanently disabled, and families with dependent children. Persons not fitting neatly into one of these categories are dependent on state and local general assistance. In 1968, such general assistance provided an average of \$10 per week in support of about 795,000 persons with payments ranging as low as \$.90 per week in Arkansas. These figures are from the Voluntary Report to the Assistance Payment Administration of Social and Rehabilitation Service, Department of HEW, March, 1968).

In 1964, such general assistance provided an average of \$7 per week in support for about 800,000 persons. I can see no justification either for providing assistance by categories or for the federal government participating in one group over another. The problems of determining eligibility for a particular category of assistance is costly in terms of funds and precious professional time which could be better spent in improving social services. I would favor abolishing all categories of assistance and providing aid on the basis of demonstrated and specific need to the unemployed or underemployed poor whose income falls below the minimum standards established by the state itself, geared to programs designed wherever possible to getting them onto or back onto their own feet.

Rehabilitation—our second goal—involves making an all-out effort to make productive and self-sustaining citizens out of all those unable to find or keep a job. This means that everyone of labor force age who is on public welfare—a money income to which our laws give them a right—should have a responsibility under these same laws in return for this right. This responsibility is to take any necessary training or basic education needed to equip themselves to be self-supporting. In order to provide a positive incentive to train or work, I would reduce public assistance benefits substantially less than the added income arising from wages or the training allowance.

The importance of education is illustrated with respect to the aid to dependent children program. The higher the educational attainment of the mother, the less the period of dependence on public assistance. I think this points to another area where rehabilitative services could be critical in getting families off the relief rolls and into the ranks of job holders.

Mothers on aid to dependent children should be encouraged to take basic education and training in job skills. This requires that they receive training allowances and access to day-care facilities for the children. Not only would such centers free the mothers for education and training, but they could provide a creative and enriching experience for the children themselves.

The gloomy predictions about the job-destroying effects of cybernation are unjustifiable. Much of the work of society is not being done today. I think our rehabilitative programs should strive to get these jobs done through working with the job-creation process of private enterprise, even to the extent of providing incentives if this proves to be necessary.

Reforestation, stream clearance, urban beautification, slum cleanups, various educational work-study jobs and even simple maintenance jobs in public buildings are examples of the kind of interim work that could be usefully done by the unskilled and poorly trained. These tasks could be undertaken by private firms under contract to the government with a guarantee that at least the minimum wage would be paid. Not only would this get needed work done, but it would give the former welfare recipient personal satisfaction plus skills and work attitudes that would stand him in good stead in his future employment.

Obviously this covers only a part of the rehabilitative action that is needed. A wide range of social services is needed, and to a large degree is presently available, to advise the poor on legal problems, family budgeting, simple health care, and the like. We should also remember the physically and mentally handicapped and their potentials. After all, a human brain with an IQ of 60 is still a much more versatile and usable thinking apparatus than the computer. Although the handicapped pose special problems, rehabilitation is possible in most cases and, in some ways, simpler than for those who suffer serious cultural and educational handicaps. They pose special problems but in most cases rehabilitation is possible and, in some ways, simpler than for those who suffer serious cultural

and educational handicaps. Indeed, by studying the techniques that have proved successful in rehabilitating and habilitating the physically handicapped people, we can learn a great deal in properly structuring the programs for the culturally or educationally handicapped.

This extensive rehabilitation must be viewed in proper perspective. Because skills at all levels are becoming obsolete, there needs to be continuous job escalation at all levels. Everyone across the entire industrial landscape should be continually preparing himself for a new and better job. In particular, rehabilitation of the handicapped depends on emphasis of our present success—the man in the middle who has a job, is educating his children and is paying taxes. It is he who must lead the way in this job escalation process. Too many of our present federal manpower programs have ignored the working man with a job, and have concentrated instead on the “hard core” unemployed, trying to train him for a job where there is no demand, or leap frog him far up the job skills ladder with very unsatisfactory results. Rehabilitation and total job escalation are mutually supportive and must be closely integrated.

This rehabilitation and job escalation is most properly undertaken in the private sector of our economy; but government can help—mainly by stopping impeding programs. Tax laws should be amended so as to treat private training and retraining—and all forms of education—as capital expenditures. We have been unnecessarily slow in recognizing that upgrading the skills of our working people is an investment which pays rich dividends not only to them but to the entire society.

I have also advocated other changes in our tax laws to promote further upgrading. The Human Investment Act which I introduced in 1966 would provide a tax credit of 10% for expenses borne by industry for job training programs. The Employment Equalization Act I proposed last year would increase the employment opportunities for individuals of low productivity whose lack of skills and adequate education acts as a barrier to employment at or above the Federal minimum wage. Finally, the Veterans' Employment and Relocation Assistance Act which I introduced with Senator Javits would assist veterans who desire meaningful employment to obtain jobs which require skills they learned while serving in the Armed Forces and provide financial assistance to help them relocate in areas where these jobs are available. With these and other measures, we can stop inhibiting private capital expenditures for all forms of education and job training.

Government must do its job by collecting the data and information necessary to make any manpower training program work. Such data as can be assembled in monthly Job Vacancy Statistics on both a national and regional breakdown level. A looseleaf Dictionary of Occupational Titles, the common nomenclature of jobs existing in the society—those phasing out and those coming in—is essential. The Johnson administration, though required by the Manpower and Development and Training Act and urged repeatedly by this Committee to do this, has not done it on a regular basis.

Finally, the federal government should cease its excessive spending—which does not equip a single person with skills required to take one of the many new jobs available today—and stop perpetuating outmoded and artificially-created jobs. Only responsible spending and taxing levels will allow industry to accumulate and invest the capital so necessary to a solidly expanding economic base. With this freedom from government shackles, industry can create and fill meaningful, productive jobs at all skill levels. All of American society will benefit.

Our final goal is the prevention of new poverty. Here the focus should be on all children, not just those of the poor, with the objective of minimizing school dropouts who later become the unemployable adults. It has been said many times before, but it bears repeating that the key is high-quality education and training, all along the rungs of the ladder of skills. Among students who left school in 1964, for example, the unemployment rate in 1966 was almost twice as high for those who dropped out as for those who graduated—33.6 per cent as compared to 18.7 per cent. Also needed is a better understanding among the self-styled intelligencia in our society, that technical training is just as socially dignified as liberal arts training. By this statement I do not mean to minimize the importance of liberal arts training which in the past—and still in the minds of all too many in the present—has suffered from both envy and misunderstanding. I do mean to say that in many important educational and social circles there has been an unfortunate down-grading of vocational and technical training which has been a deterrent to getting both the number and quality of persons needed into these

fields. *Excellence*, by John Gardner, former Secretary of HEW, contains an excellent analysis of the mix of vocational, technical, and liberal arts training most conducive to our society's full development.

I would hope that by this time our society has reached the intellectual maturity to realize that differences in human beings do not spell out superiorities or inferiorities. Differences provide the variety which renders the total society rich, productive, variable, and capable of continuing understanding and innovation. In a society of nightingales with my crow-like voice, I would be discriminated against and justifiably so, and not as a result of bigotry. However, in a society which recognizes its needs for variety in talents and skills hopefully I could identify some talent I truly have, with hard work develop it, and become a citizen self-satisfied from doing a job well and socially satisfied doing a job that needed doing.

The schools for both urban and rural disadvantaged children should be among the best in the country. Who needs good schools more than the children of the poor? Although the situation is improving today, schools in poverty neighborhoods are very often among the worst the country has to offer.

A clean, attractive, well-equipped and well-staffed school in a deteriorating neighborhood could serve as an example and an inspiration for many of our disadvantaged children. Both public and private educational groups should direct their attention to improving the quality of schools in poverty neighborhoods.

The states should update the school-grant formulas in their equalization laws which take into account the costs involved in educating children in school districts with low tax bases. Many counties in the United States need to develop equalization laws because within counties just as within municipalities or states there are school districts of low wealth and districts of high wealth. The differentials in these tax bases need to be equalized. Let me say along this line, however, I know of no poor state, with the possible exception of Alaska, that needs federal equalization of tax bases. The common misunderstanding on this point arises from the failure to understand that education, as well as community facilities, are financed from tax systems using wealth as a tax base not income. The per capita income of a state is not the test of whether it can support schools but rather the per capita wealth. Absentee ownership or a poorly structured real estate tax permits many of the lower per capita income states which are reasonably wealthy to talk poor-mouth. If the children of the poor are to get a better education, there will need to be recognition and action on the proposition that expenditures per pupil will need to be higher in these districts than in those more fortunately endowed.

Breaking the poverty cycle often requires pre-school training. The accomplishments of the local and private Head Start Program, which the federal program properly emphasized, indicates that the states are correct in developing these remedial pre-school programs on a large scale in poverty areas.

Perhaps the highest priority for the prevention of poverty should be given to providing birth control information to public assistance recipients on a voluntary basis. A broad program to make available birth control information would encourage family planning and reduce the incidence of unsupportable children among the poor. I believe that helping the poor control the size of their families offers our most promising opportunity for halting the growth of poverty.

We should also do something for young people who are of working age but who are neither in school nor in a job, those for whom the educational and welfare reforms will have come too late. I think we should consider a pilot plan which might mean some subsidization to their employment by private business based on a comprehensive study of what is already being done in this area. The Employment Incentive Act that I have proposed would enable business to provide work at less than minimum wages for young people who would not otherwise be employed. The actual wage could be based on an estimate of their productivity and their value to the firm in relation to the other employees. In addition, a direct government subsidy would be paid to such employees in order to bring them up, if necessary, to a minimum wage. Obviously, such a plan would involve administrative problems, but I think it is worth considering. It might well speed the movement of people needed in occupations paying low wages and thus increase the demand for labor in such areas. Perhaps my Human Investment Tax Credit would be sufficient. This is a 10% tax credit comparable to the investment tax credit for capital costs invested in machinery and capital cost invested in training and retraining manpower.

These, then, are some of the possible approaches to guaranteeing opportunity. Obviously there are many others which time has prevented me from mentioning. One thing is clear, the magnitude of the task is immense and requires a continuing effort by the private sector and understanding by all levels of government so that their programs work in conformity with and not against the operation of the private sector.

Guaranteeing opportunity has many advantages. It is positive and assumes that every individual should, and will if the climate is right, make a contribution of his own. It challenges our ingenuity to find ways and means for maximum utilization of our human resources. It is consistent with our value system and what we think we know about human behavior. It would be supported with a greater public consensus. And it would tend to protect the balanced mechanism of freedom with responsibility, calling for less social control of the individual.

In his 1962 State of the Union message, President Kennedy proposed; that amendments to the public welfare program stress "services instead of support, rehabilitation instead of relief, and training for useful work rather than prolonged dependency."

We are far from the mark. Indeed programs going in the opposite direction have been sold under this fine label.

The guaranteed income, the negative income tax, child allowances, and other well meaning programs would take us further afield. We need to develop our society so we can truthfully guarantee opportunities to all who gain satisfaction from doing a meaningful job well; and in this development we will find that we probably have attained a society where all have ample incomes.

Representative GRIFFITHS. I would like to thank you, Mr. Curtis.

I would like to point out that you are one of the committee members who has continually urged me to hold these hearings. I appreciate your kindness, your assistance, and your help.

Senator PROXMIRE?

Senator PROXMIRE. I want to commend Congressman Curtis, too, on a very impressive statement. I have been trying to go through it. It is a detailed statement, 21½ legal-sized pages; but obviously a great deal of thought—discriminating, intelligent thought—has gone into this. I am very much impressed.

In your statement, you say the problem of America has always been labor shortages. This shortage has been more, not less acute, since World War II.

What do you mean by a labor shortage? You say labor shortage is endemic in our economy. This is shocking to most of us who recall so vividly the 1930's and periods before.

Representative CURTIS. We have had those periods of aberration, but even in the 1930's, we had this underlying shortage of labor. Let me illustrate in a broad way. We supplied that labor shortage historically through immigration. It was not until around 1920 that we suddenly decided to cut off this source. But that is where we were pulling in labor.

The other proof is almost begging the question when I mention it—but on the other hand, let's put it out—is the constant movement toward automation in our society. This indicates labor shortage. Any time industry could figure a way of doing an operation through a machine instead of manpower, it would do it because there was this essential shortage of labor causing prices to go up.

I must interject one other important point. I have always praised Henry Ford, who was an economic pragmatist, not a theorist. Lord Keynes quoted it in theory. Henry Ford said, "I want my people to be able to buy Fords." Lord Keynes was pointing out the importance of purchasing power in a society. The Bible points it out, perhaps, in

saying that a person is entitled to the earnings from the sweat of his brow. Indeed, you have pointed it out by saying how we are allocating salaries and wages. A lot needs to be done in this field; and yet the marketplace is a pretty good theory.

Senator PROXMIRE. At the same time, it must be recalled, we certainly have had mass unemployment. In the 1930's, we had 14 to 25 percent of our entire work force completely out of work and many others underemployed or part-time employed, or frozen into a job that was not producing much. At the present time, we have 3 million people out of work. We have among some groups—for instance, female, Negro, teenagers, 30 or 40 percent out of work in many parts of the country. So I think we do have a problem in some areas of unemployment, which, for some people, is serious. While there are job vacancies that highly skilled people could fill and are not available for, it would seem to me we do have a serious problem of unemployment continuing even now.

Representative CURTIS. We do, but it is structural and frictional, I would argue.

Senator PROXMIRE. Frictional?

Representative CURTIS. Let me go back to the 1930's. There I think rightly, we had cyclical unemployment and we had unemployment resulting from lack of aggregate demand because we had not been following through the economic theory of Henry Ford and Lord Keynes. But today, I do not think we can relate the unemployment problem to that at all. In fact, this has been the debate that I have felt has been going on in our committee for several years with the President's Council of Economic Advisers. They say heat up the economy and you will take care of the unemployed. I argue that if my theory is right and that unemployment is structural and frictional, you will not. You will help a little bit. It is always easier to get at structural and frictional unemployment when the economy is heated up but the clear proof that this is not enough is to look at the Negro citizen. This is not only a case of frictional and structural unemployment, you can almost say it is institutional. Heating up the economy did not solve this problem.

So you are right, we had unemployment in the 1930's. I think that was cyclical and the failure to have aggregate demand. I think we are over that hump. We could get into it again, but I think we are pretty well over it. But today, the problem, I would argue, is this frictional and structural and how do you meet that?

First, you have to ask the question, are we kidding ourselves that there really are more jobs going begging than there are unemployed.

Senator PROXMIRE. You have been making a big fight and I have been supporting you for job vacancy statistics. It is a shame that we do not have them. I think we ought to have them. But no matter what the argument you can make on job vacancies, it is clear to me that we do still have a problem of unemployment at least in terms of time. You can say that concentrating on manpower training programs will do a better job perhaps of providing incentives to see people are trained. We can take care of this in the long run. But in the long run, as Keynes has said, we are all dead. Meanwhile, these people do not have jobs.

Representative CURTIS. But we are taking care of it partly in the short run if we notice the progress. I think it is an error to think that any generation can solve all the problems in its generation. I would say what has been happening here is that haste has been making waste.

Yes, I am disturbed that we cannot solve these problems right away but on the other hand, if we are on the right track to solution, you keep the basic structure of your society intact. I would argue that the other approach is changing the fundamental structure of society, going away from the concept of relating income to work. This I deeply fear would dismantle our society. But I would go to that if I were convinced that I was in error that there are more jobs going begging than there are unemployed.

Senator PROXMIRE. Then I think we are very close together and I think this is most constructive. This is really what seems to be the heart of the problem. Of course, the figure depends, as you put it so well in your paper, on comparative poverty or subsistence poverty definition, but the testimony has been that 30 million people are poor at least by the administration's definition. Most of those who are on public assistance—that is, the 8 million who are on public assistance—simply cannot work. We had statistics just yesterday from Dr. Dumpson, who pointed out that 94 percent of the people on welfare are children, adults responsible for the care of children, the blind, the aged, the disabled, 3 percent work of those who are on public assistance work full time but receive so very little, pitifully little, that they are on assistance. Two percent have more than two disabilities—that is, a prison record, drug addiction, alcoholism. Less than 1 percent of those are unwilling to work.

Then in addition, you have 15 million who are in families where they work full time, but they are poor. That is, their incomes are low, below \$3,000 a year for a family. It is very hard to make both ends meet.

Then you have 7 million people who are in families where the breadwinner works part time or is unemployed a great deal but looking for work but unable to find much and when he does find it, it is a part-time job. This, it seems to me, paints a picture of people who are in need of some kind of a more satisfactory income supplement.

Representative CURTIS. Well, now, it paints a picture, but I say it paints a false picture. I have been trying to get hold of these people who make these kinds of statements so I could interrogate them. Califano made such a statement. Then I challenged Wilbur Cohen. I am talking about our executive sessions in Ways and Means. He repudiated such a statement and such a study. And I said to him that he should say it publicly.

He has never done it publicly.

Senator PROXMIRE. What part of this are you talking about?

Representative CURTIS. The whole concept that there are this many people on welfare who are unemployable. The statistics dismiss children. When you talk about ADC at any rate, you are talking about age 16 on up to 21.

Senator PROXMIRE. You are talking age 16 down to one, too.

Representative CURTIS. I know that, but I am trying to point out that in this group that they say are unemployable, are a heck of a

lot of people who are employable. Certainly the high school dropouts who are over 16, 17, and 18, and so forth are. This is the thrust of what we were trying to do in the 1967 social security amendments which were falsely reported. We were not trying to force mothers with small children into the labor market; we were trying to provide opportunities for those who wanted to, when their kids were 8 and 9 years old and not have to wait until the kid was 18, when they would have to go out and learn a skill, but give them a chance earlier to learn a skill. So what did we do? We put more money in there for day care centers, because we found out there were not enough of these so that these mothers could work. This was based on the assumption that that profile you have read is in error, that there are a lot of these mothers who could and would want to work if we provided the proper machinery.

Senator PROXMIRE. It is very difficult, as you know, for a child under 16 to work. We have child labor laws. Most of these children are under 16 years of age. I would agree if a child is 18 years old, you have an entirely different situation. He is virtually an adult as far as work is concerned. But the great bulk of these are children under 16, plus those who fall in the other categories, parents responsible for children, the aged, a very large proportion, and the blind and disabled.

Representative CURTIS. What I am trying to say is that this is a starting-off point. This is an exaggerated figure. I want us to look at it closely. I do not want this to be accepted as if it were true, because I think so much of it is untrue. I think the thrust of my argument is that we should look and find out what this group really is. A lot of our older people are anxious to work, would like to work more, and there is every reason they should work more. Golly, we get it all the time, people wanting to change the social security retirement laws so that they can work more and not lose their social security benefits. I would argue that here is another underutilized economic resource in this whole group you have listed here—older people.

All I am pleading for is to hold hearings on this kind of statement and really find out what is truth and what is exaggeration and then we will begin to identify better where we need to direct our training and retraining and other things that need to be changed in the structure of our society.

Senator PROXMIRE. My time is up.

Representative GRIFFITHS. I might say, Mr. Califano did not count women at all and this is an error that the executive department of this Government has always made.

Mr. Rumsfeld?

Representative RUMSFELD. Mr. Curtis, I, too, want to say that what I have read of this statement indicates that it is a most significant contribution to these hearings.

You began by drawing a distinction between guaranteeing income and guaranteeing opportunity. You have made the statement, "Guaranteeing opportunity recognizes that a man grows with responsibility."

The thrust of your paper, as the thrust of papers taking exactly the opposite position, is directed to the goal of the growth of man as an individual. You draw a sharp distinction as to how best we arrive

there. I must say I do not believe any of the other papers have specifically made the valid point that a man grows with responsibility.

Let me see if I can narrow down where you differ from the proponents of the guaranteed income or the negative income tax.

You obviously agree that the mentally ill, the mentally retarded, the blind, disabled, those who are misfits for one reason or another and who just cannot work, are going to be taken care of. You say society always has done so, and this is true.

Representative CURTIS. I do want to interject if I may that I do not even want to dismiss that group. I want Dr. Rusk's theme to apply that there is no one who cannot be rehabilitated. Because if my theme is right on specialization, a lot of these blind people, for example, can work now.

Representative RUMSFELD. Right, that is an excellent point, but if they are not working you are clearly in favor of having society take care of them?

Representative CURTIS. Oh, very much so.

Representative RUMSFELD. With this we all agree.

Now, there is that other group made up of people who are below a certain level and could work. Your paper discusses where that level is, and the fact that it is very difficult to define precisely. These are individuals who, for one reason or another, but none of the previous reasons, are not working or are underemployed, and therefore are living below a level which is satisfactory to you, to Mr. Hayes, and to me. The question then becomes: Do you guarantee income to raise them up, or do you guarantee opportunity? And, are they necessarily contradictory? Are they really opposites, or is it possible that you could guarantee income to a certain level and, in fact, also accept all of the very strong arguments in your paper, most of which I agree with? Let us go back to the contention that a man grows with responsibility.

Could you not help to eliminate some of the difficulties that individuals have in becoming employable—whether these are from malnutrition or some health situation, or some attitudinal legacy from environment or family—by guaranteeing income to a certain level? If you do believe that individuals really solve more of their problems than governments do or than social services do, that individuals in the last analysis sort many of these things out, given the opportunity, just as the society as a whole sorts out most of the problems of society, rather than government sorting them out—could you not, by guaranteeing income to a certain level, better accomplish your goal of guaranteeing opportunity?

Representative CURTIS. You know, this is a good point. And let me say that we have a lot of evidence available if we will study it that deals with this area. Unemployment insurance is an example. What is one of the conditions of that? In this instance, we tell a person that he does not have to take just any job that is available or lose his unemployment insurance. It has to be comparable work.

Now, when we move this same person over into welfare, some States actually take the approach, well, you have to take what job is available, even though it is not the what-you-would-like-to-have kind of job. So there has been a lot of work done on just the point you are making.

Further work must be done in the welfare field on how not to pay so much that you destroy or take away the incentive to remain on welfare, but to try to train and retrain. Then we move into this very interesting field, in which we have had much experience, of disability insurance. Here in the Ways and Means Committee measure that anyone getting disability insurance had to report in to the rehabilitation center. I voted against it in Ways and Means until we got that in, because that is the discipline.

All right, what do you do there in trying to rehabilitate the person? I again will quote Dr. Rusk, and I hope not out of context. He may disagree with a lot of my other ideas, but I think he will back-stop this: Motivation is one of the key things in rehabilitation, and who knows what it is about motivation that makes it so crucial? He tells the story about a friend of his, if I can repeat it, because it hits at this idea.

This was a basket case, a man who lost both arms and legs, but he had a fine mind. He happened to be a friend, and Dr. Rusk would go in and say, "You ought to be ashamed of yourself, lying there feeling sorry for yourself with that great mind you have." Incidentally, the man now employs about 15 people. He is one of the great title lawyers, having studied real estate titles.

But, as Dr. Rusk said, he would almost weep coming out of that room to have spoken that brusquely. But he was trying to illustrate, if I got the point, the motivation factor.

So you are hitting right at this idea. It is not inconsistent if we will keep our minds on motivation and realize that it is possible by the guaranteed—note the guaranteed—income, but that the guaranteed income can be a factor that destroys motivation. You are hitting right at the problem. I do not know the answers, but this is a real problem.

Representative RUMSFELD. Well, I know that you, as I, have a healthy skepticism about Government's ability to solve all problems.

Representative CURTIS. There are not many that it can solve, really.

Representative RUMSFELD. And I think that we all recognize, as you have just indicated, that there is a whale of a lot we do not know about motivation.

Representative CURTIS. That is for sure.

Representative RUMSFELD. And there is also a great deal that we do not know about why there are people who need help outside of the specific disabled categories. We do not know what it is.

Now, just to try to pin this down; let's say you had this healthy skepticism about Government's being able to solve these problems, and a healthy respect for an individual's ability to sort them out, given some assistance—we know there are times you need different types of assistance; let's say you agree with me that the odds for a person or society being able to sort them out are better if they are not undernourished or malnourished from the lack of income. If you agree it is vital just to get to a certain level, then why would you not be here testifying in favor of a guaranteed income? Would that approach help to get the maximum number of people up to the point where they could then step off into society, and would that approach be the one that demonstrated the healthier skepticism for the ability for the Government to sort out these problems for people?

Representative CURTIS. First of all, in this area, I do not look at the Government versus the private sector so much in this category. I think I can identify, or try to, what we need to do. First identify the jobs going begging, and secondly, direct your training and retraining programs toward them. Here is where management has to do a lot. They have to restructure a lot of these jobs so that they can find a place for the deaf guy or the blind guy or the guy with a lower IQ, or any other limitation. It requires that.

I am afraid if you go to this other approach of the guaranteed income you create permanent wards. I know who is promoting this other idea, too. They are people, some of them who mean very well, but there are others who are dedicated to getting the Government into this area and make permanent wards of these people.

I think you hit the key when you read that guaranteeing opportunities recognizes that a man grows with responsibility. Now read the second clause, "Guaranteeing income denies his capacity for growth and self-sufficiency" if in this way you are not careful that the guarantee ends when you get over meeting his need.

A guy has a stroke. You meet his need. You guarantee his income while he gets over the stroke, but hope that as you meet the need that you take away that guarantee, because what is in its place is the opportunity. If you go on the assumption that whatever this guy does he is going to get a guaranteed income, I think this hits at the very heart of the motivation factor.

Again, I hope people will reread "Hull House" and the point there, the politician versus the social worker. Of course the politician—this is our business. If we can be administering to these needs of people, we can get votes from them. There is a tendency for us in politics to try to have a permanent clientele.

I remember when I first started out, every Republican and Democratic organization would have a Christmas basket and a Thanksgiving basket. We wanted to be able to minister to people. This is a factor. This is where the danger of Government getting into this game is so acute, and we are now beginning to see it even more.

We saw it brought out in the Green amendment, where the city hall crowd wanted to take over poverty and take it away from the social workers. Milton Friedman's idea that the social worker—and I may be overstating it and oversimplifying, to criticize him—is that the social worker really does not perform a service. I argue that the service they are performing is identifying a need and ministering to that need to eliminate the need so that people can come back off welfare, not be on it as a permanent way of life.

This guaranteed income sort of says, well, needs are not significant, we do not have to spell them out, and we should not be tying the income to getting rid of the need.

Representative RUMSFELD. My time is up. I congratulate you on your excellent presentation.

Representative GRIFFITHS. Thank you very much.

Mr. Curtis, what do you estimate it would cost in schooling to guarantee opportunity?

Representative CURTIS. We could take the money we are spending right now and have money left over. Let me give you a big area that we

do not even identify as vocational training, and we are spending \$3 billion a year. We have a uniform on it. This is the military.

Why, heavens, if we would just get the military to tell us what skills they need, and 90 percent of their jobs today have their counterparts in civilian society, and say if they need welders and electronics people, train them in the high schools and tie it into the military. This was done in the 1920's, and it was not a bad idea, either. Then you can start relating how people trained in the military can use their skills in civilian life.

The military complains the other way. It says it is supplying the electronics specialists for the industry, because it trains them in service. But take that money and start restructuring it and you will have almost enough to do what I am talking about. Pass the Human Investment Act with the 10 percent tax credit for part of the cost to the private sector of retraining. Pass this bill that I recently introduced of trying to equalize the impact of the minimum wage because some of these people are not worth \$1.60 an hour right now, but they could be within 6 months if they learned job habits and so forth.

The minimum wage, because we have not looked at it, tends to prevent people of lesser abilities or training from getting jobs. Government needs to stop doing a lot that it is doing.

We have the money. This is one thing I could not agree more with my colleagues here. The society can afford it. I happen to think we not only can do it, we will have money left over.

Representative GRIFFITHS. Well, the boys that go out of my district write back and complain that the skills that they do have, the military did not use.

Representative CURTIS. That is right. There is no matching at all.

Look at what has happened to the Manpower Commission. It has not even operated during the Vietnam war. Yet it is supposed to be keeping some sort of inventory of what skills we have and those that are critical in relation to the military needs. The reserve programs are supposed to be directed in that fashion. I will fault our educators on this. They made a deal back in 1950 on the draft law, UMT; you let us have our bright boys and we will not criticize the system, they said. And they have not been criticizing for 20 years. Now maybe they will, now that we are at least drafting the students going to graduate school.

Representative GRIFFITHS. What about those who had some special disabilities?

For instance, I was out campaigning one day and a woman came to my trailer and said to me, "Will you please come and see my child?"

I went down, and she called the children and all three children came running into the room, only one little boy, instead of running, was jumping. He was just waving his arms and he was just the cutest little boy you ever saw, and the maddest. He was a dysphasiac. He could not speak. It was obvious, just by looking at him, you could tell that he was probably the most intelligent of these three children.

I understand that there are only two or three places in the country—and Washington happens to be one of them—where they teach a dysphasiac to speak, but the child must be in the school by the time he is 2.

This child, I am sure, would have been really competent. But such frustration. What kind of money do you think is needed, and who is going to pay for this?

Representative CURTIS. I will tell you right off the bat, by training that child, you will save money in the overall picture.

Representative GRIFFITHS. I agree.

Representative CURTIS. And it does require the kind of structuring and income spreading which I have written about at great length—tried to, at any rate—so that you spread income up to meet the need at the age of 2, because you will recoup it later. I have also tried to urge us to treat money spent for education and training as a capital investment. We do not treat it as a capital investment in our tax law. It ought to be. It is the greatest capital investment we have. And you get more returns from it than practically any other investment.

So there are many ways, if we could identify them in this way, where we could get the money. In fact, you could do it in the private sector if we would change our tax laws around somewhat.

Representative GRIFFITHS. What about all the children in the ghettos of the inner city? As you are aware, one of my objections has been to leaving children at home with a mother who has only a 1,400-word vocabulary, because you are not teaching the children anything. You are not teaching the mother anything, and you are not teaching the children anything. There is good reason now to believe that, from those things now known about education, that those children should be taken out of that environment by the time they are 2, perhaps. They should be put in schools.

Here is a time when children learn, along with other children.

Representative CURTIS. This is the Headstart program which, incidentally, was not a Government program, and has been going on in communities around the country at least 15 or 20 years. The Government picked it up and publicized it, and probably that part of it was good, but then it drove out a lot of the people who had been doing the real work in Headstart originally. I do not know whether the net result has been good or bad. It certainly has been directing attention in the right way.

We had a reform which was unheralded in the 1967 Social Security law, which I hope will go a long way to meet this problem, but certainly will meet another, namely, the difference in Federal matching funds that used to exist between title IV children and title V. Title IV, if a child were with a relative or mother, we would match at around 80 percent. If they were title V, in an institution or foster home, the matching was even below 20 percent. So the communities were reluctant to do the best thing for the child's welfare, because even though they thought that, for every reason in the world, the child ought to be placed in a better atmosphere and climate for its own development, it meant that the community was going to have to dig up the extra money because it would lose the Federal matching funds.

Well, with the amendments in the 1967 act—and I really worked to get it in, but it is in there—we have about equalized our matching so that now, hopefully, in Detroit and St. Louis, the people who are concerned about children can go ahead and have them taken care of, whichever way is best for them, with the mother, or in a foster home.

But this point is certainly accurate that you are pointing to.

Representative GRIFFITHS. In a town where there is no industry or industry has moved out, what do you do then to give the people jobs?

Would you move industry in or would you move people out? And who would pay for it?

Representative CURTIS. Senator Proxmire is chairman of our Economy in Government Subcommittee, and you are on it, too—the committee on what is mainly Government procurement. Remember the testimony we had from Secretary McNamara and the way in which they planned, when they pulled a military installation out, as in Decatur, Ill., to be of assistance to see to it that the economic structure remained, with a lot of the people remaining there, but also in helping them, if that is what was indicated, move elsewhere. This kind of thing is very much needed. I think a lot of it does go on in our present society.

But now I can point to one of the errors in our tax laws. I still have not gotten it changed. Let me illustrate.

They moved the big Chrysler plant from Evansville, Ind., to my district in St. Louis. At the same time, Evansville had lost the Servel Co. Real estate was a drug on the market. These people owned their own homes, but they could not sell so that they could follow their jobs. They were commuting, in effect, from Evansville to St. Louis. But the income tax laws will not let them deduct as a cost of this the fact that they have to maintain two homes.

Now, we as Congressmen get a deduction, \$3,000, because we have to maintain two residences, but the tax laws do not recognize these things for other people. This is what I meant about the mobility of labor.

There are so many ways in which we have not structured our tax laws, as well as our other present governmental structures, to reflect what happens in a dynamic economy when there is this constant shifting and rendering obsolete of skills. So these are the areas that I think our congressional committees—because no one else seems to be doing it—have to start doing our homework on developing.

I happen to think there are relatively easy solutions and the costs involved are certainly bearable.

Representative GRIFFITHS. Thank you.

Senator Proxmire?

Senator PROXMIRE. I would like to go back to the exchange we had on the 30 million or so poor, starting out with the 8 million on assistance.

I get it from your response to Congressman Rumsfeld and your response to me that you feel that any of those on assistance who cannot work you would agree should receive a payment, but you would feel that through more intelligent governmental programs and private programs and greater motivation, and so forth, many of them who appear not to be able to work could.

Representative CURTIS. Most of them.

Senator PROXMIRE. Most of them?

Representative CURTIS. Except for this; I do not mean the kids under 16.

Senator PROXMIRE. And 95 percent of the kids are under 16.

Representative CURTIS. And you will get a certain age group above 75 that are not capable of working. But the age group of 65 to 75 are.

Senator PROXMIRE. How about the mothers who take care of their children?

Representative CURTIS. I bow to Mrs. Griffiths on this, but I think a large proportion of these mothers not only can work but would like to. The social security amendments do not mean this picture that has been presented of a mother with a 9-month-old baby being told that she has to go out and work or she loses welfare.

Senator PROXMIRE. While I would always bow to our chairman, that is one area where I would certainly prefer to leave the decision up to the mother.

Representative GRIFFITHS. Is it not true that a great number of these women can and would like to work?

Representative CURTIS. Of course. Secretary Cohen called up in great surprise that in a survey in New York, 70 percent indicated they want to work.

Senator PROXMIRE. Well it may be 4 million or 8 million, I think it is closer to 8, you think it is closer to 4.

How about the 12 million in the families where the breadwinners work full time but who are poor?

Representative CURTIS. This, again, I think is an overstatement, but I would like to see the basis for these statistics. But certainly, we need to look into this area and find out the profile of these kinds of people.

This, again, I have put it in terms of underutilized economic resources.

Senator PROXMIRE. Well, they are in Missouri; they are in Wisconsin. We know the people in rural areas and other areas who work very hard, work long hours; some of them are very efficient. Still their income is very low.

Representative CURTIS. Well, when you talk about the farmer, I really worry about him, because he is not only a worker, but he is also an investor. I think we have some real problems here, but on the other hand, let us face it, they seem to live pretty well.

I think we have to be more realistic in what we have called poverty. You come down in the Ozarks and try to rout out some of these so-called poverty people and you will get into trouble, because they really like the way they live, and they do not live poorly according to their ideas. There are many people that go down there to live.

We have to do a little more analysis of just what this group really consists of. I am sure that there are a number of these who do not like their situation, who want out of it, and actually something can and should be done for them. But I do not know the number of them. It cannot be determined just by this arbitrary income level.

Senator PROXMIRE. Would you not agree, however, that if you had some kind of a program, and I would prefer to call it a work incentive program, a program to provide some supplement to the inadequate income, and sometimes it is pitifully inadequate, that it might be salutary in the sense that at least they could provide better for their children?

Representative CURTIS. This is the thrust of the bill that I have on employment equalization, where we are dealing with the hard core unemployed. In this instance, they do not even have work habits and

they are not worth \$1.60 an hour economically; but once they have learned these kinds of habits, they could be. This is exactly what the bill provides, that you have the employer pay the \$0.90 or whatever they really are worth, because they are worth something, and that welfare make up the difference. Then, as they continue on that job, the employer picks up more and more of the cost because they surely will become worth \$1.60 eventually.

This only will hit at a portion of the problem but this will help a great deal.

Then I would have to know—and we have not studied it the way I wish we had—more about the profile of these people. Actually, what is the picture here? We do not have that data. We have not done our homework in this area.

I have been trying to get the Labor Department to come up with a profile of the unemployed.

Senator PROXMIRE. Right now I am talking about the employed whose incomes are inadequate.

Representative CURTIS. That is right. We are just recently getting a profile of the unemployed. Now, the underemployed is another highly significant group and we need to know what this profile is. I do not know.

Senator PROXMIRE. I would like to get Monsignor Corcoran and Mr. Hayes into this next point. You say, and I quote in part, guaranteed income has “a serious and disturbing effect” on private philanthropy.

Representative CURTIS. Yes.

Senator PROXMIRE. In other words, on charity.

Mr. Hayes, in his remarks—which the monsignor shares—says, “We favor abolition of the kind of power over other human beings which our present welfare system requires.”

You know our present welfare system is not a private philanthropy, but there is an element there which was brought out very well yesterday, in which Dr. Dumpson said how deeply people resent charity, and properly. They feel it should not be a matter of a person who gives it, whether he is a social worker working for a government or whether it is a private charitable institution, providing his own moral values, his own judgments, this own determination of whether people should have it or not.

Representative CURTIS. To this I would respond by saying let us study what we are talking about. What are the community chest agencies?

The picture that has been painted to smear—and I use the word advisedly—private charities is that of “Lady Bountiful” and charity in all the hardness that you have presented. I would argue, as you look into the community chest agencies in my community, or any, you will not find that kind of picture, and this is very unfair to the social workers and others who are engaged in it. They are probably even more aware of the harshness of that kind of charity.

Senator PROXMIRE. I do not want to be put in the position of criticizing the charitable institutions at all. I think they are marvelous and I am proud of the fact that I play a little part in them.

Representative CURTIS. I want them criticized, but I want them criticized objectively.

Senator PROXMIRE. I am talking about the fact that there is an imposition of moral determination, one way or another, by the person who administers our welfare program or provides charity.

Representative CURTIS. You say power. Let me say this: If welfare is used properly to get people on their economic feet, and I would argue our private charities largely have that approach, you will find in their files letters of thanks and appreciation that will go on for 20 and 30 years, because they have helped people in need to get on their economic feet. You do not have this kind of "Lady Bountiful" picture, which I think is a rotten concept of charity in the first place. You do not have this business of power over people, as you do in public housing in St. Louis, Mo., where the ward boss ran the public housing unit, and people had to vote a certain way—yes, you can get that kind of power tied in with charity to the political structure pretty easily.

Maybe it has existed in certain private charities. It probably does, and I want to see this kind of criticism. Let us have a study of this. Let us not make assumptions about these kinds of things.

Yes, we do need to study private charity, but I would overall give a pretty good upcheck to our private charitable organizations, the ones I have seen. I have worked with many. I was on the board of a number in St. Louis for many, many years.

Senator PROXMIRE. I would like to ask Monsignor Corcoran and Mr. Hayes to comment, in view of your statement.

Monsignor CORCORAN. I have understood your question a little differently. In our statement, the power we were speaking of was not that—we were not applying that to the private sector of social service agencies. It was primarily to the public sector, where there is a tremendous, either real or imagined, effect on the client, a fear that they have. This would be the primary thought.

I do not think that this idea of a guaranteed minimum income would harm private philanthropy. I think that it would release it for many other areas of need. I think that there is another factor in here, which we touched upon in the paper which is important. I refer to providing in the social service area, to a person the ability to determine where he is going to get the service, as well as the kind and the quality of service. Mr. Rumsfeld was referring to this.

I think that there would be the use, for instance, of private social service agencies by people who needed social services if they had the money, some guarantee, even, which would enable them to do so.

This is just a very thumbnail sketch of a very broad idea.

But I think there are several relationships to the whole private sector that are interwoven in this total picture.

Representative GRIFFITHS. I regret I have to leave now and without objection, I would like to include the statement of the National Association of Manufacturers in our appendix along with the other fine papers we have received for inclusion in the record.

(See volume II, appendix 12.)

Representative GRIFFITHS. Do you have other questions?

Senator PROXMIRE. I would like to follow it up just very briefly.

Representative GRIFFITHS. Please do. If I may, I would like to be excused now.

I want to thank each of you for being here. Thank you very much for your contribution.

Senator PROXMIRE (now presiding). You say the private charities could, in a great many areas, do a lot more because they would have more money and they would be relieved of the necessity for providing what is traditionally regarded, rightly or wrongly, as the charity cases, those that do not have enough. You say that would be wholesome and proper?

Monsignor CORCORAN. Yes.

Senator PROXMIRE. You say that as a monsignor, one who has been involved with a charity operation for most of your life, I would presume?

Monsignor CORCORAN. That is right, for almost 25 years.

Senator PROXMIRE. Congressman Curtis, you say the guaranteed annual income would slow down economic growth. Supposing you adopt something like the Tobin proposal, which provides for either a 33 $\frac{1}{3}$ -percent or a 50-percent tax rate and constitutes an excellent, it seems to me, departure from the present welfare system, which has a 100-percent tax rate, in the sense that if somebody is on welfare and earns an income on the side, they have to give up dollar for dollar their welfare, whereas the guaranteed income, as conceived by Tobin, would permit someone to receive some of their guaranteed income while they are working and therefore would provide incentive for them to work. Therefore, it would seem to me it would tend to promote economic growth.

Representative CURTIS. I think to the extent that it is not as great a disincentive as the 100-percent, this is right. It would be a question to what extent is it, because it still remains a disincentive. I do not know whether it is enough to make up the difference.

Senator PROXMIRE. May I say at that point that it is a disincentive. It could only be a lesser disincentive than welfare if you do not provide anything for people.

Representative CURTIS. Welfare, as I view it, is tied to specific need. It is not an absolute figure. It is tied to identified needs; the social worker does the identification. Then you direct your attention, with your money to give the subsistence and what they need to live, but you direct your other attention to getting rid of the cause, the need. As that need and cause are removed, then they are back on their economic feet.

I simply say a mathematical formula that guarantees people a certain portion to that extent interferes with the welfare concept of identifying the need and spending money to eliminate that need. I think this is true of both Dr. Tobin's and Dr. Friedman's approach. They both are counting on the savings from elimination of the social worker, which clearly indicates that they are not going to be paying as much attention to what I think needs to be paid attention to, need.

Senator PROXMIRE. They told us they did not expect the social worker to be eliminated. As a matter of fact, they are expecting him to continue, but in a different way. I said I thought the social worker would not be continued as much, because there would not be as much direct and absolute need. I am inclined to share much of your view on that.

Representative CURTIS. May I interrupt to say that that I am happy to hear, because the last time I debated Milton Friedman—

Senator PROXMIRE. This was not Friedman, this was Tobin.

Representative CURTIS. Well, Tobin never talked as much about this. But I think he would agree that he was counting on cutting back on the cost element of the social worker. He may restructure him to do something else. But for me, I identify the social worker as the one engaged in this important task of identifying the need of the individual human being so that we direct attention to eliminating that need, spending money on that. The other is a sort of gross approach, that all people are the same and you do not have to tailor your expenditures to individuals. I think we do have to tailor our expenditures to individuals.

Senator PROXMIER. One other question which has been brought up in the course of our hearings, and we are anxious to get your view on it. It has been argued that one definite advantage for the guaranteed income is that it or some variation of it would tend to dissuade these tremendous migrations from poor States, or particularly from southern States to northern States, the people coming into the cities. We have a situation in which an AFDC child in Mississippi gets \$9 a month, in New York he gets \$51 a month, in Wisconsin he gets about \$51 a month. These are enormous discrepancies.

In the first place, it is very unfair, very unjust. No matter what assumptions you make on the cost of living in the two places, it obviously is not a fivefold difference. The guaranteed annual income would say that all Americans have something close to a decent minimum. No. 1, and No. 2, it would tend to diminish one of the most unfortunate developments we have of a terrific congestion of people in our big cities.

How about that?

Representative CURTIS. First, I would say that an analysis of the problem lies in the fact that there has been a breakdown of residency requirements in certain of the States, which permits this kind of movement. People will actually look to see where they can get the most welfare, because they can go where they please.

I would put it on a more affirmative basis, the failure of the States to develop reciprocity agreements with each other as to how they handle welfare cases. Much could be done in this area. I have been urging it, and the administration undermines it, in my judgment, and does not encourage the development of these reciprocity agreements.

But this then gets back to the basic point which is made here, as I understand it, and it is always a difficult thing to argue against the imposition of Federal standards. There are certain areas where the standards are so low, that there is no question that you can, for the next 5 years, increase the standards of those areas by Federal standards.

My only point on whether we go to Federal standards is that we think in terms of what do we do to innovate for the future? As Justice Brandeis pointed out, the 48 States are 48 laboratories to test out ideas in the field of political science. I say 100,000 laboratories to test out ideas because there are that many taxing units if we include the school boards, the counties, and the municipalities and so forth.

There is a point at which you can say, "Well, we have tested these ideas out enough and we know what the standards should be and therefore, we can put them into force and on a federalized basis." When we do this, we have to at least understand what we are doing in the field of innovation.

Now, in this area, I think there is enough cause for alarm to say that at least to some degree, there should be some techniques used to

raise these standards in certain of the very low areas. I go even further, though, by identifying why they have them.

Let me illustrate if I may, and I do not want to prolong this too much, but this is so basic. People have said to me, you have argued for State equalization laws for school districts, because you have in a State some poor areas and you have some rich areas; why do you not think there is a need for Federal equalization laws in the field of education?

I say, "Well, I do not think there are these discrepancies between poor and rich on a nationwide basis that you have in a State."

They say, "Look at the poor States."

I say, "What poor States?"

They all come out with Alabama, Mississippi, and so forth.

I say to them, "Now, why do you say they are so poor?"

The answer is, "Well, look at their per capita income." I say, "Wait a minute; we do not finance education and community facilities and welfare through an income tax. We support it essentially through a tax on wealth, through the property tax. You take a look at the assessed wealth—not the assessed wealth, the real wealth—of these States, and you will find that the assessments are, in Alabama, some 19 percent of what they should be, while the national average is 47 percent."

I think if we would start pointing these things up and talking in these terms, we would probably have a base on which the people in most States themselves would do something about it.

Senator PROXMIRE. Maybe they would and maybe they would not. No. 1, it would take time.

Representative CURTIS. Everything takes time.

Senator PROXMIRE. No. 2, it is problematical whether it would occur.

Meanwhile, you have millions of American children whose unfortunate parents are not getting enough so that they provide for them. These are children who are going to, perhaps in many cases, immigrate north. In many cases, they are going to stay there. In any event, they are not going to get enough food, they are not going to get enough shelter, they are not going to have the opportunity to develop into the kind of human beings who will be productive and happy.

Representative CURTIS. You say millions. I am not sure it is that many. But even if it were 100,000, you are right in saying this. But this comes back to my other point: Do we solve programs on a crash basis?

I have always argued that education is always an emergency, because a kid is a kid just so long. But does that warrant going in on a program that has not been carefully thought out? I think we have done too much in haste, with all the goodwill in the world, and we have not been doing our homework.

In St. Louis, Mo., they are now seeing it. I argued against public housing. I said I thought it would produce highrise slums. I was not sure; I thought it would. So I was castigated for not caring about getting cheap, adequate housing for people.

I said, "No, I want it but I think this is the wrong way."

Well, now they have the high-rise slums in the city, and what has happened to the people involved? What has also happened is that we have failed in this interim period to possibly come up with programs that would have worked?

So I am not influenced any more by those who put up the argument of the pitiful position of a lot of these people, because God knows—I know it—I am more concerned about sitting down and doing the homework necessary to be sure that, when we arrive at solutions, we come out with the right ones. And I do not think this kind of business of running to the Federal Government on the assumption that you want to do good and pass another law with a label—we have programs falling all over each other—is going to do it.

I just plead, if I may do so—get the demagoguery out of this area and maybe we can restructure these programs with more intelligence. Even with the best thoughts in the world, we are not going to come out with correct solutions without proper study. We are not going to solve it in your and my lifetime, but we could move it forward.

Senator PROXMIRE. Moving it forward is what we want to do.

Representative CURTIS. But we are moving these things backward.

Senator PROXMIRE. Here we are at close to the end of this session. We know perfectly well we are not going to get anything out this year. So it is not a matter of acting in haste.

Representative CURTIS. We sure have acted in haste.

Senator PROXMIRE. We are not going to now. We are not going to pass any guaranteed income plan this session.

Representative CURTIS. If you build up enough PR out there in the public, you can force this through.

Senator PROXMIRE. I think it is significant that the people favor the Government as an employer of last resort. Overwhelmingly, the people are for this.

Representative CURTIS. I do not think the people know the facts of life, because Congress has not done its homework.

Senator PROXMIRE. I am not sure Tom Curtis does not favor such a program—not a guaranteed income plan but an opportunity for people to work.

What I get out of your paper is that you favor opportunity, you say that over and over again.

Representative CURTIS. That is a label. I have to back my label up to be sure the product is sound. I am not one to say that just because I have a fancy label that my product is sound. I only ask others to have their product match up with their label. We have not been doing this.

Senator PROXMIRE. In 1933, the administration came to power and within about 30 or 60 days, they tremendously revolutionized governmental operations and governmental attitudes and wrote a tremendous series of laws. That was impulsive, they made a lot of mistakes, but many people felt that the Nation moved forward. We are not asking anything like that. We are not going to act this month, next month, or the month after; we are not going to act in 1968, and we know it. We cannot.

However, we do have time, it seems to me, to take these hearings and have other hearings and sometime next year, hopefully, develop a program that will provide the kind of opportunity that you say you want, that will go a long way toward meeting what I think Monsignor Corcoran and Mr. Hayes have asked for, and offer an opportunity to really make inroads on poverty.

We are in a position to do it now.

Representative CURTIS. This is true, but this is what I am saying, that this kind of study and further studies are the way to go. I honestly do not know the answers. I think I know some questions that need to be studied to come up with the answers.

But let me illustrate. Ever since the problem of the young Negro was identified, we have had the incidence of unemployment of the young Negro go up. Actually, you can look it up, before all this publicity was directed toward it and we moved in on it, the figure was going down. I would think that this would make some people pause to question whether they have not been moving in haste and overpromising with all their labeling and all this PR that has been going on. Maybe we have driven out of the area those who want to study the darned thing and see what maybe are the correct solutions.

So this is what I am saying, or trying to say. Because we have these problems, and we do, let us not push the panic button. Yes, there are emergencies, but the best way to meet an emergency is to keep a cool head and get to work.

This Congress has not been working on these problems. This committee has been. Why are we waiting here? Remember just 2 weeks ago, our committee was the first committee to even call the Kerner Commission before us to hold hearings on these issues. The report came out in March. The congressional committee that ought to have been concerned about various areas of the Kerner Commission Report have done nothing. I think it was overall a pretty poor report, I might say, but there were some spots of good, excellent work done in there that deserved this kind of specific attention. But this Congress has flunked, has not done anything on it.

But it has been passing all sorts of labels. That is what I mean.

I am not faulting our committee. Right now, I am very, very pleased. I was only responding to what I felt was your plea to put this on an urgency basis. I have it on an urgency basis, I think, but I am not going to get panicky about it because I do not think that does any good.

Senator PROXMIRE. Well, I think we have to do the job, though. We have to get it done. Congress so often, in the past, has gone for years, sometimes decades, making very, very little progress on serious social problems. Unless we recognize that we have a very, very dangerous situation in some of our cities, an appalling situation of social injustice in some parts of our country, and determine to do something thoughtfully and prudently and with study, but do it, act, it seems unless we do something like that, we are unlikely to get through. I think we have a very large consensus that has come out of these whole hearings.

Representative CURTIS. Here is what I am afraid of, and I do not want to be misunderstood. I am not at all sure that the Government has not overacted and has created damage. I am not sure that the best thing the Government can do is not to stop doing a lot that it is doing. I am not sure where in our society we use government, where we use the Federal Government, the local and State governments, where we use the great private and nonprofit sector, where we use the profit sector. I am not sure where we come out. But the assumption that the Federal Government must act, to me, is an assumption.

It may be that maybe there is something we can do that we have not done, but I want to find out, because we have already done a lot of things, in my judgment, which have been very damaging.

Senator PROXMIRE. Thank you very much, Congressman Curtis and Mr. Hayes and Monsignor Corcoran. It has been a most useful presentation this morning. I think this properly and rightly concludes what I think have been very productive hearings.

The appendixes to these hearings will contain all the supplementary statements and articles which have been mentioned during the course of these hearings as well as pertinent materials which we have not had an opportunity to mention heretofore. I would refer you to the contents page of the published hearings for details.

In line with what I have just mentioned is a letter from William L. Taylor, staff director of the U.S. Commission on Civil Rights which I will include in the record at this point.

(Whereupon, at 12:25 p.m., the hearing concluded.)

(Letter referred to follows:)

U.S. COMMISSION ON CIVIL RIGHTS,
Washington, D.C.

HON. MARTHA W. GRIFFITHS,
Chairman, Subcommittee on Fiscal Policy, Joint Economic Committee of the Congress, New Senate Office Building, Washington, D.C.

DEAR MRS. GRIFFITHS: I have been following with interest the hearings being held by your subcommittee on Income Maintenance Programs. Recently, the Commission on Civil Rights held a public hearing in Montgomery, Alabama on issues of economic security. Much of the testimony received at the Alabama hearing is particularly relevant to the hearings your subcommittee presently is conducting.

The testimony presented to us led to the conclusion that bold, new programs and approaches must be developed before the cycle of poverty and economic dependency of Black Belt Alabama will be broken. Programs which will assure to every family a standard of living adequate to provide a reasonable chance in life have become a necessity. Many have suggested that this only can be accomplished by some form of income maintenance.

I am enclosing four staff reports and a statement which are based on evidence developed through Commission investigations and testimony given at the hearing. I would like to have these included in the record of testimony before your subcommittee. I believe they will be helpful to you, your committee and its staff, in understanding the failure of present programs to assist the poor in helping themselves, and of the necessity of seeking new approaches to break the cycle of poverty.

Sincerely yours,

WILLIAM L. TAYLOR.

(See volume II, app. 8, for reports and statement referred to in above letter.)

