

## DISCUSSION

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As members of this panel know, I have long thought the negative income tax an ill wind that no one, no matter how dedicated, would blow good. I was, therefore, from a fairly early point, opposed to the President's welfare reform. But I am heartened by Prof. Tobin's and Prof. Lampman's papers which forego arguments about "who did what to whom," to extract lessons from the experience of the last few years. And they are, as usual, thoughtful and practical. So we begin to move forward once more.

I would like to point to one lesson that is, it seems to me, implicit in Prof. Tobin's paper, although at moments he seems to overlook it himself. That is, none of the income maintenance proposals that has recently been put forward is intrinsically efficient or inefficient. Tax credit, negative income tax, children's allowance, welfare reform: All may be efficient or inefficient, depending on design. While he favors a tax credit, Prof. Tobin rejects a children's allowance as inefficient. Yet a children's allowance, if it did away with the tax exemption for children, would probably be more efficient than a tax credit at the same payment level. Conversely, many economists have supported the negative income tax because of its presumed efficiency. Yet the Heineman Commission dutifully reported that a negative income tax with a \$3,600 minimum would be only 36 percent efficient.

So one perceives that a scale of incentive payments is one one of various approaches to efficiency. Stigma and repressive administration have been a much favored method in practise, if not in conference papers. Trading off a proposed benefit against an existing tax benefit is a method common to the tax credit and children's allowance. Designing a program for a population group that tends to have a large proportion of poor people is a fourth method and is, as it happens, a principle of social security. (For example, retirement insurance is about 50 percent efficient -- in other words, retirement insurance is more efficient than a poverty-level negative income tax.) I am saying, in short, that if we test efficiency by inspection rather than by authority, we shall find a more versatile set of proposals open to us.

That is fortunate, in the light of the lesson that is Prof. Lampman's carefully developed main point. That is, we have reached and perhaps exceeded the limits of income-conditioning. With tax rates from one program pyramidding on others, incentive to work in any of them may be quite wiped out. Indeed, other problems arise before the problem of incentives. With the proliferation of regulations that relate one program and benefit level to another, they all become confused. That was the fate, in simpler days, of the AFDC work incentive that Prof. Lampman discusses. HEW financed (and suppressed until welfare reform had

died anyway) a large-scale study that shows that many recipients did not respond to those work incentives at all. Why not? It seems that neither they nor their income maintenance workers understood the calculation or believed they would really benefit. Nor, some months after researchers had carefully explained the incentives, did they prove more effective. Indeed, I believe that even today investigation would turn up many localities that have never implemented that particular 1967 amendment. They are on an undeclared strike against legislation they fail to understand or regard as hopelessly complex. If even more income-conditioned programs are developed or if we attempt to subordinate the tax rate in one to another, as has been suggested, I suspect that would compound the confusion.

I do have a suggestion regarding this particular problem. It arises out of the observation that pyramidding is not a function of payment arrangements but only of the effort to recapture earned or "excess" income. In other words, it is not paying out, no matter how many programs are involved, that creates the problem, but taxing back or, as the usually understated British say, claw-back. Suppose we relied solely on the graduated income tax for claw-back, and paid out in as many or as few separate programs as we like -- simply taking pains to make all payments taxable? That would be quite workable and a great simplification. The problem, of course, is that public assistance, food stamps, and all the rest have much higher rates of taxation than the income tax at comparable levels. So this complex, probably unworkable system of incentive arrangements and taxation of benefits exists mainly to protect a specially high tax rate for the poor. It is too bad we cannot trifle with that, for otherwise we should have had a solution to this problem.

I have so far offered comments in terms that may interest economists. In this matter of income-conditioning, however, I believe that social issues are far more significant and will have longer term consequences. Our educational system has tended to confine the children of poor people to poverty. In housing and neighborhoods, we separate economic classes more than other industrialized countries. It has lately been argued that we are developing two distinct labor markets. And here, in a transfer system that disposes of almost a fourth of GNP, we also see the deepening of a dual system. It goes without saying that the educational system, residential arrangements, the labor market, and the transfer system interconnect. With all linked and going in the same direction, we may be developing the permanent underclass of which Gunnar Myrdal once warned -- a true duplex society.

A duplex society is not desirable in any country. In the United States, with our ideology of social mobility and with the racial overtones

that class divisions carry, it is explosive. Education, housing, and employment are not our subjects here, and their policies may be more difficult to manage. But transfer policy is directly subject to manipulation. There at least we shall turn away from income-conditioning if we want a nation that is at all at peace with itself, as well as for the reasons that Profs. Tobin and Lampman have offered.

Before I leave income-conditioning, let me speak directly to Prof. Tobin's suggestion of a work declaration. He proposes it, I believe, not so much because it is intrinsically desirable but because he thinks the public thinks it is. The work test he has borrowed from Harold Watts seems so broad as to exclude no one, probably by intention. Who, being otherwise idle, cannot at the least claim to be doing volunteer public service? But the interesting thing is that such a declaration is not required to take a tax exemption under current law, and Prof. Tobin understands better than I that an exemption and a credit are the same money. Then what is different? Why, in our heads we understand that we would be giving these \$375 payments to a number of people who are too poor to pay income tax as well as to all the rest.

I will make my point about this in a moment, but should say a word about taxing non-supporting fathers. I have no desire to defend social workers -- we must be almost as guilty as economists of having failed the nation in these desperate years -- but social workers are not the reason fathers don't support. If some institution must be found responsible, it may be the courts and prosecutors. One must say in their defense that they don't enforce support because they find it unreasonable to do so. Most separated and divorced men soon remarry and found new families, and few have incomes adequate to the support of both. (I remember the case of a man who was extradited from Maryland to Connecticut and jailed for non-support. The Connecticut prosecutor made a fine showing, and the second wife in Maryland promptly applied for AFDC -- and received it.) In general, courts with the facts in hand order less in support than welfare departments, for example, tend to require. You may find that hard to believe, but it is so. I am trying to say that the problem about support -- and it is a problem -- lies in deep-rooted American patterns of child-bearing and marriage. It will not be dealt with by nuisance taxes or new administrative devices; and proposing them is not a serious way of treating the problem.

I talk about the work declaration and non-support in the context of income-conditioning because it represents a lesson that has, perhaps, not adequately been learned. That is, once we start to design transfer programs to regulate people's lives, we enter on a slick road to "the welfare mess." The President's proposed welfare reform should be an instructive illustration. It was designed by people who intended the simplest sort of income-tax-type administration. In the

hands of Congress and lobbyists intent on dealing with the poor -- or their idea of the poor -- it took on a load of requirements about family relationships, work, training, and child care that could not have been administered at all, let alone simply. I hope you see my point here -- that it is precisely the proliferation of these requirements -- conceived by the mind-set of income-conditioning -- that turns what we call a negative income tax into what we call a welfare mess.

But Prof. Tobin's point is -- certainly Prof. Lampman's point is -- that we should move on from income-conditioned programs. If we really grasp what that change means, we don't need all the talk about work and family breakdown that we have had -- not to justify transfer program proposals, at any rate. One may think the public will require such discussion. I doubt that. I think the people sitting here lead the public, whether for good or error. In any event, we should give the public the benefit of our best thinking, without supposing that they will think the worst.

Such a view seems to me to be highly compatible with what I take to be the most important lesson that Profs. Tobin and Lampman have gleaned. That is that we should keep our eyes on the whole transfer system. We are not, as Tobin says, forever stuck with a dual system. The tax credit he suggests would, at a wild guess, cost \$20 billion net. Yet it is only one element of a series of proposals that one would offer. As has been pointed out, they would have a practical advantage. We have learned that there is small chance of wiping out what we have and writing on a clean slate. If we have a versatile arsenal of measures, each of them calculated to favor people at the bottom of the income distribution, we shall have a better chance of succeeding over a period of time. And we shall have much more to succeed about!

I suppose my underlying point, which I think I take from Profs. Tobin and Lampman, is that we are not dealing solely with anti-poverty measures in some simple sense. We are dealing with the distribution of income in the United States, and how it must be altered. It is a difficult, long-term struggle, but that is the struggle.