October 1974

National Income Insurance: Some Implications for Political and Economic Inequality

John B. Williamson

Boston College

Follow this and additional works at: https://scholarworks.wmich.edu/jssw

Part of the Political Science Commons, Social Welfare Commons, and the Social Work Commons

Recommended Citation
Available at: https://scholarworks.wmich.edu/jssw/vol2/iss1/4

This Article is brought to you for free and open access by the Social Work at ScholarWorks at WMU. For more information, please contact maira.bundza@wmich.edu.
Several co-workers and I have recently completed an evaluation of sixty-three anti-poverty programs and proposals (Williamson, et. al., 1973, 1974). This paper briefly describes the study and some of our findings by way of introduction to the presentation and defense of a national income insurance proposal. This proposal is a synthesis of three highly rated anti-poverty strategies. It would within a few years have a substantial impact on the extent of the economic inequality in the United States.

The 1960's was an era of experimentation. A wide range of anti-poverty strategies were proposed and many were tried. Of those since discontinued many were clearly ineffective, but others would, no doubt, have proven effective had they been expanded and continued over a longer period of time. This research is an effort to systematically examine what we have learned from the experiments of the 1960's in the hope that this experience will be taken in consideration in the formulation of future anti-poverty policy.

Many of the strategies we consider have been the subject of previous evaluations, some have been the subject of numerous such evaluations. But previous studies have often considered only one program and rarely consider more than a few. The contribution of our study is in its breadth.

The strategies we consider can be grouped into six general anti-poverty approaches: (1) income-in-kind, (2) income, (3) manpower, (4) education, (5) economic development, and (6) organization. The economic development approach includes strategies which would create jobs for the poor in response to local or national economic expansion. The organization approach includes those strategies which encourage the poor to act together and in cooperation with others so as to increase their political influence.

* I am grateful to Ralph Segalman for a number of valuable suggestions on an earlier draft of his paper. The article is based in part on a forthcoming book, Strategies Against Poverty in America (Williamson, et. al., 1974).
Our analysis has three objectives: (1) to evaluate the major anti-poverty strategies within each of the six preceding general approaches; (2) to compare strategies within each of these six approaches; and (3) to compare strategies across these six general approaches. For each of these objectives we make extensive use of a set of twenty-six dimensions (evaluative criteria). For example, we consider such dimensions as proportion of the poor who benefit, impact on the distribution of income, and extent to which recipients are stigmatized. A subset of eighteen of these dimensions are used to compute an overall rating for each strategy. For this purpose eight dimensions are excluded so as to reduce redundancy and to eliminate dimensions which cannot be used in an unambiguous way to argue for or against a specific strategy. For a description of the strategies evaluated, the twenty-six dimensions used in the evaluation, and a more detailed discussion of our methodology see Williamson, et.al. (1974: 110-114, 190-200, 213-218; 1973: 409-444, 881-889).

Of the sixty-three strategies considered, the guaranteed income proposal of the National Welfare Rights Organization receives the highest overall rating. The NWRO has modified its proposal several times over the years. The version we consider includes a guaranteed minimum income of $6,500 per year for a family of four and would have cost approximately $52 billion in 1969. The tax rate on all other sources of income would be 67 percent until the breakeven point (the point at which the tax paid on all other sources of income equals the guaranteed income due) of $9,750 was reached.

The government as employer of last resort proposal is also highly rated. This proposal calls for efforts to find job placements in the private sector, but in addition guarantees a job to those who are unable to obtain employment. Of the existing federal programs considered, social security receives the highest rating. This program transfers more money to those who are poor or who would otherwise be poor than does any other income maintenance program (Green, 1967:20).

The NWRO guaranteed income proposal is one of several negative income tax proposals we consider. The negative income tax proposals are consistently rated higher than AFDC. The proposal we now turn to consider is referred to as national income insurance. It represents an effort to combine the strengths of social security, the negative income tax, and the guaranteed job into one integrated program which would be both politically feasible and effective in reducing the extent of poverty.
NATIONAL INCOME INSURANCE

In recent years a variety of guaranteed income proposals have been made. There is little consensus as to the generic categories for the classification of these proposals, but the terms "negative income tax" (Friedman, 1962; Green, 1967; Lampman, 1970) and "credit income tax" (Rolph, 1967; Rainwater, 1973; Gans, 1973, Shostak, et al., 1973) are the most commonly used today. The basic distinction between the two is that the credit income tax calls for a reform of the entire income tax structure whereas other negative income tax proposals do not call for any changes in the tax structure above the breakeven point.

The income (or anti-poverty) insurance approach (Etzioni, 1969, 1970; Jencks, et al., 1972: 228-229) can be classified as a form of negative income tax. The approach differs from other negative income tax proposals in that there is some link with employment such as being financed all or in part by a payroll tax or basing benefits on past earnings. In this sense the approach can be compared with existing social insurance programs such as social security, unemployment insurance, and workmen's compensation.

The national income insurance plan presented here is so named because it would provide social insurance benefits whenever family (or individual) income fell below a specified level. Initially the program would provide a guaranteed income equal to 25 percent of the median family income adjusted for family size in the same way the Social Security Administration's poverty index is adjusted. All other income would be taxed at a rate of 50 percent until the breakeven point was reached. Above the breakeven point the current tax schedule would be used. Assuming that such a program was introduced in 1975 and the median income was $12,000 for a family of four, the guaranteed minimum income would be $3,000 and the breakeven point would be $6,000. Those with other sources of income of less than $6,000 would receive a net payment; many with incomes just above $6,000 would pay less tax than under the current tax system.

There would be no employment requirement for those unable to work due to family responsibilities, poor health, or age; but other recipients would be required to obtain employment in the private sector, to accept one of the guaranteed jobs that would be created by the government, or to participate in some form of alternative service (e.g. job training, adult education, VISTA, something similar to the old WPA's writers' project, etc.).

The program would originally add less than $10 billion to the federal budget. Half of this would be raised by a payroll tax similar to that presently used to finance the social security program. The rest would be financed out of general federal
revenues. A similar procedure has been proposed to finance Kennedy's national health insurance plan.

Central to the national income insurance plan is the provision for increasing the magnitude of the guaranteed minimum income. The level would be uniformly incremented from the original 25 percent to 50 percent of the median income ten years after the introduction of the program. The cost would increase to approximately $80 billion per year.

In the discussion that follows we consider a number of arguments that can be made in support of the national income insurance plan. Many of these arguments are equally applicable to other similar negative income tax and credit income tax proposals. The discussion is in this sense a review of the strengths of the guaranteed income approach to income maintenance. There are also a number of arguments that can be made against the national income insurance plan; they will be presented and evaluated in a subsequent paper (Williamson, 1975).

The national income insurance plan would be universalistic; that is, it would provide benefits to all poor persons. At present all anti-poverty and welfare programs in the United States are categorical; they provide benefits to certain categories of the poor while excluding others. One justification offered for this approach is that it encourages tailoring programs to the specific needs of various categories of the poor. This would in itself be a desirable characteristic, but when put into practice the approach serves to exclude certain categories of the poor. The major rational for breaking with the categorical approach is that efforts to restrict benefits to those who are clearly deserving inevitably lead to the exclusion of many who under careful scrutiny also turn out to be deserving. An obvious case in point is the exclusion of children living in families headed by able-bodied males. In contrast a universalistic program such as the national income insurance plan would assure that at least some benefits reach all of the poor.

The plan would eventually provide sufficient economic security to encourage long term efforts to become self-sufficient. When first introduced the program would not provide sufficient economic security to encourage such efforts. But as the level of the guaranteed minimum income increased, long range efforts would become increasingly common. When a family has to worry about where the money is going to come from for next week's groceries, little attention can be given to such luxuries as obtaining more education or training for a higher skilled job; but an assured steady income would in many cases free the family of such immediate economic worries. The potential gain to the rest of society is particularly clear with respect to those families which are presently in a dependent status and include one or more able-bodied workers.
Many workers remain in economically depressed areas with little demand for their labor due to fear of the economic insecurity involved in moving to an unknown region of the country in search of employment. A guaranteed income would provide at least some of these workers with the security they would need to seriously consider moving to another region in the hope of finding more suitable employment opportunities.

Critics of the national income insurance plan (and of guaranteed income plans more generally) would argue that the economic security provided is more likely to discourage efforts to remain self-sufficient than it is to encourage efforts to become self-sufficient. There is some evidence that those in the middle class tend to underestimate the work orientation of the poor (Goodwin, 1972a, 1972b). There is also evidence from the New Jersey-Pennsylvania negative income tax experiment which suggests that a guaranteed income of up to the current poverty line would have relatively little impact on labor force participation, particularly among males (Rees, 1974). But the evidence is not conclusive and in the absence of conclusive evidence, personal ideology becomes an important determinant of beliefs about the likely impact of a guaranteed income on labor force participation and work effort.

The plan would lead to a gradual improvement in working conditions and higher wages in many industries. It would free many of the poor of their present dependence on the low-wage labor market. To continue to attract workers, employers would have to increase wages and improve working conditions. This would lead to an increase in the cost of many of the services presently supplied by the low-wage labor market. It would also lead to the collapse of those industries which are dependent on the present pool of low-wage labor for their existence. Many of those leaving jobs in the low-wage labor market would be shifting to one of the government guaranteed jobs. Those who view virtually any kind of employment in the private sector as preferable to the creation of massive government supported employment programs will obviously look upon this shift in employment patterns unfavorably.

The plan would provide a focus around which the poor and near-poor could organize nationally. One objective around which the poor could organize would be efforts to get the level of guaranteed minimum income increased. This would be particularly crucial if an automatic mechanism for incrementation were not included in the original program. But even if the procedure suggested were included, the guaranteed minimum income would remain at 50 percent of the median income after that level had been reached. At that point the poor and near-poor could push for still further increase in the level of the guaranteed minimum income. The precedent of the preceding increments could be used to argue for still further increments. The poor could also push for a reduction in the 50 percent marginal tax rate on income below the breakeven point. The eventual goal could be to transform the curvilinear schedule of marginal tax rates into a progressive schedule starting at say 20 percent and increasing.

-31-
Such a plan would lead to a more equitable distribution of income in the United States. The low initial level of the guaranteed minimum income would have relatively little impact; but if appropriate mechanisms for incrementing the guaranteed minimum income were included, the eventual impact on the distribution of income would be substantial. A more equitable distribution of income would be valued by many for its impact on the distribution of scarce goods, services, opportunities, political influence, and the like. Some argue that a more equitable distribution would also contribute to reducing the extent of various forms of social pathology presently associated with poverty (Gans, 1973: 20-22).

The national income insurance plan would reduce the extent of both the absolute and the relative deprivation of the poor. However, even with improvement in the relative economic position of the poor, the psychological feeling of deprivation may remain high. Improvements in objective conditions do not necessarily lead to reduced feelings of deprivation because expectations can and often do increase at a more rapid pace than these improvements.

A more equitable distribution of income would clearly benefit those at the lower end of the income distribution. There would also be some benefits to those at the upper end. For example, spending presently associated with various poverty related social problems could be reduced. But it is unlikely that such savings would be considered worth the added tax burden to those in the upper income brackets. As much as the social reformer wants to argue that redistribution of income is in everyone's best interest, most of those who would as a result carry a heavier tax burden are not going to view redistribution in these terms. Since those with high incomes have a disproportionate amount of political influence, any efforts to markedly change the income distribution are going to face stiff opposition.

Two important questions remain to be considered. (1) Is it likely that a national income insurance plan or some other such negative income tax plan will be introduced as a federal program at any time in the near future? (2) If such a program is introduced, will it be just another liberal reform or will it lead to fundamental changes in the social structure and dominant value orientation of our society?

The negative income tax was originally proposed by Milton Friedman, one of the foremost conservative economists in the country. The approach was subsequently backed by the Nixon administration in the form of the FAP proposal. The major reason that the approach appeals to conservatives is that it would be considerably more efficient than the complex maze of programs for the poor that exists today. Many take the view that such a program could replace not only existing federal and state welfare programs, but in addition a number of others in such areas as housing, education, and manpower.
In short, the approach is viewed as a way to cut welfare spending.

The approach has also received support from liberals; Senator McGovern (1972) called for a form of the credit income tax in his bid for the Democratic Presidential nomination in 1972. To liberals the approach is viewed as less stigmatizing, more efficient, and more equitable than the present welfare system. It is viewed as a way to deliver more in the way of welfare benefit per dollar of federal welfare spending. Liberals are less likely to view the approach as a replacement for other social welfare programs and generally do not argue that the approach can or should be used to reduce the overall extent of social welfare spending.

The present welfare system is under attack from all sides. There is general agreement that the existing structure is not adequate for dealing with today's welfare needs. The negative income tax and the credit income tax are the only alternatives that have been seriously suggested as replacements for the existing welfare system. As we have seen there are strong arguments for these alternatives, from both liberal and conservative perspectives. In view of these considerations, it is not unreasonable to argue that it is only a matter of time before a negative income tax or credit income tax of some sort is introduced. Nixon's FAP proposal was rejected by the Senate, but it did pass the more conservative House by an almost two-to-one vote.

We now turn to the second question. If such a program is introduced, will it lead to fundamental changes in the social structure and dominant value orientation? Once a national income insurance plan or some other such guaranteed income plan is introduced, a situation will exist in which national mass political organization of the poor will be feasible on a scale never before possible. There have been several national organizations of blacks and there has been a national organization of welfare recipients, but there has never been a national organization of all the poor.

The existing maze of separate social welfare programs has made it all but impossible for the various segments of the poor to unify. But the introduction of a negative income tax would provide a clear source of common economic interest for all segments of the poor, including poor whites, poor blacks, the aged, the working poor, female headed families, the disabled, and other presently desperate segments of the poor.

Any such program will include as one component a guaranteed minimum income. It will be in the interest of all categories of the poor to push for increases in the guaranteed minimum income. Any such program will also include a relatively high marginal tax rate on earned income and many of the poor can be expected to support efforts to get this rate reduced. These two objectives will provide a focus for efforts to organize the poor. The goals will be clear and the
potential benefits obvious; there will be no need to appeal to distant and abstract ideological objectives.

For any politically feasible negative income tax plan the initial guaranteed minimum income will be low and the marginal tax rate on earned income will be high. In view of this, it is likely that there will be considerable support in the general population for a gradual increase in the size of the guaranteed minimum income and a gradual decrease in the marginal tax rate. Legislators will undoubtedly use such benefits to seek votes in much the same way they presently use increments in social security benefits.

However, such concessions no matter how small will increase the number of people below the breakeven point. This will increase the number with an objective economic interest in supporting the program. These concessions will reward the efforts of those working to organize the poor and encourage further organizational efforts. Since increments in the guaranteed minimum income can come in a wide assortment of sizes, it will be difficult to resist at least modest increases.

As the years pass and the level of the guaranteed minimum income increases, more and more of those at the lower end of the income distribution will become recipients, and what is equally important they will become politically united. First the poor will be united with the near poor and subsequently many of those presently in the working and lower middle classes will be united with them. The recipient population may eventually constitute a voting majority. Even before this point is reached, the recipients will become a major voting block. They can be expected to back reform legislation designed to undercut the control the rich and corporate interests have over government decision making. One form this may take would be restrictions on the size and source of campaign contributions. This segment of the population can also be expected to back legislation designed to reform the tax structure. Among such reforms might well be higher inheritance taxes and the elimination of various inheritance tax loopholes. These and other such measures will undoubtedly have a marked impact on the distribution of wealth and political power.

Suppose a negative income tax is introduced and it starts to have some of the effects outlined above, wouldn't the rich be quick to note the threat to their power and to take the necessary steps to emasculate the program if not to eliminate it all together? There is a good chance they would. But there is also a possibility that such efforts would fail. Once the program was introduced it would begin to gain momentum. The larger the recipient population became the stronger the resistance would be to efforts to cut it back. The rich might have to settle for short term efforts to stem the expansion of the program, and the forces contributing to expansion might well prove too strong to be permanently halted. Were the
program financed all or in part through a payroll tax in the way social security is presently financed, the benefits would be viewed as having been earned. This would considerably increase the permanence and legitimacy of the program. It would make it a program with potential benefits to a wide range of the income distribution, not just to those receiving benefits at any one time.

How about the middle income segment of the population, those who would not receive benefits from the program, but who would be paying higher taxes to finance it? Again this segment of the population, which at the outset would constitute a clear majority, might decide to push for elimination of the program and could succeed in this effort. However, it is possible that this would not occur.

When the program was first introduced, the cost would be low and the majority of those in the middle income range might well support it. But as the level of the guaranteed income increased, so would the cost. This would undoubtedly reduce the extent of support among nonrecipients. But this does not mean that opposition among nonrecipients would be universal. Many in the middle and upper income ranges are willing to support social welfare efforts which do not have any direct economic benefit to themselves. There is considerable variation in ideological orientation among those in this segment of the population and at least a substantial minority could be expected to support even a rather generous guaranteed minimum income level. The program would be safe as long as the number of recipients together with the minority of nonrecipients who support it remained a clear voting majority. Eventually the program would provide direct benefits to more than half of the voting population and would be freed of dependence on support from nonrecipients. When this point was reached the program would be quite secure.

A national income insurance plan would eventually have a major impact on norms and values. In particular the work ethic and related aspects of the individualistic value orientation which so pervades our society today would be undercut. The key to this impact would be the objective situation of substantially increased economic security for those with low incomes. Those who were willing to live at an unusually low standard of living could do so with very little work effort. While there would be an employment requirement, it is likely that many participants would do little more than put in their time. Also those who chose to drop out of the regular labor market would always know that there would be a job providing a living wage available should economic need force them to return to work.
This would lead to many other changes. Many workers would leave the most unattractive jobs. Some of these jobs would disappear altogether; others would be automated or come to pay considerably higher wages. Employers would be forced to pay much more attention to working conditions, the structure of work, and employee morale.

It is impossible to fully anticipate the forces that would be set in motion by the introduction of a national income insurance plan or other such negative income tax program. But it is clear that such a program would eventually lead to major shifts in the distribution of income, wealth, and political power. These changes would undoubtedly have a major impact on the dominant value orientation as well as on the social and economic structure of American society.

FOOTNOTES

1. More ambitious goals have been suggested. For example, Rainwater (1969) has proposed that the goal be to bring the lowest income category (guaranteed minimum income) up to within $1000 of the median income.


3. The FAP bill was defeated in the Senate Finance Committee by liberal votes. Many of those who most strongly opposed the FAP bill were in favor of greater benefits (Moynihan, 1973:15). Most of the liberal criticism centered on the work provision and the level of the guaranteed minimum income. I feel that a much more serious limitation was that it was to be restricted to families with dependent children; this provision would have considerably reduced its impact on the political unification of those at the lower end of the income distribution.

4. The result would be radical reform or in the words of Andre Gorz (1967) a non-reformist reform. For a discussion of the distinction between reformist and non-reformist reforms, see Gorz.
REFERENCES

Etzioni, Amitai

Friedman, Milton

Gans, Herbert J.

Goodwin, Leonard

Gorz, Andre

Green, Christopher

Jencks, Christopher, Marshall Smith, Henry Acland, Mary Jo Bane, David Cohen, Herbert Gintis, Barbara Heyns, and Stephen Michelson

Lampman, Robert J.

McGovern, George

Moynihan, Daniel P.

Rainwater, Lee

Rees, Albert

Rolph, Earl R.
1967 "The case for a negative income tax device." Industrial Relations 6, 2: 155-165.

Shostak, Arthur B., Jon Van Til, and Sally Bold Van Til

Williamson, John B.

-37-