

The rise and fall of guaranteed income policy

The Failed Welfare Revolution: America's Struggle over Guaranteed Income Policy. By Brian Steensland, Princeton, NJ, Princeton University Press, 2007, 316 pp., \$37.50/cloth.

How does one review a book such as this book without divulging so much information that a potential reader might be discouraged from buying it? The book consists of 8 chapters and 246 pages of text, the balance being notes and bibliography. It is a nicely written, interesting, and in many ways thought-provoking book, revisiting an episode in American politics and history of approximately 20 years (1960–80). It focuses on the pressing problem of poverty in America in that era and, secondarily, the acutely divisive issue of race relations. The book also provides thoughts about poverty eradication from a previous era and in today's global economy.

Brian Steensland is a sociology professor, not an economist. Consequently, *The Failed Welfare Revolution* is a historical and sociological interpretation of the importance of the prevailing cultural milieu in shaping and accepting revolutionary new, untried government policies. The author does include issues raised by the general public, economists, politicians, and White House advisors for and against the plans, but without the usual extravagance of economic data, charts, graphs, tables, equations, mathematical solutions, and rigorous and abstract economic analysis.

There was always in America a certain amount of concern for the poor, both inside and outside of the workforce, but programs administered by the individual states varied widely in their benefit levels. The first ma-

major federal programs were the Social Security Act of 1935 and the Aid to Dependent Children's (ADC) program. As described in the book, "the impetus to do something real" about the problem came from Economists Milton Friedman and George Stigler who, in the mid 1940s, wrote a paper that proposed a guaranteed annual income (GAI) and a negative income tax (NIT). They thought that a more equitable tax system was an effective, efficient, libertarian, and overall better way of alleviating poverty than increasing the minimum wage; George Stigler, in particular, argued against minimum wage increases.

At issue was whether income assistance should be expected in the absence of work employment. Economist John Kenneth Galbraith answered in the affirmative. Galbraith poignantly argued that NIT was necessary because viable jobs were not available to everyone. He pointed out that labor market participation and income needed to be separated, especially in an economy that was quickly shifting its production base to high technology, luxury goods, and services, which was leaving many previously productive workers unemployed with very little chance of finding employment.

The welfare revolution began as an exploration in the John F. Kennedy administration, was seriously considered by Lyndon Johnson, then worked out and popularized during the Richard Nixon years. The guaranteed annual income part of it was most strongly promoted by government experts in the Johnson administration and most vigorously opposed by Professors Arthur Burns and Martin Anderson of Columbia University. The program was designed to provide guaranteed annual income payments to those whose income for whatever

reason fell below what was considered an adequate standard of living; equally important, it promoted freedom of choice as to how this money was spent by its recipients. It was considered "the right thing to do" in an age of affluence and increasing wealth for those who had a good education, the right job, and the right social and political connections. The program was only half-heartedly extended by Gerald Ford, however, and effectively ended during the Jimmy Carter administration in 1979.

There were a number of points of contention regarding the GAI programs: Should a distinction be drawn between the deserving and the undeserving poor and, if so, what should it be? Would providing income to the millions of low-paid workers and welfare recipients (mostly blacks, and single and unmarried mothers) distort the labor market, especially in the South where most of the labor intensive industries were located? Would GAI bring an end to the minimum wage? Would improving the conditions of the undeserving poor add a disincentive to work productively? In these contexts even the major labor unions showed little enthusiasm for GAI. The black leadership and the National Welfare Rights Organization (NWRO) actually opposed the plans because they felt the benefits weren't high enough.

Four paradigms were proposed, three of which favored eliminating the boundaries between the deserving and undeserving poor. The fourth, named the Family Assistance Act (FAA) and favored by the proponents of the rehabilitation paradigm, insisted on maintaining the categorical distinctions drawn among the poor and the stigma that reinforced these distinctions. It is this paradigm which prevailed but, according to the author,

led to the demise of the GAI. This occurred in 1975 when the Senate Finance Committee, composed mostly of Southern Democrats and chaired by Louisiana Senator Russell Long, decided not to forward the proposed GAI legislation to the Senate floor for a vote. Instead, Long proposed the Earned Income Tax Credit (EITC) to provide tax relief for the working poor by reducing their tax burden and providing a refund. It passed with a bipartisan vote of 57–21 in the Senate and also passed in the House.

The GAI proposals were not successful because they still “provided essentially the same income benefits to all families whether or not they had employable members, leading to concerns about work and deservedness.” As noted by Arthur Burns and other opponents, the deserving beneficiaries should have been separated from the undeserving ones and two separate programs devised. A fact not pointed out in the book is that this anomaly could also have been remedied by a minimum wage and tax policy that compensated the employer for the higher minimum wage, allowing the business owner to remain fully staffed when supplemented by the EITC for the worker. An opposing consideration: increasing the minimum wage is an income policy more likely accepted during a booming economy,

which was not the case in the latter years of the Nixon administration.

Behind the NIT debate was the unconfirmed affirmation that higher income tax rates lower the incentive to work, while lower income tax rates raise the incentive to work and increase tax revenues. This was the underlying premise of the Laffer curve of the Ronald Reagan era and Stigler’s point of view as well: “Income of the poor cannot be increased without impairing incentives.” But which of the poor did Stigler have in mind: the working poor by raising their minimum wage, or the chronically poor by raising their GAI?

These are, as Steensland points out, debatable points. Poverty was an enormous problem 40 years ago and remains an enormous problem today. Without a doubt the NIT provided tangible benefits, such as streamlining the administrative costs of a minimum income program, eliminating waste, fraud, and addressing one of the major symptoms of poverty: lack of money. The “welfare revolution” in the end is a continuing debate about whether and how to identify and separate out the programs designed to help those with “moral failings” from those who, through no fault of their own, find themselves beset by circumstances that keep them poor. Despite popular support for the plan, the

welfare revolution ultimately failed under Nixon because of the influence of conservative Southern Democrats; the adamant opposition of the Chamber of Commerce; and because conservatives, liberals, and the black leadership all shared a strong dislike for Nixon.

The Failed Welfare Revolution is an interesting retelling and synthesis of what happened some 40 years ago, and anybody interested in the subject will find this work to be of value. However, what the book lacks most is support for the author’s main point: that the social milieu of the time matters a great deal in the passing of legislation. In this case, that public opinion, which was supportive of assisting the poor, would prevail against the unacceptable notion that the “undeserving poor” (the chronically unemployed) receive the same treatment as the “deserving poor” (the minimum wage employed poor). As for the sociological argument of the book that culture mattered and keeps on mattering, well, it is debatable whether anything new was added to this well-known proposition. □

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