The dilemmas of welfare reform

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SWRRI PUBLICATION #10
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An assessment of the role of social services in the United States has always been difficult because of their association with what Hagith Shlonsky calls the "minimum" and the "optimum" principles of social welfare.\(^1\) Optimum social welfare includes what Alfred Kahn calls "social utilities", that is, universal services provided through social institutions to fulfill individual needs which cannot be adequately met through the marketplace. Social services as part of optimum social welfare are benefits utilized on the initiative of the consumer and they are judged for adequacy on the basis of quality as well as coverage.

Minimum social welfare is "necessary evil" welfare provided to the consumer on the initiative of and in a form determined by third parties to achieve a public purpose. The coverage and quality of such programs are held to the minimum level perceived by third parties as necessary to avoid dangers for the general society while requiring the lowest possible expenditure of public funds. Much of the institutional care in mental health, mental retardation and corrections in the United States, together with public health, disease and environment control, and public housing, are forms of minimum social welfare designed to protect the public while not disrupting private market systems.

Although this country has made efforts to define social services as universal benefits under the principle of optimum social welfare, public assistance for able-bodied adults and their families is actually a form of minimum social welfare, still largely governed by the principle of "less eligibility".\(^2\) The administration of such programs involves: 1) determination of eligibility for a "selective" rather than "universal" service; 2) investigation and controls to determine that only the "minimum" level of service is provided to particular persons; and 3) programs to "treat" or "rehabilitate" individuals so that they will no longer require such "necessary evil" services.

These requirements are holdovers from the last century when social services were linked to "charity administration". The operating ideas behind this linkage were set forth by Josephine Shaw Lowell, a national leader in social welfare during the last half of the 19th century. She made the distinction between the so-called "workers" and "idlers" and put forth the proposition that in order to encourage the ethic of hard work, cash assistance should be kept at the lowest possible level for men with families and women, including widows, with dependent children. Mrs. Lowell felt that people who were not working for their income would easily become lazy and unproductive; her solution for those on charity who might become subject to these "evils" was the assignment of a "watchful friend" who would provide moral oversight.

The development of special training for these friendly visitors who were employed by private charity agencies became institutionalized by the 1920's in the schools of social work. The Depression temporarily disrupted the development of social services as an adjunct to the administration of private charity. However, after the limited use of work relief in the mid-1930's to relieve the threat of social disorders posed by millions of unemployed men and women, the same basic system of charity administration was re-established under public auspices.
The first step was the establishment of minimum-level poor relief programs under the Social Security legislation for dependent persons assumed to be marginal to the labor market—the elderly, the blind, widows, and, in the late 1950's, the totally disabled. The able-bodied, long-term unemployed were left to the even more minimum provisions of local “general assistance”.

The next step was the introduction into public assistance administration of those forms of social case work which had been developed in private charity organizations. This began with an emphasis on the use of social case work for initial diagnosis of psycho-social factors in dependent families, but, by the end of the 1950's, there was a growing emphasis on case work “treatment” of “multi-problem families” in public assistance agencies. This development came largely as a result of the work of Bradley Buell and Community Research Associates in their study of multi-problem families in St. Paul, Minnesota.¹

The implementation of proposals calling for public welfare administrative staff to have professional social work education and reduced service caseloads depended largely on the provision of additional federal funds for administrative costs. Since there was no federal category for families headed by able-bodied, unemployed men, the development of expanded social services at the local level came primarily within the AFDC (Aid to Families with Dependent Children) program.

By this time also, the families supported through AFDC were increasingly headed by divorced, separated and deserted wives or unmarried mothers. In a number of states these families were considered to be “unsuitable homes” requiring special social service treatment if they were even accepted for AFDC. In other states many of these families were classified as “multi-problem families” who should receive intensive treatment to prevent further costs for society.

The principle that social services were part of the administrative procedures in the AFDC program was established in the 1956 Social Security amendments. Comprehensive funding for “social services” on a 75% federal/25% state basis was provided under the 1962 amendments. Their passage was largely achieved through the promise that the “rehabilitation” of the AFDC cases through the use of social case work would control or reduce the rapidly growing AFDC caseload.

When it became apparent by 1967 that this was not happening, and AFDC caseloads continued to climb, the linkage between social services and the reduction of caseloads through employment was made explicit by the addition of provisions for the WIN (Work Incentive) program and for day care services. Thus national policy provided that the primary objective of public welfare administration, including the provision of social services, was the restoration of dependent families with employable adults to economic self-support, and that mothers in one-parent households were, by definition, employable adults.

It is now a decade since the 1962 amendments and five years since the 1967 amendments. The Family Assistance Plan (FAP) and Opportunities for Families Plan (OFP) proposals under H.R. 1 reflect, in part, a conviction on the part of federal officials that the states have failed to implement the Congressional intent in their amendments. Direct federal administration is called for, with Labor Department employment and manpower specialists, rather than social workers, to be responsible for administering the program dealing with the “employable” heads of households, both men and women.

The criticism of public welfare social services by federal officials has been supported by criticism from other sources. The criticisms are of two types: first, that social services, when part of the administration of minimal public assistance programs, are a form of harassment of recipients rather than a benefit; and second, that social services are ineffective in achieving the objective of restoring families to economic self-support.

Social Services as Harassment

Winifred Bell in Aid to Dependent Children documents how social work leaders supported the use of the concept of “suitable home” to exclude “unworthy” families from the provisions of state Mothers Pension programs as early as the 1920’s. She also describes how a number of states used the same principle, particularly during the 1950’s, to discourage applications for AFDC or to justify the removal of families from AFDC when there was an out-of-wedlock birth. The enforcement of the suitable home principle has depended upon judgments made by social workers using information obtained in intake interviews or from home visits carried out as part of a social services program. In commenting on social services in AFDC programs Bell states, “there are data that strongly support the inferences that social services are grossly insufficient, their content uncertain, and their quality inconsistent and certainly unprofessional.”²

Frances Piven and Richard Cloward take the position in Regulating the Poor that administrative procedures are part of the process of maintaining the “minimum” in public assistance.

“Relief practice is always more restrictive than legal exclusions in ensuring that those who are or might be workers do not get aid.”

“Harsh relief practices serve to enforce work in another way as well. Some few of the very young, the old, or the disabled are allowed on the rolls... But once there they are systematically punished and degraded, made into object lessons for other poor people to observe and shun... None of this happens because relief administrators are an especially hard-bitten lot... The exigencies of their political environment force relief officials to design procedures that serve the economic ends of groups outside the relief system.”³

The authors conclude that professionalization in public assistance has only resulted in the substitution of psychological definitions of defects for moral definitions as justifications for restrictive rules and procedures.

Social Services as Ineffective

A more widespread criticism of social services has been that they have been ineffective in reducing dependency.
Moreover, Social Symposium effect considered whether social services, primarily social case work, to meet the needs of low-income families. Five of the studies involved public welfare agencies.

The focus of the papers was on the implications of the studies for curriculum content in schools of social work dealing both with social work methods and with research, rather than on the administrative and social policy implications. However, Carol Meyer, Professor of Social Work at Columbia University, in introducing her paper on the implications of the studies for teaching casework said,

While all of the findings were not negative, one would be hard put to say that they were overwhelmingly positive insofar as the effectiveness of case work practice was concerned... the studies... raised sufficient questions about the purposes and qualities of social case work to be, at least, unsettling to one who has been a caseworker for over two decades of her life.

In one of the studies, "Chemung County Evaluation of Casework Service to Dependent Multiproblem Families", no significant difference in outcomes was found between a group of public assistance families receiving "intensive", "professional" case work services for two years and a control group which received only regular agency services. One criticism of this study, and of several others considered at Fordham, is that the content of the case work practice studied does not conform to professional definitions.

However the study of public welfare case work practice reported by Handler and Hollingsworth in The "Deserving Poor" suggests that this may be a pervasive problem. The 1967 study covered 766 families on AFDC in six counties in Wisconsin and the social workers providing case work services to them. The report summarizes the data from the AFDC families about the activities of the social worker as follows:

... social service is little more than a relatively infrequent, pleasant chat. It is somewhat supportive. It is rarely threatening but also not too meaningful in the sense of either helping poor people get things they need or in changing their lives. And it seems to bear little resemblance to the legislative goals of the Social Security Act amendments...}

Fewer than one-third of the recipients reported ever having a discussion with a caseworker about employment. In 80% of the situations when there was such a discussion, the recipients reported that nothing happened.

These reports on the experience with social services during the 1960's suggest: 1) that objectives of professionalizing the administration of AFDC on a broad scale were not achieved; 2) that even in states with an explicit services policy and with a history of good administration, as in Wisconsin, case work services had little impact on the problems of dependency in individual families; and 3) that even under test conditions social case work services do not have a significant impact on dependency. The evidence to date also indicates that the addition of training programs under WIN and provision for day care services has not appreciably increased the impact of social services on dependency.

"Separation" of social services from public assistance administration is now supported from many sides. Some critics expect that other types of specialists can make tougher decisions on eligibility and achieve a higher score on employment than social workers. Some social workers hope that a comprehensive program of public social services can be developed on the optimum principle of social welfare freed from the burden of enforcing rules and regulations for assistance payments. But the central issue of what becomes of the case work function under separation has not yet been adequately addressed.

The position of the charity worker or public assistance case worker has existed, and has been funded, primarily in terms of its role in the administration of minimum public assistance. Separated from public assistance, casework counseling in the public welfare agency becomes a family counseling service similar to that...
available from a Family Service Agency. Its usefulness as part of a program of public social service will have to be judged in direct comparison with day care, home health services for the disabled, foster care for children, and technical job-training courses. The alternative is to define and train the public assistance social worker as a public administrator rather than a therapeutic counselor.

There are those who believe the charitable "watchful friend" is still required. The recently passed Talmadge amendments to the Social Security Act call for creation of a special WIN staff unit within public welfare agencies to provide "supportive services" for "employable" adults on AFDC, to back up the job-training, day-care and public service employment provisions. To the supporters of this amendment these "supportive services", which consist largely of social case work counseling, are important enough to justify 90% federal funding, with the provision that at least 15% of the households on AFDC in any one state must have an adult member prepared through this WIN unit for training or job placement in the course of each year.

The Labor Market and the Role of Services

It may be, however, that the entire debate about the effectiveness of social services in reducing dependency is based on mistaken assumptions. The proposal for "supportive services" in WIN like Mrs. Lowell's proposal for a "watchful friend" assumes a dichotomy between "workers" and "idlers." The "workers" are those who find employment on their own, who actively seek employment during periods of unemployment, and who require little public support. The "idlers" are those who are not working and who have to be "supported" or threatened before they will go to work. Martin Rein suggests that this is not consistent with the current pattern of public assistance under AFDC. He points out that the gap between the rising costs of family maintenance and the low level of earnings in much unskilled and/or intermittent employment makes it likely that the prevailing pattern for many households may well be that of "wages supplementing welfare". Public assistance in this case provides a long term income base for the family with the actual level of available family income fluctuating as family members move in and out of low-wage or seasonal employment primarily on their own initiative.

The findings in the Handler and Hollingsworth study are consistent with this position. Ninety percent of all the recipients had held some type of job before coming on assistance. Forty-seven per cent had worked at some time while receiving assistance, although this was prior to the implementation of the "income disregard" provisions of the 1967 amendments. The responses from 165 recipients who were interviewed after they had left AFDC indicated that the agency had played an insignificant part in their leaving. Only 15% of those who left because of employment reported that the agency helped them in finding a job.

In The State and the Poor, Michael Piore describes how it may be that the structure of the labor market, rather than the lack of skill on the part of the caseworker is the major determinant of this pattern of combined employment and dependency. Piore describes the labor market as having both a primary and a secondary sector. The secondary sector has jobs that are decidedly less attractive. They tend to involve low wages, poor working conditions, considerable variability in employment, harsh and often arbitrary discipline and little opportunity to advance. The poor are confined to the secondary labor market. Eliminating poverty requires that they gain access to the primary market.

Handler and Hollingsworth report that among the recipients who left AFDC because they became employed, 98% had semi-skilled or unskilled jobs in factories or on farms or service and clerical jobs. Most of these women were single and the source of economic support for their family. The median weekly take-home pay was $69, a figure above the AFDC grant but below what the study calculated as a break-even level of $77. The study concludes, "It seems unlikely that these single women will be able to stay off welfare."
It also seems clear that until social work goes beyond operational plans for “separation” to reexamine the basic premises underlying its association with minimum social welfare programs, this profession will continually be caught between charges of harassing the poor through its involvement with the enforcement of statutory limitations and charges of failure in its efforts to rehabilitate on a case basis the victims of structural inequality.

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17 Handler and Hollingsworth, The “Deserving Poor”. op. cit. 182.

WORK INCENTIVES AND WELFARE REFORM

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The weaknesses of the welfare system are now widely recognized, and the need for a fundamental reform has been accepted equally by friends and antagonists of the welfare state. Nonetheless, agreement on a politically acceptable alternative has proved elusive. The lack of consensus reflects the difficulty of marshaling pressure for any new system, even though the present network of help is known to be bankrupt.

The basis for so sweeping an indictment of the welfare system arises in part from the inequities of the benefit levels, the rules of eligibility, the adequacy of the grant, and the total income that those on welfare command. But the more immediate cause for concern is the persistent growth of the AFDC program which has expanded by 4.4 million people between 1960 and 1969; in the first eighteen months since that period, 2.7 million persons became dependent upon the program. The cost of welfare more than tripled during the 1960's, and in 1970 the price tag increased by an additional 41 percent. The cost of the program, and the fiscal crisis that it is presumed to have created in cities and states, is no doubt the most urgent aspect of what has come to be known as the “welfare crisis”.

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Commenting on these trends in 1971, the House Ways and Means Committee concluded that “attempts to patch up the present system or to close its loopholes simply will not work and would lead to nothing but disillusionment and recrimination.” Nearly two years earlier, President Nixon proposed sweeping reform because “the present welfare system has to be judged a colossal failure...It is failing to meet the elementary human, social, and financial needs of the poor. It breaks up homes. It often penalizes work. It robs recipients of dignity. And it grows.” But different administrations and the efforts of two succeeding Congresses have not been able to translate this broad commitment into specific policies that help reduce the size and cost of the welfare caseload. The priority placed on welfare reform legislation by the 92nd Congress is attested to by its assignment of such legislation to the coveted designation H.R. 1. The difficulty arises in part because there is an ambivalence about objectives and in part because there are contradictions in the reform strategy pursued.

The Work Ethic

The guiding principle of welfare reform is the work ethic requiring employable welfare recipients to secure income through work rather than to rely upon welfare alone. The welfare reformers assume that jobs can be generated for all those who are able to work and that training can be provided for all those who can be made employable. This assumption requires that assistance be given to individuals who work but earn less than those on welfare and that regional differences in benefits be narrowed to reduce inequities and unintended migration. Public assistance is then expected to serve as a final net for those who cannot work, providing an “adequate” floor of income to all the poor regardless of residence or source of income. These principles of work, training, adequate benefits, and equitable treatment offer the mold out of which specific legislative programs can be forged.

The Social Security Act of 1935 enabled mothers to remain outside the labor force if they chose benefits rather than employment. This permitted dependent mothers to raise their children in their own homes. Spurred by the increasing numbers of mothers who have entered the labor force in the past three decades, the thrust of the reforms in the past decade has been to induce more welfare mothers to seek work. Congress has apparently been willing to provide needy families with the necessary assistance to achieve this goal. The most recent expression of this practice is found in the statement of objectives of H.R. 1 to provide

...members of needy families with children the manpower services, training, employment, child care, family planning, and related services which are necessary to train them, prepare them for employment, and otherwise assist them in securing and retaining regular employment and having the opportunity for advancement in employment, to the end that such families will be restored to self-supporting independent and useful roles in their communities.

These work-related objectives for the AFDC program are no new departure. They have been emerging in Congress for more than a decade. In 1956, three broadly defined objectives of welfare legislation were economic independence, self-help, and the strengthening of family life. The federal administrators of the program tended to stress the latter two goals more than the first. But the priorities soon shifted. The 1961 amendments to the Social Security Act qualified unemployed parents to receive federal public assistance and made untenable the claim that welfare recipients were presumably unemployable. This legislation stimulated the search for means to help parents who were employable to get off the relief rolls.

By 1967, the House Ways and Means Committee announced its intention of setting “a new direction for AFDC legislation” by recommending “a series of amendments to carry out its firm intent of reducing the AFDC rolls by restoring more families to employment and self-reliance.” Four years later the House reaffirmed its commitment to establish a new course for welfare policy, although the Senate seemed to balk at the added welfare costs required by this approach. The new policy of encouraging those in receipt of cash benefits to secure work calls for new principles to guide the distribution of benefits.

Principles Underlying Work Incentive Policies

Assuming that welfare recipients should be induced to work, one approach is to provide them with economic incentives to enter the labor force without necessarily denying them public assistance. Essentially the incentive approach integrates the benefit structure with income from employment, and it provides that the reduction in benefits should be less than any increase in employment earnings until the family reaches a predetermined level of income. The income of families with working adults would exceed that of families whose incomes depended solely on benefits, and for this reason the incentive approach might also be regarded as an income strategy. The crucial flow of the existing welfare system is that it reduces welfare benefits dollar for dollar against increased earnings after allowances have been made for work-connected expenses and other payments below standard basic needs. Since this system leaves the family at work no better off economically, and frequently even worse off, it creates a disincentive to employment.

Proponents of the incentive approach anticipate that the additional income provided to public assistance recipients will not only raise their incomes in the short run but will encourage them toward economic independence as their income from work continues to rise. In brief, it is hoped that the high earning retention brought about through low marginal tax rates will rescue the poor from the work disincentives that are built into the present welfare system. The task then is to design a system under which extra earnings are not offset by substantial reductions in welfare payments and other benefits.
Income strategies designed to serve as incentives to work have been widely referred to as negative income taxation. They all share the following characteristics: they maintain an income floor for all persons whose resources fall below the established level, and recipients keep some proportion of any additional dollars earned. Also the value of the income guarantee is reduced as earnings increase up to a break-even point at which benefits are no longer applicable.

The 1967 Amendments to the Social Security Act embraced the negative income tax principle, though on a modest scale, as one means of "restoring more families to employment and self-reliance." The act required state and local welfare departments to disregard for the purpose of benefit eligibility the first $30 in monthly earnings and to deduct from a welfare recipient’s monthly check two-thirds of all earnings above this amount. These provisions are known as the "$30 and 1/3 rule." In addition, actual work-related expenses were also disregarded from earnings.

The aim of the 1967 negative income tax was to create a positive incentive for benefit recipients to seek work; it was much less concerned with providing income assurance for all those who fell below some minimally defined level of acceptability. States continued to set their own floor of protection. The legislation focused on earning retention, not on a guaranteed level of income, although it did require states to revise their standards of need to take account of changes in the cost of living.

Once the concept had been accepted in principle, the debate turned to the necessary level of an effective negative income tax. The income floor had to be low enough, as a percentage of net average earnings, and the tax rate had to be sufficiently attractive so that in combination they would encourage work. No one knew exactly what were the most effective combinations of guarantee and marginal tax rates to achieve this aim, but this was regarded as a technical problem to be solved by social experiments that would test the work incentive or disincentive effects of different combinations.

Economists differed on this important technical question. James Tobin of Yale University, considered a "liberal" economist, advocated a low guarantee but a low marginal tax rate, allowing welfare recipients to retain a higher proportion of their earnings. He favored a guaranteed annual income of only $400 per individual, but he would have allowed the family to retain two-thirds of its earnings. Thus a family of four with an earned income of $3,000 would have $1,000 of this subtracted from its guaranteed income of $1,600; it would then receive a $600 subsidy and a total income of $3,600. The President's Commission on Income Maintenance favored a higher income floor of $750 per adult and $450 per child, with a provision that payments be reduced by 50 percent for each dollar of income earned. But a high guarantee with a low tax rate has dramatic effects on the cost and size of the program.

The subtle relationship between negative and positive tax rates warrants elaboration. When personal income and social security taxes are imposed on families receiving benefits below the break-even point, they are unavoidably subjected to high marginal tax rates. For a family of four, positive taxes on income above $4,330 are at least 14 percent, and social security taxes take out another 5.2 percent. Thus, in addition to a high tax on benefits, welfare recipients would also be subject to an additional 19.2 percent in other federal taxes. Assuming a 50 percent tax on income above disregarded earnings in addition to normal tax rates, the effective tax rate of those poor aspiring to economic independence would thus be raised to 69.2 percent, and they would keep only 31 cents of each dollar earned. If the principle of preserving work incentives is not to be compromised, then a reform of the positive tax system must accompany the introduction of negative taxes.

The present welfare reform bill (H.R. 1) passed by the House in 1971 and under review in the Senate Finance Committee calls for a 67 percent tax rate. Instead of keeping 33 cents for every dollar earned above $720, only 14 cents remains after social security and income tax are taken into account.

If such excessive tax rates are to be avoided, there must be an increase in taxes on higher incomes to cover these costs; but in addition, the entire tax system must also become sharply more progressive, since large numbers of wage earners will also escape payment of taxes. An adequate guaranteed level and effective incentives are not only costly but require a public commitment to progressive taxation and income redistribution toward the lower half of the wage structure.

In the recent debate in the Senate, Senator Curtis (R-Neb.) pointed out that if 1) the guarantee level is put at $3,000 and then raised slowly to $4,000, 2) a 60 percent tax rate is applied, 3) recipients are exempted from income and social security taxes, and 4) changes in the basic allowance are raised to take account of inflation, then by 1977 one-third of the population of the United States would be on welfare. With Congress determined to cut the size of the welfare rolls, it seems doubtful that a reform bill would be accepted which would instead increase the number of recipients. Those who believe in both reducing poverty and promoting work incentives seem to accept the goal of reform but repudiate the implications of such a change.

Income supplements, efficiency, and low expenditure outlays can be achieved only at a low level of payments. The problem is somewhat attenuated by a decrease in the proportion of earned income retained or the level of the income disregards, since these changes lower the break-even point and reduce the number of eligible recipients. But such an approach also diminishes the work incentive features of the negative income tax. There is a persistent and unresolvable conflict, inherent in the structure of the scheme, between the three principles of encouraging work incentives through lower tax rates, reducing poverty by assuring adequate minimum levels of subsistence, and maintaining "reasonable" costs. Trade-offs among these principles weaken one at the cost of another, but cost consciousness undermines both strategies, and increased reliance is placed upon administrative solutions as the incentive strategy lapses into a coercion.
Uneasy about the trade-off between tax rates and benefit levels, Congress in 1971 was placing even more reliance upon administrative requirements for individuals to register for work to accept training and employment than had seemed necessary in 1967, and doing so without raising payments. The stronger the work requirements, the more serious become the charges of coercion and disruption of the low-wage earner. In response, it is claimed that some protections will be provided. For example, individuals will not be required to accept jobs vacated by labor disputes or paying less than 75 percent of the federal minimum wage, and they will not be required to accept jobs when they can take advantage of other available training or employment opportunities. Individuals will also be able to refuse a job where no adequate transportation is available or where child care facilities are lacking. But to make the work requirements effective, penalties will be imposed. If an adult refuses training or employment, $800 annually will be subtracted from the benefit checks. The Secretary of Labor also has the option of handing over the responsibility for administering the remaining family payments to someone outside the family who is interested in or concerned with the welfare of the family. A failure to accept training or employment might result, therefore, not only in a loss of income but also in control over the remaining family grant.

Benefits In-Kind

While the overall orientation and rhetoric of welfare reform has been to strengthen the commitment to work, developments in other programs to alleviate poverty have conflicted with this goal. The most serious conflict has been between the expansion of in-kind programs to meet the basic necessities of food, shelter, and medical care and the low incentives offered to induce welfare recipients to work. By making relief more attractive, in-kind benefits have undermined work efforts. Higher earnings not only disqualified families from receiving cash grants but also eroded their entitlement to valuable in-kind benefits. When the Senate Finance Committee brought to light the problems associated with in-kind benefits, this seriously undermined the validity of the assumption that families would be better off working than on welfare. The presumed cash incentives offered by the Nixon Administration, and seriously considered by Congress, have in fact offered little pecuniary incentive to encourage relief recipients to work.

The April 1970 hearings focused on the work disincentive effects presented by the "notch" problem. The notch problem arises when the total money income of the family is considered together with the cash value of surplus food, commodities, Medicaid, and housing. Under the proposed Family Assistance Plan, entitlement to each of these programs is terminated abruptly when earnings reach some specified point. These terminations produce notches that act as explicit work disincentives, since an increase in earnings produces a drop in total cash and in-kind income in excess of the increment in earnings. For example, a slight rise in income may disqualify a family from public housing – which carries a higher subsidy than is offset by the rise in earnings.

Although H.R. 1 proposed a 67 percent tax rate on annual earnings above $720, the real rate was far higher. Because positive social security and income taxes rise alongside earnings, and in-kind benefits fall, the total tax rate reached 100 percent on earnings of about $2,000 for families who were not in public housing, and on earnings of even less for those who were.

The high tax rate threatened the entire rationale of welfare reform, namely, that people should always be better off if they worked than if they were on welfare. As a result, the Senate Finance Committee in 1971 raised doubts about the Administration's commitment to an effective incentive program.

The dilemma faced in attempts to reform welfare is clear. If the in-kind programs and mandatory state cash supplements were removed and benefits maintained at a low level, then incentives to work would be increased – but only at the cost of the well-being of most recipients. Adequate benefits to relieve pov-
property conflict with a coherent incentive system to encourage work.

The erosion of work incentives through the compounding of tax rates is of serious concern to the advocates of an adequate negative income tax. Their goal can be achieved only at a high cost and through a large program. This weakness in the incentive strategy cannot be resolved.

All the good will and exhortation of welfare reformers have failed to offer a viable solution to the welfare dilemma. There is no way to provide generous public assistance that will raise all families above the poverty threshold as long as our wage structure fails to provide those who work with adequate earnings. Indeed, in 1970, there were more than 11 million persons earning less than $2.00 an hour, an income that would have raised them barely above the poverty threshold (when supporting a family of four) if they had been working full time all year round.

Public policy, when confronted with a dilemma for which there is no inherent solution, tends to pursue one aspect of it; then when the limits of this approach become evident, it is repudiated and an alternative approach embraced. Some already argue that welfare has over-responded to political pressure for more adequate benefits and has in some places exceeded the limits of generosity; adherents of this view urge retrenchment of the welfare program by restricting the number of persons who receive benefits and by decreasing benefit levels, Medicaid, and food programs.

A public policy intent on transforming the welfare system into a major instrument for reducing poverty and also for self-liquidating welfare, by converting it into a manpower program, is bound to rely upon coercion and to produce frustrating results. There are no easy solutions to the rising welfare costs, and whatever reforms emerge, welfare will continue to be a persistent issue during the 1970s. A realistic and viable approach is to recognize that there is a growing interdependence between welfare and work and that for ever-increasing numbers the two go together.

The challenge is to win political support for an income support program that will encourage dependents to work even if they do not necessarily achieve complete self-support. Such support is unlikely to be forthcoming, and it seems best to work systematically for the breakup of the welfare system by pursuing the various alternative strategies that have been reviewed earlier. Welfare should be again assigned to the residual role which the framers of the Social Security Act originally intended; and thus the unresolved dilemmas would be contained in a marginal and inconspicuous program.

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WORK FOR WELFARE CLIENTS: A NONREFORM

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The lives of over 14 million persons are affected directly by public assistance payments and by the restrictions, services, and problems that accompany being on welfare. In Boston one person out of five receives some sort of relief and in New York and San Francisco the figure is one in seven. New York and California together account for 28% of the recipients in AFDC. The costs of all welfare payments (including vendor payments for medical services) are also imposing, approaching the figure of $15 billion. Much of the financial burden is borne by state and local governments, many of which are approaching severe financial crises.

The economic outlook for the nation appears dim at best and the continuing recession is driving more clients onto welfare while inflation is magnifying the cost to the government and diminishing the value of payments to the recipient. These costs are imposing increasing tax burdens upon a public which feels that, given the economic crunch, it cannot afford to let the rolls expand at present rates.

The demand by many is for change in the welfare system which will cut or limit costs and will restrict the system to selected needy people. This has led to a renewed search for approaches to the problems of income maintenance and the reduction of poverty through changes in the welfare system. These efforts have
focusing attention on employment as a strategy to level off the welfare caseload and as a way to move recipients into positions of self-support.

Current proposals and legislation for welfare reform generally include various requirements that clients register for employment and manpower services and that they take available jobs. These requirements raise questions concerning work for welfare clients: (1) how successful can such policies be in moving clients toward self-support and (2) are they used to regulate the economic behavior of the poor in their own interest or that of other groups in the society?

The extent to which work requirements can be successful in moving recipients toward self-support will depend on the conditions of the labor market in which they must compete for jobs, the success of the manpower training programs in placing clients in well-paying jobs, and the effect of requirements in dropping people who refuse service. Experience to date is not encouraging with regard to any of these factors.

Labor Markets for Women on Welfare

Labor market studies reveal important connections between the welfare caseload and labor market conditions. The structure of labor markets and their differential effects on earnings and unemployment are a crucial factor in assessing both the employment potential of women on welfare and of the policies required to create meaningful opportunities for work.

For example, unemployment rates exert direct pressures on welfare through Aid to Families with Dependent Children — Unemployed Parent (AFDC-UP), General Relief, and AFDC as mothers are laid off, and indirect pressures through the impact of unemployment on family stability and organization. On the one hand, individuals and women with families who formerly were able to support themselves are no longer able to find or to hold jobs and must depend on some form of welfare. At the same time, it is difficult for welfare mothers to move out of the welfare system when unemployment is high. If no jobs are available, then employment programs, no matter how well designed, will face high costs and probable failure in efforts to induce movement off welfare.

The structure of wage differentials in the labor market creates an additional pressure to use welfare. Such wage differences result in inadequate earnings for millions of poor people. In addition, they place limitations on the extent to which employment can be used to reduce welfare costs and caseloads because of the restricted job opportunities and consequent low wages. Recent studies suggest that the job opportunities available to the poor tend to be concentrated in those industries and occupations which pay low wages, are often part-time, are irregular in their duration, and have poor working conditions. These jobs are filled by workers who make up a kind of peripheral labor force because only seasonal or part-time work (if any) is available to them.

The relevance of this discussion of labor market operations to women welfare recipients is clear. Women are likely to be “peripheral workers,” particular women with children who need to work part-time or intermittently. The concentration of welfare women in the peripheral economy, the only labor market to which they have access because of needs, skills, location and experience, means that the wage rates available to them are likely to be low and the work conditions and promotion prospects poor.

The generally low occupational status of AFDC mothers is confirmed by all studies. Of those reporting previous employment in 1967, 48 percent had been service workers, almost 19 percent were unskilled laborers. The earnings of employed AFDC mothers in 1971 were much lower than the median earnings of employed women in the general population. Over 60 percent of the AFDC mothers employed were working full time, but earnings were still not high enough to make the family ineligible for assistance. The median monthly earnings of all AFDC employed mothers was slightly over $200.00, although it was less than $150.00 in four regions and exceeded $250.00 in only three of the nine regions of the country.

It is not possible to assess the family support potential of AFDC mothers without considering the experience of women in general in the labor market. The following points emerge from such an examination: (1) the labor force participation of women is largely related to age, marital status, presence and ages of children and education; (2) less than 30 percent of mothers with children under 6 and only 25 percent of those with children under 3 were in the labor force; (3) labor force participation by women increased with their educational levels; (4) in 1967, women were generally concentrated in relatively low-paying occupations; (5) 82 percent of employed women were in occupations producing median earnings for women of $3,700 per year or less; (6) the median wage for all women workers in 1967 was $2,295 with 75 percent earning less than $4,000 and 31 percent earning less than $1,100; (7) non-white women at all educational levels are more likely to have been employed than white women, but their median earnings of $1,635 in 1967 were less than white women; (8) 44 percent of the persons in poverty in 1970 were in families headed by women.

If we assume that no major economic intervention will be forthcoming in the near future to make jobs readily available and increase wages substantially in low-wage sectors, the ability of most AFDC family heads to meet the minimum income needs of their families and to earn their way off assistance is probably low. Only a minority of welfare recipients will be able to get off public assistance through employment sooner than the normal attrition rates.

For a family of four headed by a woman, she would need to earn $2.25 or more an hour or over $300.00 per month on a full-time basis to be removed from the welfare rolls in 30 states. In only nine states would a family head earning less than $2.00 per hour earn enough to be excluded from welfare. In some states where the cost of living and the welfare payments are much higher, a mother would have to approach earnings of $3.00 per hour or more, or around $500.00 a month. In 1971 the average earnings of mothers on welfare did not approach...
$300.00 per month — the approximate national average poverty level of a family of four — in any state, and less than four percent earned income of this amount or more.

Training for Welfare Recipients

We are only gradually beginning to realize that it is not enough to design programs which attempt to alter the supply of labor by training, rehabilitation, and education in order to assure higher levels of income and living. The structure of the occupational system, the operation of labor markets, and the levels of wages, all of which make up the demand side of labor market equations, require appropriate and significant intervention.

The evidence for evaluating the performance of efforts to train welfare recipients, particularly women, reflects this fact. Experience in WIN is not encouraging to those who would expand such programs as a part of welfare revision. A total of 167,000 people had enrolled in WIN through April 30, 1970, but more than a third had dropped out. Of the 89,000 still enrolled in the fall of 1970, nearly a third were in the intake, assessment, orientation, or holding stages, which generally involved waiting for placement.

Estimates are that 25,000 had moved on to work, with less than half of those being able to move off of welfare; approximately 10,000 received pay adequate to leave public assistance. Most of those who found jobs were among the early participants in the program when up to 40 percent of employable fathers receiving AFDC-UP enrolled who could find work most easily and probably would have found jobs in time without WIN. (AFDC-UP cases make up only 5 percent of the AFDC population.)

Another consideration in the training approach toward substituting work for relief is the costs — the costs of training, the costs of providing work incentives, the costs of day care, and the costs of creating employment or subsidizing employment during those times and in those places where jobs are not available. The likely costs of these efforts will substantially exceed any savings in welfare payments.

This picture can be seen by taking estimates of costs under the WIN program and matching them with the characteristics of the typical AFDC family. The Department of Health, Education and Welfare conservatively estimates the average cost of after-school and summer care for school-age children at $400.00 per year, and for full-day pre-schoolers at $1,600. The average AFDC family has three children and if we assume the mother has one child under six and one in school still requiring some attention, the annual cost of the child care arrangements will be $2,000. Training under WIN averages around $1,250 per slot and the recipient is allowed to retain $30.00 and one third of earnings. If the family earned even $2,000, which studies suggest only a third of employable recipients could do, the welfare payments would be reduced by only $973.00.

Thus, for $3,250 in day care and training cost (not including any subsidies for job creation, services, or work related expenses such as transportation), the reduction in welfare payments would amount to less than $1,000. Further, the low placement rates under WIN would indicate that jobs are not available and that employers are not seeking recipients as workers. This suggests that large scale and costly public employment or publicly supported private employment programs would be required in addition.

In surveys of the employment and actual earnings of WIN graduates in 1969, labor market factors clearly emerged and it was found that two-fifths were employed in low-paying occupations such as clerical, sales, and service jobs. For example, in New York the bipartisan Legislative Commission on Expenditure Review pointed out that most opportunities offered to minority persons had been limited to typist and attendant jobs. In commenting on the "almost totally ineffective" WIN program, the Commission reported that of the 17,814 enrollees in the first 21 months of the program through June 1970, only 17 percent were placed in jobs, and only four percent remained employed beyond six months.

Another survey showed that at the end of 1969, female WIN graduates earned substantially less than males and one-half of the females earned less than $2.00 an hour. As the small number of AFDC men complete WIN and women comprise a larger proportion of the trainees, average earnings, which were put at $2.30 an hour, can be expected to decline. These trends also appear to make it unlikely that WIN can function as a major instrument for reducing the caseload in AFDC.

One of the conclusions that emerges from a review of WIN and other manpower programs is that in slack labor markets there are increasing difficulties and rising costs to placing recipients in jobs. The justification for this training approach is difficult to make on the grounds of a productive investment which will significantly reduce the costs of welfare. The argument that training is a one-shot investment in the long-term work pattern to be established for mothers when their children no longer need care must be weighed against (1) the uncertainty of jobs in the labor markets in which most recipients work, (2) the fact, as revealed in most studies, that women work anyway when their children are old enough, (3) the likelihood for many that future child-bearing will interrupt work experience, and (4) the low earnings that most are likely to derive.

Work Registration and Check Pickup

An increasing number of states are considering adopting programs which require "employable" clients to register for employment services and work as a condition of continued assistance. The requirement that clients pick up their check at employment offices is seen as a way of enforcing the work provisions of these programs and as a way of dropping from the payroll clients who do not comply with the procedures.

The purposes of check pickup and registration programs are generally (1) to move a significant number of recipients into jobs that will lead to self-support, (2) to place responsibility for pursuing this end with employment offices, (3) to insure that employable recipients are available for work, and (4) to realize a
savings to the government through the closing of cases of recipients who refuse services or who fail to comply with any of the components of the work programs without good cause.

These kinds of provisions were enacted in New York for those people on AFDC and General Assistance (Home Relief) and in Massachusetts for those on General Assistance during 1971. The experiences of these programs provide some important insights into the problems of work requirements. In Rochester, New York, it was found that the new program was "costly to administer" and the additional administrative expenses outweighed the savings due to case closings by almost two to one. Further, the new regulations did not result in "substantial numbers of welfare recipients becoming self-supporting."5

In New York City it was found that less than 4 percent of the recipients required to participate in the new program had failed to comply without good cause and subsequently had their cases closed. This figure represented only a minor savings to the welfare department. However, the system of check pickup involves substantial administrative costs in the form of professional personnel from the welfare offices and the employment offices who must review cases to determine employability, must deliver the checks, must deal with problems relating to the pickup of checks and entitlement as well as those of employment and provision of services, and must resolve differences between the offices with reference to each problem case.

In a study of the Massachusetts program, the findings were even more striking. The findings on that program were (1) that the new regulations caused a great deal of human suffering and individual costs on the part of clients who were unable to obtain their checks, (2) that the administrative costs alone far exceeded the payroll deduction due to the program, (3) that only 1.4 percent of those reporting to the employment office found employment, with most of these obtaining the jobs on their own efforts and not through the services of the program, and (4) that over 80 percent of those who failed to comply with the regulations had good cause and sustained undue suffering.

Another factor in the high cost and hardship was the operational decision to consider clients "employable" unless they could be determined and verified as being "unemployable." Where verification of exemption status (similar to the kinds of exemptions contained in the Welfare Reform measure currently in the Congress) was not included in the case records, the client was subject to mandatory referral to the employment office to pick up the check and register for work. While this inflated the number who had to report and increased the number who failed to pick up their checks, it also created additional costs to the welfare department in resolving the increased number of problems and incorrect classifications. It overburdened the employment offices with people who were not in fact employable, resulting in higher costs for them, and it resulted in many problems for clients who had to rectify incorrect classifications and unwarranted check cancellations.6

The effects of work regulations in these recent programs suggest that the clients are being hurt rather than helped. That administration and efficient management are hampered rather than promoted, that the government is probably expending more than it is saving, and that the program tends to make welfare more arbitrary in its treatment of clients and more restrictive rather than more humane and supportive. Work requirements appear even more problematic when seen in the context of high unemployment rates and the low earning potential of the client population. This does not constitute reform or improvement from the perspective of clients, management, or the taxing public.

Why Work Requirements?

If work requirements do not tend to serve the interest of clients, do not necessarily save money, and do create problems in administration for welfare and employment personnel, why is this approach to the problems of welfare being given such widespread attention? The answer to this question can be partially found in the role that public assistance has always played in the economy and the society.

Piven and Cloward argue that public assistance or "relief" serves the economic and political order so that during periods of mass unemployment and disorder welfare is expanded and during periods of stability the program is contracted to push recipients into the labor force. While conceding that many poor people do benefit from social welfare programs, such as those covered by old age pensions and unemployment insurance, most programs serve to regulate the economic behavior of the poor through the use of stigma, through the manipulation of benefit levels and entitlement, and through the imposition of special restrictive regulations, work requirements being one of the most common.7

Since the initial implementation of nation-wide welfare programs, various provisions of the AFDC program have been designed to keep poor people in the labor pool. The welfare system has generally excluded able-bodied men from assistance without regard to the severity of their destitution or the length of their unemployment. Men, and in many states women and children at certain times, were kept in the labor pool to be available for low wage work. Even when the Social Security Act was amended in 1961 to permit federal reimbursement for aid to families with unemployed fathers (AFDC-UP), less than half of the states had incorporated this option by the end of the decade. By 1967, with the passage of the Work Incentive Program, work requirements began to appear on a national scale with priorities set for those categories of clients who it was felt should be forced into the labor pool.

Such exclusions and work requirements serve a variety of economic purposes. In the first place, they make a large number of persons available for low wage and seasonal jobs. This pattern is most readily seen in many southern states which have had "employable" client laws dating back to 1943. Secondly, even when clients are not employed, their availability enlarges the supply of workers for low-skilled jobs. This serves to depress
the wages of those in low-skilled jobs due to the large supply of workers for the limited number of jobs. In this way, welfare serves to regulate the economic situation of the working poor as well. Finally, such regulations serve to enforce a work ethic on people who generally receive limited rewards from employment and might feel that they would have little to gain by moving off public assistance.

The point is that welfare, in the context of exclusions and work requirements, is an agent of the economy and, particularly of certain employers who need a low-skilled labor force that can be used directly to perform tasks or indirectly to keep the cost of such labor low. Further, welfare becomes a way of subsidizing these low wage industries by supplementing the inadequate wages and insecure work arrangements of workers through a relief mechanism. Finally, it reinforces the stigma attached to being on welfare in order (1) to discourage the working poor from entering the welfare system, (2) to divide the working poor from the poor on welfare by labelling the welfare poor as non-working employables and as a cause of increasing tax burdens, and (3) to convince the working poor that low wage work will still be required of them under either the work or assistance option.

Politically, work requirements perform the function of focusing public attention and anger on what appear to be relief-taking, non-contributing workers. The great majority of people who have no economic stake in the role of welfare in the economy are led by political actors to support expensive and unworkable work programs in the belief that the fiscal crisis in government is largely caused by the dependent poor through welfare. Welfare is used as the scapegoat for governmental ills; by concentrating public concern on public assistance, attention is drawn away from the related problems of the inequitable structure of tax burdens and the various activities of government which subsidize and assist particular sectors in the economy at the expense of the general public.

The rhetoric of welfare reform obscures the nature of the new work programs for welfare clients. Instead of leading toward a more progressive and humane system, these regulations tend to be repressive, expensive, and arbitrary. Although more clients will be entitled to higher levels of support under welfare reform legislation, these policies still do not deal with the problems of poverty, unemployment, or inadequate wages. While appearing to increase the income of some, current welfare bills, through the work requirements, may be depressing the wages of others, particularly the large proportion of working women who are already concentrated in lower wage occupations.
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THE WELFARE CRISIS: NO EXIT

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Between 1957 and 1967 the number of AFDC recipients doubled. Within the following four years the number doubled again. By April 1971 over 10.2 million individuals (including 2.8 million adults) were receiving payments through AFDC. Excluding vendor payments for institutional services and medical care, the annual cost of AFDC rose from less than $2 billion in 1967 to over $6 billion in 1971. In a recent one year period ending in April 1971 the number of recipients grew by 27.9 percent while direct payments increased by more than a third.

At this rate the number of recipients will double again in less than three years and outlays will double in two.

These are the striking statistics of the "welfare crisis." They have prompted an increasing number of federal and state programs directed at "encouraging" welfare recipients to move from public aid to self-support via employment. Lower marginal tax rates on earnings supposedly provide an incentive to work. Mandatory work registration for so-called "employable" recipients provides a more ominous form of encouragement. Already all "employable" recipients in New York and "employable" general relief recipients in Massachusetts are required to retrieve their checks at local employment offices where they are registered as seeking work or training. The recently enacted Talmdge Amendments will extend registration requirements to AFDC recipients throughout the nation. At the current thrust of government policy is to check the rapid growth in welfare spending by funneling recipients into the labor force.

But one is forced to ask the obvious questions. Will the judicious use of incentives and requirements be sufficient to reverse the welfare trend? Will there be adequately paid jobs for those who are "encouraged" to look for work?

From those who are investigating the structure of the American economy, the increasingly uniform answer to both questions is "No." An analysis of economic trends indicates that the American economy appears less and less able to generate the necessary jobs to counter the increase in public assistance. In fact, it is more and more apparent that the economic system itself is actually responsible for generating the welfare crisis. The crisis, it turns out, is not an aberration of the economy but rather the normal and natural outcome when a complex economic system is organized by private investment decisions reinforced by public policy. Let us take a closer look at what is happening.

The Dynamics of the American Economy

The key to the dynamics of the American economy lies in what has been called the law of uneven development. Those who control capital resources in the economy will tend over time to reinvest in those things and those people which promise the highest return on investment. Conversely, investment will tend to decline in segments of the economy where potential expected profit is relatively low. In the static theory of normal economics, diminishing returns to any single investment supposedly militates against a long run dichotomy between sectors of the economy or between individuals or classes in society. Theoretically after some point, increased investment in one industry will tend to become less and less profitable and capital holders will begin to shift their surplus savings to other sectors of the economy. Expanded investment dollars will shift from the auto industry to the textile industry, for instance, or from the education of white middle-class youth to black children in the ghetto.
In an era of concentrated capital, however, the simple dynamics of profit maximization does not produce this result. Rather a "secular deterioration" evolves between nations, between industries, and between social classes. There is an inherent tendency in our economy toward a dichotomization between the haves and the have-nots.

This occurs for two reasons. First, investment in a dynamic economy tends not only to increase the capital-intensity of the product or factor of production in question, but also changes the quality of the factor so as to make further investments profitable. Capital investment in a given product, for example, often increases the market value of the product thereby signaling the profitability of renewed investment. Higher past profits are also used for research and development which further expands the market for these goods. Profits also allow expanded advertising which reinforces this tendency. On the other hand, new capital, products, or people which originally fail to meet the test of the market seldom receive additional investment and consequently are doomed to "deterioration." Some industries die a slow death; others linger on perennially paying low wages and producing minimal profits. For people, the result is life-time poverty. A lack of funds for research and development and advertising due to a lack of profits operates to the relative disadvantage of these segments of the economy.

The second reason for a dichotomization within society derives from the potential redistributive effect of any given private investment. While it may be true that continued investment runs into diminishing marginal returns, owners of private capital will tend to link profitability and distribution criteria in reinvestment decisions. Private investors will tend to reinvest their capital in areas which promise the highest relative return only if such investment does not tend to alter the long run income distribution in such a way as to reduce their own relative standing. Owners of capital have both a psychological and political stake in an unequal distribution of income and consequently often measure their success not by the absolute amount of their accumulation, but by the relative surplus they accumulate compared with others. Private individuals will thus tend to invest in their "own" interests rather than contribute to the economic viability of competing individuals or groups. The outcome is uneven development where the rich become richer and the poor become relatively more impoverished, even though the absolute average income levels of all families may be increasing.

The tendency toward uneven development can be seen clearly in the development of industries in the United States. In tracing wage histories since World War II, one finds that the wage gap between "high-wage" and "low-wage" industries has increased secularly. In 1947 the set of industries with the lowest wages paid straight-time hourly rates which averaged 75 percent of the average wages prevailing in the highest wage industries in the nation. Regardless of slight cyclical variation in wage increases during the ensuing period, the wage ratio between these two sets of industries fell to 60 percent by 1966.5

The relative expansion of an extensive working poor population has been the result. In 1968 over 10 million workers — one in five private, non-supervisory employees — earned less than $1.60 an hour in the United States.6 The working poor, including those who work part and full-time, make up well over half the poor in the nation according to Department of Commerce figures.7 Naturally they are concentrated in those industries which have been disadvantaged in capital-intensity, profits, and wage levels.

Uneven development, however, is not restricted to industrial dichotomization alone. The same pattern of secular deterioration is clearly evident in the investment decisions regarding the schooling, training, and health of the nation. Reinvestment is normally undertaken in those children in whom already significant investments have been made. Socialization in the home is obviously biased in favor of the wealthy who can afford educational playthings, home libraries, and summer vacations for their children. The unequal distribution of educational resources in the home becomes mirrored in the school system primarily because of continuing defacto segregated housing (by class and race) combined with the local nature of school finance. Numerous studies have proven the degree to which educational investment is dichotomized between city and suburb, between white schools and black, and between vocational and college preparatory tracks. Beyond high school, the dichotomization continues as college and university resources are distributed overwhelmingly on the basis of social class and race. In this way the socialization process is structured so that, in the main, it perpetuates social class divisions from one generation to the next.8

From pre-school to college, the children of the wealthy tend to continue receiving new investment while the children of the poor tend to be pushed out of the education stream at an early point in their lives. At birth the rich and poor begin with nearly equal abilities, but with time the educational reinvestment process assures uneven development and unequal opportunity between the two. The more wealthy generally pass on to their children the means by which their higher status can be maintained, while most of the children of the poor are left with little recourse but a future on welfare.

Private investment decisions and unequal human capital "investment" thus tend to produce a dual economy both in the structure of industries and in the structure of the labor force. The economic system itself is responsible for the paradox of poverty amid affluence. Over time, there tends to be relatively less invested in the low-wage sector industries and less in the poor. The result will be the perpetuation of the low-wage sector and a concomitant expansion in the number of individuals who cannot adequately compete in the high-wage industries. Racism and sexism inevitably exacerbate this situation and in large measure determine who will bear the brunt of uneven development. Without access to the high-wage sector, an increasing number of families, often with female heads, must turn to welfare to supplement inadequate earnings. For those who have been deprived of essential "human capital," there are fewer and fewer jobs available at any wage level.

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The Role of Government

In a number of ways the government reinforces the tendency toward uneven development in the private sector. The distribution of effective corporate income taxes (structured through depreciation and depletion allowances, investment tax credits, and specific industry loopholes), benefits the more concentrated and powerful industries to the detriment of others. Government spending now amounting to nearly one-third of total expenditures (GNP) in the United States is also sharply skewed to benefit a small set of industries, mostly in the defense sector. As with unequal tax treatment, unequal expenditure between industries reinforces the secular deterioration through a dichotomization of capital-intensity, profits, and finally wages. The government is also using an increasing amount of subsidization in such a way as to further contribute to the natural trend in the private economy. Finally, through the public education system and the "grants economy" the government has long contributed to the uneven development of "human capital" and the dichotomization of social classes. Thus the government is partially responsible for the rate at which the dual economy has developed.

The trend toward greater disparity between industries and between individuals would necessarily continue over time under the present economic system if it were not for the fact that such a trend is considered politically untenable. The political implications of ever greater income disparity are well-known and generally appreciated. The government therefore must make an attempt to offset the powerful forces tending toward dichotomization of the economy.

Throughout the 1960's the federal government attempted to forestall the effects of uneven development through a massive expansion of manpower programs and services to the poor. Between 1961 and 1970 the total federal outlay on manpower and human resource development programs grew from $184 million to over $2.6 billion a year. Annual total federal aid to the poor through income security programs, commodity and service programs (including housing, health, food, and compensatory basic education), manpower policy, and economic and community development grew nearly three-fold in this period from $9.7 billion to $27.8 billion. In addition, equal employment opportunity legislation was expanded and strengthened and the national minimum wage was increased and extended to previously uncovered employees. Most important, however, welfare was expanded at an unprecedented pace. The total amount of aid going to the poor during the 1960's has been estimated at $250 billion.10

Yet the impact of these reforms has been marginal. Even with this massive outlay of anti-poverty funds, the government has at best been successful only in counterbalancing or stopping the extension of the inherent tendency toward uneven development and a more unequal distribution of income. There has been no tendency to reverse the process of secular deterioration among industries and individuals. Very much like characters in Alice in Wonderland, the government must run even faster against the tide of uneven development in order to leave the poor no worse off than they were before.

This can be seen in official income statistics which indicate that the distribution of after tax and transfer income has remained approximately constant, at least since World War II and possibly since the turn of the century. The poorest one-fifth of all families perennially receive approximately five percent of total family income after account is taken of taxes and welfare. The richest fifth are left with something more than forty percent year after year while the wealthiest five percent have normally received between 14 and 17 percent of total after-tax and transfer income.11 At the same time that the income shares have remained constant, the income gap between rich and poor has nearly doubled since 1947. According to a recent report commissioned by the Joint Economic Committee of Congress, "The gulf between the richest 20 percent of families and the poorest 20 percent widened to $19,071 in 1969 from $10,565 in 1947 when measured in constant 1969 dollar terms."12

Other data present a similar picture. The ratio of black to white incomes in the United States increased from 54 percent to only 61 percent during the period in which poverty programs expanded rapidly.13 Furthermore, during the 1960's the number of persons defined as poor declined steadily, but in 1970 the trend reversed itself as the number rose by over 1.2 million to 25.5 million.14 Finally the actual gains from manpower programs have been small. For those who completed training under the Manpower Development and Training Act (MDTA) during the middle 1960's, only three out of five advanced in pay and the increased earnings were usually negligible. According to the largest study of MDTA, involving over 100,000 institutional training graduates, the average wage for males after training was only $2.06 per hour, 27 percent higher than the average pretraining wage rate. For females the post-training wage was boosted to $1.53, less than 20 percent above pretraining average earnings.15

Clearly present government policies to reverse uneven development have for the most part failed. Yet of all the reforms during the 1960's, only welfare was important in partially offsetting the effect of uneven development. Only by directly transferring income to those who ended up at the bottom of the dual economy was the government able to keep the income distribution from going further against the poor.

Reaction to the Federal Failure

In general there have been two distinct reactions to the "failure" of past social legislation. Conservatives have reacted by blaming the victim. They have argued that no legislation could ever help the poor because of the biological or environmental inferiority of the disadvantaged. Jensen and Herrnstein have raised the spectre of genetic inferiority while Banfield has claimed that the poor have developed an environment which they actually prefer.16 Only by allowing the poor to literally "die off" can poverty be eliminated according to these analyses. Sterilization and early institutionalization of poor children have actually been suggested as policies for dealing with poverty.
Liberals have reacted by arguing that early programs failed because they were underfunded rather than ill-conceived. They claim that larger manpower programs and more encompassing welfare policies are needed to deal with the problems of the poor. Negative income taxes and other family assistance schemes are suggested as the proper policy for dealing with the unequal distribution of income. Thus, while the conservative reaction offers inhumane policies based on unsupported generalizations, the liberal solution will only exacerbate the "welfare crisis" by continuing the upward trend in welfare costs.

The only way out of the crisis is to confront the problem of uneven development directly. In the short run this requires that the federal government redirect its investment priorities so as to offset the tendency toward uneven development in the private sector. At a minimum this requires a redirection of federal outlays from defense industries into public investment in education, health, and housing. The tax structure needs reworking so as to burden individual industries more equally. If government is to subsidize directly special sectors of the private economy, such subsidization should be directed toward industries and regions which have been systematically denied enough resources in the past.

But in the long run, a permanent welfare crisis can only be avoided by removing the fundamental cause of uneven development—private investment decisions. Ultimately large-scale investment decisions will have to be planned more with the public interest in mind. The distributional effect of investments need attention as well as the profitability of investment. More investment will have to be publicly controlled while less will be left in private hands. Only in this way can a society order its production process so as to avoid dichotomization of the economy and a mounting welfare payroll.

Such a transformation in the fundamental structure of the American economy is not likely to be forthcoming in the immediate future. Those who control a disproportionate share of economic and political power will not permit it. For the years to come, then, the result is inevitable. Without the creation of literally millions of new well-paid jobs for the potential welfare recipient, even the most judicious use of incentives and work requirements will fail to offset the rising welfare tide. Even if the current recession becomes past history and the economy moves into an era of growth, the process of uneven development will leave millions inadequately prepared for an equally inadequate supply of good jobs. These millions will turn to public assistance to keep their families fed, housed, and clothed. The welfare crisis will thus continue unabated, doubling the cost of public assistance every few years. Short of fundamental change in the structure of the economy, there is no exit. This has become the American way.

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