

A Proposal to Eliminate Welfare

Hyman P. Minsky, *SJR*, April 1987

Welfare reform is now on the agenda. Reagan who came to office dedicated to dismantling the welfare state may very well end his term presiding over the strengthening of the welfare state. However what is being proposed by the Governors and in the Senate as welfare reform is not on the mark. The reform proposals emphasize training and work as punishment. The blame for being on welfare is placed on the recipients rather than upon the economy: the victims are blamed for their plight. If reform is to succeed it needs to be based on an understanding of how the welfare "mess" is due to shortcomings of the economy. The welfare "mess" is one of the symptoms of the deep flaws in our economy that have made poverty a growth industry over the past two decades.



Growing impoverization and the welfare "mess" exist because our economy *as it is now organized* is not capable of achieving and sustaining full employment. Ever since the mid-1960s, over good times and bad, the trend of unemployment has been rising.

Johnson's war on poverty failed because it was not wedded to programs to achieve full employment. The victories of the civil rights movement are now at risk because of the progressive deterioration of employment. The economic policies of both the Kennedy-Johnson and the Reagan years emphasize tax reductions and defense spending. These mainly benefit the already prosperous. Policy then and now aims to trickle prosperity down from the affluent to the poor. We need a structure of policies that first generates better times for the poor. Whereas better times for the affluent rarely trickles down to the poor, better times for the poor will, to use a phrase borrowed from Lester Thurow, bubble up to the affluent.

Welfare reform will not succeed unless it is part of a comprehensive program which aims to achieve prosperity from below; the aim must be to first make workers, working farmers, and the poor better off. Full employment is the first goal of any policy that has any hope of reversing the welfare "mess." The Guaranteed Job Opportunity Program (GJOP) of Senator Paul Simon of Illinois is the starting point for an effective policy to get America progressing again because it recognizes that the only feasible way of achieving an adequate number of jobs is through government being an open-ended employer. The GJOP proposes that a maximum of 32 hours of work a week at the minimum wage be available to all who come forth: this means that income from work at the rate of about \$100 a week is available to all.

Senator Simon's proposal is honest, tough minded, and doable. It harks back to the successful New Deal trio of WPA, NYA, and CCC. The Simon proposal reflects a Rooseveltian rejection of the dole. It does not blame the poor for being poor. It does not promise an unrealistic income, the minimum wage remains where it now is.

It is not an empty gesture such as raising the minimum wage in a high unemployment world would be. It reminds us that the minimum wage, to the unemployed, is \$0 per hour. Raising the nominal minimum wage does not increase employment and will likely be rendered ineffective by inflation. Admittedly \$3.35 an hour will not buy a pink Rolls Royce such as Boesky had, but a guarantee that \$3.35 is available on demand for all who are willing and able to work is infinitely better than what we have.

The Guaranteed Job Opportunity Program is the first pillar of any successful reform of welfare, but it needs to be supported by and coordinated with other programs. Our current means tested aid to families with dependent children is a disgrace and should be repealed. In its place we should put a non-means tested universal children's allowance of \$100 per month. The present exemption for children in the income tax laws is a perverse children's allowance, for it goes to those with taxable incomes. The children's allowance should be part of a family's taxable income, and the present children's exemption in the income tax should be eliminated. As was recognized during the war on poverty of 25 years ago, a meaningful children's allowance will do wonders in improving the living of what was then called the working poor.

The combination of the GJOP and the children's allowance guarantees \$7600 for a working mother with two children.

Another pillar of a package of welfare reform, and the only part of the package that may apply mainly to welfare, is parental responsibility. The Simon program can be constructed so as to guarantee income from work to all over 17. With income from jobs guaranteed, some of the excuses for irresponsibility vanish. Furthermore there should be no barriers to multiple participants from one family in the Job program; given the participation of women in the labor force it might well be the normal state of affairs. With 2 jobs and children's allowances a family of four will earn about \$13,000 per year. By eliminating aid to families with dependent children and introducing a non-means tested job guarantee, the reform package becomes pro-family.

The fourth pillar to welfare reform is "communal" income. Our standard of life depends only partly on our private incomes, for we "consume" the services of. parks, schools, safe streets and a wealth of other amenities. One of the great dimensions of America as the land of opportunity to our immigrant forefathers was the availability of education. The Job Opportunities Program should make it possible to improve the amenities in communities throughout the country and to protect and improve our common heritage. Poverty in the United States stems as much if not more from shortcomings in communal services, what Galbraith once called public squalor, as *from shortfalls in* private income. *If* we make adequate communal consumption available to all, much of the burden of poverty can be eased.

A Guaranteed Job Program and a children's allowance will not be cheap. A rough estimate of the gross costs might be \$20 billions for *jobs* and \$55 billions for the children's allowance. Much of the children's allowance will be recaptured in taxes and the job program replaces present welfare and all but short term unemployment insurance: the net costs are lower than

the gross costs. Given that the full employment gross national product is well in excess of \$4,000 billions the annual gross costs of a full program will be under 2 percent of GNP and the net costs will be in the neighborhood of 1.5 percent of GNP.

The major virtue of the GJOP is that it guarantees jobs, it is not a transfer payment scheme. It reestablishes the principle that was central to Roosevelt's New Deal: one must earn one's keep. It does not doom a person to a so called dead end job, for work experience is an entree to better jobs. The well nigh universal system of Community Colleges means that continuing education and training is available. And having a job is motivation for training for a better job. There is no need for making training a condition for participating in the job program.

As the GJOP will be job oriented, the employees will have the satisfaction of seeing visible results from their work. The successful New Deal job programs, such as the Civilian Conservation Corps and the Works Progress Administration, were very much job oriented: their very names emphasized that they were designed to accomplish jobs that needed doing. The reports of the agencies tell of the number of trees planted, the miles of trails developed, and the community swimming pools built. The new programs should also be job oriented, the object of the programs should be to improve parks, build recreation facilities, maintain schools, provide day care, etc.

Much work needs to be done if America is to be whole again. The essential step, as Senator Simon recognizes is jobs that lead to useful outputs. However, the GJOP, essential as it is, cannot do the entire job by itself. It requires help from a children's allowance and a commitment to use the labor hired by the jobs program to improve our common consumption.