

How Well Off Should Welfare Make You?

One hears such stories all the time. A middle-class housewife carefully clips coupons for store-brand tunafish while the single man behind her in line buys sirloin steak with food stamps. A self-supporting family scrimps to meet its monthly rent, while a family in subsidized housing can afford a new T.V. These tales, whether fact or fiction, exert a powerful hold on the popular imagination. To many it seems wrong that someone on welfare should end up better off than someone who isn't.

A similar principle is recognized in debates over equity in welfare policy. Two different conceptions of equity are frequently cited in planning income support programs. *Horizontal* equity is the principle that those in similar circumstances should be treated similarly. *Vertical* equity is the principle that persons in different circumstances should be treated differently. Vertical equity is often taken to be relevant in explaining why we find the two opening examples disturbing.

According to Jodie T. Allen, formerly Special Assistant to the Secretary of Labor, vertical equity means that people in different social and economic situations ought to be treated differently. Redistributive taxes transfer income from more to less affluent individuals, and horizontal equity requires such redistribution to provide equal treatment of those with equal needs. But vertical equity limits the extent of this redistribution.

On Allen's view, "Given a distribution of income, the effect of tax or transfer policies should not be such as to reverse the position of persons in the resulting income distribution." If one family earns more than another before taxes and transfers, they should still earn more after, though the gap may be narrower. (Allen argues, however, that the gap should not be "unduly compressed.") This is not to say that the better-off should not be taxed at all to benefit others, but they should not be taxed to the point of losing their relative place in the distribution of income.

This principle, Allen points out, is persistently violated in the design of existing welfare programs, such as Medicaid, day care, and food stamps. Medicaid, for example, violates vertical equity on two scores. First, full coverage is extended to all families below a certain income (the eligibility limit for welfare), while families just slightly above the cut-off are left to fend for themselves. "If earnings on other income increase even one dollar beyond the eligibility limit for welfare,

the former eligible thus abruptly loses a benefit worth on the average some \$1,850 to his or her family." Thus a welfare family slightly below the limit ends up better off than a taxpaying family slightly above the limit.

Second, Allen charges that "there is an even more serious equity problem implicit in the Medicaid design. . . . At least in states providing broad-gauge Medicaid coverage, welfare recipients are assured a level of medical care beyond the financial reach of all but the most affluent. In dramatic but not unlikely terms, we may find the policeman's wife waiting in line at the clinic while the welfare mother meets her pre-arranged appointment with a Park Avenue specialist."

Welfare and Work Incentives

There is a clear practical reason to care about vertical equity. If people who don't work get just as much, or more than, people who do, incentives to work will be considerably diminished. Most jobs, particularly those available to the uneducated and unskilled, are not intrinsically rewarding or satisfying. Without extrinsic financial incentives, welfare recipients would have less reason to take such jobs, and those employed would have less reason to keep them. To put it bluntly, many of us wouldn't work, or wouldn't work as long and hard, if it weren't for the money.

Studies have shown that independent sources of income do, as expected, reduce work effort. Allen reports, "Several major field experiments have been launched to measure the impact of transfer programs on the work effort of prime age adults in families. The largest and most reliable of the experiments, the Seattle-Denver Experiment, recently [showed that] cash transfer programs of the size and design most frequently discussed in political debate do reduce work effort, and those reductions can be related to . . . the level of benefits."

Working and saving increase society's overall wealth and resources. If productivity dips, the size of the pie available for distribution is accordingly shrunk, and there is that much less for everyone. It may therefore be to the best advantage of even the least well-off that a hierarchical income structure is maintained. If income differentials provide incentives

that stimulate productivity, in the long run all economic classes benefit.

However, the future benefits of trickled-down prosperity may not be great enough to offset inadequate welfare payments in the present. Vertical equity has been preserved by holding the level of welfare payments below the earnings of the poorest paid workers, and such payments may be insufficient to meet urgent human needs. Robert Fersh, formerly Confidential Assistant to the Administrator of the Food and Nutrition Service of the U.S. Department of Agriculture, points out: "The failure to provide for adequate work incentives . . . seems to be a rather academic and distant concern in comparison to the direct effect of hunger and substandard housing on human beings A system which maximizes sensitivity to these concerns would seem to be expressive of some fundamentally important human values."

Welfare and Equity

There is another, more explicitly moral, reason to care about vertical equity. Just as it seems *fair* that people with equal needs should receive equal benefits, so it is taken to be *fair* that people in different economic positions should retain their different positions even after the needs of the less fortunate are met. The principle of vertical equity, after all, is supposed to be a judgment about what is *equitable*.

Why isn't it fair for the income ordering to be reversed? Why isn't it fair for someone who earns more to end up with less than someone who doesn't work at all? If the appeal to fairness is not just another expression of the need for work incentives, on what deeper principle is it grounded?

The underlying principle seems to be that income should be distributed on the basis of merit, where merit is measured in proportion to work. This principle can itself take various forms—for example, that income should be distributed according to effort, or according to achievement. The interpretation we choose determines our moral judgments very differently. But on this principle it certainly seems unfair for someone who works to earn less than someone who doesn't.

Norman Daniels, Professor of Philosophy at Tufts University, raises two strong objections against the application of this principle in welfare policy. First, the great majority of welfare recipients are those who are excused from the work requirement for one reason or another: the elderly, the handicapped and disabled, children, and parents solely responsible for child care. With the possible exception of the latter, these groups are not able or not expected to compete in the labor force. The able-bodied man of the opening example is hardly the typical welfare case. But if most recipients cannot be legitimately held to the merit principle, how does it violate that principle to distribute income to them on other grounds?

Writes Daniels: "If the population to whom Allen's equity principles are to apply is that part of the population which it makes no sense to hold responsible for their inability to meet their needs, then it is hard to see why it is so important not to reverse income rank orderings in order to guarantee them adequate benefit levels. Perhaps for those who fare badly because they merit little, [such principles] might be thought appropriate. But for those who are excused from merit considerations, and for whom we have some concern that their needs be met, adhering to these principles seems a misplaced scrupulosity, if not an outright contradiction."

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Daniels's first objection assumes that the merit principle does indeed apply, but argues that most of the welfare population is a legitimate exception to it. His second objection challenges the principle itself, as an accurate representation of how income is in fact distributed in our society. "Do we live in a system in which, on the whole, pre-tax, pre-benefit income rank order and income distances comply with some basic meritocratic principles?" he asks. He answers that we do not. Vertical equity cannot be grounded in the work ethic. Income is not generally distributed on the basis of how hard or well one works. (Consider, among others, the example of inherited wealth.) It is unjustified, then, to impose a merit principle on the distribution of income to the poor, when it does not govern the distribution of income to other classes.

Should a merit principle determine economic distribution? Before answering, we would need to reach some agreement on what is to count as merit and look more closely at the connection between merit and reward. Philosophers such as John Rawls argue that our talents and abilities—as well as our capacity for effort and discipline—are largely matters beyond our control for which we can claim no fundamental credit. To distribute wealth on such grounds seems capricious and morally arbitrary. Clearly we need a better and deeper understanding of these principles before we can elevate them into grounds for ignoring the needs of the least well-off in our society.

The views of Jodie T. Allen, Robert Fersh, and Norman Daniels are taken from their chapters in Income Support: Conceptual and Policy Issues, Maryland Studies in Public Philosophy (Totowa, N.J.: Rowman and Littlefield, 1981). To order, see p. 15.

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