President Nixon’s income maintenance plan would add an estimated $4 billion a year to the welfare bills of the nation’s taxpayers. The plan is a variation of the negative income tax idea, a proposal until recently considered too radical even by many liberals. It would be paid for out of existing taxes and administered by the government; the private sector would not participate.

As I see it, private industry should be mobilized to help solve domestic social problems. It should not be exempted from social responsibility; for one thing, it has more resources than the public sector; also, it is more efficient than the government in some areas. Too often the discussion of public vs. private solutions to national problems is conducted on abstract ideological grounds. In the following pages I will try to make the "public vs. private" debate more concrete by outlining one particular way the private sector can share in solving one complex problem.

Clearly some sort of anti-poverty plan seems justified in this affluent nation, yet ideally it should be able to distribute money more efficiently than current plans, it should cost less, and at the same time it should be able to win support from middle-class citizens.

I offer here one possibility. It took shape during a study contracted by the Center for Policy Research for the Office of Economic Opportunity. The plan can surely be improved, but even in its present form it illustrates both the promise and the difficulties involved in mobilizing the private sector to fight poverty.

Imagine an insurance policy to protect subscribers against poverty, specifically against the risk of their income from all sources falling below a specified minimum. To sustain the desire to work and save, the insurance would make up only half the difference between an agreed-upon level of income (say $4,500 a year) and the actual income.

Two distinct policies would be issued: "job insurance," providing benefits only for those temporarily out of work, after they have provided proof that they cannot find a job; and "subsistence insurance," for persons unable to work, such as the disabled. These insurance policies would replace some parts of the existing welfare system (like aid to families with dependent children), and supplement others (like Social Security).

The plan would be issued on a national basis, administered by a new insurance corporation created for this purpose by a consortium of existing insurance companies, and run by a board of directors whose members would come from government and private industry. The premiums might cost from $4 to $9 a month per family subscriber, depending upon the level of guaranteed income and the amount of Congressional subsidy. Premiums would be higher if the plan were voluntary, lower if it were mandatory. In a voluntary plan, Congress would have to pay part of the costs in order to keep the premiums from being too high and to cover persons who are already poor.

There is a very good reason for insuring those who are not now poor. The popular idea that there are X million poor people whose number is declining gradually is far from accurate. It is estimated that each year a million people become poor. If they could protect themselves by taking out insurance against such a contingency, the load on all other anti-poverty programs would be significantly reduced.
However, the same insurance plan should also cover those who are already poor. That is, when the plan is started, people with an income below the poverty line would be allowed to subscribe and to draw benefits immediately. This would, of course, significantly increase the cost of the program, and it is the reason why considerable public underwriting seems justified. In effect, for the already poor, the plan would be rather like an efficient, privately administered welfare system.

Since a large part of the costs would be covered by subscribers rather than by taxpayers, this plan would be less costly to the public than any equivalent anti-poverty program, and at the same time would offer superior coverage and benefits. The size of the saving would depend upon the level at which the premiums are pegged, the number of non-poor subscribers, and the number of newly impoverished who might be forced to draw benefits in any one year.

Most welfare schemes have tended to separate people into two sharply divided camps, those who work and those on relief. Moreover, they have reinforced the feelings of inferiority, inadequacy, and apathy of the poor, and have thereby helped to perpetuate poverty. But anti-poverty insurance policies, subscribed to by poor and non-poor alike, would carry no more of a stigma than other forms of insurance do now. For, unless the policy-holders publicized it themselves, no one in a community would know who has anti-poverty insurance, or even who is drawing benefits.

Many existing welfare programs require complicated, dehumanizing, and costly investigations by a large staff of social workers who examine the particular needs of each recipient and the way he spends his relief checks. The anti-poverty insurance plan would merely require those in need to file a claim much like the one people file after an automobile accident. The claimant would fill out a simple form, indicating on one side the size of his family, including the age and number of dependents, so that the proper income need could be determined. On the other side of the form, all sources of income would be listed. Every three months, the claim would have to be refilled to continue payments. Instead of receiving allotments for the purchase of specific items, claimants would be able to use their payments as they wished.

The administrative costs of the anti-poverty insurance program would run to not more than two per cent, due to the simple nature of the operation involved. There would be no need for an army of administrators, but only for an adequate computer facility, for clerks, secretaries, and a number of investigating teams to verify claims. Unlike case workers, who seek detailed and intimate information from each client, investigators would check only a sample of the claims filed; they would not attempt to determine how money is spent but only to verify specific claims about loss of income and lack of employment.

There would be some cheating; its level would depend on how vigorously verification is carried out. Initially, fairly thorough checking might be necessary until the public image of the program had been established. Later, not much more checking than that employed on Internal Revenue returns or other insurance claims would be needed. Still, some cheating might go uncaught; but the plan could live with a certain amount, as other systems do, merely by adding its expense to the costs of the program. In any case it would cost too much to eliminate cheating entirely.

The plan could not, however, tolerate continually open subscription rolls. There would be no motivation for the non-poor to purchase the insurance policy if they could simply wait until the time when, due to some unfortunate circumstance, they became poor. For this reason the right to apply for insurance at any time would have to be limited; for instance, the rolls might be opened to new subscribers only once every three years after the initial enrollment period.

One of the most vexing features of existing welfare schemes is that they reward those who desert their families or have children illegitimately, while they penalize those who get, or stay, married. The resulting damage to the family structure of the poor considerably increases the human, social, and economic costs of welfare. It also has caused abuses like the notorious midnight raids in search of “unauthorized” men on the premises of mothers of dependent children.

Anti-poverty insurance policies, therefore, would be issued in full only to families. When single, divorced, or separated men apply, or mothers without husbands, the amount available to each would not be larger than the total family allotment. Thus, if a husband and wife with two children received an annual income of $3,000 according to the terms of the insurance plan, then individuals would be eligible to receive only part of the $3,000; for example, a mother might receive $2,300 and a
single man $700. These amounts are quoted only as examples; the annual income could be increased without violating the principle of fractional payments to single people.

The previously mentioned alternatives of voluntary and mandatory plans require a more detailed discussion. Congress could rule that all citizens must subscribe to anti-poverty insurance, as they do with Social Security. One advantage of this approach is that it would generate considerable income. Even if the premium were initially as low as $4 a month, the yield would be $2.16 billion per year (assuming a 90 per cent compliance rate for the population of 50 million families projected for 1970). If the premium were higher, let us say $8 a month, the income would amount to $4.32 billion.

The main disadvantage in making anti-poverty insurance mandatory, however, is that it would be, in effect, a form of taxation. At present, public resistance to rising taxation seems so intense that a voluntary system seems preferable.

But will the non-poor voluntarily subscribe to a policy that covers both high- and low-risk subscribers, with the non-poor indirectly subsidizing the poor? Experience in other forms of insurance suggests that the situation is not without precedent.

All insurance schemes have high- and low-risk groups, and the subscribers seem either unaware of this fact or indifferent to it. One example should suffice: large groups of middle-class people, especially civil servants and white-collar workers, subscribe to Blue Cross and Blue Shield. Even though the same rates are charged to small and large families, the large families, many of which are poor, utilize many more services; yet few complaints have been raised about this by subscribers with high incomes and small families, even after the recent increase in rates. Although in the case of anti-poverty insurance the high-risk group would be particularly visible—since all of the poor subscribers are expected to draw benefits—it could also be made clear to subscribers that much of the extra expense was being covered by Congressional appropriations.

Our research indicates that many people would subscribe to anti-poverty insurance voluntarily, especially if the premium remained relatively low. The income of those in this group, although above the poverty level, is unstable and insecure; it varies considerably over time and the variance is unpredictable. Many of the self-employed members of the "old middle class" fall into this category; they include farmers, craftsmen, the owners of small businesses, and others. One indication of how unstable income is for many members of this group is that only about half of all new businesses opened in an average year (more than 450,000 in 1968) survived more than 18 months. Casualties resulting from this devastating fatality rate are unlikely to be left either with an income or with a sense of security.

These members of the old middle class tend to be individualistic, proud, and very resistant to welfare plans. After analyzing a Gallup poll released to me for further study, I found that while 57.8 per cent of laborers favored a negative income tax, only 16.7 per cent of farmers, 23 per cent of sales people, and 23.7 per cent of those in business said they could give it their support. Being both economically insecure and opposed to welfare, such people would probably prefer to buy insurance against poverty.

In informal interviews conducted with members of this group in three American cities, most stated they would prefer to rely on poverty insurance, rather than on either the state or their children and relatives, in case of need. These people had a certain amount of anxiety about the future, anxiety that might be relieved by the insurance policy proposed here.

The old middle class is fairly sizable now and is expected to grow. In 1960 the United States had 7.1 million managers and proprietors; the projected number for 1975 is 9.6 million. The 1960 census for sales people was 4.4 million (6.1 million by 1975), and the number of craftsmen and foremen in 1960 was 8.6 million (with 11.9 million estimated by 1975). Not all, but certainly many of these have variable incomes. What percentage would be interested in such an insurance plan cannot be predicted without direct market research; but one can state with confidence that they constitute a potentially large market.

Among the salaried persons whom we interviewed, there was much less interest in such a policy than among the self-employed. The major exception, however, was among the salaried aged 50 and older. They seemed less sure about their income, especially since Social Security benefits are not large. About five million people aged 65 and over are living in poverty even by the Social Security Administration's definition; and the aged are a very large and rapidly growing population. It is estimated that the United States now has 39,076,-
000 people 55 and older, 19,585,000 of them 65 and older. People in these age brackets constitute almost 19 per cent of the total population and a much higher percentage of the adult population, the group to which insurance might be sold.

So far, the plan's payment arrangement has only been alluded to. As mentioned earlier, two kinds of insurance would be issued by the new corporation: "job insurance," for those able to work, and "subsistence insurance," for those who cannot work. Both would assure the subscriber that his income would not fall under a specified level. To keep persons above this rock-bottom line once their income falls below it, the insurance plan—if it were set at the level of federal government support suggested by President Nixon—would pay a penniless family of four $1,600 per year. A family whose income is $3,000 or more would draw no benefits, and families with an income somewhere in between would receive half the difference between their income and $3,000. Thus, a family whose income is $1,250 would receive $875 (half of $1,750) from the insurance corporation.

These figures—which are lower than those suggested in practically all other anti-poverty schemes—are used deliberately, because they correspond to the income levels proposed by the Nixon plan. Additional amounts for larger families could be built into the insurance plan, and the difference in living costs between residents in urban and rural areas could be taken into account. The same plan could produce higher levels of income, with the poverty line pegged at $3,000, at $4,500 (as Leon Keyserling has suggested), or more.

The level of income maintained must not be confused with the cost, per person, of the program. Few people have no income at all and only for them would the cost per person equal 100 per cent of the rock bottom, or 50 per cent of the top, begin-to-draw, line. For all others, the formula is top line (e.g., $3,000) minus income from any source, divided by half. Even if the top line were to be set at $6,000, it would require a payment of less than $3,000 to most poor families, who have some income.

The subsistence insurance would be available to those unable to work—including many aged 65 or older—and to the permanently disabled. I suggest that mothers with two or more children under school age should also qualify for subsistence insurance, and that mothers whose children are younger than nine should be expected to work only half-days.

Able-bodied persons would be able to subscribe only to job insurance, drawing benefits for periods when they are unable to find work. Most existing unemployment insurance plans cease after a specified number of weeks; anti-poverty insurance would continue as long as necessary. Certification would be provided, as is customary now, by state employment services, but the insurance corporation might want to set up its own placement and investigatory services. Thus, a by-product of anti-poverty insurance might be the creation of private competition to the government employment services, which are notoriously inefficient.

Any such placement offices set up by the anti-poverty insurance company would serve mainly the unskilled, the aged, and members of minority groups, because they are disproportionately overrepresented among the poor, and they are helped least by existing private employment services.

The purpose of the "deductible" feature of the insurance—paying half the difference between a person's actual income and a specified poverty level—is to sustain the motivation to work. Many of the jobs available to people just above the poverty line are far from attractive; if a somewhat lower income were available to the unemployed, many workers might trade their jobs for a lower-paying alternative like anti-poverty insurance. Although such persons would have to certify that they could not find work, the strong temptation to "bum it" at $3,000 instead of working to earn $3,500 would put too much strain on the certification mechanism. It is unwise to set up a system that rewards cheating. A person anxious not to work could get himself fired from three or four jobs in a row; after that, most labor exchanges would be reluctant to send him elsewhere, and would be inclined to certify his incapacity to find work.

Several social scientists believe that the income assured by some proposed anti-poverty schemes—let us say $3,000 a year ($60 a week) for a family of four—is so low, and the pressures of our society to aspire to higher standards of living so great, that most people would not avoid working. The theory is that although there might be some who could earn $3,500 or $4,000 but would be tempted to draw insurance, foregoing the additional comforts $500 or $1,000 could buy, most people would aspire to goods and services demanding an income much higher than $3,000, and hence seek work.
Still, the ambition of lower-income groups is not strong, and although they may aspire to a living standard supported by an annual wage of $6,000 or more, they may despair of their ability to achieve it. Hence, some might choose to live on a low anti-poverty insurance income rather than work for more money. In addition, many just below the poverty line, who earn, say, $2,500, and who draw welfare or insurance benefits, would be very reluctant to work since any increase in their income would be, in effect, taxed at 100 per cent (their higher income causing an equivalent reduction in insurance or welfare payments). It is for this reason that several states now allow welfare clients to keep part of any additional income up to a specified level, so that they are gradually, instead of abruptly, phased out of welfare.

The deductible feature of the anti-poverty insurance plan is in line with this conception. Thus, if out-of-work subscribers should find employment, they would get to keep 50 cents on the dollar up to a top income of $3,000. Above this level they would keep all of their earnings and, of course, would no longer draw insurance.

This 50 per cent figure seems to be the most practical. The lower the fraction of new income a worker is allowed to keep, the less powerful would be his motivation to seek work. Yet if the fraction is too high, it would encourage workers to draw insurance benefits and work part-time indefinitely, making sure that they do not earn more than the top income that would disqualify them from receiving benefits. For example, if the payment figure is set at 80 per cent, a person who earns $4,000 can deliberately lose his job and receive $1,500 insurance. If he then works part-time and earns $1,750, his total annual income would be $1,500 plus 80 per cent of $1,750, or a total of $2,900. That amount would not disqualify him from receiving insurance; yet by working part-time he could earn only $1,100 less than when working full-time.

Therefore, 50 per cent or so seems to be the acceptable mid-point between these two undesirable extremes. It might be possible, of course, to set up a sliding scale; subscribers would be permitted to keep 75 per cent of the first $1,000, 50 per cent of the next $1,000, and 25 per cent of the third $1,000. But those trying hardest to advance would be the most sharply penalized; in addition, many more verification headaches would be created. Hence the 50 per cent payment seems the most practical.

The cost of an anti-poverty insurance plan may be estimated as follows: to guarantee all families an annual income of $1,600, the amount called for in the Nixon proposal, would cost $1.6 billion. To keep an estimated 250,000 non-poor families from falling into poverty each year, supplementing their declining incomes by an average of $750 per family, would cost an additional $187.5 million. After adding two per cent for administrative expenses, the total cost of this minimal program would be $1,822,740,000—less than $2 billion.

To cover these costs without any Congressional appropriations, in a mandatory insurance plan similar to Social Security, would require a premium of only $3.30 a month (assuming 50 million families and a 90 per cent compliance rate). If the program were voluntary, and there were 20 million subscribers paying $6 a month, Congressional appropriations would have to be $382 million per year.

The guaranteed income in the Nixon proposal is rather low. With a higher guarantee, the costs of the insurance plan would rise sharply. For instance, to bring both poor and non-poor subscribers up to the level of $3,200 a year immediately would cost an estimated $11 billion. The reason is that there are many more people who earn $1,600 a year than there are people who earn $3,000 a year; the insurance plan would have to make up the difference. The table below estimates some of the costs involved:

<table>
<thead>
<tr>
<th>Annual Family Income Guaranteed</th>
<th>Total Cost* in billions</th>
<th>Monthly Premium</th>
<th>Million Subscribers</th>
<th>Congressional appropriations in millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,600</td>
<td>$1,821</td>
<td>$3.30</td>
<td>45</td>
<td>0</td>
</tr>
<tr>
<td>$1,600</td>
<td>$1,821</td>
<td>$6.00</td>
<td>20</td>
<td>$382</td>
</tr>
<tr>
<td>$1,600</td>
<td>$1,958</td>
<td>$6.00</td>
<td>15</td>
<td>$879</td>
</tr>
<tr>
<td>$1,600</td>
<td>$1,958</td>
<td>$8.00</td>
<td>10</td>
<td>$999</td>
</tr>
<tr>
<td>$3,200</td>
<td>$11,600</td>
<td>$8.00</td>
<td>30</td>
<td>$8,660</td>
</tr>
<tr>
<td>$3,200</td>
<td>$11,600</td>
<td>$8.00</td>
<td>20</td>
<td>$9,620</td>
</tr>
</tbody>
</table>

*Includes 2 per cent administrative costs and, in the bottom four figures, a 5.5 per cent profit cost discussed on the following page.

In the preceding projections, we assume that if the benefits were greater, more people would be willing to subscribe and at a higher premium, even if the program were voluntary. Naturally, these are
rough estimates, and are hardly the kind of data upon which the insurance industry could make a firm commitment. Still, the figures demonstrate this plan's efficiency in comparison with others.

It was suggested earlier that the anti-poverty insurance plan be administered privately, specifically by insurance corporations. They would offer lower administrative costs and greater efficiency than any branch of federal, state, or city government. This is not to suggest that private corporations would run all domestic social programs more effectively than government agencies, but private industry has demonstrated superiority in the administration of "income transfers." Here we are presented with a comparison between one of the most streamlined industries, the insurance business, and one of the least efficient, most confused, and most highly demoralized of government operations—the welfare system. The superiority of the private sector here seems obvious.

Should the insurance corporation be allowed to make a profit, or should it carry the program at cost, as a public service? Profit, of course, would not only encourage insurance companies to participate in the program; it would also promote efficiency by providing an incentive for keeping down costs. If we allow 7.5 per cent for administrative costs and profits, the lower the cost the higher the profit. On the other hand, if the anti-poverty insurance plan were carried at cost, as a public service, the industry's reputation would be enhanced as having helped solve a major social problem. Secondly, the plan would introduce a very large number of people—several million at least—from lower-income groups to the habit of buying insurance. We do not know exactly what percentage of poor people has never purchased insurance, but the following figures may give some indication. Only 11 per cent of the poor are covered by pension plans (compared to 40 per cent of all families); three fifths of the poor have no hospital insurance; and even Social Security reaches only about half of the nation's poor families.

In theory, any one insurance corporation could issue anti-poverty policies. We suggest instead the formation of a new corporation created specifically for this plan, to be established by a consortium of all the companies that wish to participate. To the extent that the multi-billion dollar plan proved profitable, it would be unfair to allow one company to gain a strong lead in the field, especially since the program would be partially subsidized by public funds; and, to the extent that risks are involved, they would be better shared as broadly as possible.

Membership on the board of the new corporation might be in direct ratio to the financial investments of the various insurance companies; the board should include federal participation in proportion to the share of the costs underwritten by Congress, and it might also include members representing the interests of the plan's subscribers.

The shape of this corporation suggests a mixture of private and public sectors. In areas where the simple profit motive does not operate because the production of a good or service cannot be financed solely by consumers, there have arisen various new corporate entities, mixes of private and public efforts. Comsat, the public utilities, the Federal National Mortagage Association ("Fannie Mae"), and the low-interest, government-guaranteed student loan program are all examples. This is not to suggest that all these mixes have been successful, or that in each case the mix has proved to be more efficient than "purely" private or public operations. But we no longer can disregard programs created out of both public and private elements.

This mixing appears in several phases of our plan for an anti-poverty insurance corporation. The program would be financed in part by consumers, in part by taxpayers. Although insurance policies might be issued by a mixed corporation with private and public representatives on the board, the policies would be administered privately, just as other kinds of insurance policies are. But in the process, the anti-poverty insurance could draw on public labor exchanges for some verification of policyholders' statements that employment is not available, and the corporation could turn to the state when there is need to penalize subscribers who make false declarations.

In this realm of private-public mix, there is the possibility of another kind of public support. Many people have a weak, but not negligible, desire to fight against poverty the charitable way. In this context, James Farmer, Assistant Secretary of Health, Education, and Welfare, has suggested that bonds be issued to finance the "development" of America. Like defense bonds, development bonds would pay interest and have patriotic appeal. Similarly, the anti-poverty insurance corporation should be entitled to float bonds in the hope that they would provide people with a relatively easy way to participate in financing the war against poverty.

SPRING 1970/COLUMBIA FORUM