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INCOME SECURITY FOR AMERICANS: RECOMMENDATIONS OF THE PUBLIC WELFARE STUDY

REPORT

OF THE

SUBCOMMITTEE ON FISCAL POLICY

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

TOGETHER WITH

SUPPLEMENTARY VIEWS

DECEMBER 5, 1974

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LETTERS OF TRANSMITTAL

NOVEMBER 26, 1974.

To the members of the Joint Economic Committee:

Transmitted herewith is "Income Security for Americans: Recommendations of the Public Welfare Study." The report documents the problems in existing public welfare programs and includes extensive reform recommendations.

WRIGHT PATMAN,
Chairman, Joint Economic Committee.

NOVEMBER 25, 1974.

Hon. WRIGHT PATMAN,
Chairman, Joint Economic Committee,
U.S. Congress, Washington, D.C.

DEAR MR. CHAIRMAN: Transmitted herewith is "Income Security for Americans: Recommendations of the Public Welfare Study." This report is based on 3 years of intensive study, 19 preceding volumes of staff studies, and 5 additional volumes which will be completed prior to termination of the public welfare study on December 31, 1974.

The subcommittee's study has been the most comprehensive ever undertaken, and has met a major need by providing objective, nonpartisan analysis of a costly complex of programs and the many difficult policy issues they raise.

The report contains a comprehensive set of recommendations which, if enacted into law, would provide fairer treatment and higher incomes for many low- and moderate-income Americans, greater administrative control and simplicity, enhanced financial incentives to work for many current beneficiaries, and a significant measure of tax reform.

MARTHA W. GRIFFITHS,
Chairman, Subcommittee on Fiscal Policy.

FOREWORD

Before I close the books on this survey of income maintenance programs and how they work, I would like to take this last opportunity to thank those who have so kindly helped me either to do the work or to secure the appropriations which made the study possible. The Congressmen are: Wright Patman of Texas, Wilbur D. Mills of Arkansas, ex-Congressman Johnny Byrnes of Wisconsin, George H. Mahon of Texas, the late Frank Bow of Ohio, Gerald R. Ford of Michigan; the Senators are: William Proxmire of Wisconsin, Jacob K. Javits of New York, Abraham A. Ribicoff of Connecticut, and Ernest F. Hollings of South Carolina. I want expressly to thank the subcommittee members for their encouragement in the effort and the subcommittee staff, both current and formers members, for the excellence of their work, their patience and their good humor. It was a pleasure to work with them.

In addition, this study would never have been possible without the devoted and untiring efforts of my favorite agency, the General Accounting Office, nor could this study have been completed without the tremendous help of welfare directors and workers throughout the country, particularly those who aided us in the survey of benefits in 100 counties, and the work of those researchers who submitted papers. I want also to acknowledge with gratitude the work of the following persons and organizations: Robert Haveman, director of the Institute for Research on Poverty, University of Wisconsin; Irene Lurie, coordinator of a Conference on Coordinating Income Maintenance Programs, sponsored jointly by the subcommittee and the Institute for Research on Poverty; the House Information Systems staff; the Congressional Research Service, particularly Robert Bostick who prepared charts for the subcommittee, and the Education and Public Welfare Division; Donald Craver of the Government Printing Office, who expertly handled the printing of subcommittee volumes; staffs of the Departments of Health, Education, and Welfare; Agriculture; Housing and Urban Development; and Labor; Robert Lampman and Harold Watts of the University of Wisconsin; Robert Harris, Lee Bawden, and Gary Hendricks of the Urban Institute; Nelson McClung, Treasury Department; David Kershaw, Mathematica; Theodore Marmor, University of Chicago; John Stark, executive director of the Joint Economic Committee; and James Knowles, former research director of the Joint Economic Committee. My deep appreciation goes to all of those named and many more who aided me in completing this historic work.

Perhaps the first question that should be answered is why this is the first congressional study of welfare and related programs. That question I cannot answer. I only know why I believed that one was necessary and why I undertook it.

When I became a member of the Ways and Means Committee in 1962, I was first struck by the incredible inequities of social security, which returned on the same tax payment a greater sum to a man-supported family than to a woman-supported family and more to many families where the woman remained at home than to families where both husband and wife worked, although the latter families might in fact have paid more tax than one-worker families.

Years ago I held hearings on private pensions, and retirees drilled into my head the fact that through quirks in the labor contract or outright dishonesty in the pension setup, they had been deprived of their pensions. Of course, the Nation had been deprived of the tax money that should have been paid on those pensions, and now the Nation maintained these people on welfare.

I watched for whatever else I could find on the law's strange workings.

Some years ago, I received a letter from a woman in my district who earned $5,300 gross per year. She outlined her taxes, her take-home pay and her problems. The next day I received a call from a woman living in a far better area of my district whose home had been purchased under section 235 and who was drawing, she said, $750 per month, untaxed, in AFDC money, including $200 per month for a housekeeper. My "tired lady", earning $5,300, was paying taxes to help support a woman at a $750 rate per month. I seethed. There are no jobs of which I am aware that increase your pay because you have children.

Shortly after that day I began to investigate the possibility of making a complete survey of all income maintenance programs.

When the staff had been assembled I was invited to make a speech on welfare to a church group in Detroit. I asked my staff to tell me what a woman with three children could get in welfare, food stamps, medicaid, and other supplements in my city, Detroit, and in New York, Chicago, Atlanta, and Los Angeles; then to find the median earnings of a woman in those cities. We found, of course, that the woman on welfare did better in every city than the woman who worked at the median wage.

I will never forget some of those hostile questions in that church: "But the woman must pay some money for the food stamps." Answer: "We have considered that. She is still getting a substantial amount of free food." Question: "But she waits all day for a doctor." Answer: "Who doesn't? But the woman who works may give up a day's pay, wait all day, pay $15 to the doctor and $50 for prescriptions." Question: "But she has to take three buses to get to the place to get the food stamps, welfare, etc." Answer: "The woman who works may take three buses twice a day, 5 days a week to get back and forth to work."

The theory of comparing what is given in welfare with what is needed is foolish. "What is needed" is a phony standard set up by a paternalistic middle class. The real standard is what similar people earn, and how they are treated. Few have ever asked what those who work need. Those who have bled for people who have nothing have not demanded that people who work be treated at least as well as people on welfare.

In the coming effort to correct the "welfare" injustices there will be those who say that however much is offered is too little, and those who say that however little is offered is too much. I urge both groups to consider the real world and to ask themselves: "Can we afford this for all in like circumstances, or am I, today, selecting out one small group?"

Personally, I am for the law applying equally to all, and this is the purpose of the entire investigation of income maintenance programs.

This work began because of the inequity in the law. It is dedicated to equality in justice.

MARTHA W. GRIFFITHS,
Chairman, Subcommittee on Fiscal Policy.

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SUMMARY

What is at Stake

This Nation is undergoing an unparalleled period of rapid inflation coupled with high levels of unemployment, falling real wages, and stagnating gross national product. Low- and moderate-income persons are threatened by two dangers: Recession and declining purchasing power. Yet our costly income security programs are inadequate to the task of protecting them. Economic conditions place the necessity for program overhaul in stark relief.

In fiscal year 1975, Federal expenditures on income security programs are projected to total $142 billion. This total is almost triple the $50.7 billion spent on income security in fiscal 1968, 7 years before. Even in the 2-year period from fiscal 1973 to 1975, outlays are increasing by $34 billion. Outlays for income security far exceed those for defense.

In contrast to the defense budget, however, there is no ongoing mechanism within the Executive or Legislative branch for assuring that income maintenance programs function properly as a system. It would be unthinkable to have defense program jurisdictions—for air, sea, and land readiness—scattered among numerous committees and Executive agencies. Yet 11 committees of the House of Representatives, 10 of the Senate, and 9 Executive departments or agencies have jurisdiction over the broad set of income security programs.

Such an uncoordinated governance has produced uncoordinated programs, with gaps, overlaps, cross-purposes, inequities, administrative inefficiencies, work and family support disincentives, and waste of taxpayers' money. And, in spite of massive and increasing expenditures, poverty as officially measured is not falling sharply. Twenty-three million people, about 1 in every 9, were poor in 1973; many are growing poorer as inflation erodes their already limited purchasing power.

Federal income security programs fall into three general types—aid to the needy, social insurance, and deferred compensation. This report focuses largely on the first of these, which cost the Federal Government $27 billion in 1973. Such programs include aid to families with dependent children, supplemental security income, veterans' pensions, food stamps and other subsidized food programs, and subsidized housing, health, child care, and other service programs. The report

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NOTE.—Senator Proxmire states: "This report is the result of the most thorough and thoughtful analysis of our welfare program which has ever been undertaken. While I agree with most of the criticisms of existing programs and recommendations for the future, their ultimate costs are of such magnitude that I am not prepared to make a final commitment to them at this time."

NOTE.—Senator Ribicoff states: "I neither disapprove nor approve of this report because I have not had the opportunity to study it in depth."

deals less comprehensively with the second type of program, which includes social security, unemployment compensation, and black lung benefits, and which disbursed $65 billion in 1973. The report largely ignores the third type of program, deferred compensation.[1] In all, 62 separate programs are involved in aid to the needy and social insurance. This subset of programs amounted to a staggering 36 percent of the fiscal 1973 Federal budget, totaling $91.4 billion and surpassing defense expenditures by $15 billion.

How We Got Here: The Original Strategy

At least a forty year period of history must be reviewed to make sense of these public welfare programs and expenditures; to rise above the tangle and impute a strategy; to detect the faint outlines of a system.

The Federal Government entered the field of income maintenance by adopting the Social Security Act of 1935. This act, patterned after European social welfare systems, was based on a three-fold strategy of income support: jobs for the able-bodied, social insurance for those deprived of their breadwinner, and public charity for those without either breadwinner or insurance—a group expected to disappear in time. The evolution of public welfare programs since that time has been based on three principal assumptions:

- First, the assumption that all employable people can obtain adequate incomes from work. It was assumed that general public education would prepare workers for jobs, for which adequate pay would be assured by the minimum wage (enacted at the Federal level in 1938). In the Employment Act of 1946, Congress proclaimed a goal of "full employment." Economic growth and monetary and fiscal policies—properly applied—were to assure an ample supply of jobs for the able-bodied.
- Second, the assumption that workers and their families should be publicly (socially) insured against identifiable risks to the steady flow of earned income—risks such as involuntary unemployment, old age, death, and disability of the breadwinner.
- Third, the assumption that until social insurance coverage became effective for all workers, those who lacked such coverage should receive cash based on need. This residual program of public assistance, it was agreed, would provide income to those who could not or should not work—the aged, the blind, the disabled, and women raising children alone. It would be run and largely financed at the local level, continuing the traditional method of dealing with welfare problems.

On the basis of these assumptions, the Nation adopted social security for retired workers, and, later, for survivors, dependents, and disabled workers. Federal law, in effect, mandated unemployment insurance systems in all the States and offered partial reimbursement

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[1] These programs include cash compensation and health care for veterans with service-connected disabilities; educational assistance for veterans and survivors; veterans' home loans; workmen's compensation; and Federal civil service, military and other Federal employee retirement and compensation.

to States for State-option public assistance programs for women and children, the aged, and the blind, and later, the disabled and families headed by unemployed men.

In our judgment this was a futile attempt to base aid programs on mutually exclusive categories—such as those who can work and those who cannot or should not work. It has proved difficult in the real world to fit individuals neatly into one of these boxes. With few exceptions, people are only more or less employable, not employable or unemployable. As a device for deciding who needs and should receive cash supplementation, the "categorical" approach has been inaccurate, unreliable, and in the end, unfair. Our income supplement programs have omitted many needy people, provided too much to some, and given not enough to others.

The largest gap in coverage has been low- and modest-income workers, especially men and their families. In 1973, 18 million Americans lived in families with cash income below the poverty line. *Over one-fifth of these persons were poor despite year-round, full-time work by their breadwinners.* Others are poor because they are unable to find full-time, year-round jobs, and do not qualify for unemployment insurance. It is unfair to deny help to such families who are trapped in poverty despite their best self-help efforts.

Overlooked by social insurance as well as public assistance are able-bodied persons of working age who lack children or job skills. A poor man whose health is breaking down at 59 years of age is not disabled, blind, or officially old (age 65); yet he is needy. Similarly, a low-income 58-year-old widow who has never worked fits no preconceived category except needy. But no Federal income security program except the food stamp program is universally available to persons whose only qualification is financial need.

Such gaps in program coverage are more than minor deficiencies. They have far-reaching consequences. When aid is restricted to certain groups, it can be financially attractive to become a member of such a group. The subcommittee has found evidence that the existence of AFDC (aid to families with dependent children) for women and dependent children appears to have *created* more female-headed families with children.[2] The subcommittee found that in July 1972 a man with a wife and two children who worked at $2.00 an hour could increase the income of his family by an average of $2,158 annually by deserting them. This family-splitting bonus represents the cash and food stamp income that would be gained, based on a survey of benefits in 100 nationally representative counties.[3] Those families and individuals who do not change categories can be financially disadvantaged relative to those who do. AFDC, for example, pays more

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[2] U.S. Congress, Joint Economic Committee, Subcommittee on Fiscal Policy, "The Impact of Welfare Payment Levels on Family Stability," by Marjorie Honig, *The Family, Poverty, and Welfare Programs: Factors Influencing Family Instability*, Paper No. 12 (Part I) (Washington, D.C.: Government Printing Office, 1973).

[3] This gain in cash income and food benefits is a national average for a hypothetical family of four. U.S. Congress, Joint Economic Committee, Subcommittee on Fiscal Policy, *Welfare in the 70's: A National Study of Benefits Available in 100 Local Areas*, by James R. Storey, Paper No. 15 (Washington, D.C.: Government Printing Office, 1974).

to a woman and children in many States than many fathers earn. When noncash benefits that accompany AFDC status are added in, the rewards of welfare can quickly exceed the rewards of work. A working man in Detroit must earn $7,350 gross to have the equivalent of the cash, food, and average medical benefits available to a woman and three children on welfare in that city. Some modest-income workers are paying taxes to support welfare benefits higher than their own earnings. This is an upside-down reward structure that is irrational and damaging to social values.

Backdoor "Reform"

These gaps and problems in the strategy for dispensing aid have been implicitly recognized for some time. But direct challenges to the categorical approach have been unsuccessful. Instead, attempts to broaden coverage to everyone in need (including able-bodied men and their families, single individuals, and childless couples) have resorted to indirect, backdoor strategies.

These backdoor "reforms" have taken one of three approaches. First, AFDC has been expanded to permit States to help families of "unemployed" fathers with Federal funds, and several States and localities have spent their own funds for general assistance (GA) or home relief programs to aid persons omitted from the Federal public assistance categories. Although GA and AFDC-unemployed father programs have expanded coverage, both have serious work disincentive features.

The second of these backdoor reforms has been to stretch social insurance programs almost beyond recognition so as to help persons *presumed to be needy*. At present, these programs—especially social security—face long-run financing problems and can no longer afford to perform welfare functions in addition to wage-replacement functions.

In the third approach, numerous noncash benefit programs—such as subsidized food, housing, health, higher education, and child care—have been established to help finance the consumption of many of the same persons so carefully excluded from need-based cash aid. However, these benefits have helped cash welfare recipients as well, and combinations of benefits have rivaled the wages many persons earn and created severe work disincentives.

Backdoor reforms such as these have reduced poverty and extended benefits to more of the needy. Indeed, an estimated 35 million separate individuals—including many who work—receive cash, goods, or services based on their need. That is, 35 million persons are welfare recipients in the broadest sense. But the circumventions of the ban on direct Federal cash aid for certain groups, by subjecting more and more people to the anti-work, anti-family, and anti-thrift incentives of our present non-system, have heightened the need for a comprehensive and sweeping overhaul of income maintenance programs.

The following sections briefly describe major problems created by piecemeal and uncoordinated growth of public welfare programs. We have overlooked the need for new features to mesh with the old and have concentrated on incremental revisions instead of exploring the

range of options available to achieve the desired goals. The resulting problems are unfair and haphazard benefit distribution; benefit packages that penalize and discourage work; administrative error and inefficiency; and distorted social insurance programs.

Problems in the Public Welfare System

INEQUITIES

Many public welfare programs have resulted in a bizarre reward system: nonworkers and those who have failed to fulfill their family responsibilities are often made better off than workers and married couples with children. It is not just that the former groups are given larger benefits than the latter groups. Indeed, the inequities are so great that income positions of some Americans are reversed by benefit payments. Qualities and activities which society values and the market place rewards sometimes are penalized by our public welfare programs, for the decisions we make about whom to aid also determine what behavior to reward.

Need-based benefits vis-a-vis benefits of social insurance also sometimes reverse income positions. Cash benefits available to certain families with unemployed fathers (AFDC-UF) exceed the maximum unemployment insurance (UI) benefits in some States. And, since not every UI claimant is eligible for maximum benefits, the number of cases for which welfare is better than UI is significant. But since male UI beneficiaries are precluded by law from receiving AFDC-UF concurrently, some are disadvantaged by UI coverage.

Similarly, several million social security beneficiaries receive a bonus of only $20 a month for their past social security taxes, because aged welfare recipients without social security coverage receive only $20 less per month than dual recipients. Moreover, persons with vastly different past earnings records and social security taxes can have identical total incomes as a result of benefits from the supplemental security income (SSI) and State supplemental programs. In California, for example, the State program guarantees couples retired on social security a total income of $460 monthly. This amount is $150 higher than the national *average* social security award for a retired worker and his spouse, and $3 more than the *maximum* social security award for such a couple. In California, couples qualifying for SSI whose social security benefits range from the minimum of $140.70 up to the maximum will be leveled at $460 total income.

Basic inequities of AFDC and SSI are compounded by their link with medicaid. Such noncash fringe benefits that come with cash welfare widen the gap created by cash benefits. Only a dollar a month in cash income may separate one aged person who is eligible for welfare and, hence, for full medicaid coverage, from another who receives only the generally less valuable medicare.

Another major inequity is the distribution of certain noncash benefits. It is inconceivable that a program could be passed that entitled persons with income below $4,000 to a cash supplement, yet aided only the first one million applicants because of limited funds. However, this is how housing and child care subsidy programs operate. Moreover, standards for such benefits often are set at higher

quality levels than the middle class can afford to buy for itself. For example, programs meeting Federal day care standards required expenditures of $2,320 per child per year for "desirable" care in 1968. The average medicaid cost per AFDC family in fiscal year 1973 exceeded $1,000 in three States. These benefits create a three-tier system. Superior services are provided by government free to a few among the poor, and they are purchased privately by the rich. Modest services are bought by middle-income taxpayers. The poor who are left out get nothing.

Finally, there are inequities which arise in the distribution of Federal matching aid because of the role States and localities have in deciding whether to offer programs, to whom to offer benefits, and how much to give. Poor States usually have to decline to offer some programs, or to set benefits at low levels. As a result, Federal funds are distributed very unevenly, and only a few miles may separate persons eligible for relatively liberal benefits from those eligible for little.

Work Disincentives

Perhaps the major reason for offering cash aid only to certain groups and excluding so-called "employables" has been the fear of work reduction. No one wanted to risk creating an army of porch sitters. Indeed, one reason for the death of the Family Assistance Plan in the 92d Congress was the concern that beneficiaries would stop working or cut down hours of work. That debate and subsequent discussion have obscured three important facts.

- First, many persons in groups once regarded as "unemployable" or as people who should not work (e.g., mothers), and who therefore were deemed deserving of special help, are in today's labor force. Among fatherless families, almost 60 percent of mothers with only preschool children and nearly 70 percent of mothers with only school-age children work, at least part of the year. Now that work expectations and actual work behavior have changed for groups such as wives and women heading families, programs that benefit them should be reexamined to determine whether they are compatible with the new situation; that is, whether they encourage rather than discourage work, and whether it is fair to exclude other needy groups, such as two-parent families, merely because they are assumed to have a breadwinner.
- Second, benefits for the able-bodied are growing. Millions of workers and potential workers already are recipients of welfare. They receive food stamps, public housing (when available), and, in some areas, medicaid, AFDC-unemployed father benefits, and State and local general assistance checks. Established one by one, in isolation, these programs were enacted with no scrutiny of how large their combined benefits could be, nor how small a net reward they left for working. Their combined result often is to penalize work effort.
- Third, the number of benefits related to income is increasing. Maximum benefits are given to the very poor and reduced as income rises. This is an efficient device for concentrating bene-

fits on the needy. But it is not uncommon for low-income families to participate in three, four, five or more such programs, each of which reduces benefits as earnings climb.[4] Such families can receive combined benefits of substantial value and may suffer sharp benefit losses if private income increases. The combination of food stamps and AFDC alone typically reduces the value of an extra earned dollar to 23 cents. Those two benefits for a female-headed family of four can total more than $5,000 annually.

Individual programs often contain severe work disincentives. In a subcommittee survey of 100 nationally representative counties, 59 counties were found to offer State and locally funded general assistance or home relief benefits to able-bodied men and their families. In 52 of those counties, very limited or no financial work incentives are offered. That is, earnings tend to offset benefits dollar for dollar. So, work is unprofitable unless wages are substantially above welfare levels *plus taxes and work expenses*. Only bureaucratic sanctions, if effective, serve to encourage work. Although these States and localities have demonstrated their willingness to aid those omitted from Federal cash benefits, they cannot afford to give the aid in a way that rewards work.

Another program that penalizes full-time work is the AFDC-unemployed father program, offered by 24 of the wealthier States and the District of Columbia. While Congress debated whether to extend benefits to male-headed families under the Family Assistance Plan, it was an accomplished fact in half the States. But these benefits are payable only if the man works less than 100 hours a month. Thus, totally or partially unemployed men and their families may have higher incomes than fully employed men and their families. For example, a man working half time at $1.60 per hour has a monthly net income after taxes and work expenses of $374 for his wife and two children from wages, welfare, and food stamps in Oakland, Calif. (July 1972). If he works full time at that wage, his net wages plus food stamps fall to $280 monthly. Not only does this discourage full-time work, but it is highly inequitable to full-time workers.

A similar anomaly exists in the regular AFDC program. A woman earning $4,200 may be ineligible for AFDC supplementation, while her co-worker or neighbor—who was receiving AFDC and *then* took an identical job—receives free day care, medicaid, and AFDC supplementation to her wages. Although these policies defy rationality, they are direct results of attempting to help only *some* of the poor, especially those who are unemployed or "unemployable."

Over-Generous Benefits

For some family types, little aid is available and their poverty is unalleviated. For the aged, blind, and disabled, SSI and/or State supplementary levels range from $219 monthly per couple living independently in 28 States to $440 in California (for couples with-

[4] U.S. Congress, Joint Economic Committee, Subcommittee on Fiscal Policy, *How Public Welfare Benefits Are Distributed in Low-Income Areas*, Paper No. 6 (Washington, D.C.: Government Printing Office, 1973).

out social security income). For women and children, AFDC plus food stamps ranges from $197 monthly for a family of four in Mississippi up to $448—$5,376 annually—in tax-free benefits in New York [5] and $463 in Alaska. The median AFDC payment, plus food stamps, for a family of four is $4,116.[6] If earned, it would require at least $7,425 annually before taxes and work expenses to be equivalent to $5,376, and $5,400 to be equivalent to $4,116.[7] In 13 States combined AFDC and food stamps for a family of four total from $3,900 to $4,500; in 14 States they total from $4,500 to $5,000; and in 3 States they are over $5,000. Benefits can grow to much higher levels if medicaid, free school lunches, and subsidized housing are added in. While not lavish, these combined tax-free benefits in several of the largest States raise a question: Can work incentives survive them?

Combined benefits grow to high levels in part because noncash benefits often are not recognized as an addition to a family's income. Each benefit is presented as a compelling need, with a separate rationale such as good nutrition or standard housing, and advocates often fail to add them together to get a complete picture. Nor does the Census Bureau count any of the $7 billion in noncash food and housing benefits in determining who is poor and by how much. In many cases, cost to the government of providing these goods or services is a poor guide to setting their income value to beneficiaries. This is because the services often could be provided more cheaply in the private market or because, given a choice, beneficiaries would not have spent the same amount for the goods or services. But generally the worth to recipients is significantly above the zero value now implicitly assigned to benefits by the Census Bureau.

Because earmarking special needs has proven to be a politically viable way to help the poor and near-poor, including those barred from cash aid programs, there will be considerable pressure for further expansion of noncash help. Proposals for housing allowances, clothing vouchers, transportation coupons, and fuel stamps are all conceivable.[8] However, expansion of old programs or development of new ones would worsen matters unless they are carefully structured to mesh with existing programs. Combined benefit levels and work disincentives could grow; nothing would assure that the almost haphazard approach to who gets what would improve so as to make distribution fairer; administrative costs and complexities would increase; and the costs of fulfilling each recognized need could become prohibitive. One longtime student of government income security efforts imagines a situation in which a nonworking family of four could receive the following: "medicaid with an insurance value of $1,000, a housing allowance worth $1,000, a food stamp bonus worth $1,300, a college scholarship for one youngster worth $1,400, and a cash income

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[5] Actual payments could be higher or lower, depending upon rental costs. Assumed here for New York is a monthly allowance of $153 for rent.

[6] For 50 States and the District of Columbia.

[7] These calculations assume work expenses equal to 15 percent of gross income, plus the 5.85 percent social security tax and the applicable Federal income tax.

[8] Experimentation with housing allowances and transportation vouchers already is underway.

of $2,400 (to select the figure offered by Nixon's Family Assistance Plan). This means a combined guarantee of $7,100.[9]

A reasonable and acceptable statement of goals is urgently needed for noncash programs in the context of existing cash benefits so that the public responsibility is clearly articulated. And a mechanism for assessing and controlling combined benefit levels is essential.

Administrative Chaos

Administration of need-based cash and noncash programs is inefficient and error-ridden. A recent HEW survey of the AFDC program disclosed that nearly half of all cases were receiving too much or too little; some were totally ineligible. Such errors are likely to carry over into the food stamp and medicaid programs as well. Not only is the level of program integrity low, but administrative costs are unnecessarily high, especially if we count the costs passed on to recipients in the form of long waiting lines and delays in processing applications.

Benefits are inaccurate for several reasons. First, benefits such as AFDC are based on a detailed examination of family circumstances and needs in most States. Payments vary not only by family size and income, but by the amount of rent and utilities paid, by need for a telephone or special diet, by amount and type of work expenses, and by many other factors that must be verified. In a program of such complexity, simple arithmetic errors and errors in judgment are inevitable. In the food stamp program, the price that a family must pay for its stamp allotment is related to income, but there is a long list of expenditures that can be deducted from income, and some income is ignored altogether. Although this individualized approach is suitable for families who need emergency or special help, it is unrealistic and inappropriate in programs so large as AFDC and food stamps.

Another source of administrative error and fraud is the lack of access of States and counties to Federal records to verify income. There perhaps is good reason for withholding such information from non-Federal officials, but if the programs were federally administered, Federal records could provide certain automatic checks on income reporting.

Federal administration would also provide economies of scale. One computer system could be developed instead of many. Many States do not even use twentieth-century technology in running multi-billion dollar programs. Computers can calculate benefits much more rapidly and accurately than clerks, and they can be programmed to perform automatic audits and cross-checks.

Another problem in program administration is that several agencies at the local level may deal with the same family and not share any information or administrative burdens. This has implications for recipients, too, when they must shuttle back and forth from

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[9] Robert J. Lampman, "What Does It Do for the Poor? A New Test for National Policy," *The Public Interest* (winter 1974), p. 66.

agency to agency and find their way through a maze of disparate rules and procedures.

It *is* possible to streamline program operations, to reduce fraud and error, and to reduce administrative costs as well. But to accomplish these worthwhile goals, programs must be simplified and consolidated where possible, with administrative burdens assumed by the Federal Government where fruitful.

Distortion of Social Insurance

Social security and unemployment insurance were designed primarily to protect steady workers from severe income loss by replacing a portion of former earnings when they retire, become disabled, die, or lose their jobs. Because workers and their employers pay taxes to these programs, benefits are considered to be "earned." That is, they are due the worker by right, not bestowed as an act of charity.

However, the connection between earnings and taxes on the one hand, and benefits on the other, is somewhat tenuous, and the "earned benefit" notion is a mixture of fact and fiction. Using social security as a prime example, one can see that the program has become more social and less insurance in several respects, chiefly because of liberalizations made to fill gaps in public assistance programs. But these measures have been costly and insufficient and they threaten the long-run viability of social security as a sound insurance plan.

Social security's gap-filling features come in several forms. There is, first, the artificially high minimum social security benefit on the basis of presumed need. But the majority of newly retired male beneficiaries receiving the minimum have other pensions and are *not* among the neediest of the aged.[10] A 65-year-old man who retired in July 1974 and who qualified for the minimum benefit receives $140.70 monthly for himself and his wife. Assuming they both live ten years and the benefit is increased annually by 5 percent to offset cost-of-living increases, they will collect a total of over $21,000. For this, the man could have contributed as little as $11.50 in total (matched by his employer). Yet this man may be a retired Federal civil servant with an annual pension of $8,000, also adjusted upward for cost-of-living increases.

Another welfare aspect of social security is the benefit computation formula, which provides a replacement rate for low earnings that is six times that for the highest earnings covered. A third example of the insurance-concept weakening has been the broadening of dependents eligible for benefits, who now include adopted children, grandchildren, stepchildren, and a worker's parents under certain conditions, in addition to spouses and children. Although social security taxes do not vary by the number of a worker's dependents, social security benefits do.

Some of these "gap-filling" features of social security may be viewed as simply the "social" elements that make social security

[10] U.S. Congress, Joint Economic Committee, Subcommittee on Fiscal Policy, *Public Income Transfer Programs: The Incidence of Multiple Benefits and the Issues Raised by Their Receipt*, by James R. Storey, Paper No. 1 (Washington, D.C.: Government Printing Office, 1972), p. 20.

different from private insurance. But the problem is that such features, by blanketing all people, whether needy or not, are inefficient in reaching both welfare and social insurance goals. If the welfare burden were lifted off social security, the percentage of lost wages replaced could be increased at given payroll tax rates. This would make social security a better insurance plan. Moreover, despite costly efforts to make them "adequate," social security benefits for many offer less money than welfare and must be supplemented by SSI.

To date, social security benefits have far exceeded the payroll taxes paid by most beneficiaries and their employers. This has been possible because the cost of benefits for each generation of beneficiaries is borne by the current generation of workers, not from the taxes of ex-workers and their employers. As the work force and economy have expanded rapidly, taxes have risen fast enough to permit retired persons to share fully in the Nation's economic growth and productivity gains. Rapid growth in productivity and population has made it easy to use social security to help many people who are presumed to be needy without apparently cutting back on benefits to retired and disabled workers. Even so, the social security tax rate and wage base have risen precipitously to finance the generous benefits, from a combined employer-employee rate of 4.5 percent on the first $4,200 of wages in 1957 to 9.9 percent (exclusive of medicare) on the first $13,200 in 1974.

But the work force is no longer expanding rapidly in relation to the population of ex-workers and their dependents and survivors. The changing age make-up of the population will require rethinking of the structure and purpose of the program. Unless the system is reoriented to a stricter wage-replacement role in the very near future, and its welfare functions absorbed by other programs, the next generation of workers will be required to pay ever increasing taxes.

The Subcommittee's Recommendations

We have concluded that public welfare programs must be consolidated and simplified. Programs will continue to grow, and this growth must be controlled rather than haphazard. Small-scale changes here and there could right some of the more egregious wrongs. But the fundamental problems cannot be solved either by incremental change or a laissez-faire approach. Fair and equitable treatment of all groups must be provided; work, savings, and family responsibility must be rewarded; poverty must be alleviated; and funds must be distributed efficiently.

The objectives of reform are conflicting. Poverty cannot be reduced nor can low-income workers be better rewarded by spending less money or aiding fewer people. Financial incentives to work cannot be retained unless maximum benefits for the penniless are reduced gradually—rather than by one dollar for each earned dollar. This in turn raises the income levels at which earnings supplementation can be received as well as the number of persons potentially eligible. These trade-offs are inevitable and must be confronted with candor and understanding. Much public education is necessary.

The subcommittee has reviewed carefully a wide range of basic reform approaches (see chapter VII). Many have merit and accomplish

several reform objectives. But we have concluded that a system of moderate cash payments based primarily on need and available to all population groups provides the promise of achieving the best compromise among the competing objectives of reform (see chapter VIII). The recommended program breaks sharply with the traditional welfare reward structure: It avoids the penalties on work, marriage, and family responsibility that the old programs perpetuate.

The Federal Government would fund and operate this program. The proposal would end the practice of letting States decide how many Federal dollars will flow to the poor in each State. The distribution of income is a national problem and the subcommittee's proposal approaches it in this way. By establishing Federal administrative responsibility, reliance on variable State welfare operations would be terminated. The use of Federal income records would assure a higher level of program integrity at lower cost.

The recommended program, to begin in 1977, would consist of two parts: modest cash grants related to income for the poorest, and tax relief for low- and moderate-income workers. In the tax system, the deductions from income for personal exemptions are replaced with *rebatable* tax credits, which are deducted from tax liability with excess credits paid to the tax filer(s). Several current welfare programs (principally AFDC and food stamps) are scrapped in favor of this comprehensive system of allowances and credits administered in conjunction with the income tax.

The result of this reform is that people with little or no private income will receive full allowances and tax credits and pay no income tax. Those with very small incomes will still receive full credits but reduced allowances. Persons in the modest- and middle-income range will not be eligible for allowances, but they will pay less income tax than they do now. Some taxpayers in high-income brackets will owe more taxes than now because the tax credits are less valuable to them than personal exemptions.

By having a universal per capita tax credit upon which to build, the allowances based on need can be designed so that grants to low-income families are lower than they otherwise would be. This permits a reduction in the number of people with whom the administering agency otherwise would have to deal on a monthly basis, since families with modest incomes, receiving credits but not allowances, can be reimbursed through the regular tax withholding and annual tax return. Moreover, since the tax credit reduces the tax burden on the middle class, the subcommittee plan can rationalize existing welfare programs while aiding inflation-squeezed workers simultaneously. Millions of modest- and middle-income families are pushed into higher tax brackets simply because their wages are increased to offset inflation. As a result, their real incomes are falling.

The total value of grants and tax credits would be $3,600 for a penniless two-adult family of four, $3,000 for a one-adult family of four. The benefit amounts are maximums and they would go to the comparatively few families without earnings or other private income, since benefits are reduced gradually as income rises. The benefit schedule has been carefully constructed to minimize incentives for family splitting or nonmarriage in low-income families. Per-child benefits

in the allowance system also are tailored downward as family size increases so as not to encourage large families. Making two-parent families eligible for income supplementation will not automatically make them more stable. But supplements to low earnings will reduce the most severe economic pressures that plague families, and desertion no longer will be the only means some fathers have to increase their families' cash income.

Benefit amounts are not designed to provide "adequate" levels of living for several reasons. First, comparatively few families have no income or income-producing opportunities. Even in today's slack job market many low-wage jobs are available which, in combination with benefits, would yield more nearly adequate total incomes. The program is designed to build on private efforts, rather than substitute for them. Thus, the program fits the vast majority of cases rather than being stretched to cover the worst possible cases of destitution. For most persons, the program will provide only a minority share of total income, since most beneficiaries will be low- and modest-income working families. For example, a one-earner, two-parent family of four with earnings of $4,000 would receive supplementation totaling $1,717.

Second, the basic Federal allowances and tax credits will help those with limited capacity for self-support. Persons with greater needs will be helped by SSI or other existing programs for disabled persons, or can be aided by States and localities on a case-by-case basis.

Third, costs and caseloads rise rapidly as levels of allowances and/or credits are increased (see chapter IX). Costs constrain support levels on the one hand, while the goal of eliminating food stamps and Federal financial participation in AFDC necessitates benefits of certain levels on the other.

Allowances would be reduced by 50 cents for each earned dollar net of social security taxes. For certain types of earners the benefit-loss rate would be even lower and the net gain from work higher. There are two sets of circumstances that require special consideration: two-earner families and one-parent families headed by a worker. Many low- and modest-income families have two earners. The second earner's wages are a vital contribution to the family's income. Work expenses for such families are higher than one-earner families, and if the second earner is a spouse, the family must forego the value of his or her home labor as well. These considerations apply even more strongly to the working mother who is raising children alone. Hence, special earnings deductions would be given to two-earner households and to one-parent households in which that parent works, in lieu of complex itemized deductions for work expenses and the current child care deduction allowed under the income tax. The moderate initial benefit-loss rate, coupled with the deduction of social security taxes and the special earnings deductions, would have three positive effects: It would provide significant supplementation of low earnings; maintain a reasonable income differentiation between workers and nonworkers and between those who work more or less; and keep work disincentives to a moderate level. The two tables below illustrate benefits and taxes for one-parent and two-parent families.

Benefits and taxes for a mother and 3 children at varying earnings levels under the subcommittee plan

Annual earnings	Federal income tax liability [1]	Tax credits	Net Federal income tax liability [2]	Social security tax	ABLE grant	Net cash income [4]
0	0	$900	+$900	0	$2, 100	$3, 000
$500	0	900	+900	$29	1, 914	3, 285
$1,000	0	900	+900	58	1, 729	3, 571
$1,500	0	900	+900	88	1, 644	3, 956
$2,000	0	900	+900	117	1, 358	4, 141
$2,500	0	900	+900	146	1, 173	4, 427
$3,000	0	900	+900	176	988	4, 712
$4,000	0	900	+900	234	617	5, 283
$5,000	0	900	+900	292	246	5, 854
$6,000	[3] $124	900	+776	351	0	6, 425
$7,000	[3] 495	900	+405	410	0	6, 995
$8,000	907	900	7	468	0	7, 525
$9,000	1, 073	900	173	526	0	8, 301
$10,000	1, 260	900	360	585	0	9, 055
$15,000	2, 315	900	1, 415	772	0	12, 813
$20,000	3, 695	900	2, 795	772	0	16, 433
$25,000	5, 325	900	4, 425	772	0	19, 803

[1] Based on the standard deduction but with no low-income allowance. Personal exemptions are replaced by $225 per person tax credits.
[2] Numbers with plus signs indicate net payments to, rather than from, taxpayers because of tax credits.
[3] Tax is a reduced amount from regular schedule because of provision for smooth transition from ABLE recipient to nonrecipient status.
[4] Assuming no State supplementation.

Benefits and taxes for a father, mother, and 2 children at varying earnings levels under the subcommittee plan

Annual earnings	Federal income tax liability [1]	Tax credits	Net Federal income tax liability [2]	Social security tax	ABLE grant	Net cash income [4]
0	0	$900	+$900	0	$2, 700	$3, 600
$500	0	900	+900	$29	2, 464	3, 835
$1,000	0	900	+900	58	2, 229	4, 071
$1,500	0	900	+900	88	1, 994	4, 306
$2,000	0	900	+900	117	1, 758	4, 541
$2,500	0	900	+900	146	1, 523	4, 777
$3,000	0	900	+900	176	1, 288	5, 012
$4,000	0	900	+900	234	817	5, 483
$5,000	0	900	+900	292	346	5, 954
$6,000	[3] $124	900	+776	351	0	6, 425
$7,000	[3] 595	900	+305	410	0	6, 895
$8,000	[3] 1, 066	900	166	468	0	7, 366
$9,000	1, 314	900	414	526	0	8, 060
$10,000	1, 490	900	590	585	0	8, 825
$15,000	2, 510	900	1, 610	772	0	12, 618
$20,000	3, 820	900	2, 920	772	0	16, 308
$25,000	5, 340	900	4, 400	772	0	19, 788

[1] Based on the standard deduction but with no low-income allowance. Personal exemptions are replaced by $225 per person tax credits.
[2] Numbers with plus signs indicate net payments to, rather than from, taxpayers because of tax credits.
[3] Tax is a reduced amount from regular schedule because of provision for smooth transition from ABLE recipient to nonrecipient status.
[4] Assuming no State supplementation.

In order to achieve a smoothly functioning income maintenance system and to reduce the problems now created by program overlaps, considerable change in existing programs is necessary. These changes are outlined below. Their overall impact is to reduce inequities in treatment of persons in similar circumstances and to assure that combined benefit levels and benefit-loss rates are reasonable. Benefit levels could not càscade to unreasonably high levels, nor could the reward for work plummet.

Coupled with the program coordination recommendations outlined below, the program would have a net Federal budget cost of $15.4 billion.[11] Nearly half this sum would be in the form of tax relief for low- and moderate-income workers; the rest would be cash grants. An estimated 11.2 million families or other filing units would be eligible for grants and tax credits for some portion of the year. Many would receive only small supplemental benefits. For example, the average grant for an eligible four-person family would be $1,303 a year plus $900 in tax credits. Another 4.8 million units would receive no grants but would be eligible for tax relief. The average tax savings for four-person units in this group would be $368 a year. To put this in perspective it is essential to remember that an estimated cumulative annual total of 60 million Americans in 18.2 million households would likely be eligible on income grounds for the food stamp program alone sometime during fiscal 1977. The net $15.4 billion cost could be financed from the normal tax revenues if spending in other areas of the Federal budget were held in check.

The program would almost halve the income deficit of families in poverty in 1976, from a projected $79.3 billion under existing programs to $10.4 billion. The number of families and individuals in poverty would fall from 11.9 to 9.4 million. These calculations use a poverty measure based on *disposable* (that is, after-tax) income. With State supplementation of Federal benefits, the income deficit and the number of poor persons would be further reduced.

The recommendations with respect to other programs follow:

- *Federal income tax.*—In addition to the conversion of personal exemptions to rebatable tax credits, and the elimination of the low-income allowance, the tax code would be amended to enable the Internal Revenue Service to administer both grants and tax credits.
- *Food stamps.*—The program would be terminated.
- *AFDC.*—Federal matching of AFDC would be ended. States would be required to supplement the new Federal cash grants plus tax credits given to families who received AFDC as of De-

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[11] These costs were calculated for 1976. The program would not be implemented until 1977, but this one-year difference would not have much effect on net costs.

For these cost estimates, it was assumed that wages would rise by 5 percent per year in 1974, 1975, and 1976. Other assumptions would have produced higher or lower costs. If, as is possible, average wages rise more than 5 percent per year in 1974–76, costs would be lower at the benefit levels proposed here, or, benefits could be raised and costs held constant.

If all eligible persons participated, costs would rise to $17.4 billion. We estimate that about $2 billion of benefits would be unclaimed by persons eligible for small benefits. Detailed costs analyses are presented in chapter VIII.

cember 1976 for a period of at least two years if those families otherwise would be worse off under the new system. For AFDC recipients enrolled in the food stamp program, total Federal-State benefit income would have to equal the old AFDC grant plus 80 percent of the food stamp bonus.

States could voluntarily supplement new cases and continue to supplement old cases beyond 2 years. But they could not impose a benefit-loss rate on net earnings that, when combined with the Federal plan, totaled more than 60 percent.

- *Supplemental security income.*—To avoid disrupting this recently implemented program, it would be left largely intact. Disabled children would be transferred from SSI to the new program, dependents' benefits would be added to SSI, and the stringent assets test would be liberalized. The SSI program should eventually be merged with the new system, but this would be accomplished best in conjunction with an overhaul of social security.
- *Social security.*—No specific changes are recommended, but this program must be carefully reviewed so that it more clearly is a wage-replacement program. The existence of SSI and the program proposed here should allow social security to be reoriented away from welfare functions. Greater candor is urged about social security and other public retirement programs and about private provisions for retirement income. Current social security beneficiaries have not been discouraged from the belief that every penny of their checks has been "earned" by their "contributions." And no effort is made to apprise workers automatically (say, every year) of their accumulated retirement benefits to date and future projections. We urge that this be done.
- *Unemployment insurance.*—The basic recommended program would be the appropriate vehicle for handling long-term unemployment problems and for supplementing very low unemployment insurance benefits. Unemployment insurance should be revamped to eliminate dependents' allowances, to raise replacement rates of *after-tax wages* for higher-income workers to at least 50 percent, but not to exceed 60 percent for any workers, and to reduce duration of benefits to 26 weeks at most.
- *Health care.*—No specific program is proposed, but it is assumed that Congress will act to replace medicaid with national health insurance.
- *Day care.*—Federally aided day care centers would be prohibited from using fee schedules related to income. Instead, modest, fixed fees should be charged everyone. Special earnings deductions to be allowed under the income tax for a one-parent working head of household and for two-earner families would help low-income workers pay the modest fee (or a baby sitter), and would substitute for the current child care deduction in the tax code.

- *Subsidized housing.*—In order to provide greater equity between persons living in subsidized housing and those unable to find such housing, and to keep a high financial return from work for persons living in subsidized housing and receiving income supplements, the cash program would count as income 80 percent of the subsidy received by public housing tenants or home-purchasers.
- *Basic educational opportunity grants.*—Grants to students under this higher education program would be offset dollar for dollar by any cash supplements they received under the new program.
- *Indian assistance.*—Cash payments to reservation Indians would be replaced almost completely by the new grant program, although some short-term supplementation might be needed to protect current recipients from loss of income.

In this inflationary period we do not make recommendations for increased Federal expenditures lightly. It is important, however, to note that the full program could not be implemented before 1977 at the earliest. By then we hope the economy will improve. But in any case, the poor and near-poor—especially low-income workers—are hardest hit by inflation. They already bear a heavy burden, and now they suffer even more. We believe the distribution of the burden of inflation and the burden of anti-inflation policies should be more even, and that aid to the working poor should not be extended grudgingly. If such a program were in operation now we could more easily impose stringent anti-inflation measures since protection would be available to the most vulnerable.

Chapter I. PUBLIC WELFARE PROGRAMS: THEIR SIZE AND GROWTH

Federal expenditures to help citizens meet their daily expenses are soaring, but the poverty problem remains. How has this come about? The Federal Government spent $108 billion for income security in 1973, up $57 billion from 1968. During the same period, State and local expenditures for the same purposes rose $9 billion to total almost $19 billion.

Had there been a mandate to spend these extra $66 billion to eliminate poverty, the job could have been done and the welfare system reformed as well. But between 1968 and 1973 the poverty gap remained at about $12 billion, and the poverty population measured by the Census Bureau dropped only slightly to 23 million persons.

TABLE 1.—*Federal, State, and local expenditures on income security programs*

[In billions of dollars]

	Fiscal year 1968	Fiscal year 1973	Gain [1]
Deferred compensation	12	25	12
Social insurance	32	65	33
Benefits for the needy	16	37	21
Cash	(7)	(14)	(6)
Food and other goods and services	(9)	(23)	(14)
Total	60	127	66

[1] Numbers may not add due to rounding.

The summary below shows why the extra $66 billion had so little apparent impact on measured poverty, which *excludes* nonmoney income and benefits such as food stamps:

1. Deferred compensation.—Consisting of veterans' compensation, civil service and military retirement, and workmen's compensation, deferred compensation meets specific obligations of the Federal Government and never was intended to alleviate poverty on a broad basis.

2. Social security, unemployment insurance, and other social insurance programs.—An HEW task force on welfare reform [1] has reported

[1] Michael C. Barth, George J. Carcagno, John L. Palmer, *Toward an Effective Income Support System: Problems, Prospects, and Choices*, Institute for Research on Poverty (Madison: University of Wisconsin Press, 1974), p. 26.

that social security and unemployment insurance checks in 1971 reduced by 52 percent the number of poor "families" headed by the aged, including unrelated elderly individuals. But such social insurance payments had relatively trivial impact on the poverty of families with children. These checks, according to the HEW task force, reduced by 11 percent the number of poor families with only a mother, and by 6 percent the number of poor male-headed families with children.[2] A study of unemployment compensation showed that 17 percent of all benefits in 1970 went to families with incomes below $5,000, which comprise 28 percent of the population, while 28 percent of benefits went to families with incomes over $15,000, which comprise 29 percent of the population.[3]

3. Aid to the needy.—Cash welfare, plus the bonus value of food stamps, the HEW task force reported, further reduced the number of poor families as follows: those headed by the aged, 11 percent; mother-headed families with children, 32 percent; and male-headed families with children, 16 percent. All in all, social insurance, plus cash welfare and food stamps, failed in 1971 to remove from poverty 43 percent of aged families, 61 percent of mother-headed families with children, and 79 percent of male-headed families who originally were poor.[4]

To be sure, another reason why added outlays failed to reduce measured poverty significantly is that some of them were in the form of noncash benefits that the Census Bureau does not count as income in determining who is poor.[5] Increased benefits to the needy in 1968–73 included: $6 billion for health, $1 billion for education, $3 billion for food, and $4.5 billion for housing, social services, and manpower services. Chart 1 shows that among need-based benefits, outlays for social services, food aid, and housing increased at seven times the rate of cash aid between 1968 and 1973.

Table 2 shows the increase in Federal outlays for income security from 1968 to 1973, in 1973 prices, with projections to 1975. An increase of $34 billion, about 30 percent, is projected for the 2 years to 1975. These programs together consumed 42 percent of Federal outlays in 1973 and the share is expected to rise to 45 percent in 1975 (see chart 2).

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[2] Ibid., p. 26.

[3] Martin Feldstein, "Unemployment Compensation: Adverse Incentives and Distributional Anomalies," Harvard Institute of Economic Research, Discussion Paper 317, 1973.

[4] Barth et al., pp. 26, 28.

[5] In many cases cost to the government of providing goods and services is an unreliable guide to setting their income value to beneficiaries. Often the services could be provided more cheaply in the private market. Also, given a choice, beneficiaries might have chosen to spend an equivalent amount of cash in different ways. But in most instances, and especially with respect to subsidized food and housing, the value to recipients is significantly above the zero value the Census Bureau now implicitly assigns.

TABLE 2.—*Federal outlays for income security*

[In millions of dollars—1968 expenditures are expressed in 1973 dollars][1]

Type of benefit	Fiscal year 1968	Fiscal year 1973	Fiscal year 1975 (projected)
Part A. Need-based benefits: [2]			
Cash	6, 435	8, 575	10, 614
Food	1, 072	3, 855	5, 744
Health	3, 501	6, 558	8, 329
Housing	1, 000	3, 358	4, 189
Education	1, 099	1, 821	2, 412
Jobs, training	906	923	2, 000
Social services, legal aid	496	1, 685	2, 072
Total need-based benefits	14, 509	26, 775	35, 360
Part B. Social insurance: [3]			
Cash	33, 857	55, 615	72, 314
Health	6, 548	9, 039	13, 443
Total social insurance	40, 405	64, 654	85, 757
Part C. Deferred compensation: [4]			
Cash	8, 528	12, 862	16, 891
Health	705	792	926
Education	625	2, 613	2, 780
Total deferred compensation	9, 858	16, 267	20, 597
Grand total, income security	64, 772	107, 696	141, 714

[1] See table 3 (following) for detailed listing of income security expenditures, at then current prices, in fiscal 1968 and 1973, by Federal, State, and local governments.

[2] Pt. A: cash welfare; veterans' pensions; food stamps; food commodities; school lunch, breakfast and milk; other feeding programs; medicaid; other health services; public housing; housing loans, grants, and interest subsidies; manpower, legal, and social services.

[3] Pt. B: social security (old-age, survivors' and disability insurance); unemployment insurance; black lung benefits; trade adjustment allowances; railroad retirement, survivors' and disability benefits; medicare.

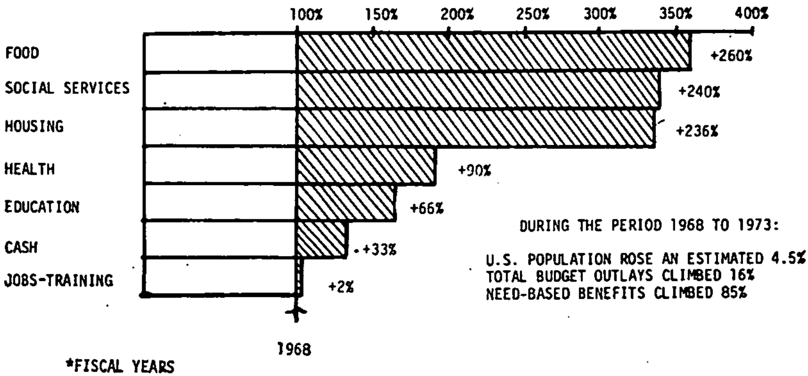
[4] Pt. C: veterans' compensation; civil service and military retirement; workmen's compensation; veterans' health care and educational benefits.

NOTE.—Programs have been placed in the category of their main purpose. Programs such as social security and black lung benefits have elements of deferred compensation and income transfer from taxpayer to recipient (social insurance). In addition, the black lung program offers needs-tested survivor benefits to certain relatives who were totally dependent on the deceased miner.

Projected Federal spending for fiscal year 1975 will continue the stress on social insurance. Federal outlays for income security are expected to rise $34 billion above the 1973 level, but only $8.6 billion, or one-fourth of the increase, is to be targeted specifically to the poor. And of this sum, only $2 billion is in the form of cash. Chart 3 shows the trend. A continuation of this trend—massive spending increases for social insurance benefits and relatively small expansion in cash benefits for the needy—cannot bring an appreciable reduction in measured poverty. Nor, as the next two chapters detail, will it bring order to the chaos of the public welfare system.

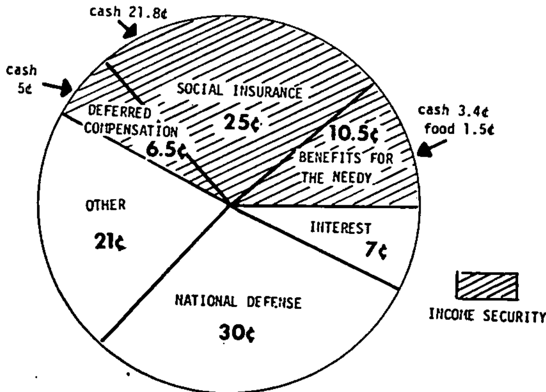
Chart 1. 1968-1973* PERCENTAGE INCREASE IN NEED-BASED FEDERAL BENEFITS

(BASED ON CONSTANT 1973 DOLLARS)



*FISCAL YEARS

Chart 2. FISCAL YEAR 1973 EXPENDITURES FOR INCOME SECURITY (PER BUDGET DOLLAR)



42 CENTS OF EVERY FEDERAL DOLLAR SPENT IN FISCAL YEAR 1973 WENT FOR INCOME SECURITY. IN FISCAL YEAR 1968 THE PROPORTION WAS ONLY 30 CENTS. BY FISCAL YEAR 1975 IT IS EXPECTED TO CLIMB TO 45 CENTS.

Chart 3.

1968-1975 FEDERAL OUTLAYS FOR INCOME SECURITY

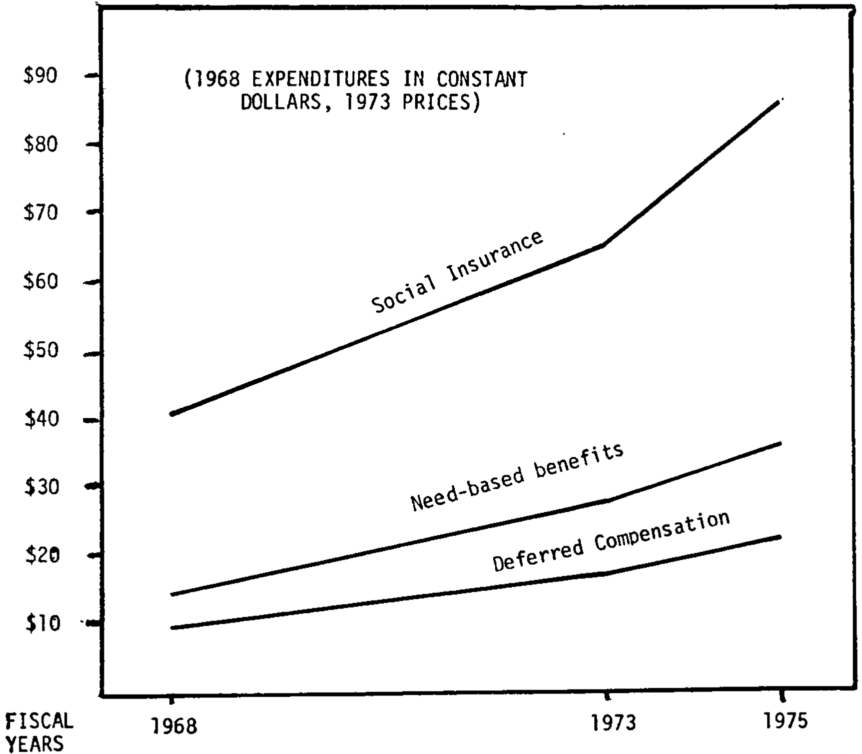


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TABLE 3.—*Federal, State, and local expenditures for income security, fiscal years 1968 and 1973*

[All data are fiscal year unless otherwise indicated; recipients are average monthly caseloads unless otherwise indicated]

Income security programs, by type	Benefit outlays (millions)				Recipients [1] (thousands)	
	Federal		State/local			
	1968	1973	1968	1973	1968	1973
Part A. Programs (benefits primarily for the needy)						
Cash:						
Aid to families with dependent children	$1,395	$3,839	$1,141	$3,116	5,349	10,980
Supplemental security income	(2)	(2)	---	---	(2)	(2)
Emergency assistance	(2)	18	(2)	18	(2)	32
Assistance to Cuban refugees	26	106	---	---	36	88
General assistance to Indians	9	42	---	---	21	69
Pensions for veterans, dependents, and survivors	2,051	2,565	---	---	2,219	2,345
State/local general assistance	---	---	[3] 496	[3] 838	827	862
Old age assistance	1,137	1,126	563	655	2,055	1,917
Aid to the blind	52	60	37	42	82	78
Aid to the permanently and totally disabled	367	819	253	628	646	1,164
Cash total	5,037	8,575	2,490	5,297	---	---
Food:						
Food stamps	187	2,136	---	---	2,488	12,151
Food commodities	385	274	---	---	29,000	31,195
School lunch/school breakfast/special milk	321	1,432	---	---	18,800	24,300
Special supplemental feeding programs for mothers and children	(2)	13	---	---	(2)	160
Meals for the elderly [5]	(2)	(2)	---	---	(2)	(2)
Food total	893	3,855	---	---	---	---

TABLE 3.—*Federal, State, and local expenditures for income security, fiscal years 1968 and 1973*—Continued

Income security programs, by type	Benefit outlays (millions)				Recipients [1] (thousands)	
	Federal		State/local			
	1968	1973	1968	1973	1968	1973
Health:						
Medicaid	1, 806	4, 783	1, 880	3, 931	8, 600	[10] 23, 500
Veterans' care for non-service-connected disability	[3,6] 717	[3,6] 1, 378			[3,7] 481	[3,7] 813
Comprehensive health services	40	175			125	1, 000
Dental health of children	(2)	0. 6	(2)	0. 2	(2)	10
Other child and maternal care	178	221	181	234	2, 553	3, 500
Health total	2, 741	6, 558	[4] 2, 061	[4] 4, 165		
Housing: [8]						
Low-rent public housing	302	1, 043			693	[9] 1, 047
Section 235 homeownership assistance	(2)	282			(2)	[9] 412
Section 236 rental housing assistance	(2)	170			(2)	[9] 191
Rent supplements	1	107			3	[9] 118
Section 502 rural housing loans	469	1, 736			47	[11] 109
Section 504 rural housing loans	5	4			4	[11] 3
Section 516 farm labor housing grants	3	2			(12)	[11,13] 639 [11,14] 97
Section 523 rural self-help housing technical assistance	(2)	4			(2)	(12)
Indian housing improvement grants	3	10			2	[11] 5
Housing total	783	3, 358				

Education:						
Basic educational opportunity grants	(2)	3			(2)	250
Supplemental educational opportunity grants	103	211			293	297
College work-study	112	274			375	545
National direct student loans	182	574			429	624
Interest on insured loans	27	240			515	1,088
Nursing education	21	45.5			22	30
Medical education	22	51.5			23	30
Head start	393	411			481	379
Vocational education work study	(12)	11			(12)	130
Education total	860	1,821				
Jobs and training:						
Neighborhood youth corps	341	412	38	46	884	1,190
Operation mainstream	30.7	63	3.4	7	19	60
Senior community service employment	(2)	(2)			(2)	(2)
Job corps	319	189			107	78
Work incentive projects	9	209			0	238
Senior companions	(2)	(2)			(2)	(2)
Foster grandparents	9.6	25	1.1	3	4	11
Career opportunities program	(2)	25			(2)	9
Job-training total	709.3	923	42.5	56		
Social services:						
Legal services for the poor	36	77			250	1,000
Social services to needy aged, blind and disabled	[16] 347	344	[16] 116	115	(12)	1,800
Social services to needy families		1,264		421	(12)	4,900
Social services total	383	1,685	116	536		

TABLE 3.—*Federal, State, and local expenditures for income security, fiscal years 1968 and 1973*—Continued

Income security programs, by type	Benefit outlays (millions)				Recipients [1] (thousands)	
	Federal		State/local			
	1968	1973	1968	1973	1968	1973
Part B. Social Insurance						
Cash:						
Old-age insurance	15,208	30,996			16,047	18,300
Survivors' insurance	5,529	11,173			5,816	6,900
Disability insurance	2,088	5,162			2,258	3,271
Federal-State unemployment insurance	2,181	4,796			4,555	5,409
Black lung disability and survivors benefits	(2)	915			(2)	302
Trade readjustment allowance	(15)	16			(15)	7
Railroad unemployment insurance	46	45			28	19
Railroad retirement, disability and survivor benefits	1,453	2,512			1,039	975
Cash total	26,505	55,615				
Health:						
Hospital insurance (medicare, part A)	3,736	6,648			3,900	4,700
Supplementary medical insurance (medicare, part B)	1,390	2,391			7,700	10,500
Health total	5,126	9,039				
Part C. Deferred Compensation						
Cash:						
Compensation for veterans, dependents and survivors	2,471	3,836			2,369	2,567
Federal civil service retirement	1,957	4,295			866	1,277
Military retirement	2,095	4,390			624	924
Other Federal employee retirement	71	121			18	20
Workmen's compensation	82	220	2,305	3,818	[17] 1,500	(12)
State/local employees retirement			2,416	4,750	[18] 1,029	[19] 1,463
Cash total	6,676	12,862	[23] 4,721	[23] 8,568		

Health: Veterans' health care for service-connected disability	[3,20] 552	[20] 792			[3,21] 208	[21] 581
Housing: Veterans' loan insurance		([22])	([22])	([22])	([22])	([22])
Education:						
Veterans' educational assistance	451	2,513			311	2,126
War orphans' and widows' educational assistance	38	100			17	68
Education total	489	2,613				

[1] Because a high degree of overlap exists among recipients, totals are not shown.
[2] Program did not exist in that year.
[3] Calendar year.
[4] Does not include State and local health expenditures such as for local charity care in municipal hospitals.
[5] No income test, but in early months of 1974, when program got underway, almost two-thirds of recipients were poor.
[6] Estimated hospital in- and out-patient costs.
[7] Recipient count includes only in-patients.
[8] In addition, the Department of Housing and Urban Development insured home loans with a face value of $1,006 million in 1973 for low- and moderate-income families (Section 221 (d) (2)).
[9] Cumulative family units since program inception.
[10] Estimated unduplicated total of beneficiaries during the year.
[11] During year.
[12] Not available.
[13] Family units.
[14] Individual rooms.
[15] Indicates insignificant amount.
[16] Combined total, services to families and to needy adults.
[17] Estimates based on fragmentary data tabulated by the National Council on Compensation Insurance. This figure is higher than an average monthly caseload would be.
[18] June 30, 1967.
[19] June 30, 1972.
[20] Estimates, hospital in- and out-patient costs.
[21] Recipient count includes only in-patients.
[22] In 1973 the Veterans' Administration insured or guaranteed home loans with a face value of $7.6 billion.
[23] Does not include State and local temporary disability programs.

Source: U.S. Budget and published and unpublished data supplied by various governmental sources.

TABLE 4.—*Income security: Summary of Federal, State, and local government expenditures, fiscal years 1968 and 1973*

[In millions of dollars]

Type of benefit	Federal		State-local	
	Fiscal year 1968	Fiscal year 1973	Fiscal year 1968	Fiscal year 1973
Part A. Need-based:				
Cash	5, 037	8, 575	2, 490	5, 297
Food	839	3, 855		
Health	2, 741	6, 558	2, 061	4, 165
Housing	783	3, 358		
Education	860	1, 821		
Jobs-training	709	923	43	56
Social services	383	1, 685	116	536
Total need-based	11, 352	26, 775	4, 710	10, 054
Part B. Social insurance:				
Cash	26, 505	55, 615		
Health	5, 126	9, 039		
Total social insurance	31, 631	64, 654		
Part C. Deferred compensation:				
Cash	6, 676	12, 862	4, 721	8, 568
Health	552	792		
Education	489	2, 613		
Total deferred compensation	7, 717	16, 267	4, 721	8, 568
Grand total, income security	50, 700	107, 696	9, 431	18, 622

Chapter II. THE EVOLUTION OF CURRENT PROGRAMS: CONFLICTS AMONG COMPETING GOALS

Government, like individuals, must make choices, but the task is harder for government because it represents millions of individuals with varying interests and needs and, sometimes, conflicting goals. As individuals, we choose among competing family budget items and among courses of action, for we are aware that we cannot simultaneously do or have all that we want. In our personal lives we come to recognize that to choose one goal often means to forego or defer or retreat from another, and we seek the best compromise we can make.

Similarly, any income maintenance program requires making choices among competing goals. (For a simplified model of program design trade-offs, see appendix B.) Such choices are embodied in the array of social insurance and aid to the needy programs which exist today and which cost taxpayers $102 billion in 1973. To clarify the essential choices, let us consider the goals we seek in an income maintenance program:

- *Adequacy.*—Benefits plus private income sources should be sufficient to sustain life and provide basic amenities.
- *Incentives.*—Public benefits should not substitute for savings, private income, and family support obligations. Programs should maintain incentives for work, thrift, and family stability.
- *Equity.*—Benefits should be fair and uniform, so that people in the same circumstances are treated the same way.
- *Efficiency.*—Programs should be administered at the least cost commensurate with program integrity.
- *Least cost.*—We want to spend the least amount on benefits while still achieving our goals.

Stated at this level of generality, widespread agreement is likely. In practice, however, compromise is necessary, for the goals conflict with one another and there is no consensus on *how* adequate, equitable, incentive-oriented, efficient or costly programs should be.

When Congress enacted a sweeping program of income maintenance in 1935, for example, there was no attempt to alleviate poverty across the board. Various strategies were chosen to deal with separate problems. Choices were made among competing values and goals. But inconsistencies and ambiguities were already built into the original programs and these have multiplied over time as old programs were expanded and new ones added.

The following review of these programs reveals a pattern of past choices, priorities, and conflicts, and suggests that the goals and the conflicts among them need to be reappraised.

Goals at the Outset

The Social Security Act of 1935 provided income supplements of three sorts:

Old-age insurance for retired workers, financed by payroll taxes, half charged against employees, half against employers;

Unemployment insurance for workers temporarily out of work, financed by payroll taxes on employers with benefits determined by States; and

Federally subsidized cash relief for the needy aged, the needy blind, and for needy dependent children, at the option of each State, and in amounts decided by the States under State rules of eligibility.

Although these were unprecedented and sweeping actions, the goals were simply to provide more for workers, ex-workers, and selected groups of the poor than they otherwise would have had. The Depression had shown that many workers and retirees were at the mercy of overwhelming economic forces, and it was agreed that collective help should go to those thrown out of work or too old to work, and to children and widowed mothers.

The standards of adequacy or quality promoted today were lacking then. "Adequate" income was a concept too expensive and daring for those troubled times and it conflicted with the doctrine of State responsibility for most domestic matters. Congress did not require States to furnish amounts of aid deemed by the States themselves to be sufficient for "a reasonable subsistence," a proposal advanced by drafters of the bill, the Committee on Economic Security.[1]

The idea of adequacy was not built into social security and unemployment insurance either. Congress designed the old age insurance program merely to supplement ex-workers' savings, and the original draft bill provided *more* to those who had earned more, rather than more to those with less adequate retirement incomes.[2] Thus, social security sought to reward past work, a principle that has been described as "reward-equity."[3]

In the case of public assistance, equity and administrative efficiency were overridden by concern for States' rights. Because States were given the right to decide whom to help, and by how much, relief programs have ranged from meager to magnanimous, and administration has been confused and many-layered.

The 1935 design of social security, unemployment insurance, and welfare neglected work incentives for recipients. Although social security was built on the principle, "the more you earn, the more you

[1] See Edwin E. Witte, *Development of the Social Security Act* (Madison: University of Wisconsin Press, 1962), p. 144.

[2] Ibid., p. 152. The House Ways and Means Committee retained benefit rates geared to average payroll taxes of 5 percent during an industrial lifetime, but before passing the measure, introduced the principle of giving relatively larger benefits to workers receiving low wages.

[3] This term was introduced by Arnold H. Packer. U.S. Congress, Joint Economic Committee, Subcommittee on Fiscal Policy, "Categorical Public Employment Guarantees: A Proposed Solution to the Poverty Problem," by Arnold H. Packer, *Concepts in Welfare Program Design*, Paper No. 9 (Washington, D.C.: Government Printing Office, 1973), p. 77.

will get," a strong work incentive, the program assumed that work incentives would be irrelevant once a person became a beneficiary, for benefits were to go only to retirees. The Social Security Act provided no relief for "employables" unless they were temporarily and involuntarily out of work. Moreover, the offering of aid to broken families was considered a family support, a means of enabling a mother to stay home with her children—not an inducement to family breakup.

Paradoxically, although they were not founded on standards of minimum or adequate income, it was widely assumed that social security and unemployment insurance eventually would end need for large-scale public relief. Congress hoped that by providing social insurance payments to partially offset loss of a breadwinner's paycheck, it had begun a process that ultimately would reduce public relief to a vestigial role. What went wrong with the theory that public assistance would wither away in a world that indemnified its workers against unavoidable income cuts?

Essentially, the theory omitted many persons. Furthermore, it ignored the condition of chronic low income, or poverty, confining its payments to those who suffered a *reduction* in income from their base level. Specifically, there were two flaws in the theory.

First, only workers in covered employment were insured, and only *certain risks* to their earnings were covered; namely, old age, temporary unemployment, death, and, after 1956, disability. The system failed to insure against other contingencies that could reduce income, such as family breakup, short work weeks, or declining health. Ineligible for insurance payments were many needy persons, such as:

- The maiden woman who spent her life caring for her invalid mother and never paid social security taxes;
- The widow of 55 without school-age children;
- The farm-hand or maid who did not pay enough payroll taxes to be covered;
- The child of an unmarried mother, or of a divorcee; and
- The family of a worker whose wages were low.

The second defect in the social insurance theory of poverty conquest was that benefits were based on past earnings. If base earnings were inadequate, benefits were likely to be inadequate as well.

To illustrate some of the problems of trying to end poverty by social insurance, let us consider hypothetical families and see how social security might be devised to help them. Assume a system in which all wages are subject to the social security tax and in which benefits equal 40 percent of wages.

Example 1.—Worker A, who earned $100 a month, would receive $40 in old-age or disability benefits. Worker B, who earned half as much ($50) would receive $20 in benefits, again half as much as Worker A. Such a plan is fair, giving equal rewards for equal taxes. But it presents problems, because low-wage Worker B presumably would have had less chance to save for his old age and would have greater need than Worker A.

To give relief to Worker B, the formula could be changed to give larger relative benefits to the low-wage worker—60 percent of wages, for instance. Then Worker B would receive $30 in benefits. But this

adjustment causes a new problem: funding. Since all benefits are paid from payroll taxes, the extra $10 for Worker B and other low-wage workers reduces the funds available for others. It becomes necessary, thus, to reduce Worker A's benefits below 40 percent of his base wage or to raise the tax rate.[4] In this situation the principles of adequacy and reward-equity collide.

There is another problem with skewing benefits in favor of Worker B. Paying relatively higher benefits to a person with low base earnings assumes that he has greater need. But this may not be so, for there is no sure correlation between past earnings of an individual and current family income. It is possible for Worker B or his family to have other sources of retirement income—dividends, rents, a government pension—that far exceed his basic needs.

Example 2.—Now suppose that Worker A is a bachelor, but that Worker B is married. When each reaches retirement age, how will low-wage Worker B support his wife on his adjusted $30 benefit (60 percent of base wages)? To recognize Worker B's greater need, the system could pay an additional amount to him as a dependency allowance, say 50 percent of his primary benefit. Then he would receive $45 per month, or 90 percent of his base wage. But Worker A still would receive less than 40 percent of his base wage. Would this be fair?

These examples illustrate the difficulties that arise when a system that bases payments on past earnings seeks also to meet presumed needs related to current income, yet does not measure the latter.

The experience of the last 34 years, since social security checks first were paid out, has withered our hope that such payments could eliminate the need for public assistance. We now assume that, despite the existence of a mature, and vastly broadened, system of social insurance, a sizable number of Americans still will be poor. Indeed, in 1973, although some $47 billion was distributed in social security checks and another $5.8 billion in unemployment insurance checks, one in nine Americans still was poor, according to Census Bureau measurements of before-tax money income.

It remains theoretically possible for social insurance to overcome poverty; but the task would require (a) that every household always have a breadwinner or ex-breadwinner in covered employment, (b) that the age test for certain dependency benefits be abolished, and (c) that benefits be paid on the basis of financial need, not merely upon the onset of old age, disability, death, or unemployment. This would be necessary because some conditions that jeopardize earnings, such as illegitimate birth, divorce, or family separation, are not "insurable." To insure them would create incentives for behavior that society does not condone. Introduction of an explicit means test, moreover, would erode the system's claim to being an "insurance" system, offering benefits that are held to be one's earned right. In January 1973, Robert M. Ball, then Commissioner of Social Security,

[4] Because of growth of the labor force and increases in wages, more payroll taxes are collected now than when workers A and B themselves were payroll taxpayers. If this were not so, Worker A's benefit would have to be cut by the full $10 that was transferred to Worker B.

told the Senate Special Committee on Aging, "The genius of the social security approach is *not* to have an income test and to thereby encourage private pensions and individual savings"[5] (italic added).

The Evolving Goals of Social Insurance

Since their passage, social insurance programs have been stretched and liberalized to fill some of the coverage gaps left by their initial wage-replacement design and by the categorical and limited nature of State-operated public relief for the needy. Congress at first based social security benefits on cumulative *lifetime* earnings. Retired and jobless workers were scheduled to receive a portion of their former earnings, regardless of family size and no matter how inadequate those wages might have been. This design honored the principle of reward-equity, assuring retirees greater rewards for greater past work. Initially the full wages of almost 97 percent of all workers in covered employment were taxed by social security. (In 1972 this proportion was only 75 percent, but it climbed to about 82 percent in 1973.)

Family Benefits in Social Security: Adequacy Versus Equity

Even before the first old age insurance check was paid in 1940, the goals of social security were enlarged and its nature transformed. In 1939 the program was converted from a worker-only program into a family program by addition of benefits for dependents (wives and children) and survivors (aged widows, young widows with children, and dependent parents). At the same time, the basis for benefits was changed from cumulative lifetime earnings to "average monthly earnings" in covered work. As an official brochure about social security points out, this change made it possible to pay "reasonably *adequate* benefits to many workers approaching retirement age at that time and to their dependents"[6] (italic added). Thus, the Federal Government, which had left in State hands the basic decisions about federally subsidized cash welfare for those who met State tests of need, moved to broaden social security so as to help many persons in *presumed* need because of loss or reduction of earnings by their breadwinner.

Family benefits introduced into social security the principle of greater help for greater presumed need, "need-equity," an idea closely associated with that of adequacy. In recognition of their larger family responsibilities, larger benefits per payroll tax dollar were provided to husbands than to bachelors, and more to the father or mother of two children than to the parent of one child. However, the program continued to eschew any income test, and, thus, as family benefits were expanded, it became a sort of family welfare program based on family

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[5] U.S. Congress. Senate. Special Committee on Aging, *Future Directions in Social Security*. 93d Cong., 1st sess., 1973, p. 32.

[6] U.S. Department of Health, Education, and Welfare, Social Security Administration. *Social Security Programs in the U.S.* (Washington, D.C.: Government Printing Office, 1968), p. 6.

size (up to a maximum limit), payroll taxes paid, and age, rather than directly on need.[7]

Over the years the family-support function of social security has been broadened by making additional relatives eligible, by liberalizing age limits, and by raising dependents' and survivors' benefits. Dependent aged husbands of insured workers were added in 1950; widows aged 62, 1956; children 18–21 who are full-time students, 1965; divorced aged wives, 1965; students up to age 22, 1972; and dependent grandchildren, in 1972.[8] Benefit amounts for a surviving, dependent, and aged parent were raised from 50 percent of the primary amount to 75 percent in 1950; for a surviving child, from 50 percent to 75 percent in 1960; for an aged widow, from 75 percent to 82.5 percent in 1961 and to 100 percent in 1972.

Provision of greater help for greater presumed need—that of a worker with dependents—diluted the program's reward-equity, yielding two markedly different benefit amounts to two workers who paid exactly the same payroll taxes. Presumed-need equity has made social security a much more comprehensive form of income maintenance, assuring most American families with dependent children monthly checks from the U.S. Treasury if their breadwinner died or, after 1956, became disabled. Indeed, 40 percent of the 30 million Americans now on the social security rolls are *not* retired or disabled workers, but are instead their wives, widows, surviving divorced wives,[9] children, parents, even grandchildren. Although social security benefit increases usually are hailed as aid for the aged, this is misleading. One of three social security checks goes to persons under 65 years old, including about three million children.

SKEWING OF BENEFITS: ADEQUACY VERSUS EQUITY

In addition, benefits have been increased repeatedly, and since 1956 they have climbed faster than living costs and have surpassed even productivity increases. The minimum benefit paid has been raised relative to other benefits, and the benefit schedule has been weighted more sharply in favor of the low-wage earner. In the last decade Congress multiplied the minimum monthly benefit 2⅓ times, lifting it from $40.00 to $93.80 (as of July 1974), while general social security benefits doubled. These gains far outpaced a 50-percent rise in the cost-of-living index in the period from December 1963 to December 1973.

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[7] However, to qualify for survivors' benefits, parents and widowers must have been dependent on the deceased worker. Also, the "retirement test" of social security tends to limit benefits to those who need the supplement of part-time earnings. This test reduces benefits for those who earn more than $200 in a given month by one-half of the excess.

[8] Coverage of dependents is capricious. A divorced wife may receive benefits drawn on her former husband's account if they were married 20 years, but not if the marriage ended six months sooner. A needy 62-year-old woman can receive aid on the account of a deceased *son* who formerly supported her, but her equally needy 62-year-old neighbor cannot receive aid on the account of a deceased *sister* who formerly supported her.

[9] Some of the women drawing benefits on their husbands' accounts also are retired or disabled workers, whose own accounts would entitle them to lower benefits.

Gains in minimum benefit levels, like expanded coverage of dependents, have been accomplished at the cost of a loss in reward-equity. That is, benefits payable to persons who formerly worked at low and at high wages do not differ so much as they would if based primarily on long-run wages and taxes.

The social security benefit schedule for new retirees, as of July 1, 1974, shows that benefits replace a progressively higher proportion of wages as wages decline:

Average monthly covered wage	Primary benefit[1] (monthly)	Portion of average wage replaced[2] by: Primary benefit (percent)	Primary plus wife's benefit (percent)
$400	[3] $259.00	65	97
$300	214.40	71	107
$200	171.40	86	129
$100	120.80	121	181

[1] For ex-worker with a wife, benefits and wage-replacement rates each are 50 percent higher.
[2] Average covered wages are lower than those received shortly before retirement; hence benefits replace a lower proportion of a retiree's most recent wages.
[3] Approximately what would be received in July 1974 by a man, age 65, who retired after receiving median covered earnings of about $600 monthly in 1973.

The most dramatic illustration of the skewing of benefits to those with low covered wages is that some workers retire with social security checks *larger* than even their *recent* earnings. For instance, a person who worked two days a week for 50 weeks a year from 1964-73 at $2.15 an hour—and who never previously worked in a job covered by social security—would achieve "lifetime" average monthly covered wages of $143. Such a person could retire after July 1, 1974 at age 65 and collect a monthly social security check of $147.10, plus $73.60 for his wife, or a total of $220.70, more than 50 percent above his covered monthly wage. This man could be an ex-government worker who retired in 1964 at age 55 and began collecting a $6,000 annual pension while earning social security coverage through his part-time job.

The law originally provided that the worker who retired after paying the maximum payroll tax over the years was to receive a benefit 8.5 times larger than that received by the worker who paid only the qualifying minimum. In 1950 the ratio dropped to four to one. Today the maximum benefit paid is only 3.2 times the minimum. To qualify for his $304.90 monthly social security check, the maximum beneficiary of July 1974 must have paid in old age and survivors' insurance payroll taxes a total of $4,446,[10] matched by his employer, and must have foregone interest that could have been earned on this sum. Yet, for his $93.80 monthly check the minimum beneficiary need have paid a total of only $11.50 [11] in payroll taxes, matched by his employer, back in early years of the program. And if the minimum beneficiary has a wife and they both live ten years, they will collect a total of more than $21,000, provided the benefit is increased annually by 5 percent to offset cost-of-living increases.

Broadened coverage, more generous benefits for dependents, benefits as large or larger than low covered wages, all have made social se-

[10] Figures supplied by the Office of the Actuary of the Social Security Administration.
[11] Ibid.

curity a more adequate program for some workers, but a relatively less rewarding one for others with higher wages and few or no dependents. Furthermore, although the welfare features of social security are powerless to help poor persons outside the system, they constitute a windfall gain for some nonneedy persons within it. It has proved inefficient and unfair to try to use social security as a non-income-tested welfare system, and the attempt has reduced the capacity of social security to pay wage-related benefits.[12]

Conflicting Goals in Cash Welfare: Adequacy Versus Incentives Versus Equity

AFDC AND AFDC–UF

From 1935 until 1961 Federal law confined welfare dollars to those who society thought could not, or should not, work. These groups were mothers and children (aid to families with dependent children—AFDC), the aged (old age assistance), the blind (aid to the blind) and, after 1956, the disabled (aid to the permanently and totally disabled). The policy of zero benefits for all others sought to maximize work incentives for "employables"—then defined as able-bodied men, adult couples with or without children, and single individuals without children.[13] This policy also reserved for the "unemployables" whatever funds were available.

If a welfare mother did work outside the home, generally she was not allowed to add wages to her welfare grant. That is, in most industrial States the working mother's AFDC check was reduced by the amount of her earnings, dollar for dollar.[14] Considering work expenses and taxes, mothers suffered a loss, not merely broke even, by working. Almost all States in the South, and some elsewhere, paid maximum benefits far below need and permitted wages to fill some of the income gap without benefit reduction; but even in those States, once wages plus welfare reached the amount the State deemed sufficient for the family's need, any additional wages were subtracted from the welfare check. Amendments in 1962 required States to use net rather than gross wages in their computations, thereby reimbursing working recipients for all or some portion of work expenses.

Limiting eligibility for aid to fatherless families created an incentive for needy families to split up, or appear to do so, to qualify. Limited eligibility also caused equity problems; persons with equal income were treated unequally depending on whether or

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[12] The same kind of problem occurs in unemployment insurance (discussed in chapters V and XI).

[13] A few States even denied welfare to fatherless families if the mother were deemed able to work.

[14] Similarly, most State unemployment insurance (UI) programs sharply limit aid to those who obtain part-time work, deducting most of any earnings from benefit checks. This policy, too, concentrates aid where the need is considered most urgent. But the price is high work disincentives. Adequacy and work incentives, given a fixed sum to spend, are in direct conflict. If UI benefit levels are pegged at a high percentage of former earnings, bonuses for part-time work begin to bring total income perilously close to former net earnings for full-time work.

not they fit into a category. In 1967 a mother with 3 children whose income was $1,700 a year could get welfare aid in all States, but another family of four (two parents and two children) with $1,700 in full-time wages of the father could not receive any AFDC cash in any State. The socially "wrong" behavior of family break-up or nonmarriage was rewarded, but the "right" behavior of family loyalty was not. In June 1968 the U.S. Supreme Court held that unless State law obliged a man to support his stepchildren, welfare authorities could not halt or reduce AFDC payments to them on the grounds of his income unless there was evidence that he actually shared it with them. This meant that AFDC aid must continue in many States no matter how rich the stepfather, yet in all States AFDC aid must be denied, no matter how poor the natural father, if he works full time and remains at home.

During the recession of 1961, Congress passed a temporary law, eventually made permanent, to permit States to offer AFDC for needy children of unemployed parents (AFDC-UP).[15] Initially States had broad latitude to define "unemployment." In 1966, for example, some States offered AFDC to men working less than 40 hours a week or less than the number of hours considered full time for the job. Federal regulations in 1969 reduced the limit to 35 hours of work weekly,[16] and in 1971 lowered it further to 100 hours a month. However, only about half the States have chosen to offer this program, and AFDC rolls have continued to be overwhelmingly dominated by families headed by mothers raising children alone.

During the 1960's American women, including mothers, began joining the labor force in record proportions. At the same time AFDC rolls climbed at a record-shattering rate. Seeking to reverse the explosive growth of AFDC caseloads and costs, Congress in late 1967 changed family welfare rules to give all welfare parents a financial incentive to work outside the home and "get off AFDC rolls." [17]

Effective in July 1969, those who went to work were offered a bonus for doing so; namely, the first $30 of monthly earnings, plus one-third of remaining wages, plus work expenses, was to be ignored by welfare officials in computing benefits, even if this brought their total income—earnings plus welfare—above the State's need standard. The mathematics of this "$30 and ⅓" incentive formula, however, meant

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[15] Since needy children of jobless families headed by mothers already were eligible, the new program was meant for fathers, and in 1967, when it made the program permanent, Congress changed the name to AFDC-UF, for needy children of unemployed *fathers*.

[16] The regulations specified that States opting to run the program have a definition of an unemployed father: "(i) which shall include any father who is employed less than thirty hours a week, or less than three fourths of the number of hours considered by the industry to be full time for the job, whichever is less, and (ii) which may include any father who is employed less than 35 hours a week, or less than the number of hours considered by the industry to be full time for the job, whichever is less." (45 C.F.R. 233.100).

[17] U.S. Congress, House, *Social Security Amendments of 1967*. H. Rept. 90-544 to accompany H.R. 12080. 90th Cong., 1st sess., 1967, p. 107. The law also contained *requirements* for work, but they were lax; and it threatened a freeze on Federal reimbursement of States for any further rise in the proportion of illegitimate children on their AFDC rolls. The freeze, twice postponed and eventually repealed (in 1969), never took effect.

that a mother's entitlement for a welfare supplement would not be wiped out by earnings until her gross income equalled 1½ times the original full AFDC grant, plus $360 a year, plus 1½ times her work expenses. In high-benefit States the new rule qualified mothers for continued aid until earnings reached $7,000 or $8,000 per year, or even more—far above their usual earning capacity and far above what many fathers earned. Thus, the new law made it impossible for many to work their way off welfare, although it allowed those who chose to work to gain more financially. But these working welfare mothers received more than extra cash. So long as they received one dollar of AFDC, they remained eligible for food stamps (or surplus food commodities) and medicaid. At the same income level, non-welfare mothers typically lacked eligibility for these valuable benefits.

In an attempt to restrain costs and caseloads, Congress withheld the work incentive bonus from non-welfare mothers already at work unless their total net income fell below their State's standard of need, the usual eligibility limit. Thus, if the State standard of need and payment standard were $3,500 for her family on an annual basis, a woman earning $5,000 and having taxes and work expenses of $900 could not qualify for aid. However, her co-worker with the same wages and work expenses would be eligible for $1,305 in AFDC plus medicaid if she had become a welfare recipient before taking the job. The new law prohibited the earnings exemption for persons who "deliberately" reduced their earnings or stopped working without good cause, but it was impossible to prevent some working women from taking advantage of the new rules by quitting work, applying for AFDC, and then resuming the job.

Acknowledging that it was being unfair to working mothers, the 1967 House Ways and Means Committee report said: "One possible result of this provision is that one family who started out below assistance levels, will have some grant payable at certain earnings levels because of the exemption of later earnings while another family which already had the same earnings will receive no grant." [18] However, said the report, to correct this inequity by giving the work bonus to those who already earned more than they "needed," by State standards, would have increased AFDC numbers and cost another $160 million annually. The committee chose to trade off equity and adequacy for low-income working women in order to gain greater work incentives and greater adequacy of total income for mothers already on welfare, at lower costs and caseloads.

The 1967 rule imposed a double standard for AFDC eligibility. For initial eligibility there is one income limit; but for continued eligibility after enrollment there is a much higher one, sometimes almost double the original.

In June 1972, James Bennett, Director of the Department of Family and Children's Services in Fannin County, Georgia, complained of the problem caused by this double standard. He told Representative Martha W. Griffiths, chairman of the Subcommittee on Fiscal Policy, at hearings in Atlanta: "It's very difficult to explain this $30 and one-third to fellow employees of welfare recipients. A

[18] House Report 90–544, p. 107.

mother who comes in and applies for a job works right by the side of a woman who draws public assistance. Welfare recipients do have the other benefits which you mentioned [medicaid, food stamps, free school lunches, free milk] and the non-recipient is well aware of these benefits. And you just can't explain to her why she is not eligible for public assistance." [19]

At subcommittee hearings in Detroit, Mrs. Magnolia Bates, food stamp certifier for the Wayne County Department of Social Services, testified that low-income working mothers quit work so as to get cash welfare and, with it, food stamps. She said, "This mother, tired of trying to . . . 'make it' in today's world, resigns herself to the fact that the program isn't going to help her and there is only one way out—ADC [AFDC]." [20] Mrs. Marilyn Sanders, of the Department's medical assistance unit, said that when working mothers found that their income made them ineligible for medicaid "generally they quit the job" and then went on AFDC to get it.[21] Chairman Griffiths summarized the situation: "If she quits the job, she is eligible for AFDC; she is eligible for medicaid; she is eligible for food stamps . . . If she quits the job and comes down and gets on AFDC, then goes back to the job, she gets the disregards . . . So, the law is the thing that is wrong. The law is telling her, 'Quit work, get on AFDC first, and then if you want to go to work, go to work.'" [22]

By 1969, States that offered AFDC–UF were required to give the work bonus of "$30 and 1/3" plus expenses not only to their welfare mothers, but also to "unemployed" welfare fathers who took jobs up to 35 hours a week. For these fathers, the consequence was to penalize further full-time work once they obtained it. This can be shown with an example of two fathers. Father A, who had been unable to find a job, received $300 monthly from his State in AFDC for himself, his wife, and their two children. Father B earned $320 a month gross, only $20 more than Father A received for full-time leisure or job search; but, after payment of taxes and work expenses, he netted $40 *less* than Father A's leisure income. Assume that Father A managed to get a job alongside Father B for the same wage, but, luckily for him, for only 34 hours a week, within the *old* AFDC "unemployed" definition, providing him $272 in gross monthly wages. Before the 1967 work bonus took effect, Father A's welfare check would have been cut by his net earnings, keeping his total net income constant at $300. But after July 1, 1969 he would have received a welfare supplement of $199.[23] As a result, Father A, who worked about 15 percent fewer hours, would receive almost 60 percent more in net cash income than Father B. Even though Father B's net income was below the amount his State said was needed by his family, he could not qualify for aid

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[19] U.S. Congress, Joint Economic Committee, *Problems in the Administration of Public Welfare Programs*, Hearings before the Subcommittee on Fiscal Policy. 92d Cong., 2d Sess., 1972, p. 1059.

[20] Ibid., p. 389.

[21] Ibid., p. 447.

[22] Ibid.

[23] From Father A's full $300 welfare check only $101 would be deducted, leaving a supplement of $199. Not counted would be the other $171 in wages: the first $30, plus one-third of remaining wages ($81), plus expenses ($60).

because he worked full time. Thus, the new rules encouraged men to work, but only up to the point of 35 hours a week because eligibility was defined first by hours of work and then by income need, rather than by income need alone.

Father A:	
Gross monthly earnings	0
AFDC–UF grant (family of 4)	$300
Total income—no work	300
Then:	
Gross monthly earnings, $2 hourly (34 hours a week)	272
Taxes and work expenses	−60
	212
AFDC–UF supplement	+199
Total net income	411
Father B:	
Gross monthly earnings (40 hours a week at $2 per hour)	320
Taxes and work expenses	−60
Net earnings	260

This bizarre phenomenon of earning more yet receiving lower total income is referred to as a "notch." When the notch problem in the AFDC-unemployed father program surfaced during congressional hearings on the Administration's Family Assistance Plan, the Administration reduced the hours of "unemployed" work, but this did not eliminate the problem. It merely lowered the notch point from 35 hours weekly to 100 hours monthly. Total income from part-time work plus welfare supplementation still can exceed by a substantial margin the earnings of a low-wage, full-time worker. For instance, a man with a wife and three children who took a full-time job at $1.60 an hour in July 1972 received after-tax income of $3,034, but lost AFDC–UF benefits of $3,840 in San Francisco or $3,588 in Portland, Oregon.

Not only does AFDC–UF sometimes reverse income positions of the employed and unemployed, it can also reverse income positions among the unemployed. AFDC–UF benefits available to some fathers in certain States exceed the maximum unemployment insurance (UI) benefits. Not every UI claimant is eligible for maximum benefits, so the number of cases for which welfare is better than UI is significant. But since male UI beneficiaries are precluded by law from receiving AFDC–UF concurrently, some are disadvantaged by UI coverage. (In October 1974, the Supreme Court agreed to decide whether a family can receive welfare payments when the unemployed father is eligible for UI but refuses to accept it because welfare benefits are higher.)

The 1967 work incentive formula enabled welfare parents to increase their income significantly. But greater work incentives for welfare mothers and "unemployed" fathers were achieved at the cost of larger inequities for working men and women not on welfare. This situation illustrates a dilemma that is built into the structure of present welfare. As long as fully employed fathers are barred from Federal cash welfare, it will remain impossible to make any improvement in the terms of welfare for broken or jobless families who *are*

eligible without increasing their advantage over workers. Thus, improvements for welfare families will increase further the financial incentives for family breakup and work reduction. This dilemma can be resolved only by income supplements for all low- and moderate-income workers on an equal basis, regardless of their sex, regardless of whether they work more than 100 hours per month, and regardless of whether they recently were on welfare. The price of equity and reduced poverty among the working poor is higher costs and higher numbers of persons receiving income supplementation.

Supplemental Security Income (SSI)

The dilemma of need versus reward is evident in the supplemental security income program as well. In October 1972 Congress shattered welfare traditions by enacting its first Federal cash income floor for a broad group of the population, conditioned only upon need.[24] As a result, since January 1, 1974, all needy persons at least 65 years old, plus all needy blind and disabled persons of any age, have been eligible for supplemental security income checks from the U.S. Treasury.

Although SSI checks are not financed with payroll taxes, the program is administered by the Social Security Administration; and in March it mailed out special gold-colored SSI checks to 3⅓ million persons.

SSI operates on standard rules about eligible income and resources, and because its rules generally are more liberal [25] than those of the old State-operated programs of adult welfare, it is believed to have nearly doubled the number of persons eligible for cash help.[26]

SSI guarantees of July 1974 were $146 monthly per person and $219 per couple; these amounts are supplemented by many States. The range of supplements continues some payment inequities among States, but the basic SSI guarantees established a uniform cash floor.[27]

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[24] The only other Federal cash program for the poor is the pension program for veterans with a non-service-connected disability, plus their dependents and survivors.

[25] For the SSI basic income floor, law forbids two practices that were widely employed by States to restrain welfare costs and caseloads: requiring old-age relief applicants to give a lien on their house and making relatives contribute to their support. And even if a State finances a supplement to the SSI floor, Federal administrators will not enforce State rules about liens or relatives' responsibility.

[26] The Social Security Administration, in spring 1974, estimated that almost 6 million persons were eligible for SSI checks from the Federal Government, as follows: 3.9 million noninstitutional aged: 0.3 million institutional aged; 1.3 million noninstitutional disabled and blind; 0.2 million institutional blind and disabled; and 0.250 million disabled children. In addition, some others were eligible for State-administered supplements to SSI. In December 1973, before the start of SSI, a total of 3.173 million aged, disabled, and blind persons received aid under State programs of relief.

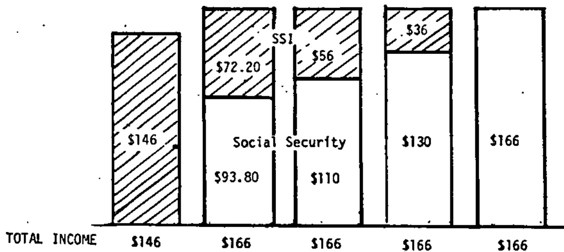
[27] Although the aged, the blind, and the disabled are not expected to work, SSI rules give them a financial incentive to do so. In the SSI program, the first $85 of monthly earnings (or the first $65 in earnings plus $20 in "unearned" income such as social security) is not "charged" against the welfare payment; nor is 50 cents of every additional dollar. That is to say, these amounts are ignored. Above this initial earnings exemption it takes $2 of earnings to offset $1 in benefits. Thus, single recipients are eligible for a supplementary SSI check until monthly earnings reach $377 (two times the basic benefit of $146, plus $85 in uncounted initial earnings). The earnings limit for couples is $523.

Passage of a Federal cash income guarantee has sharply reduced inequities in adult cash welfare payments, simplified administration, and increased maximum payments to the needy aged in 26 States. The initial (January 1974) SSI monthly cash floor of $140, for instance gave a cash boost of $65 monthly to a destitute aged man in Mississippi, $55 in Missouri, $45 in South Carolina, $44 in Maryland, and $43 in Tennessee.

Establishment of this explicitly income-tested supplement to social security aims not only to make welfare benefits more adequate and equitable, but also to relieve pressure for ever higher minimum social security benefits, which have eroded that system's reward-equity. But SSI itself also has reduced the relative reward for those aged, blind, and disabled persons who paid social security taxes. For 72 percent of the aged recipients and for 25–30 percent of the blind and disabled recipients, the SSI check is a supplement to a regular social security check. Because all unearned income above $20 monthly causes a dollar-for-dollar reduction in the SSI check, the value of social security is sharply limited for the recipient who also is entitled to SSI. Under present law, his benefit income cannot exceed that of an SSI neighbor who never paid payroll taxes by more than $20 monthly, nor can total income vary among SSI recipients who are entitled to large and small social security checks. SSI rules allow dual recipients the same total sum monthly—$166 per individual and $239 per couple.

The resulting leveling of dual SSI-social security recipients is shown in chart 4.

Chart 4. LEVELING OF DUAL RECIPIENTS OF SOCIAL SECURITY AND SUPPLEMENTAL SECURITY INCOME



In order to more consistently reward those who paid social security payroll taxes, it would be necessary to disregard a *percentage* of social security benefits, rather than a fixed sum, when computing SSI checks.

Ignoring a small portion of social security income, say 15 percent, would not increase SSI payments significantly, but it would achieve some differentiation among former workers—slightly higher total incomes for higher-income individuals and lower ones for lower-income individuals—and it would raise the SSI income cutoff by $6

for social security income. If the social security exemption were raised to 25 percent, the reward for payroll taxes would rise, but so would the SSI eligibility level for social security beneficiaries, and costs and caseloads. Then it would take $4 in social security to offset $3 in SSI. Thus, the monthly SSI cutoff income for an individual would rise to $195 in social security ($146×4/3).

The current flat $20 monthly disregard of social security income in SSI represents a compromise weighted toward maximum help for the poorest, and least cost. Within a given budget, a clear choice was made. But as payroll taxes become an even larger burden and more and more social security beneficiaries have become SSI recipients, this compromise should be reevaluated with the aim of providing greater reward for past work and payment of payroll taxes.

General Assistance

Most State and local governments spend their own funds to help a fraction of the needy persons omitted from help, or needy despite help, by social security, unemployment insurance, and federally aided cash welfare.

In January 1974, a total of 44 States and the District of Columbia reported giving to 635,000 needy persons $55.1 million (equal to $661 million on an annual basis). Fifty-five percent of these general assistance payments were made in 17 large cities or counties. Although information on these programs tends to be sketchy, a recent subcommittee staff survey of public welfare benefits in 100 counties representative of the United States indicated that of 61 counties offering general assistance aid, 53 extended aid to "employable" (or employed) single individuals, 54 to such childless couples, and 59 to able-bodied men and their families.[28]

In the bulk of the counties providing such aid, very limited or no financial work incentives are offered. That is, earnings tend to offset benefits dollar for dollar (a 100-percent benefit-loss rate),[29] so that one dollar more in earnings means one dollar less in aid.[30] For example, in Hartford, Connecticut, the general assistance benefit level for a male-headed family of four was $311 monthly as of July 1972. If the man worked at a job earning $250 per month after taxes and work expenses, his payment was $61 ($311–$250). Thus, so long as his discretionary earnings did not rise above $311, his total monthly discretionary income was $311, whether he earned $10, $100, $250, or $310.

By contrast, as noted earlier, AFDC and SSI ignore some portion of each earned dollar when computing benefits so that workers always

[28] Joint Economic Committee, Paper No. 15, see appendix A.

[29] A benefit-loss rate is the rate at which earnings or other income offset benefits. With a 50-percent rate, 50 percent of earnings are counted as an offset to maximum benefit entitlement, and 50 percent are ignored in these computations. With a 75-percent rate, 75 percent of earnings are charged against benefits and only 25 percent are ignored or "disregarded."

[30] Some localities do allow deductions of certain work expenses, such as income and payroll taxes, from income counted in computing benefits. This at least avoids making people actually worse off if they work, since a tax-free welfare check of $300 is worth more than a paycheck of $200 plus a welfare check of $100.

have more income than nonworkers. It would be highly desirable for more States and localities to adopt this practice, for it encourages work by financial reward and achieves fairer treatment of workers and nonworkers.[31] However, reducing benefits at a fractional rate of earnings is more costly than subtracting all earnings from the maximum benefits. Most States and localities have been unable to afford a work bonus for their working poor. In these States help for the poorest, equity of covered groups, and least-cost goals are maximized at the expense of incentives to work and reward for work.

Conflicting Goals in Noncash Aid

Two years after Congress passed the Social Security Act, it initiated a major program of noncash aid for the poor; namely, low-rent public housing. The program offered grants and loans to local public housing authorities to help them finance construction, acquisition, and subsidized operation of housing units.

Within the last decade there has been an explosion of other noncash benefit programs to provide help for needy persons outside the Federal welfare categories and to enhance adequacy, as well, for recipients of cash welfare:

- *Medicaid.*—Enacted in 1965 to provide comprehensive and generally free medical services for certain groups.
- *Food stamps.*—Revived on a pilot basis, primarily to sell surplus foods, in 1961;[32] given uniform national standards and transformed in 1971 into an income guarantee for all the needy in participating counties; and in July 1974, extended to all counties.[33]
- *Services, free or subsidized (day care, legal aid, job training, etc.).*—Vastly expanded by the anti-poverty war.
- *New forms of subsidized housing to supplement the public housing programs.*—Enacted in 1968 were interest subsidies for low-income home buyers and renters, and rent supplements.
- *Basic educational opportunity grants.*—Enacted in 1972 to entitle all needy youths to a basic stipend to help pay college costs.

Two kinds of restrictions limit the ability of the poor to gain these noncash benefits: categorical eligibility rules and closed-end appropriations. Medicaid, for example, generally is available only to those who fit into a category eligible for cash welfare; this is true of some day care programs also. Limited appropriations have prevented public housing and basic educational opportunity grants from reaching all who qualify for them on an income basis.

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[31] New Jersey and Rhode Island have done this. New Jersey pays $216 a month to a two-parent family of four with no other income, and reduces this maximum payment by 67¢ for each earned dollar above $60. Thus, a family with $333 of monthly earnings would receive a supplemental welfare check of $34. This may be the first State-run negative income tax, and it is very much like the Family Assistance Plan (FAP) originally proposed by the Administration in 1969.

[32] An earlier version of this program ran from 1939 until 1943.

[33] A few counties required additional months to prepare for program implementation.

Of these benefits, only *food stamps* are universally available on the basis of income and resources. This program has greatly increased adequacy of Federal income maintenance, for it entitles all needy households to an allotment of food stamps equal to the minimum cost of an adequate diet, adjusted semi-annually for price increases ($1,800 annually per family of four as of July 1, 1974). In an effort to maintain the work efforts of recipients, the food stamp program employs both financial inducement and a formal work requirement. The inducement is a generous benefit-loss rate, which permits recipients to keep at least 70 cents of every "net" earned dollar (very liberally defined). The penniless receive the stamp allotment free, and those with income pay for the same allotment on a gradually rising scale. A family of four with $3,200 in "net" earnings pays $852 for $1,800 worth of stamps annually; thus, the family may save $948 on its food budget. The latter sum is its food stamp "bonus." At about $7,200 in annual gross earnings, the price of the food stamps rises close to $1,800, and the family becomes ineligible.

This program illustrates the high cost—in the number of eligibles and dollars—of providing even modest help to all needy groups on the basis of relatively generous rewards for work. The cost of liberal work incentives is to extend eligibility up the income scale. Unpublished studies indicate that at some time during the year ending July 1, 1977 a total of 60 million Americans might be eligible for food stamps on an income basis (compared with an expected peak of 50 million eligible at some time in fiscal year 1974) and that the cost in the Nation's bicentennial year could rise to $10 billion if all eligible persons were to obtain stamps.

To confine food stamps to the poorest and to limit costs, one would have to impose a steeper purchase-price schedule for the stamps, such as 80 cents for each dollar of "net" earnings. If that were done today, it would reduce the cutoff for eligibility to about $2,700 in gross income. This would cause a new problem: a reduced incentive for a low-wage person to work. At zero earnings one could receive $1,800 in free food stamps. At net earnings of $1,800, however, the bonus would sink to $360 because one would have to pay $1,440 for the same stamp allotment (compared with a bonus of $1,308 under today's rules). Thus, the price of lower costs and caseloads would be less reward for work and lower benefits for all but the penniless.

Public housing is in short supply, available only to a few of the persons eligible for it because of limited appropriations. However, those who obtain it have enjoyed a low benefit-loss rate since 1970; their rent goes up at most 25 cents per extra dollar earned until they earn enough to be required or enabled to move out. This benefit schedule should not impede work incentives. But the supply shortage causes discrimination against those on the waiting lists. Applying the concept of equity to public housing and other subsidized rent and homeownership programs is a vexing matter. Theoretically, since so few benefit, the program is highly unfair. Even though the supply of apartments is being expanded by the leasing of private units, it seems unreasonable to expect the number of public housing units to

equal demand in the short term.[34] Because of this problem, some have advocated direct subsidies to individuals, not housing units, in the form of housing allowances or housing vouchers.

The cost and potential coverage of such proposals illustrate the enormity of the jump from subsidies for a few eligibles to fair benefits for all eligibles, especially under a formula which rewards work. To give all households with zero "available resources" [35] a basic housing benefit between $1,600 and $2,100 for a family of four, depending on where they live, and to charge all other households one-fourth of available resources for the same benefit, it has been estimated, would have cost at least $12 billion under 1974 conditions.[36] If housing prices were to rise 10 percent in response to the housing allowance, the number of eligible units would rise, boosting costs above $15 billion. Restricting the housing allowance to families with children would lower estimated costs to $6.6 billion ($8.5 billion assuming a 10-percent price rise).

Medicaid may be offered by States to near-poor families who fit the categories of AFDC, but only half the States do so.[37] In the majority of States medicaid benefits are cut off abruptly when counted income exceeds welfare eligibility limits. In these States, the marginal benefit-loss rate can far exceed 100 percent; a small increase in earnings, such as $10, can cause the "sudden death" of benefits valued at hundreds of dollars. Restricting coverage to only certain types of families and imposing rigid income limits on them saves money and concentrates benefits on some among the very poor, but creates inequities and discourages work for those at the eligibility margin.[38]

To eliminate these wrinkles in our health care programs for low- and moderate-income people will not be easy. Providing in every State the most generous medical benefits available in any State would be costly, even if benefits were confined to only those groups now eligible, and even a universal health insurance plan could require some contributions in the form of premiums, deductibles, or co-payments from some who have been receiving completely free care. Yet the prospect of cutting back the most generous benefits in order to extend coverage to excluded groups faces serious obstacles.

Day care benefits, like public housing and medicaid, have been too expensive and too scarce to be provided on an equal basis to all. HEW

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[34] Construction of additional low-rent units might lower rents for nonrecipients by increasing the supply.

[35] Available resources equal money income, plus one-fourth of assets in excess of $10,000 a year ($5,000 for households with aged head), less $300 for each household member working at least 20 hours a week, less social security taxes.

[36] Edward R. Fried, Alice M. Rivlin, Charles L. Schultze, and Nancy H. Teeters, *Setting National Priorities, the 1974 Budget* (Washington, D.C.: Brookings Institution, 1974), p. 142.

[37] States also may offer federally aided medical services to needy children of employed fathers, although they are ineligible for cash help. However, only 14 States and the District of Columbia do so.

[38] However, it does not discourage work for those well below the eligibility cutoff, since benefits are substantially free. Unlike the food stamp program, medicaid has no income-related fee schedule for persons below the eligibility limit.

estimates that governmental child care expenditures in fiscal year 1973 (Federal and State) exceeded half a billion dollars and averaged about $1,090 [39] per child, as follows:

Auspices	Outlays	Child care years provided	Cost per child
Social services funded care	$482, 133, 000	408, 000	$1, 182
Work incentive project (WIN) care	49, 687, 000	80, 100	[1] 620
Child welfare funded care	21, 800, 000	18, 000	1, 111

[1] This per child figure is relatively low because much of the WIN-funded care is provided in homes.

In addition, AFDC reimbursed welfare mothers for an estimated $80,100,000 spent on child care.

The Brookings Institution has estimated annual costs, under fiscal 1974 conditions, of providing day care for pre-school children of working mothers. A plan that provided free day care vouchers valued at $1,750 per child to all such children in families with income under $3,000 and that charged a sliding scale for those with higher income would cost from $4.7 billion to $5.9 billion, depending on the fee schedule. The minimum cost plan would impose a fee of 22 cents per dollar above $3,000, cutting off eligibility at $10,800; the high cost plan would reduce benefits by 14 percent of income, ending eligibility at $15,200.[40]

Because costs preclude giving the same range and quality of services to all, comprehensive benefits such as medicaid and developmental day care are provided free for some, but denied to others of equal or greater need. Since moderate benefit-loss rates (to financially encourage and reward work) like that of the food stamp program would lift eligibility limits well into the middle class, noncash benefits often are given, and given free, only to those already qualified as "needy" by certification for cash welfare.

Summary

The current "crisis" in welfare is in large measure due to the mushrooming growth of an array of programs that were inaugurated at different times to meet specific problems by means of different strategies. A series of piecemeal efforts have created a system built on conflicting principles.

(1) The evolution of most of our major income maintenance programs shows an unending struggle among competing goals valued by society: (*a*) benefit adequacy versus work incentives; and (*b*) equal help for equal need versus differential rewards for past work and saving. In general, adequacy and need-equity have won greater acceptance than work incentives and reward-equity.

(2) With economic growth and rising tax revenues, much of the increase in welfare expenditures has been made on a basis of "now we can afford to do such-and-such." Expenditures for social insurance

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[39] Estimated spending on day care of $1,090 per child in 1973 exceeded by more than $300 the median States cash sum given per child to penniless mothers of three children for *all* other needs of the child. Such an imbalance is hard to defend.

[40] Fried et al., p. 167.

and aid to the needy were $102 billion in 1973. In 1940 they were $2.5 billion, plus another $2.4 billion for work-relief programs. Since 1935 there has been no effective revision of an overall national strategy for income maintenance.

(3) Social security originally was devised as a wage-replacement scheme, but benefit schedules have been continuously revised in the direction of stressing need at the expense of reward-equity. Benefits for dependents have been liberalized, and minimum benefits have been raised proportionately more than average ones, so that while avoiding an explicit means test the program has come to fill more of a welfare and less of a wage-replacement function. A favorable demographic situation and rising productivity have enabled the program to bear a heavy welfare burden in recent years, but continued low birth rates and stagnating real wages are likely to cause a funding crisis in the future.

(4) The supplemental security income program implemented in 1974 has further reduced the work-reward function of social security for recipients at the lower end of the OASDI payment scale by providing a nationwide income floor for all of the aged, blind, and disabled.

(5) The maintenance of State options in federally financed welfare programs like AFDC has resulted in a great range of benefits paid to families, creating large regional inequities and incentives to migrate. On the other hand, SSI and the food stamp programs have established uniform nationwide benefit floors.

(6) AFDC was historically an attempt to administer welfare relief on a categorical basis, that is, to mother-headed families only. Many observers feel that it has failed, both by establishing incentives for families to split up or never to form, and by inequitable treatment for equally poor two-parent families.

(7) The AFDC-unemployed father program was a partial attempt to extend the program to male-headed families. However, only about half the States have chosen to offer this program.

(8) The old dichotomy between work and welfare is obsolete, since many persons it was once thought should not work now are working, including 50 percent of mothers with only pre-schoolers and almost 60 percent of those with only schoolage children.[41] On the other hand, national concern with poverty has focused increasing attention on the needs of the working poor, traditionally excluded from most welfare programs.

(9) The idea of providing aid to workers on terms that allow some reward for work has won increasing acceptance in recent years. It has been adopted for AFDC mothers and AFDC unemployed fathers, for food stamp recipients, for public housing tenants, for SSI recipients and for social security beneficiaries. But failure to coordinate these programs often leads to a cumulation of benefit-loss rates that dilutes work incentives. In some cases, a flat ceiling on permissible earn-

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[41] Of mothers raising only schoolage children by themselves, 70 percent worked in 1972. See U.S. Department of Commerce, Bureau of the Census, "Characteristics of the Low-Income Population, 1972," *Current Population Report*, Series P–60, No. 91 (Washington, D.C.: Government Printing Office), pp. 104–105, table 34.

ings creates a "notch"—a situation where an extra dollar earned may cost the recipient hundreds of dollars in benefits.

(10) An array of noncash programs has blossomed to fill some of the gaps in coverage of existing programs and enhance benefit adequacy for those already on welfare. They have raised a host of new problems. An incentive has been established for families to remain on cash welfare in order to retain eligibility for benefits in kind.

(11) The opportunity for some families to obtain benefits from many programs simultaneously has made it possible for a few welfare families to acquire relatively high real incomes. On the other hand, limited availability of in-kind benefits like housing, medicaid, and child care has meant that other needy families could receive no help at all. So in-kind benefits have established new inequities.

(12) In-kind benefits have also raised accounting problems, as the Census Bureau has been unable as yet to include the dollar benefit of these values in measuring family income. A new element of uncertainty has been introduced in the measurement of poverty.

(13) Improvements in the separate design of programs cannot remedy the basic inequity of the system. Indeed, as long as working fathers and nonaged persons without children are barred from federally aided cash welfare, they will be *penalized* by measures that liberalize such aid.

Chapter III. DEFECTS OF THE EXISTING SYSTEM

Instead of forming a coordinated network in pursuit of well-defined goals, our Federal, State, and local income maintenance programs are an assortment of fragmented efforts that distribute income to various persons for various purposes, sometimes on conflicting terms and with unforeseen effects.

To know how well this non-system treats a needy person, one has to know many things besides his income and family size. How old is he? Where does he live? Is he a veteran? Is he an Indian living on a reservation? Where did he last work? What rent does he pay? Is he disabled? How much has he saved? What is his auto worth?

Two primary factors have inhibited a uniform system of equitable aid: a heritage of local responsibility, and a habit of approaching social problems in isolation.

Only with passage of the 1970 food stamp amendments and enactment of supplemental security income in 1972 did the Federal Government set national eligibility rules and benefit levels for welfare aid to groups other than veterans. States still decide how large an AFDC check will go to a penniless family, and, within bounds, who shall be eligible for it. State decisions also govern who is covered by medicaid, who gets into free day care, and, to a lesser degree, who gets food stamps.[1] Local authorities control admission to public housing and cash aid for persons not helped by AFDC or SSI.

The habit of approaching problems in isolation has led to fragmented and inconsistent legislation and administration. Our income security programs are shaped by at least 21 committees of Congress[2] and by 50 State legislatures, by six Cabinet departments and

[1] Eligibility for AFDC, a State decision, confers automatic eligibility for food stamps under Agriculture Department regulations.

[2] House Ways and Means Committee and Senate Finance Committee—AFDC, supplemental security income, social security, unemployment insurance, medicare; Veterans' Affairs committees—veterans' pensions, compensation, and educational benefits; House Agriculture Committee—food stamps; Senate Agriculture and Forestry Committee—food stamps, school meals; House Education and Labor Committee—black lung benefits for miners, school meals, Federal employees' compensation; Senate Labor and Public Welfare Committee—Federal employees' compensation, black lung benefits for miners, railroad retirement and unemployment insurance; House Judiciary and Senate Foreign Relations committees—Cuban refugee assistance; Appropriations committees—Indian assistance and appropriations for all programs; Post Office and Civil Service committees—civil service retirement; Armed Services committees—military retirement; House Commerce and Health—railroad retirement and railroad unemployment insurance, medicaid; Interior and Insular Affairs committees—Indian health; House Banking and Currency Committee and Senate Banking, Housing and Urban Affairs Committee—housing; Senate Finance Committee—medicaid. This list shows jurisdictions effective in the 94th Congress.

three Federal agencies,[3] by 54 State and territorial welfare agencies[4] and by more than 1,500 county welfare departments, by the U.S. Supreme Court and many lesser courts.

Each of the congressional committees typically deals only with its own subject area, although changes in one benefit program, such as cash welfare or social security, commonly affect another, such as food stamps or veterans' pensions. Because of the categorical nature of the "system" and the restricted viewpoint of the Executive agencies and congressional committees, attempts to remedy one problem tend to create another.

For instance, the Agriculture Department, by regulation, decreed that all recipients of cash welfare should be eligible for food stamps *regardless* of their income, marring the design for uniformity that Congress thought it was adopting in 1970.

None of the committees with legislative jurisdiction over income maintenance programs has the duty to appraise the total effect of the decisions of all. The omission is serious. As a result, persons can be enrolled in several programs, the terms of which discourage work and provide income that far exceeds their earning potential. If such multi-beneficiaries reduce work, their lost wages are largely offset by higher benefits; if they increase work, they suffer heavy benefit losses. Even relatively liberal work incentive rules of individual benefit programs are diluted when added together.

So the real issue which demands consideration is the equity, adequacy, incentive effects and administrative simplicity not of each separate program, but of the system as a whole as it applies to each family or individual in need of help.

Equity

1. "A caste system for the poor?"—"The root of the problem . . . lies right in the Social Security Act, which creates a caste system for the poor," Robert J. Friel, director of assistance payments, Georgia State Department of Family and Children Services, told the subcommittee in Atlanta in June 1972. He added: "We put people in little boxes and we say, 'if you happen to be 65 or over you can get help. If you happen to be permanently and totally disabled you can get help. If you happen to be blind, you can get help.' You can be literally starv-

[3] Department of Health, Education, and Welfare—AFDC, supplemental security income, social security, medicaid, most pre-1974 black lung benefits for coal miners; medicare, Indian health, Cuban refugee assistance; Labor Department—unemployment insurance, Federal employees' compensation, food stamp work registration, AFDC work registration, new black lung benefit claims; Agriculture Department—food stamps, school meals, rural housing, school milk; Interior Department—Indian assistance; Housing and Urban Development—housing programs; Defense Department—military retirement; Veterans' Administration—veterans' pensions, compensation, and educational and housing benefits; Railroad Retirement Board—railroad retirement and unemployment insurance; and Civil Service Commission—civil service retirement.

[4] Including the District of Columbia, Guam, Puerto Rico, and the Virgin Islands.

ing on the street and if you don't meet one of these technical eligibility requirements, you can't be helped." [5]

At issue here is the tradition of maintaining categorical programs of aid for the poor. Data from a 1971 survey by the University of Michigan Survey Research Center, presented in table 5, summarize the inequity of the existing system of income maintenance. Admittedly, the data are only roughly related to the problem of categorical eligibility for welfare per se, because they measure the effect of all forms of transfer payments on people's income—private pensions, public employee retirement pensions, social security, veterans' pensions and compensation, unemployment insurance, cash welfare, and the cash value of food stamps. But they do give a rough notion of the extent to which the existing system of income maintenance helps certain sectors of the population and ignores certain others.

The categorically eligible—the aged, the blind, the disabled and female-headed families—receive the lion's share of all transfer payments. Relatively little goes to childless units with nondisabled and nonaged heads and to families with children headed by a nondisabled and nonaged male. Together, these two groups constitute 38 percent of the poverty population after transfers but received only 13 percent of transfer payments, according to the Michigan survey. So one central issue of equity in the present system is the relative neglect of this 38 percent, as compared with the help given to the other 62 percent.

2. Variations in State and local benefit levels.—These constitute the second major inequity of the present system of income maintenance. In general, AFDC, SSI, State supplements, general assistance, medicaid, and public housing benefits are lowest in the South, and in areas likely to be poorer, more rural and more black than average.

Data on the regional imbalance in AFDC aid relative to the distribution of the poverty population are shown in table 6. The cumulative effect of markedly varying payment rates and eligibility levels is that the Northern and North Central States are giving away about three times as many dollars as the Southern States relative to their populations of poor female-headed families with children. In the West, twice as many dollars per poor family are being spent as in the South. Put otherwise, about 37 percent of poor female-headed families with related children under 18 were in the South in 1973, but only 17 percent of AFDC funds were being spent there in 1974. By contrast, the Northeast contained 22 percent of such poor families but spent 34 percent of such funds.

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[5] Joint Economic Committee, *Problems in Administration of Public Welfare Programs*, p. 1280.

TABLE 5.—*Overall effect of transfer payments*[1] *on poverty status of American families, 1971*

Families and unrelated individuals	Total units United States (thousands)	Units with incomes below poverty standard before transfers: Units (thousands)	Percent of total units	Individuals in units[2] (thousands)	Percent of pretransfer-poor units receiving transfers	Pretransfer-poor units made nonpoor by receipt of transfers (thousands)	Percentage pretransfer-poor units made nonpoor by receipt of transfers	Units remaining poor after transfers: Units (thousands)	Individuals in units[2] (thousands)	Annual value of transfers to units with incomes below poverty standards before transfers: Average per unit	Aggregate (billions)	Value of transfers to units with incomes above poverty standards before transfers (billions)
Units with aged heads	12, 974	6, 977	54	11, 800	97	4, 006	57	2, 971	5, 100	$1, 789	$12. 48	$9. 53
Units with nonaged, disabled head	3, 567	2, 041	57	6, 100	89	745	36	1, 296	4, 000	2, 107	4. 30	1. 35
Units with nonaged, nondisabled head without children	24, 129	2, 356	10	3, 100	43	536	23	1, 820	2, 400	619	1. 46	2. 38
Units with nonaged, nondisabled male head with children	26, 671	1, 659	6	9, 600	49	355	21	1, 304	7, 100	1, 126	1. 87	3. 19
Units with nonaged, nondisabled female head with children	4, 706	2, 027	43	8, 700	83	790	39	1, 237	5, 300	2, 387	4. 84	1. 77
All units	72, 046	15, 059	21	39, 200	80	6, 432	43	8, 627	23, 900	1, 656	24. 94	18. 21

[1] Transfer payments here include private pensions, public employee retirement benefits, social security, veterans' pensions and compensation, unemployment insurance, cash welfare, and the cash value of bonus food stamps.

[2] Estimates of the number of individuals in each group have been rounded to the nearest hundred thousand.

NOTE.—Detail may not add to totals due to rounding.

Source: Barth et. al., tables 4–8. Based on data gathered for 1971 by the University of Michigan Survey Research Center. Values in last 3 columns were obtained from unpublished tabulations by the U.S. Department of Health, Education, and Welfare, Office of the Secretary.

TABLE 6.—*Regional distribution of AFDC payments and poor female-headed families with children, 1973*

Region	1973 poor female-headed families with related children under 18 [1]		Families receiving AFDC in January 1974 [2]			Ratios		
	Number (thousands)	Percent of total	Number (thousands)	Monthly benefits (millions)	Percent of total benefits	(3) ÷ (1)	(4) ÷ (3)	(4) ÷ (1)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Northeast	444	22. 3	807	$216	34. 4	1. 82	$268	$486
North Central	417	21. 0	817	177	28. 2	1. 96	217	424
South	731	36. 8	892	105	16. 7	1. 22	118	144
West	395	19. 9	609	129	20. 6	1. 54	212	327
Total	1,987	100. 0	3,123	627	100. 0	1. 57	201	315

[1] Number of female-headed families in poverty with related children under 18 taken from 1970 census for each region, then adjusted to 1973 CPS data to take account of the change in the total number of female-headed families in poverty by region and the change in the overall national ratio of such families with children to the total number of such families. U.S. Bureau of the Census, *Census of Population, 1970, General Social and Economic Characteristics, United States Summary* (Washington, D.C.: U.S. Government Printing Office, 1972); and unpublished tabulations from the 1973 CPS.
[2] U.S. Department of Health, Education, and Welfare, "Advance Copy of Public Assistance Statistics, January 1974," issued May 14, 1974.

NOTE.—Detail may not add to totals due to rounding.

Moreover, within each State, inequities in welfare payments arise simply due to the enormous discretion of caseworkers. Thus Carol Robinson, caseworker aide in the Fulton, Ga., County Department of Family and Children Services, told the subcommittee: ". . . there is an inequity in the rules. A great deal of the rules are enforced on individual levels so far as the caseworkers and casework aides are concerned. It's more or less up to the individual's interpretation as to how he carries out these rules. . . . Because there are so many cases, it is impossible to follow through each one to the absolute letter of the rule." [6]

An extreme instance of State-to-State variation is the medicaid program, as illustrated by the data in table 7. Although many of the poor in each State are ineligible for medicaid, medicaid vendor payments divided by State poverty populations yield convenient measures of benefit variation. One-quarter of all medicaid expenditures are made in one State, New York, which contained about 7.3 percent of the Nation's poor people in 1969. Vendor payments per poor person in New York are more than 12 times what they average in the 16 States with the lowest vendor payments. The New York payments are actually 25 times greater than payments per poor person in South Carolina, the lowest State. Taken together, the seven States with highest medicaid payments provide 57 percent of payments while containing one-quarter of the poverty population, whereas the 25 States at the bottom of the medicaid ladder contain half of the poverty population but disburse only 19 percent of medicaid payments. To be sure, there is great regional variation in the cost of medical services, but it is hardly comparable to the range in vendor payments. Chart 5 specifies State variations in the services covered by medicaid and in help provided for the "medically indigent."

[6] Ibid., p. 829.

Chart 5.

MEDICAID SERVICES STATE BY STATE, OCTOBER 1, 1973 [1]

* BASIC REQUIRED MEDICAID SERVICES: Every Medicaid program must cover at least these services for at least everyone receiving federally supported financial assistance: inpatient hospital care; outpatient hospital services; other laboratory and X-ray services; skilled nursing facility services and home health services for individuals 21 and older; early and periodic screening, diagnosis, and treatment for individuals under 21; family planning; and physician services. Federal financial participation is also available to States electing to expand their Medicaid programs by covering additional services and/or by including people eligible for medical but not for financial assistance. For the latter group States may offer the services required for financial assistance recipients or may substitute a combination of eight services.

Services provided only under the Medicare buy-in or the screening and treatment program for individuals under 21 are not shown on this chart.

Definitions and limitations vary from State to State. Details are available from local welfare offices and State Medicaid agencies.

● offered for people receiving federally supported financial assistance

+ offered also for people in public assistance categories [2] who are financially eligible for medical but not for financial assistance

Additional services for which Federal financial participation is available to States under Medicaid:

FMAP [3]	BASIC* REQUIRED MEDICAID SERVICES (SEE ABOVE)	State	Clinic services	Prescribed drugs	Dental services	Prosthetic devices	Eyeglasses	Private duty nursing	Physical therapy and related services	Other diagnostic, screening, preventive and rehabilitative services	Emergency hospital services	Skilled nursing facility services for patients under 21	Optometrists' services	Podiatrists' services	Chiropractors' services	Care for patients 65 or older in institutions for mental diseases	Care for patients 65 or older in institutions for tuberculosis	Care for patients under 21 in psychiatric hospitals	Institutional services in intermediate care facilities	
76	●	Alabama		●		●	●				●		●				●		●	AL
50	●	Alaska									●								●	AK
62		Arizona																		AZ
76	●	Arkansas		●	●		●			●	●	●	●		●	●	●	●	● [4]	AR
50	+	California	+	+	+	+	+		+	+	+	+	+	+	+	+	+	+	+ [4]	CA
57	●	Colorado		●		●					●	●		●		●		●	● [4]	CO
60	+	Connecticut	+	+	+	+	+	+	+	+		+	+	+	+	+			+ [4]	CT
50	●	Delaware	●	●					●					●		●	●			DE
50	+	D.C.	+	+		+	+		+		+	+	+	+		+	+	+	+ [4]	DC
61	●	Florida		●							●					●	●		● [4]	FL
67	●	Georgia		●	●	●	●			●		●	●	●					● [4]	GA
50	+	Guam	+	+	+	+	+					+	+							GU
50	+	Hawaii	+	+	+	+	+		+	+	+	+	+						+	HI
61	●	Idaho		●							●	●	●	●	●				● [4]	ID
50	+	Illinois	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+		+ [4]	IL
57	●	Indiana	●	●	●	●	●	●	●	●	●	●	●	●	●				●	IN
60	●	Iowa		●	●	●	●		●		●	●	●	●	●				●	IA
55	+	Kansas	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+		+ [4]	KS
72	+	Kentucky	+	+	+				+		+	+				+	+	+	+ [4]	KY
73	●	Louisiana	●	●		●				●	●	●				●	●		● [4]	LA
70	●	Maine	●	●	●	●	●	●	●	●	●	●	●	●	●	●		●	● [4]	ME
50	+	Maryland	+	+	+	+	+		+	+	+		+	+		+	+		+	MD
50	+	Massachusetts	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+		+	MA
50	+	Michigan	+	+	+	+	+		+	+	+	+		+	+	+	+	+	+ [4]	MI
57	+	Minnesota	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+ [4]	MN
81	●	Mississippi		●	●		●				●	●	●				●		● [4]	MS
60	●	Missouri		●	●											●	●			MO
66	+	Montana	●	●	●	●	●	●	●		●	●	●	●		●	●	●	● [4]	MT
58	+	Nebraska	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+		+ [4]	NB
50	●	Nevada	●	●	●	●	●	●	●	●	●		●	●		●	●		●	NV
62	+	New Hampshire	+	+	+	+	+	+	+	+	+	+	+	+	+				● [4]	NH
50	●	New Jersey	●	●	●	●	●		●	●	●	●	●	●		●	●	●	● [4]	NJ
72	●	New Mexico	●	●	●	●	●	●	●	●	●	●	●	●					● [4]	NM
50	+	New York	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+ [4]	NY
70	+	North Carolina		+	+	+	+			+	+	+	+	+	+	+	+	+	+ [4]	NC
70	+	North Dakota	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+		ND
54	●	Ohio	●	●	●	●	●	●	●	●	●	●	●	●	●	●		●	● [4]	OH
68	+	Oklahoma			+		+			+	+	+		+		+	+	+	+ [4]	OK
59	●	Oregon	●	●	●	●	●	●		●	●	●	●	●	●	●	●	●	● [4]	OR
55	+	Pennsylvania	+	●	●	●	+				+	+	+	●	+	+		●	+ [4]	PA
50	+	Puerto Rico	+	+	+				+	+	+						+			PR
55	+	Rhode Island		+	+	+	+						+	+		+			● [4]	RI
75	●	South Carolina	●	●	●	●			●		●	●	●	●	●	●	●		● [4]	SC
70	●	South Dakota	●			●	●		●		●	●	●	●	●				●	SD
72	●	Tennessee	●	●	●	●	●				●		●			●	●		● [4]	TN
64	●	Texas		●						●	●		●	●	●	●	●		● [4]	TX
70	+	Utah	+	+	+	+	+	+	+	+	+	+	+	+	+	+		+	+ [4]	UT
65	+	Vermont	+	+		+			+		+	+		+		+		+	+	VT
50	+	Virgin Islands	+	+	+	+	+		+											VI
62	+	Virginia	+	+		+	+		+		+	+	+	+		+	+		+ [4]	VA
53	+	Washington	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+		+ [4]	WA
74	+	West Virginia	+	+	+	+	+	+	+	+		+	+	+	+	+	+		+	WV
60	+	Wisconsin	+	+	+	●	●	+	+	●	+	+	●	+	●	+			+ [4]	WI
61	●	Wyoming																	●	WY
●	24	●	13	23	16	18	16	7	11	12	21	16	19	17	11	15	14	8	25	
+	29	+	25	23	24	23	24	13	23	19	23	24	21	22	15	23	18	11	22	
	53	Total	36	49	40	41	40	20	34	31	44	40	40	39	27	38	32	19	47	

Intermediate Care Facilities (ICF): P.L. 92-223 transferred the ICF program to Medicaid (Title XIX) as an optional service, effective 1-1-72. States may at their option include institutions for the mentally retarded, both public and private. See footnote four.

[1] Data from Regional Office reports of characteristics of State programs

[2] People qualifying as aged, blind, disabled, or members of families with dependent children (usually families with at least one parent absent or incapacitated).

[3] FMAP - Federal Medicaid Assistance Percentage: Rate of Federal financial participation in a State's medical vendor payment expenditures on behalf of individuals and families eligible under Title XIX of the Social Security Act. Percentages, effective from July 1, 1973, through June 30, 1975, are rounded.

[4] Including ICF services in institutions for the mentally retarded.

UNITED STATES DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE — Social and Rehabilitation Service — Medical Services Administration

Office of Program Planning and Evaluation

(SRS)-74-24801

TABLE 7.—*Medicaid vendor payments by State, ranked in order of August 1973 per capita payments to States' 1969 poverty population*

States [1]	Per capita payments to poverty population	August, 1973 payments (millions) [2]	Percent of payments [3]	Cumulative percent of payments [3]	1969 poverty population (thousands) [4]	Percent of poverty population [5]	Cumulative percent poverty population [5]
New York	$103.8	$206.2	25.5	25.5	1,986	7.3	7.3
Massachusetts, California, Connecticut, Vermont, Michigan, Illinois	53.2	256.6	31.7	57.2	4,821	17.8	25.1
Next 16 States	31.9	185.1	22.8	80.0	5,811	21.5	46.6
Next 9 States	15.8	79.1	9.8	89.8	5,019	20.5	65.1
Bottom 16 States	8.2	73.2	9.1	98.9	8,935	32.9	98.0
Total for 48 States	30.1	800.3	98.9	98.9	26,572	98.0	98.0

[1] Includes District of Columbia. Excludes Colorado and Alaska because medicaid data unavailable; excludes Arizona which did not have medicaid program in 1973. Also excludes Guam, Virgin Islands, and Puerto Rico with $9 million in medicaid payments in August 1973.

[2] Data from U.S. Department of Health, Education, and Welfare, National Center for Social Statistics, "Medical Assistance (Medicaid) Financed Under Title XIX of the Social Security Act, August 1973," May 7, 1974.

[3] As percent of total medicaid payments of $809,304,486. Does not add to 100 percent because of exclusions noted in footnote 1.

[4] *Census of Population, 1970, General Social and Economic Characteristics, United States Summary*, table 182. This total excludes the poor in Alaska, Colorado, and Arizona (see footnote 1).

[5] As percent of the total 1969 poverty population (27,124,985) of 50 States and the District of Columbia. Does not add to 100 percent because Colorado, Alaska, and Arizona were excluded (see footnote 1).

NOTE.—Detail may not add to totals due to rounding.

3. Variations in neediness of recipients.—The combined effect of categorical eligibility, State benefit variation, caseworker discretion, and the stigma that attaches to welfare creates a situation in which public assistance is unevenly distributed relative to families' income. (Public assistance here includes AFDC and the programs of cash aid to the aged, blind, and disabled that were superseded by SSI.) Instead of going first to families and individuals at the very bottom of the income scale, public assistance goes to many household units above the poverty threshold, while the majority of families and individuals below that level receive none at all. The 1972 Current Population Survey indicated that out of $7.7 billion in reported public assistance income in that year, $3.6 billion went to nonpoor families and individuals. Meanwhile, only 36 percent of poor families and 18 percent of poor unrelated individuals received any public assistance cash at all.

A more detailed breakdown of the distribution of public assistance by ratio of 1972 income to the poverty threshold is shown in table 8. It appears that large numbers of families, especially male-headed families, received public assistance even though their income was more than 1.5 times the poverty level. Table 9 shows data on the receipt of public assistance from the 1970 Census, indicating that only a minority of those families and individuals with incomes above the poverty level and receiving public assistance would drop below the threshold if they did not receive assistance.

The same pattern is repeated in the food stamp program, where it is estimated that only 30 to 40 percent of eligible persons actually make use of the program. A study by the Census Bureau indicated that only 53 percent of poor families in 1972 actually purchased food stamps between June 1, 1972 and May 31, 1973. Meanwhile, fully 47 percent of the families reporting food stamp purchases during the period were nonpoor. Also, only 31 percent of poor unrelated individuals bought stamps, while at the same time 31 percent of all individuals buying stamps had 1972 incomes above the poverty level.[7]

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[7] John F. Coder, "Results of a Survey on Household Participation in the Food Stamp Program: Data from the June 1973 Current Population Survey," paper presented at the August 1974 American Statistical Association meeting.

TABLE 8.—*Receipt of public assistance by ratio of income[1] to poverty threshold and sex of head, 1972*

[In thousands of families and individuals] [2]

Units by receipt of public assistance (PA):	Families					Unrelated individuals				
	Ratio of income to poverty threshold					Ratio of income to poverty threshold				
	Under 1	1 to 1.24	1.25 to 1.49	1.50 and up	All families	Under 1	1 to 1.24	1.25 to 1.49	1.50 and up	All individuals
Male heads and individuals:										
Receive PA	539	214	173	701	1, 627	259	66	37	37	399
Share of PA in income:										
0.01–0.49	278	160	142	670	1, 250	92	20	16	25	153
0.50–0.99	197	40	25	27	239	34	22	11	11	78
1.00	113	13	6	6	138	133	24	10	1	168
Receive no PA	2, 377	1, 478	1, 904	40, 379	46, 139	1, 151	383	405	4, 335	6, 274
All units	2, 917	1, 692	2, 077	41, 080	47, 766	1, 410	449	442	4, 372	6, 673
Female heads and individuals:										
Receive PA	1, 278	259	152	311	2, 000	637	181	85	53	956
Share of PA in income:										
0.01–0.49	266	129	105	286	786	244	81	46	38	409
0.50–0.99	408	74	35	20	537	95	48	29	10	182
1.00	604	56	13	4	677	298	52	11	4	365
Receive no PA	881	320	301	3, 107	4, 607	2, 836	931	745	4, 670	9, 182
All units	2, 159	579	453	3, 418	6, 607	3, 473	1, 112	830	4, 723	10, 138

[1] Income is total, post-transfer income.
[2] Data includes all families and individuals, regardless of age of family head or individual or presence of children.

NOTE.—Detail may not add to totals due to rounding.
Source: "Characteristics of the Low-Income Population: 1972," and U.S. Bureau of the Census, *Supplementary Report on the Low-Income Population*, series P-60, No. 95.

TABLE 9.—*Nonpoor families and individuals receiving public assistance, by sex and age, 1969*

Family type by age and sex of head	Nonpoor units receiving P.A.		Nonpoor units which would be poor without P.A.		Units which would remain nonpoor without P.A. (thousands of units)
	Thousands of units	Mean income surplus [1]	Thousands of units	Mean income surplus	
Families:					
Male-headed:					
Under 65	801	$6, 282	114	$1, 039	687
65 and over	269	3, 572	90	684	179
Female-headed					
Under 65	367	3, 186	143	808	224
65 and over	102	3, 460	31	627	71
Unrelated individuals:					
Males:					
Under 65	62	2, 112	29	522	33
65 and over	63	1, 274	43	481	20
Females:					
Under 65	91	1, 312	59	455	32
65 and over	159	972	124	427	25

[1] Income surplus is the amount of annual income which exceeds the poverty level. Because public assistance programs examine income need and pay benefits on a monthly basis, persons who are nonpoor on an annual basis may receive public assistance in months during which their income falls. Moreover, the Census definition of families includes households in which more than one parent-children family or single individual or childless couple resides.

NOTE.—According to the Census, aggregate public assistance receipts by nonpoor families in 1969 were $1,810,000,000. Poor families got $1,540,000,000. Nonpoor individuals got $470,000,000 and poor ones got $550,-000,000.

Source: U.S. Bureau of the Census, *Census of the Population: 1970, Subject Report 9A, Low-income Population, 1973.*

Adequacy

The customary approach to assessing benefit adequacy has been to compare the maximum payment of a given cash benefit program with the cost of some minimum basket of goods and services or some threshold level of private income. Ultimately, however, the question of adequacy is a political one, raising the issue of the level of living at which society as a whole wishes to maintain its poorest members. In large part, it is simply a matter of the ability and willingness of society to pay for income maintenance.

Furthermore, under the existing system, there is an inherent conflict between adequacy and equity. The more "adequate" the benefits for some, the more inequitable is the system to those categorically ineligible to receive any benefits at all. There is yet another reason for avoiding absolute notions of adequacy. Ultimately, society may have to choose between providing "adequate" benefits to some poor persons, or "inadequate" benefits to all.

Nevertheless, statistically determined "poverty thresholds" are useful tools of analysis. The arbitrariness of any poverty threshold can be overcome by simply using it as a base for a scale relating income to "needs." The threshold is then the point at which the income-needs ratio equals 1.0. It may be that the Nation can only afford to support an income floor below the so-called poverty threshold—say, 0.7. The threshold remains a useful tool of analysis because it attempts to establish comparability between the living levels of various families and individuals.

On the other hand, the poverty thresholds themselves may or may not reflect an accurate measure of how much income is required for families of various sizes to be equally well off. The thresholds are based on extrapolations of food consumption studies. They do not take account of the economies of scale that may be greater in nonfood consumption. A study by Lee Rainwater, based on a survey of public opinion in Boston, suggested that "the man on the street" thinks a family of seven persons needs 1.5 times as much income as a family of two to "be at an equal living level" at the poverty threshold.[8] By contrast, the Social Security Administration's poverty index gives a seven-member family about 2.5 times as much income as a two-member one. So there is considerable disagreement about conversion rates between families of varying sizes.

"Adequecy" concerns a relationship between actual benefits and a given standard. Taking the existing official poverty standards as given for the moment, let us consider the benefit side of the comparison.[9] There is a tendency to assess benefit adequacy in terms of their maximum payments to penniless persons. This procedure has three major flaws:

(1) It ignores the fact that most needy households have some private income (see table 10). They are not totally dependent upon the public

[8] U.S. Congress, Joint Economic Committee, Subcommittee on Fiscal Policy, "Poverty, Living Standards, and Family Well-Being," by Lee Rainwater, *The Family, Poverty, and Welfare Programs: Household Patterns and Government Polices*, Paper No. 12 (Part II) (Washington, D. C.: Government Printing Office, 1973), p. 207.

[9] A given year's poverty index reflects price change since the preceding year. Since it is based on a fixed food plan, the index measures absolute poverty and takes no notice of the rising standard of living. In 1960 the poverty threshold for a family of four amounted to 54 percent of median family income, but by 1973 it had shrunk to 37 percent of the median. In the same interval the absolute number of persons and families in poverty, as measured by the Census Bureau index, fell 42 percent, from 39.9 million to about 23.0 million. However, the distribution of income among quintiles was relatively unchanged.

For a discussion of absolute and relative measures of poverty, see Robert W. Kilpatrick, "The Income Elasticity of the Poverty Line," *The Review of Economics and Statistics*, LV, No. 3, August 1973, pp. 327–32. Kilpatrick advances the thesis that growth in average income increases the poverty line, but by a lesser proportion. He says that the income elasticity of the poverty line in recent years seems "much better estimated as about 0.6 than as zero or one." This assumption implies that the proportion of the U.S. population in poverty declined from 22 percent in 1959 to 18 percent in 1971 (whereas under the absolute index of the Census Bureau it fell to 12 percent, and under the relative standard it stayed at 22 percent).

The poverty thresholds used—actual for 1973 and estimated by subcommittee staff for 1974 (based on an increase of 11.42 percent in the cost of living)—follow:

Type of family	*1973*	*July 1974*
Nonfarm:		
1 person:		
Under 65	$2,307	$2,570
65 and over	2,130	2,373
2 persons:		
Head under 65	2,984	3,324
Head 65 and over	2,688	2,994
4-person family	4,540	5,058
Farm:		
2-person, aged	2,285	2,545
4-person family	3,871	4,312

for "adequate" support. In 1972, only 17 percent of the Nation's families who were classified as poor by the Census Bureau had zero money income other than public aid, including 6 percent of the families headed by men and 32 percent of the poor families headed by women. Only 14 percent of all families, 10 percent of poor white families and 24 percent of poor black families, were totally dependent on cash welfare. Another 3 percent of all families had zero money income.[10] It is, therefore, necessary to ask how an income maintenance system treats the poor with private income, not just how much it gives to the penniless.

(2) It ignores the existence of multiple benefits, many of which are in kind rather than cash. Chart 6, for example, based on a survey made in January 1973, shows the proportion of AFDC families who received other selected benefits. Thus, to measure only cash benefits, as the Census Bureau does, is to obtain a misleading and incomplete picture.

TABLE 10.—*Proportions of poor families with specified kinds of income in 1972*

[In percent]

Poor families by race and sex of head	Earnings	Social security	Rents, dividends, interest	Public assistance	Other [1] transfers	Private pensions, alimony
All poor families [2]	63	25	13	36	9	9
Male-headed	72	30	17	18	12	5
White	70	31	20	17	12	5
Black	79	28	6	25	12	4
Female-headed	51	19	8	59	5	14
White	51	19	12	50	6	19
Black	51	17	1	71	3	9
All white families	64	27	17	28	10	9
All black families	61	21	3	55	6	7

[1] Other transfer payments consist of unemployment and workmen's compensation, government employee pensions, and veterans' pensions.

[2] Census Bureau defines a family as a group of 2 or more persons related by blood, marriage, or adoption, and living together. These data include all poor male- and female-headed families, including those over 65 and those without related children.

Source: "Characteristics of the Low-Income Population: 1972," tables 41–42, pp. 124–130.

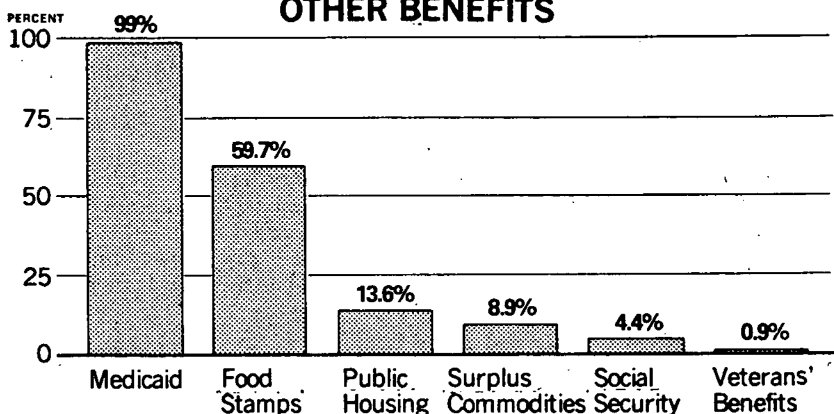
(3) It ignores the fact that benefit levels are not comparable to ordinary private incomes. Since benefits involve no work expenses or taxes, a benefit dollar is simply worth more than a wage dollar. For example, it required $619 in gross earnings (after taxes and work expenses of 15 percent of gross earnings) in New York in July 1974 to equal the net of $448 available in food stamps and cash to an AFDC family of four.

The previous discussion has stressed the relativity of all concepts of adequacy. Bearing this in mind, we now turn to a more detailed quantitative survey of the equity and adequacy of the existing welfare system relative to the needs of the low-income population. This requires a close look at the amount of help received by favored poor groups, as well as an examination of the private income sources of poor groups largely excluded from the present income maintenance system.

[10] "Characteristics of the Low-Income Population: 1972," tables 40, 42.

Chart 6.

PERCENTAGE OF AFDC FAMILIES WHO ALSO RECEIVE OTHER BENEFITS



Data for all but Medicaid participation from 1973 AFDC Survey, U.S. Department of Health, Education, & Welfare.

A Statistical Picture of Equity and Adequacy

1. *Adequacy and equity overall.*—A gross measure of the adequacy of the existing welfare system in 1971 was calculated by the University of Michigan Survey Research Center on the basis of its survey of 5,000 American families. The center constructed a set of poverty thresholds which differ somewhat from the official Census ones, and computed for every survey household a ratio of income to "needs," defined as their poverty threshold. An analysis was then undertaken of the extent to which families with varying nonwelfare income-to-needs ratios received welfare (defined as AFDC or other public assistance). Statistical procedures were used to "control" for locational and family characteristics. The results indicate that welfare is much more "adequate" in meeting the needs of those without any private income than it is in helping those with some small level of private income. One conclusion of the study was that:

> Families with no other income have an estimated welfare-needs ratio of 0.74, indicating that the government will give families, on the average, about three-quarters of their need standard if they have no other income.[11]

On the other hand, families with some small amount of private income did not do so well.

> A very large inequity exists for those families who have very low but positive income. The welfare system leaves them less well

[11] *Five Thousand American Families—Patterns of Economic Progress*, vol. 1, an analysis of the first 5 years of the panel study of income dynamics. Institute of Social Research (Ann Arbor: University of Michigan, 1974), p. 256.

off than those with no other income at all . . . A family on welfare with an other-income/needs ratio of 0.30 will receive an additional 58% of its needs from the government so its total income will be 88% of its needs. But even at this low income only 55% of the families receive any welfare at all. The rest are left with very inadequate income-needs ratios of 0.30.[12]

A small but significant proportion of units with income-needs ratios greater than 1.0 did receive substantial amounts of welfare too, although the proportion of units receiving welfare declined systematically as other income rose.

The study found that adequacy of cash welfare depends on several factors in addition to the amount of private income, including region, age, and number of children. Welfare families in the South received about 40 percent less than those in the Northeast, even after adjustment for differences in the cost of living. Adequacy of welfare payments increased with age for all groups. It also increased with the first child, but declined consistently with each additional child.

[12] Ibid., pp. 256–257.

TABLE 11.—*Demographic characteristics of the poverty population, 1973, by age and sex of family head or unrelated individual*

[In thousands]

Age and sex of family head or unrelated individual	Unrelated individuals	Families			Total persons
		Families	Children	Persons in families	
The aged:					
Male	391	638	155	1, 544	1, 935
Female	1, 624	191	108	502	2, 126
Total	2, 014	829	263	2, 046	4, 061
Nonaged families with children:					
Male		1, 460	4, 127	7, 433	7, 433
Female		1, 930	5, 063	7, 520	7, 520
Total		3, 490	9, 190	14, 953	14, 953
Nonaged childless units:					
Male	1, 104	537		1, 144	2, 248
Female	1, 555	72		156	1, 710
Total	2, 660	609		1, 300	3, 958
All units:					
Male	1, 495	2, 635	4, 282	10, 121	11, 616
Female	3, 179	2, 193	5, 171	8, 178	11, 357
Total	4, 674	4, 828	9, 453	18, 299	22, 972

2. The target population versus the available programs.—The principal target population for any comprehensive income maintenance program is naturally the poverty population. In examining the adequacy and equity of existing programs it is useful to examine a demographic breakdown of people in poverty, along lines that parallel as closely as possible the categorical eligibility rules of existing programs. Table 11 divides the 1973 poverty population into three groups: families with aged heads and aged unrelated individuals, nonaged families with children, and nonaged unrelated individuals and childless couples. Each group is subdivided in turn into male-headed and female-headed units. No breakout of disabled persons was possible.

To compare the target population with the coverage of existing programs, a summary listing of the principal existing income maintenance programs is shown in table 12, together with a brief description of their target beneficiaries.

Tables 5 and 12 show that the most generous income maintenance help goes to the aged and their dependents, who represent about 18 percent of the poverty population. In addition to social security, SSI, and veterans' pensions, they are eligible for nearly complete medical coverage through medicare and medicaid, which in 1973 was paying about 35 percent of its benefits to the aged.

Another favored group is female-headed families with children who receive 75 percent of AFDC payments. Persons with certified disabilities are also helped by a wide variety of programs, according to table 12. If they had long previous work histories, they are helped by social security or workmen's compensation. Veterans who were disabled while in service also receive compensation payments, and SSI has established a set of national standards for aid to the permanently and totally disabled.

Source: U.S. Department of Commerce, Bureau of the Census, *Current Population Reports*, series P-60, No. 94, "Characteristics of the Low-Income Population: 1973 (Advance Report)," (Washington, D.C.: Government Printing Office, 1974). Breakdown of children and persons into family types made with ratios derived from the poverty population in the 1970 census.

NOTE.—Detail may not add to totals due to rounding.

TABLE 12.—*Target populations of selected income maintenance programs*

Programs	Target population
A. Benefits primarily for the needy:	
AFDC	About 75 percent of AFDC families in 1973 were female-headed.[1]
SSI:	
Aged	The needy aged.
Blind and disabled	The needy blind and disabled.
General assistance	Needy persons on a case-by-case basis.
Food stamps	Available to all low- and moderate-income units.
Medicaid	Needy "categorical eligibles."
Public housing	Low-income families and persons.
Veterans pensions	Over 65 or totally disabled, and dependents, and survivers, if needy. 31 percent of recipients are under 65.[2]
B. Social insurance:	
OASDHI:[3]	
Old age insurance	Retired workers and dependents.
Survivors' insurance	Survivors of deceased workers.
Disability insurance	Disabled persons under 65 and dependents.
Medicare	The aged and disabled.
Unemployment insurance	Steady workers in covered jobs.
C. Deferred compensation:	
Compensation for veterans, dependents, and survivors.	Veterans with service-connected disability, no income test.
Workmen's compensation	In 1970, 64 percent of benefits were compensation payments; the remainder went for medical costs.[4]

[1] U.S. Department of Health, Education, and Welfare, National Center for Social Statistics, *Findings of the 1973 AFDC Study, Part I, Demographic and Program Characteristics* (Washington, 1974).

[2] L. A. Townsend, Deputy Director, Compensation and Pension Service, Veterans' Administration, in testimony before the subcommittee, *Problems in Administration of Public Welfare Programs*, p. 1222. Data are for 1971.

[3] Of 30,100,000 OASDI beneficiaries in May 1974, 10,600,000 were under age 65, including 1,600,000 retired workers, 2,100,000 disabled, 4,800,000 children, and 2,100,000 other survivors and dependents. Social Security Bulletin, September 1974, p. 1.

[4] U.S. Congress, Joint Economic Committee, Subcommittee on Fiscal Policy, *Handbook Of Income Transfer Programs*, compiled by Irene Cox, Paper No. 2 (Washington, D.C.: Government Printing Office, 1972), p. 319.

NOTE.—For further information on costs and caseloads of these programs see table 3.

Under medicaid, an enormous amount of money is being spent on the medical bills of needy persons. In 24 States the program is restricted to persons receiving federally financed cash assistance. In another 25 States, the District of Columbia, Puerto Rico, the Virgin Islands, and Guam, the program also covers "categorical eligibles" whose incomes are too high to qualify for cash assistance, but whose heavy medical bills make them "medically needy." Table 13 shows a breakdown of how medicaid funds were being spent in August 1973. Only 7.5 percent of funds went for persons other than categorical eligibles.

TABLE 13.—*Medicaid payments by eligibility groups, August 1973*

[In millions of dollars]

Basis of eligibility	Total vendor payments	Percent of total	Cash welfare status of beneficiaries: Beneficiaries also getting cash welfare	Percent of total	"Medically needy" beneficiaries	Percent of total
	(1)	(2)	(3)	(4)	(5)	(6)
Age 65 or over	$283.8	35.1	$84.0	19.2	$199.8	53.6
Blindness	6.9	.8	4.9	1.1	2.0	.5
Permanent and total disability	187.5	23.2	125.9	28.9	61.6	16.5
In families with dependent children	270.1	33.4	221.5	50.8	48.6	13.0
Others	61.0	7.5			61.0	16.4
Total	809.3	100.0	436.3	100.0	373.0	100.0

Source: U.S. Department of Health, Education, and Welfare, National Center for Social Statistics. "Medical Assistance (Medicaid) Financed Under Title XIX of the Social Security Act, August 1973."

The least-favored sectors of the poverty population in table 11 are clearly male-headed families with children and nonaged unrelated individuals and childless couples. Unless disabled, this half of the poor population could expect to get only a small share of the income maintenance pie.

Unemployment insurance is available in principle to all poor persons, but the program is intended neither to help the chronically unemployed nor to supplement low earnings. Basically, it provides benefits to persons with regular work histories who suffer temporary spells of joblessness.

Food stamps are available to almost all low-income persons, with the exception of those in transient status, unable to afford living quarters with cooking facilities, or holding assets in excess of certain limits. But participation in the program is estimated at 30 to 40 percent of potential eligibles, presumably due to ignorance about the program, the deterrence of a complex application process, and possible stigma attached to even this form of relief. Furthermore, data suggest that participation is lower for poor families who do not receive cash assistance than it is for those who do, a fact which restricts the usefulness of the program for poor persons outside the traditional

welfare eligibility categories. In May 1974, about 54 percent of food stamp recipients were on public assistance.[13]

Public housing is available to low-income families of all types, but it provides only a small proportion of their housing needs. Table 14 shows the 1972 income distribution of households served by housing aid. It appears that only about 5 percent of the poverty population gets help from public housing.

TABLE 14.—*Distribution of households served by rent supplement, low rent public housing, sec. 235, 236, 502 interest credit, and 504, by income class, as of Dec. 31, 1972*

Gross income	Households served (in thousands)	Total households (in thousands)	Households served as percent of total households
0 to $999	29	1, 800	2
$1,000 to $1,999	320	3, 800	8
$2,000 to $2,999	293	4, 300	7
$3,000 to $3,999	244	4, 000	6
$4,000 to $4,999	230	3, 800	6
$5,000 to $5,999	230	3, 800	6
$6,000 to $6,999	198	3, 600	5
$7,000 to $9,999	227	11, 200	2
$10,000 or more	25	32, 300	(1)
Total	1, 795	68, 500	3

1 Less than 0.5 percent.

Source: U.S. Congress, House Committee on Banking and Currency, *Housing and Community Development Legislation—1973* "Housing in the Seventies," report of the Department of Housing and Urban Development before the Subcommittee on Housing, 93d Cong., 1st sess., p. 2147.

NOTE.—Detail may not add to totals because of rounding.

3. Adequacy and equity for the aged.—Since 1970 there has been a steady decline in the number of poor aged persons, attributable mainly to increased transfer payments. Census data for 1969 show why this was so. In that year, all but 16 percent of poor families with aged heads and all but 21 percent of poor aged unrelated individuals received social security. At the same time, 21 percent of such families and 16 percent of such individuals received public assistance, principally from the old-age assistance (OAA) program, the precursor of SSI. A 1970 survey of OAA recipients showed that 39 percent of them received no social security income. So the two systems operating together provided near-universal assistance to the needy aged, albeit often at low levels.

The inauguration of SSI in January 1974 has altered this situation substantially. The minimum SSI monthly benefit for a penniless aged couple is $219. When a food stamp bonus of $26 is added, monthly income reaches $245, or 98 percent of the poverty line in July 1974. A monthly check for $146 plus $16 in food stamps bonus guarantees penniless individuals a monthly income of $162, 82 percent of the poverty line. If any amount of social security is due, SSI disre-

[13] U.S. Department of Agriculture, Food and Nutrition Service.

gards the first $20 of such income, so that total income is larger by $20. In several States supplements to SSI raise benefits per couple well above the poverty line: California, above the poverty line by 76 percent; Massachusetts, 64 percent; Wisconsin, 32 percent. Statistics for July 1974 show that State supplementation of SSI for the aged was running at a monthly rate of $51 million, equivalent to 34 percent of Federal SSI payments.

SSI should go a long way toward eliminating the "income deficit"—the amount by which income falls short of the poverty threshold—of the poor aged. The Census measured the deficit of this group at $3.47 billion in 1969, 25 percent of the deficit of all persons in poverty. A large share of this deficit was attributable to units with extremely low incomes. Among poor families with heads aged 65 and over, 391,000 had incomes below 50 percent of their poverty threshold; 428,000 were between 50 and 74 percent; and only 535,000 were between 75 and 99 percent. Similarly, 1,013,000 unrelated individuals had incomes below the 50 percent level; 1,018,000 were between 50 and 74 percent; and only 847,000 were between 75 and 99 percent.[14] If all eligible families and individuals were to apply for SSI, the bulk of this deficit would disappear. However, the aged are not yet participating fully in SSI, for whatever reasons.

Medicare and medicaid give nearly universal health protection for the needy aged.

In sum, benefits are more adequate and equitable for the aged poor than for any other demographic group of the poor.

4. Adequacy and equity for female-headed families with children.—It is well known that female-headed families constitute a growing proportion of the poor. Of the 9,453,000 related children in poor families in 1973, a majority numbering 5,171,000 were in female-headed families.

The heavy dependence of poor female-headed families with children on AFDC is indicated by data from the 1972 Current Population Survey, which show that 51 percent of the income of all female-headed families was from public assistance.

Table 15.—*Income of poor female-headed families, 1972* [1]

Type of income	Amount (billions)	Percent of income	Percent of families receiving	Thousands of families receiving
Wage and salary income	$1.43	28	51	1,092
Social security	.62	12	19	410
Public assistance	2.58	51	59	1,270
Other transfer income	.09	2	5	110
Private pensions, alimony, etc	.37	7	14	300
Dividends, interest and rent	.04	1	8	170
Total	5.09	100		[2] 2,069
(Income deficit)	3.49			

[1] "Characteristics of the Low Income Population: 1972."

[2] There were a total of 2,158,000 poor female-headed families in 1972, of whom 89,000 received no money income from any source. Since families often receive income from more than one source, families in this column do not add to 2,069,000.

NOTE.—Detail may not add to totals due to rounding.

[14] *1970 Census of Population, Subject Report 9A, Low-Income Population.*

It should be recognized that the data embrace *all* female-headed families, including 193,000 over age 65 and 233,000 without related children. Altogether, 89 percent of the families in the above table had related children under age 18.

In a study for the subcommittee, it was estimated that 91 percent of mothers eligible for AFDC in 1970 were already participating in the program.[15] Of course, eligibility criteria differ greatly from State to State.

The relative adequacy of AFDC help among States is illustrated in table 16, in which States have been ranked by the maximum AFDC support levels for a penniless mother with three children. The range between the top State (New York) and the bottom State (Mississippi) was nearly 7 to 1. About 23 percent of the AFDC caseload receives maximum cash support equivalent to less than 40 percent of the poverty level, and 37 percent of the caseload receives maximum support under 60 percent of the poverty level. A privileged 53 percent of the caseload receives support above 70 percent of the poverty level. If the figures were weighted by the population of poor female-headed families with children in each State, instead of the AFDC caseload, the picture would further emphasize the widespread extent of low-benefit levels.

Medicaid exacerbates the situation because high levels of medicaid support for AFDC families are closely associated with high payment levels and vice versa. This situation also is shown in table 16.

On the other hand, food stamps tend to even out benefit differences, as table 16 also indicates. When potential food stamp bonus values are added to maximum AFDC payments for families of four, the range in support levels between the lowest States and the highest is reduced by about half, and 74 percent of the AFDC caseload receives potential income support equal to at least 70 percent of the poverty level in July 1974. Hence, through a combination of cash and food stamps, three States offered to remove broken, needy families from poverty—New York, Alaska, and Wisconsin. Another 12 States took welfare families to within 10 percent of the poverty line—Connecticut, Kansas, Massachusetts, Michigan, Minnesota, New Hampshire, New Jersey, Oregon, Pennsylvania, South Dakota, Vermont, and Washington. (To receive the maximum AFDC payment in most States, families had to pay at least the maximum amount of rent eligible for AFDC reimbursement in their area.)

In theory, all AFDC participants are eligible at the present time for food stamps now that the program has become practically universal. A January 1973 survey depicted in chart 6 indicated that about 60 percent of AFDC families already were using food stamps, while nine percent were receiving surplus commodities. At that time 840 counties still had commodity distribution programs, and commodities were given to 2.1 million persons in the United States, as compared with 12.4 million persons who received food stamps.[16]

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[15] Joint Economic Committee, "Participation in the Aid to Families with Dependent Children Program (AFDC)," by Barbara Boland, Paper No. 12 (Part 1), p. 139.

[16] U.S. Department of Agriculture, Food and Nutrition Service.

TABLE 16.—*State variations in AFDC maximum support levels for a penniless mother with three children, with and without food stamp bonus, weighted by AFDC caseload, 1974; and medicaid payments to families with dependent children, August 1973*

Ratio of support level to poverty threshold [1]	July 1974 maximum AFDC payments alone				July 1974 maximum AFDC payment plus allowable food stamp bonus [4]				August 1973 medicaid payments for families with dependent children, by States ranked in col. 1	
	Number of States [2] (1)	Families receiving AFDC, February 1974 (thousands) [3] (2)	Percent of all families (3)	Cumulative percent of all families (4)	Number of States (5)	Families receiving AFDC, February 1974 (thousands) (6)	Percent of all families (7)	Cumulative percent of all families (8)	Medicaid vendor payments (millions) [5] (9)	Medicaid vendor payments divided by February 1974 AFDC caseload (col. 9÷col. 2) [6] (10)
0.10 to 0.19	1	55	1.7	1.7					$1.4	$25.4
0.20 to 0.29	3	153	4.8	6.5					4.2	27.4
0.30 to 0.39	8	520	16.3	22.8					22.5	43.3
0.40 to 0.49	5	255	8.0	30.8	1	55	1.7	1.7	22.9	89.8
0.50 to 0.59	8	190	6.0	36.8	6	282	8.9	10.6	10.1	53.1
0.60 to 0.69	6	331	10.4	47.2	7	480	15.1	25.7	28.0	93.0
0.70 to 0.79	11	762	23.9	71.1	13	394	12.4	38.1	65.2	85.5
0.80 to 0.89	10	576	18.1	89.2	11	822	25.8	63.9	44.5	77.8
0.90 to 0.99	1	344	10.8	100.0	12	760	23.9	87.8	71.5	207.8
1.00 to 1.09					3	393	12.3	100.0		
Total	53	3,186	100.0	100.0	53	3,186	100.0	100.0	270.1	85.8

[1] Based on a poverty threshold of $5,018 annually, which is the Census Bureau nonfarm figure for a mother with 3 children in 1973, inflated by a cost of living increase of 11.4 percent from the 1973 average price level to the level in July 1974.

[2] Unpublished data supplied by U.S. Department of Health, Education, and Welfare. To receive the maximum AFDC payments in most States, families had to pay at least the maximum amount of rent eligible for AFDC reimbursement in their area. In exceptional cases, actual maximum payments may exceed the figures used here. In the case of Michigan, the State maximum of $400 applies only in Ann Arbor, so the next highest level of $354 for Wayne County was used. In the case of New York City, rent payments can go as high as $300 or more, giving an AFDC monthly support level of $558 and above, so the Albany maximum rent of $153 was used, giving a monthly total of $411. The District of Columbia, Puerto Rico and the Virgin Islands are included in the tabulations.

[3] Data from U.S. Department of Health, Education, and Welfare, National Center for Social Statistics, "Recipients of Public Assistance Money Payments and Amounts of Such Payments by Program, State, and County, February 1974," Washington, 1974.

[4] Computed from food stamp schedules applicable starting July 1974.

[5] Data from "Medical Assistance (Medicaid) Financed under Title XIX of the Social Security Act, August 1973." Data for Colorado and Alaska were not available, and Arizona had no program.

[6] Adjustments were made to the AFDC caseload data to remove the caseloads of Colorado and Alaska, for which medicaid program data were unavailable.

NOTE.—Detail may not add to totals due to rounding.

Of course, the real value of food stamps to their purchasers may be less than the cost to the Government. The constraint on their use alone makes them less valuable than money. Particularly when food stamp benefits rise to levels of 50 to 70 percent of total real income, their actual value to recipients may fall.

In considering the income deficit data in the Current Population Survey (CPS), it is important to remember that Census does not measure benefits in kind, such as food stamps. Table 17 presents a hypothetical exercise in which July 1974 food stamp bonus values are attributed to poor families with children in the 1973 CPS. It purports to measure how much the income deficit of such families would be reduced if all of them took full advantage of their food stamp opportunities. Actually food stamp distribution is far below the potential figure suggested in table 17. Furthermore, even if all these families received food stamps, some of the value of the stamps would lift some families out of poverty; thus, the actual reduction in the poverty income deficit would be less than the value of food stamps distributed to such families. So table 17 shows the potential of food stamps in reducing poverty among families with children. It also shows that their poverty deficit lies somewhere in between Census calculations and those in table 17.

TABLE 17.—*1973 income deficit and potential 1974 food stamp bonuses for poor families with related children under 18, by number of children and sex of head*

Sex of head and number of children	Average family size	Number of families in 1973 (thousands)	Average income deficit per family	Average available food stamp bonus in July 1974	Aggregate income deficit in Census (millions)	Revised real income deficit with 1974 food stamp bonus (millions)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Male heads with:						
1	3. 13	373	$1, 482	$912	$553	$213
2	4. 20	383	1, 620	1, 008	620	234
3	5. 25	321	1, 815	1, 200	583	197
4	6. 08	190	2, 017	1, 308	383	135
5	7. 15	140	2, 323	1, 632	325	97
6 or more	8. 90	126	2, 386	1, 896	301	62
All		1, 533			2, 764	938
Female heads with:						
1	2. 19	572	1, 272	624	728	371
2	3. 09	489	1, 486	900	727	287
3	4. 24	377	1, 529	1, 104	727	311
4	5. 20	267	2, 343	1, 332	626	270
5	6. 16	155	2, 448	1, 536	379	141
6 or more	8. 02	127	2, 615	1, 776	332	106
All		1, 987			3, 517	1, 486

SOURCES

(2, 3, 4) Unpublished data provided by the Bureau of the Census on the basis of the 1973 current population survey.

(5) Calculated at the mean family income, using food stamp tables for the continental United States in effect July 1974. The appropriate mean family income was calculated from Census Bureau poverty thresholds for 1973. Since the mean family sizes are nonintegral, a weighted average was taken of the bonuses available to the families with the next smallest and next largest integral number of persons.

(6) (3) × (4).

(7) (3) × [(4)—(5)].

NOTE.—Detail may not add to totals due to rounding.

The analysis so far has stressed the inequities of low and "inadequate" benefits in certain States. It is also possible to examine the possibility that benefits in some States are too high, giving rise to inequities vis-a-vis working women and working men. This point is shown by data in table 18. In July 1974, the combination of tax- and expense-free food stamps and AFDC translated into a gross taxable earning equivalent [17] in half the States of at least $450 a month, $5,400 per year, per welfare family of four persons. This was $600 above the median earnings of women workers who worked primarily full time in 1973. And it was $382 above the 1974 poverty line for such a family. In principle, the poverty threshold is computed in terms of disposable income, but Census Bureau calculations of the low-income population use pretax income in determining a family's poverty status.

In contrast, 20 percent of 16.7 million women who worked full time, year round in 1972 had earnings of less than $4,000, and 35 percent had earnings of less than $5,000. Even allowing for an advance in money wages of as much as 15 percent over the intervening 2-year period, it is evident that women receiving maximum AFDC payments in large areas of the country have higher real incomes than millions of fulltime working women.

TABLE 18.—*July 1974 AFDC plus food stamp benefits for a family of four in selected States, and their gross earned income equivalent*

State	AFDC plus bonus food stamps	Gross earned income equivalent [1]
New York	[2] $5, 376	$7, 425
Minnesota	4, 992	6, 800
Michigan	[3] 4, 908	6, 675
Massachusetts	4, 848	6, 550
Pennsylvania	4, 668	6, 250
California	4, 464	5, 950
Illinois	4, 332	5, 750
Maryland	3, 804	4, 925
West Virginia	3, 696	4, 750
Ohio	3, 576	4, 575
Mississippi	2, 364	2, 985
Median State, United States	4, 116	5, 400

[1] This column assumes work expenses equal to 15 percent of gross income, plus the 5.85 percent social security tax and the applicable Federal income tax.

[2] The New York AFDC payment shown includes a monthly allowance of $153 for rent. Benefits could be higher or lower, depending on rental costs.

[3] For Wayne County, Mich. In Ann Arbor, Mich., AFDC plus bonus food stamps per family of four total $5,244.

5. *Adequacy and equity for male-headed families with children.*—From the viewpoint of a general scheme of income maintenance, the greatest inequity in the present welfare system is its neglect of male-headed families with dependent children. Only a small proportion of such families in America are poor by the Census definition. Thus, in 1973, only 7.6 percent of the children of such families were poor, as compared with 52.1 percent of the children of female-headed families.

[17] See notes, table 18.

The claim of the latter group to prior consideration on categorical grounds is manifest. In absolute terms, however, there are almost as many poor children in male-headed as in female-headed families. In 1973, there were about 4.3 million children in male-headed families living below Census-designated poverty thresholds and another 2.6 million children in families living between 100 and 125 percent of the thresholds.

The amount of cash welfare assistance available for such families is severely limited. About one-quarter of AFDC families, roughly 710,-000, were male-headed in January 1973. Of these, 339,000 were step-fathers or other male relatives and non-relatives and 204,000 were fathers incapacitated for employment. In January 1974 only 95,000 families were receiving AFDC–UF. They were given $28 million in that month, equivalent to an annual rate of $336 million. State and locally funded general assistance also provided limited aid to this group. Fewer than one-sixth of male-headed poor families reported that public assistance accounted for more than 25 percent of total income in 1972.

Food stamps are the only type of assistance universally available to alleviate income deficiencies among poor male-headed families. Table 17 shows that such stamps could potentially diminish their income deficit by two-thirds, but for the same reasons discussed above, the estimate exaggerates the actual contribution of food stamps, and far more than it does in the case of female-headed families. The Census Bureau study cited above estimated that whereas 74 percent of poor female family heads under 65 purchased food stamps in 1972, only 42 percent of poor male heads under 65 did so.[18]

Earnings constitute a large share of the income of poor male-headed families with children. The 1970 Census reported income sources by age of head, and shows that earnings constituted about 90 percent of the income of poor families with male heads aged 44 or less. These families contained two-thirds of the children of male-headed poor families at that time. Data on the 1969 work experience of poor male-headed families, including those without children, are shown in table 19.

Data from the 1972 CPS show that there were 4.6 million own children under 18 in poor families with male heads. Of these, fully 2.0 million were in families with heads who worked full time 50 to 52 weeks of the year. Large families and low wages are the problems in such cases. In the case of another 1.7 million children, the father worked 1 to 49 weeks, unemployment being the reason for working part of the year in the case of 1.0 million children. The fathers of only about 730,000 children did not work at all during 1972; in the case of 510,000 of these children, illness or disability was the main reason for the father's not working.

So insufficient earnings are the chief cause of poverty among male-headed families with children, due to low wage rates, short working hours, and frequent spells of unemployment. The problem of how to alleviate poverty among these families is mainly one of how to help the "working poor," for whom few programs currently exist.

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[18] Coder, "Results of a Survey."

TABLE 19.—*Characteristics of male-headed families in poverty by age of head, 1969*

Characteristics of male-headed families	All families	Age of head: Under 25	25 to 34	35 to 44	45 to 54	55 to 64	All under 65	65 and over
Families (thousands)	3, 670	357	547	588	492	574	2, 558	1, 112
With related children under 18	1, 983	237	506	548	362	201	1, 856	127
Number of children	6, 093	449	1, 613	2, 114	1, 148	499	5, 823	270
Mean income	$2, 052	$1, 870	$2, 596	$2, 792	$2, 282	$1, 667	$2, 275	$1, 542
Percent of income from:								
Earnings	66. 3	89. 9	90. 6	88. 0	68. 8		82. 5	13. 2
Social security	21. 6	1. 7	1. 9	3. 5	15. 9		6. 9	70. 0
Public assistance	6. 7	4. 7	5. 0	5. 3	8. 1		6. 1	8. 7
All other sources	5. 3	3. 8	2. 5	3. 1	7. 2		4. 5	8. 1
Work experience of head in 1969 (percent):								
Worked:								
50 to 52 weeks	29. 8	29. 7	50. 3	51. 9	42. 5	25. 4	40. 7	4. 6
40 to 49 weeks	10. 0	14. 3	17. 0	15. 6	13. 2	8. 4	13. 6	1. 8
27 to 39 weeks	6. 2	11. 5	9. 1	7. 7	7. 5	6. 3	8. 1	1. 9
14 to 26 weeks	5. 5	13. 2	6. 4	5. 6	5. 9	5. 6	6. 9	2. 3
13 weeks or less	7. 0	14. 3	5. 9	5. 4	6. 5	8. 0	7. 5	5. 7
Did not work	41. 5	17. 1	11. 3	13. 9	24. 4	46. 5	23. 1	83. 6
Heads 64 or under with work disability (in thousands)	650	29	65	114	160	281	650	----------
Mean earnings of head, if worked:								
50 to 52 weeks	$2, 076	$2, 042	$2, 511	$2, 509	$1, 820	$1, 241	$2, 145	$669
40 to 49 weeks	2, 164	1, 922	2, 561	2, 613	2, 062	1, 449	2, 236	905
27 to 39 weeks	1, 842	1, 678	2, 309	2, 358	1, 854	1, 351	1, 950	771
14 to 26 weeks	1, 452	1, 401	1, 864	1, 898	1, 537	1, 154	1, 563	697
13 weeks or less	695	771	946	999	755	648	804	360
All who worked	1, 843	1, 651	2, 350	2, 380	1, 750	1, 189	1, 958	603

Source: *Census of Population, 1970, Subject Reports, Low-Income Population*, tables 9, 10, 23, 31.

NOTE.—Detail may not add to totals due to rounding.

6. Adequacy and equity for nonaged childless couples and unrelated individuals.—In 1973 there were about 2.7 million nonaged unrelated individuals in poverty. There were also about 0.6 million nonaged poor families without children, containing about 1.3 million persons. Data from the 1970 census show that about half of these families have heads between ages 55 and 64. Most of the remainder have heads either under age 25 or between age 45 and 54. The census data do not make it possible to distinguish the income sources of such families from the income sources of all male-headed families.

Census data on the work experience of nonaged unrelated individuals are shown in table 20. Half of poor unrelated men were between ages 14 and 24. Thirty-nine percent of poor nonaged men did not work at all in 1969; only 12 percent worked 50 to 52 weeks of the year. Among unrelated females, 35 percent were under age 25 and another 35 percent were between ages 55 and 64. Over half of them did not work at all during 1969, and only 10 percent worked 50 to 52 weeks. A major reason for their nonwork was disability.

TABLE 20.—*Work experience of poor unrelated individuals under 65, by age and sex, 1969*

Work experience by sex	Age of individual					Total under 65
	14 to 24	25 to 34	35 to 44	45 to 54	55 to 64	
Males (thousands)	617	127	94	145	248	1,232
Percent who worked in 1969:						
50 to 52 weeks	9.5	15.7	17.4	15.9	11.5	11.9
40 to 49 weeks	6.6	8.6	9.1	7.6	5.1	6.9
27 to 39 weeks	8.6	7.8	7.1	6.9	5.6	7.6
14 to 26 weeks	18.0	11.0	9.3	7.6	6.0	13.0
13 weeks or less	30.3	18.4	13.8	13.1	10.1	21.7
Percent who did not work	26.7	38.6	43.6	49.0	61.7	38.9
Individuals with work disability (thousands)	43	19	30	65	138	294
Females (thousands)	618	141	141	267	619	1,785
Percent who worked in 1969:						
50 to 52 weeks	7.3	11.3	14.2	14.2	9.9	10.1
40 to 49 weeks	7.0	10.6	9.9	7.9	5.2	6.9
27 to 39 weeks	9.2	8.5	6.8	6.0	4.5	6.9
14 to 26 weeks	17.2	9.9	7.8	6.4	4.5	9.9
13 weeks or less	25.4	14.9	11.0	10.3	7.3	14.9
Percent who did not work	34.1	44.7	50.4	55.1	68.6	51.4
Individuals with work disability (thousands)	22	14	30	88	246	398

Source: *Census of Population: 1970, Subject Reports, Low Income Population*, tables 21, 23.

NOTE.—Detail may not add to totals due to rounding.

Insufficient hours of work, rather than low wages per se, appears therefore to be the chief cause of poverty among unrelated individuals. Data from table 21 show that earnings alone constitute a much smaller proportion of the income of poor unrelated individuals than of male-

headed families. Public assistance is much more important for unrelated individuals, accounting for 16 to 18 percent of the income of all such individuals between ages 45 and 64, as is seen in table 21.

In sum, nonaged childless couples and unrelated individuals constitute a small minority of the poor—about 17 percent in 1973. The bulk of them are either under 25 or over 54, and subsist on low incomes because they do not have full-time, year-round jobs and are largely excluded from current aid programs.

TABLE 21.—*Type of income of poor unrelated individuals under age 65, by sex and age, 1969*

Income by sex	Age of individual					Total under 65
	Under 25	25–34	35–44	45–54	55–64	
Males:						
Percent of income from:						
Earnings	89.4	76.1	67.1	41.0		69.7
Social security	2.1	3.3	9.4	27.1		11.4
Public assistance	1.8	7.9	13.3	18.0		8.9
Other sources	6.7	12.7	10.2	13.9		10.0
Mean income	$770	$768	$760	$841	$886	$800
Number of individuals (thousands)	617	127	95	145	248	1,232
Percent with public assistance	2.0	6.8	12.2	18.1		8.5
Percent with social security	2.5	2.9	7.4	23.8		9.7
Females:						
Percent of income from:						
Earnings	86.3	78.5	68.8	35.5		55.8
Social security	3.5	4.6	6.4	31.9		19.8
Public assistance	3.7	9.9	17.6	16.0		12.0
Other sources	6.5	7.0	7.2	16.6		12.2
Mean income	$580	$620	$629	$714	$823	$691
Number of individuals (thousands)	618	141	141	267	619	1,785
Percent with public assistance	3.2	7.4	12.0	15.0		10.1
Percent with social security	3.3	3.4	5.0	28.7		16.1

Source: *Census of Population: 1970, Subject Reports, Low-Income Population*, tables 31, 33.

Behavioral Incentives

1. Perverse incentives: Anti-work.—Since any aid given to the poor reduces the need for work, a benefit program must be carefully constructed if it is not to crush efforts at self-help and independence. The two primary ways of encouraging recipients to help themselves are offering only "moderate" levels of benefit income and permitting the recipient to expand total income by personal efforts. By definition, an income-tested program must reduce benefits as income rises, but the rate of reduction is crucial. If benefits are withdrawn at the rate of $1 for each $1 in wages or unearned income, financial incentive for work or thrift is eliminated. The rate of benefit retention as income rises measures the size of the incentive.

Recipients of current income maintenance programs are subject to a wide range of benefit-loss rates. In individual programs rates range from zero to more than 100 percent, over particular ranges of income. For example, in 24 States the last dollar that removes a family from eligibility for cash welfare also terminates the right to medicaid, valued at several hundred dollars per family.

Barbara Ann Brady, Fulton County, Georgia caseworker, told the Subcommittee on Fiscal Policy at hearings in Atlanta in June, 1972 that she often tried to help a client figure out how to get "just a dollar" of welfare because the family needed medicaid. "The only way a recipient can get medicaid," she testified, "is to be eligible for a check also, and it does not depend on the amount of the check. It can be as small as a dollar." [19]

Work disincentives are increased when a recipient participates in more than one benefit program, as most do. There are two reasons: first, the higher level of combined benefits makes wages less competitive; and, second, a rise in earnings commonly causes a reduction in *each* benefit. For example, when an AFDC recipient earns extra dollars, she can expect a net gain of at least 33 cents per dollar. But if she receives other benefits, they, too, will be cut; the food stamp program, taking note of her 33-cent per dollar net cash gain, will raise stamp prices 10 cents per extra dollar (30 percent of the extra net income); public housing will raise rent by eight cents per extra dollar. Thus, the cumulative take-back rate could climb to 85 percent. It does not seem reasonable to expect persons to work for a net gain of only 15 cents per extra dollar, especially at possibly unpleasant work.

The subcommittee study of public welfare benefits available in 100 counties [20] computed benefit-loss, tax, and probable work expense rates for different types of families. This study found that even though AFDC income exemptions are relatively generous and the food stamp benefit-loss rate low, recipients of combined benefits generally cannot expect to net much from going to work, or from increasing work. For instance, working welfare mothers, on the average, could expect a net gain of only 20 to 36 cents per wage dollar if they were enrolled in the food stamp program (4–11 cents less if in public housing); and AFDC-UF fathers, if in the food stamp program, could expect a net gain of 33 cents per wage dollar. Potential rates of return varied widely, depending on family size, wage rate, and hours of work.

The University of Michigan panel study of 5,000 families found that the level of AFDC payments affected the work rates of women raising children alone. To judge the adequacy of "alternatives to working" in various regions, the study measured average AFDC payments per recipient and the work effort of all single women with children. It found that overall about 70 percent of such mothers

[19] Joint Economic Committee, *Problems in Administration of Public Welfare Programs*, p. 960.
[20] Joint Economic Committee, Paper No. 15.

worked, averaging 1,030 hours a year (half time). However, in regions where monthly AFDC payments were below $35 per recipient, 82 percent worked; and where welfare payments exceeded $55, only 60 percent worked.[21]

2. *Perverse incentives: Anti-family.*—Denial of Federal welfare cash—and many related noncash benefits—to fathers with a full-time job may be a more powerful incentive for family splitting, and for nonmarriage, than for work, at least when wages are insufficient for the number of persons who must live on them.

A succinct statement of the problem was provided by Doretha Spencer, intake caseworker of the Fulton County, Ga., Department of Family and Children Services, at subcommittee hearings in June 1972 in Atlanta. "My first criticism is that we run the able-bodied . . . fathers out of the home . . . They are underemployed . . . underpaid, and in order for the family to survive the father has to leave home. And now we are spending just about 50 percent of our time trying to find these fathers whom we have run out of the homes. . . . On the other hand, if the father is a stepparent, the children can receive assistance. I fail to see the difference." [22]

Studies published by the subcommittee have shown that (a) higher welfare payments have helped to enable a rising proportion of already-broken families to set up their own households [23] and that (b) higher welfare payments are associated with a rise in the proportion of mothers raising children alone.[24]

In addition, the subcommittee has calculated U.S. average financial incentives provided by AFDC for family splitting. Data collected by the subcommittee from 100 local areas indicate that the financial incentives for family breakup averaged $3,000 a year in July 1972.[25] A hypothetical family of five gained that much in net income if the father "deserted" and the family then surreptitiously added welfare cash and food benefits to his wages, assumed to be at the median level for the area.

Chart 7 shows how the family-splitting incentive is calculated. Assume a father with a wife and three children who earns $2.00 an hour in North Dakota. His family was eligible in July 1974 for $100 monthly in bonus food stamps to add to $278 net wages, but if he left the household, the mother and children would qualify for $437 in benefits. If the family then secretly pooled income, it would gain $337 a month, more than enough to pay for the second household. Or if the father left and refused to make support payments, both units would be better off financially.

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[21] *Five Thousand American Families*, pp. 233 and 235.

[22] Joint Economic Committee, *Problems in Administration of Public Welfare Programs*, p. 837.

[23] Joint Economic Committee, "The Impact of Welfare Payment Levels on Family Stability," Paper No. 12 (Part I), p. 37.

[24] Ibid.

[25] Joint Economic Committee, Paper No. 15.

Chart 7.

FATHERLESS FAMILY INCENTIVES

Working father at home - North Dakota
Two-parent family, 3 children

Net earnings,* $2 per hour job	$278
Food stamp bonus (July 1974)	100
Medicaid	0
TOTAL	$378

Father absent - North Dakota
Broken family, mother and 3 children

Maximum AFDC benefit	$300
Food Stamp Bonus	67
Medicaid	70
TOTAL	$437

If father "deserted," family could pool $437 in welfare benefits and $278 in net wages for total of $715.

* Assumes $35 in bus fare and other expenses plus $20 payroll tax

3. Childbearing incentives.—Because AFDC rules require that an otherwise eligible family include at least one dependent child, and because AFDC benefits generally rise with increases in family size, it often has been alleged that the welfare system encourages women to have children.

After analyzing the data on this issue, the subcommittee study of benefits in 100 counties [26] concluded that there was an apparent sizable financial gain for a single woman to have her first child. On the average, it found that as a mother with child she could expect to receive $863 more per year in cash relief and food stamps, plus an extra $292 in housing benefits, if available, than she could receive from general assistance, food stamps, and public housing as a needy individual. In all, she could expect the baby to boost cash, food, and housing benefits by 57 percent, and to bring eligibility for medicaid as well. The study found that AFDC-UF offered income gains for the married couple that had its first child, too. An unemployed husband who became a father could expect to increase family income—through eligibility for AFDC cash and the right to extra food stamps—by an average of $1,174. This would be a boost of 52 percent above average benefits that the same couple could expect before parenthood from general assistance and food stamps. The data were inconclusive on the issue of whether welfare programs offered financial inducements to have additional children beyond the first, but in all the cases studied it was clear that welfare tended to neutralize those childbearing decisions that are influenced by costs.

Administration: Duplication and Error

Fragmented and inconsistent programs cause duplication and complexity. The duplication is wasteful and the complexity leads to error, and both confuse the recipient.

Although it is charged with operation of AFDC, food stamps, medicaid, and, in some States, supplements to SSI, the local welfare agency does not set the rules. It is expected to digest, interpret, and enforce a continuous stream of regulations from Washington and from State capitals that incorporate new law, new administrative policies, new court decisions. James Bennett, director of the Fannin County Department of Family and Children Services, told the subcommittee at hearings in Atlanta in June 1972 that standards and procedures for determining eligibility were changed "almost every month in the year" and that regulations became so complicated that they became "the cause of numerous errors." [27]

The local welfare agency's work is supervised by many offices:

HEW and the State welfare agency supervise AFDC.

HEW supervises SSI.

HEW, often with the State health department, regulates medicaid.

The Agriculture Department and the State welfare agency supervise the food stamp and food commodity programs.

The Labor Department regulates the State employment service, which participates in enforcing work rules of AFDC and the food stamp program.

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[26] Ibid.

[27] Joint Econmic Committee, *Problems in Administration of Public Welfare Programs*, p. 1024.

The Department of Housing and Urban Development oversees welfare operations like model cities, homemaker services, and housing aid to the aged.

State and local governments control general assistance, which they finance.

State civil service regulations govern agency personnel policies.

Eligibility rules for need-based programs are complex and difficult to enforce; benefit computation almost invites mistakes. Intricate payment policies confuse applicants and caseworkers, prevent needy persons from knowing their eligibility, cause some to drop out of the application process in frustration and waste the time of others, and flood caseworkers with paperwork.

1. Definition of income.—The administrative complexities can be shown by considering a question basic to all the programs—the definition of income. Just as the size of Federal income tax that one must pay is determined not by actual gross income, but by "taxable income" after exemptions, deductions, and special exclusions, so the size of benefits that one receives is determined not by actual income, but by "counted" income.[28] Further, in both tax and benefit systems, sources of income affect how the money is counted. The income tax counts only half of long-term capital gains, none of the earnings of a taxpayer's children, and no social security payments. Some welfare programs count only one-half, some two-thirds, of the earnings of the family breadwinner, and many exclude children's earnings, provided they are students. The veterans' pension program excludes a percentage of social security payments and SSI excludes a fixed sum, but most welfare programs count all social security income.

Because each welfare program has its own list of income that does not count, or that counts only fractionally, each requires separate arithmetic for each family or individual enrolled. Thus, even though AFDC families automatically are eligible for food stamps, their income must be measured anew, by food stamp rules, to calculate their food stamp bonus.

At subcommittee hearings in Atlanta in June 1972, Robert J. Friel, director of assistance payments in the Georgia State Department of Family and Children Services, testified to the administrative confusion caused by "incompatible" eligibility criteria for cash assistance programs and the food stamp and commodity programs:

> The eligibility requirements for the two programs are different and this means that the eligibility worker at the local level must apply different criteria in determining eligibility for the two programs. Furthermore, eligibility standards for the food programs are more complex than they are for public assistance and the food programs generate higher proportions of work for the eligibility workers. The net result of these differences is that both programs suffer. We believe that the high incidence of error identified by our quality control section in the public assistance pro-

[28] AFDC and SSI law and food stamp regulations express benefit-loss rates indirectly, and through the device of stipulating what income is *not* to be counted when calculating a person's entitlement to aid. For instance, AFDC disregards the first $30 earned plus 1/3 of the rest, plus work expenses. All the rest, including all unearned income, it "taxes" away by benefit reduction.

In contrast, the income tax excludes some income and then applies tax rates, based on the taxpayer's bracket, to the balance.

grams is directly related to the complexities of and the man-hours required by the food programs.[29]

The rules of the food stamp program show the process of counting income. Assume a family whose resources qualify it for food stamps. The Johnsons, mother, father, and two children, receive $400 a month from the father's gross wages. To decide what they must pay for their standard monthly allotment of stamps ($150 in stamps as of July 1974) their income must be converted into counted income.

Gross income per month	$400
A. Initial deductions:	
Mandatory payroll deductions (payroll taxes, income taxes, union dues, etc.)	−46
10% of gross income up to a maximum of $30 a month	−30
All medical costs if more than $10 (zero if under $10)	−20
School lab fee	−5
	−101
	299
B. Shelter deduction:	
Shelter costs in excess of 30 percent of income left after initial deductions (A); in this case, shelter costs above $90 (30 percent of $299). Rent, phone, electricity, cooking gas, water and sewer charges total $156. Deductible, $66 ($156−$90)	−66
Countable income	233

Thus, $233 of the Johnson's wages are left as "counted" income. At this level they are entitled to receive their $150 stamp allotment by paying $65. Their bonus is $85 monthly.

In other programs, the same $400 in monthly gross wages for a family of four would translate into other amounts of countable income:

AFDC—$141.

Public housing—$330.

SSI—$157 (less if blind with consequent work expenses).

2. Uncoordinated rules.—In no area are the consequences of uncoordinated programs more apparent than in programs for the aged. Most congressional offices are uncomfortably aware that an increase in social security benefits can arouse complaints from persons who benefit from other programs as well and see little if any gain in their total income.

Gilbert Dulaney, director of the Fulton County Department of Family and Children Services, told the Subcommittee on Fiscal Policy at hearings in Atlanta in June 1972 of the resulting problems: "Every time we get an increase in social security we go through this maze of explaining to the local population, pastors of churches, and Congressmen and Congresswomen why we had to close certain cases." Dulaney urged closer coordination and merging of several programs with the same purposes.[30]

To illustrate, let us examine what happened to the incomes of two needy couples and an individual veteran when Congress raised social security benefits by 11 percent, from January to July 1974:

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[29] Joint Economic Committee, *Problems in Administration of Public Welfare Programs*, pp. 1238–9.

[30] Ibid., p. 1068.

A. Aged couple with no private income in Ohio.—This couple received three cash benefits totaling $238 in January 1974: social security ($220), supplemental security income ($10), and Ohio's State supplement to SSI ($8); plus $20 in bonus food stamps, and medicaid. In July their social security check rose to $244.20. At this income level they remain eligible for $20 in bonus food stamps, but they are disqualified from SSI and its supplement, and consequently, medicaid, too. The $24.20 monthly boost in social security thus yields them only $6.20 in extra cash and may cost them hundreds of dollars worth of free hospital care.

B. Aged veteran and wife with no private income (any State).—This couple receives the minimum social security benefit plus a veterans' pension. In January 1974 its benefits totaled $257.75 (including $131 from the Veterans' Administration). Their social security check rose almost $9 in April and another $5 in July but the veterans' pension will *not* be adjusted to reflect this change until January 1975. As a result, the couple's income will zig-zag, from roughly $258 in January 1974 to $267 in April and $272 in July, and then, in January 1975, back down to $267. After receiving six checks for $272, it can expect a cut of $5.

This couple's VA countable income falls in the income bracket of the pension schedule—$800 to $2600 annually ($67 to $217 on a monthly basis)—that "taxes" back 36 percent of counted income by subtraction from the pension. If its veterans' pension were reduced *at the same time* that its social security was increased, the couple's total income would rise gradually, but steadily, from $258 in January 1974 to $261 in April and $267 in July and thereafter. Since both benefits are federally administered, this should be a relatively simple simultaneous adjustment to make, and would be more readily understandable to beneficiaries. Instead, the veterans' pension remains the same from January 1974 until January 1975, when a *belated* reduction takes account of ninety percent of the new social security income.

C. Aged single veteran without private income (any State).—In January 1974 this veteran received a total of almost $267 ($217 from social security). In July his social security check rose to $241, but, effective next January, his entitlement to a veterans' pension will disappear (because his counted income from social security will exceed VA limits). For this veteran an 11-percent boost in social security translates, 6 months later, into a 10-percent drop in total income. This income loss is caused by the failure of the veterans' pension schedule to be smoothly tapered off at the top of the eligible income scale.

As chart 8 shows, uncoordinated benefit programs cannot be dismissed as irrelevant, for their effect is to injure some recipients and multiply confusion.

3. Work requirements and penalties.—Poor program coordination extends even to the operation of formal work registration requirements of the food stamp and AFDC programs. Since work rules of AFDC and the food stamp program treat the same family differently, they compound administrative headaches and can even contradict each other. AFDC rules require a mother to work when the youngest child reaches 6, whereas under food stamps she is exempt until the

youngest child is 18. As a result, it is possible for the work penalty imposed against an AFDC family to be reduced or wiped out by a resulting increase in the food stamp bonus.

Consider this example (chart 9) of how higher benefits of the food stamp and public housing programs cut the work penalty of the AFDC program. An AFDC mother and 3 children, aged 5, 7, and 9, are eligible for a maximum cash payment of $168 in Maine. Once the youngest child becomes 6, the mother must register for work. Chart 9 shows the consequences to the family's total income that program rules prescribe in case the mother refuses to register for work.

Chart 8.

EFFECT OF 11% BOOST IN SOCIAL SECURITY (JANUARY-JUNE 1974) ON COMBINED CASH BENEFIT INCOME OF:

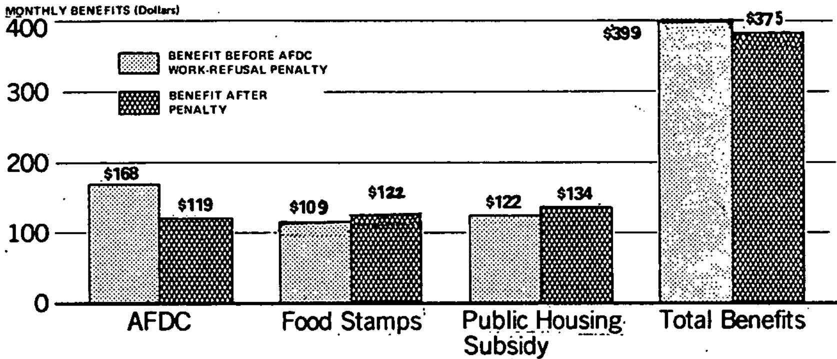
Ohio couple on S.S.I. (with $220 in Social Security, Jan., 1974)	**+3%** **- Medicaid**
Veteran and wife (with minimum Social Security)	**+3%***
Single veteran (with $217 in Social Security, Jan., 1974)	**−10%***

* Effective at start of 1975

Chart 9.

WORK REFUSAL PENALTY CAN BE OFFSET BY ANOTHER PROGRAM'S HIGHER BENEFIT:

Mother and 3 school-age children eligible for a maximum AFDC check in Maine.



Total income is cut only 6 percent. The AFDC decline of $49 is cut in half by the increases in food stamps ($13) and housing benefits ($12).

Chart 9 makes it apparent that if single benefit programs are to accomplish the aims intended by Congress, they must be coordinated with other programs that affect the same population.

4. Quality control.—Because the clients of programs for the needy overlap, error in computing benefits of one program will carry over into others. This is a severe problem with respect to AFDC and allied programs since, as shown in chart 6, AFDC recipients typically participate in the food stamp and medicaid programs as well.

Because of the nature of current eligibility and budget criteria, accurate application procedures in AFDC are not feasible. Eligibility reviews are cursory and infrequent, and a substantial number of ineligibles receive payments. HEW reported that from April through September 1973, one of ten AFDC recipients was not eligible for payments (in New York, more than one in six; in Maryland, one in seven). On the other hand, an estimated 8.1 percent of U.S. recipients were underpaid and 22.8 percent were overpaid. Overpayments in New York were estimated at almost one in three, underpayments, one in nine.

In the case of public housing, tenants are legally required to report changes in income as they occur, but there is evidence that few do so. At subcommittee hearings in Atlanta, Lamar Seals, Area Director of the U.S. Department of Housing and Urban Development, said: "I think if the truth were known, probably 95 percent don't report changes until they are checked on a year or 2 year basis. I find that to be human nature. They get away with as much as they can." [31]

Responding to Seals, subcommittee Chairman Martha Griffiths added that a General Accounting Office study of Sec. 221 low-rent

[31] Ibid., p. 1214.

projects in 1968 showed that "one-half of the families in the projects they studied may have had higher incomes than they reported. Neither the family nor the project owner had any real incentive to report higher income." [32]

As long as "income-tested programs" continue to use sloppy methods to test the true income of recipients, there is an inequitable distribution of public money. Furthermore, programs which ought to be helping the truly needy get a bad image in the public mind when they allow widespread cheating to occur.

The "system" frustrates systematic detection of error, and agencies discover mistakes and fraud mostly by chance.[33] There is little to deter cheating because administrative recoupment of overpayments is difficult and prosecution for welfare fraud rare. Theoretically, welfare recipients are expected to repay any excess aid that they receive, but in practice they cannot repay money that they lack. Nor may agencies dock a recipient's welfare check to recover overpayments if the surplus has been spent and the recipient needs his next check for food and rent, unless the overpayment results from "willful withholding" of information [34] by the recipient.

Conclusions

As long as income maintenance programs are fragmented, inconsistent, and available only to some of the needy, they will be unfair, they will be inadequate for many and overadequate for some, they will induce undesirable behavior, and they will be impossible to administer efficiently. Ad hoc adjustments of individual programs can provide no solution to the basic structural problem.

Rather than continue to maintain—and expand—a diversity of programs with rationales that no longer apply, it is necessary to develop an income maintenance *system*. This system must serve clear-cut goals appropriate to today's situation. Its achievement will require an end to Federal matching funds for AFDC, replacement of certain noncash benefits with cash, and elimination of some other current programs.

Unless programs are simplified and rationalized into a universal system, the troublesome problems of benefit inequities, inadequacies, work disincentives, program overlaps, and administrative complexity will continue to grow worse.

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[32] Ibid., p. 1214.

[33] U.S. Congress, Joint Economic Committee, Subcommittee on Fiscal Policy, *Issues in Welfare Administration: Welfare—An Administrative Nightmare*, by Sharon Galm, Paper No. 5 (Part 1) (Washington, D.C.: Government Printing Office, 1972).

[34] Federal regulations define this to include misstatements about income or family circumstances, failure to report changes in income or family circumstances, and failure to report receiving a welfare check that is too big (that is, one that exceeds a prior check by an amount that the welfare agency previously told the recipient would constitute an overpayment; or one known by the recipient to be an erroneous overpayment).

INTRODUCTION TO CHAPTERS IV THROUGH VI

Public Versus Private Responsibility: Sharing the Burden

All societies make arrangements, formal and informal, that cushion the impact of random events and economic irregularities on the less fortunate. But no society has promised subsistence without expecting or exacting a quid pro quo. Like other societies, ours is based on the principle that individuals should pull a share of the load.

Much of the debate about income maintenance programs focuses on fundamental questions of public versus private responsibility. Provision of public aid for part of the population implies that most of the rest must pay the cost. Thus, it is natural for policymakers and the public to be uneasy about the potential impact of expanded welfare on work and other private choices. As a consequence, cash aid has been systematically withheld from certain groups—such as many of the able-bodied. But this has distorted recipients' choices about work, family structure, and other behavior, and penalized or failed to reward socially desirable behavior.

Chapters IV through VI examine basic issues in the debate about how to divide responsibility for basic income maintenance between the individual and society, that is, other individuals. These chapters assume that individuals make choices for which they should be held responsible, at least in part. Some of their choices greatly affect their economic well-being: employment, place of residence, family size, family structure, and parental support of children.

At the same time, this report assumes that much poverty is caused by random events, the structure of the economy, changes in and poor functioning of the economy, discrimination by age, race, sex, and national origin, and human weaknesses, and that the public should help to cushion their impact. The public should help not only out of humanitarian concern or the fear of economic and social harm, but also because of the realization that it possesses the ultimate responsibility for income distribution. For although the market is an efficient allocative mechanism, it is essentially a technical process and cannot make ethical judgments. Individually we may get what we technically "deserve" from the market; but social choices determine—and should determine—how large a role the market plays in the distribution of the total product of society.

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Chapter IV. THE SUPPORT OF CHILDREN

In our society the family has the primary responsibility for rearing children. Put most simply, parents are expected to support their young. However, public programs help some parents with this duty in recognition of the limits to their independence and because of the public's interest in protecting children.[1] The issue, therefore, is not whether there should be public responsibility for children's support, but what form it should take and what its limits should be.

The issue is made more difficult by the relative decline of the two-parent family in recent years. Since 1959 the proportion of families without a father present has risen more than 50 percent, and such families now constitute the majority of poor families with children. This rapid change in family structure raises questions about public policy toward the family. Have family support programs kept pace with social trends? Do they encourage or deter the exercise of parental duty? To what extent does the financial support of AFDC contribute to the increase in female-headed families? Does AFDC perpetuate dependency of families headed by mothers?

Trends From Two-Parent to One-Parent Families

During the latter half of the 1960's, the anti-poverty war focused attention on groups with a high incidence of poverty. Marked increases occurred in this decade in the number of fatherless families, in the proportion of poor families who were female-headed, and in the proportion of fatherless families who received AFDC.

Between 1959 and 1972, the number of female-headed families with children increased by 70 percent, but male-headed families edged up by only 8 percent (see table 22). By 1972, one out of every seven families with children was headed by a woman.[2]

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[1] Previous chapters have discussed the proliferation of programs that assist some families with cash, food, housing, medical service, and other aids. Public responsibility also is expressed in measures which promote economic enterprise and provide employment opportunity, such as fiscal and monetary policies to stimulate the demand for workers, equal rights enforcement, basic education, manpower training, minimum wage legislation, and employment services.

[2] Among white families with children, the proportion with female heads increased from 7 to 10 percent from 1959 to 1972. For nonwhite families the increase was from 25 to 39 percent. In 1970, 83 percent of children under age 18 lived with both parents—87 percent of white children, and 58 percent of black children; 9 percent of white and 30 percent of black children lived with the mother only; 3 percent of white and 9 percent of black children lived with neither parent. A small proportion, less than 2 percent of white children and 3 percent of black children, lived with the father only. U.S. Bureau of the Census, *Census of the Population: 1970, Subject Reports, Final Report PC (2)-4B, Persons by Family Characteristics* (Washington, D.C.: Government Printing Office, 1973).

Nonpoor female-headed families with children more than doubled, climbing five times as fast as their poor counterparts. Thus, raising children alone is not an economic catastrophe for all women. But because mother-headed families are seven times more likely than two-parent families to be poor, the decline of the intact family is cause for concern.

From 1959 to 1972, poverty declined dramatically. Poor families headed by fathers decreased by 45 percent from 1959 to 1967 and by another 22 percent from 1967 to 1972. Poor families headed by mothers decreased 7 percent from 1959 to 1967, but *increased* 36 percent from 1967 to 1972. Consequently, more than half (53 percent) of all poor families with children in 1972 were headed by women (see table 23). The rate of increase was great for both white and nonwhite families. The proportion of poor nonwhite families headed by a woman doubled—from 35 percent to 69 percent; among poor white families the proportion headed by a woman increased from 25 to 43 percent by 1972.

TABLE 22.—*Rate of change in number of families with children between 1959 and 1972*

Family type	Percent
All families with children	+14
Female-headed	+70
Male-headed	+8
Nonwhite families with children	+42
Female-headed	+122
Male-headed	+16
White families with children	+11
Female-headed	+50
Male-headed	+8
Poor families with children	−33
Female-headed	+26
Male-headed	−57
Nonpoor families with children	+26
Female-headed	+135
Male-headed	+21

Source: "Characteristics of the Low-Income Population: 1972." This report provides March 1960 and March 1973 data on family composition and income data for the previous years.

Table 23.—*Number and percentage of female-headed families among various population groups, 1959 and 1972*

Population group	1959 number of female-headed families (in thousands)	1959 percentage of female-headed families	1972 number of female-headed families (in thousands)	1972 percentage of female-headed families
All families with children	2, 544	9	4, 322	14
Nonwhite	708	25	1, 572	39
White	1, 836	7	2, 748	10
Nonpoor families with children	1, 019	5	2, 396	9
Nonwhite	131	11	617	23
White	888	4	1, 778	7
Poor families with children	1, 525	28	1, 925	53
Nonwhite	577	35	955	69
White	948	25	970	43

Source: "Characteristics of the Low-Income Population: 1972."

Factors in the Growth of Families Headed by Women

Studies of the explosion in the number of female-headed families with children have identified five major factors that account for this growth.[3] These are increases in: population, family breakup, motherhood, illegitimate births, and independent living arrangements.

Growth of the general population alone would account for some of the increase. Moreover, the maturing of the post-war "baby boom" has resulted in a disproportionate increase in the number of young people of childbearing age. Between 1960 and 1971 the general population increased by 15 percent but the number of young women between the ages of 15 and 30 rose three times faster, by 46 percent. The sharp boost in the number of women meant there would be more families headed by women, even if the chances of a woman's heading a family remained the same.

With more young people of marriageable age, marriage rates increased by 28 percent during the 1960's; but divorce rates increased much more sharply. The divorce rate in 1972 was 82 percent higher than in 1960.[4]

Not only are marriages more likely to end in divorce, but more and more divorcees are mothers. This, in turn, increases the number of female-headed households with children, since mothers normally retain custody of the children. Between 1960 and 1969 (latest available data), the divorce rate for couples with children rose 62 percent.

Illegitimacy also helps account for the rise in female-headed families. Between 1960 and 1969, illegitimacy *rates* (the number of illegitimate births per 1,000 unmarried women) rose by 15 percent, and illegitimacy *ratios* (the number of illegitimate births per 1,000 live births) almost doubled.[5] Overall illegitimacy rates fell among black women but continued to increase among white women. Illegitimacy rates among *young* women climbed upward for all races. Thus, with more young women in the population, and with more having an illegitimate child, the number of illegitimate births increased sharply. By 1969, one out of ten children born during the year was illegitimate.

Another cause of the surge in female-headed families is the growing tendency for women raising children alone to set up their own households rather than share with friends or relatives. A divorced, separated, or unmarried mother is more likely today than in 1960

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[3] U.S. Congress, Joint Economic Committee, "Income Supplements and the American Family," by Phillips Cutright and John Scanzoni; and "Illegitimacy and Income Supplements," by Phillips Cutright, Paper No. 12 (Part I), pp. 54–89; 90–138.

Heather L. Ross, "Poverty: Women and Children Last," The Urban Institute, Working Paper No. 971–08–02, Washington, D.C., 1973.

[4] U.S. Department of Health, Education, and Welfare, National Center for Health Services, "Marriage, Divorces and Annulments and Rates per 1,000 Population, United States, 1940–1973," (mimeo).

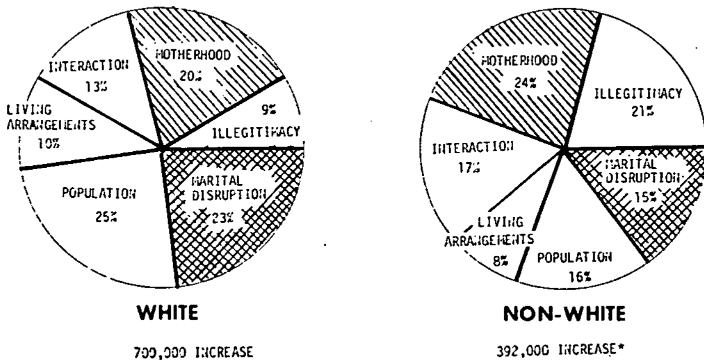
[5] U.S. Department of Health, Education, and Welfare, Public Health Service, *Vital and Health Statistics*, Series 21—No. 15, "Trends in Illegitimacy, United States—1940–1965" (Washington, D.C., February 1968); and U.S. Department of Health, Eduction, and Welfare, Public Health Service, "Summary Report, Final Natality Statistics," Volume 22, No. 7 (Washington, D.C., October 1973).

to maintain her own home, both because of greater economic ability to afford independence and the general trend away from the pattern of extended family living.[6] Higher welfare payment levels, for example, have enabled more poor mothers to buy independence and privacy. This "creates" families that are poor but might not be if they were sharing expenses and living quarters with parents, other relatives, or friends.

Ross's analysis found that population growth alone accounted for 25 percent of the increase in white female-headed families and 16 percent in nonwhite families. The trend toward independent living arrangements accounted for about 10 percent of the increase in both groups. The combination of marital dissolution and presence of children in such broken families accounted for 43 percent of the growth of white female-headed families and 39 percent in nonwhite families. The effects of illegitimate births accounted for 9 percent of the increase in white and 21 percent in nonwhite female-headed families, even though overall illegitimacy rates declined among nonwhite women. (Apparently, this is due to the increase in illegitimate first births among nonwhite women, and because nonwhite women are more likely to keep illegitimate children rather than place them for adoption.) Interaction among all factors explains the remainder of the increase in female-headed families with children—13 percent for white women and 17 percent for nonwhite[7] (see chart 10).

Chart 10.

COMPONENTS OF GROWTH IN FEMALE-HEADED FAMILIES WITH CHILDREN 1960-1970



SOURCE: Ross

* Percentages are rounded numbers, accounting for 101% total.

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[6] An extended family may include more than one parent-children unit, or may include other related children, in addition to the household head's own children.

[7] Ross, pp. 1–2, and table 4.

Factors in the Growth of AFDC

The number of families receiving AFDC more than tripled from 1961 to 1973, outpacing the growth in fatherless families, and the number of AFDC families whose father lived away from home increased at a greater rate than the total caseload.[8] Why did the rolls increase? Did the program itself contribute to family breakup?

A recently published analysis attempted to answer these questions by comparing AFDC program data to census data on families in the population who met AFDC eligibility rules.[9] Boland found that two factors accounted for most of the doubling of AFDC rolls between 1967 and 1970: an increased number of eligible families and a higher participation rate of eligible families. The eligible population increased by 25 percent, and the proportion of the potentially eligible population who received AFDC benefits increased from 56 to 78 percent. For female-headed AFDC families, participation rates increased from 63 to 91 percent.[10]

Some of the increase in the pool of eligibles was due to the increasing number of female-headed families in the population, but most of it was due to an increase in State eligibility levels. Between 1967 and 1971, the median income eligibility level increased by 32 percent. Also, as was discussed in chapter II, an expansion of earnings deductions in 1969 raised the eligibility level for working recipients of AFDC.

Reasons for increased participation of the eligible population are not easily analyzed, but it appears that more people learned about the program and found it worthwhile to apply. Also, changes in administrative practices made welfare easier to obtain and enactment of medicaid made cash welfare much more valuable. The war on poverty spotlighted entitlement to benefits; community action groups and welfare rights organizations recruited applicants and helped reduce the stigma of receiving welfare. Another possible reason for some of the AFDC growth was an increase in the number of ineligible families who obtained payments by fraud or administrative error. The increased rate of ineligible families receiving payments, as indicated by reviews of the AFDC caseload in 1962 and 1973, would have accounted for about 13 percent of the caseload growth during this period.

Certain court rulings forced administrative changes that also increased participation. For example, prior to the Supreme Court's ruling in 1969, most States required one year's residence in the State

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[8] Derived from: U.S. Department of Health, Education, and Welfare, Welfare Administration, *Characteristics of Families Receiving Aid To Families With Dependent Children, November–December 1961*, April 1963; and U.S. Department of Health, Education, and Welfare, Social and Rehabilitation Service, *Findings of the 1973 AFDC Study: Part I, Demographic and Program Characteristics*, DHEW Publication No. (SRS) 74–03764, June 1974.

[9] See Joint Economic Committee, "Participation in the Aid to Families with Dependent Children Program (AFDC)," Paper No. 12 (Part I), p. 139.

[10] If most of the eligible population were receiving AFDC benefits in 1970, and the eligible population failed to grow as much as previously, growth of the AFDC rolls would be expected to level off. This, in fact, has happened. The annual caseload growth rate was 36 percent in 1970; it dropped to 14 percent in 1971; to 7 percent in 1972; and to 1 percent in 1973.

as a condition of eligibility. By 1971, about 9 percent of newly approved families had lived in the State less than a year, compared to 3.5 percent in 1967. The increase in the number of families with less than one year's residence accounted for 5 percent of the caseload increase between 1967 and 1971.

Under "suitable home" provisions, AFDC was denied to children if their home was deemed unsuitable, and the birth of illegitimate children often disqualified the home. A ruling in 1961 held that AFDC could not be denied for this reason unless other plans were made for the children's care. The "substitute father" and "man in the home" rulings of 1968 and 1970 prohibited denial of AFDC because of the presence of a man in the home unless he were legally responsible for the children or fully supporting the children. Previously, a number of States had withheld aid if the mother had a close relationship with a man even if he did not live with her.

After these rulings, the number of families with unmarried mothers on the AFDC rolls increased sharply in the South, where States had applied suitable home and substitute father policies rigorously. For instance, in the South Atlantic States the proportion of AFDC families with unmarried mothers rose from 19 percent in 1961 to 35 percent in 1971. During this period the proportion of such families nationally increased only from 23 percent to 28 percent of the AFDC caseload.

The proportion of illegitimate children on AFDC rolls increased from 25 percent in 1961 to 32 percent in 1967 and has continued to be about one-third since then. Analysis of population data indicates that a large part of the increase in illegitimate children among welfare families is explained by increased participation rates. Between 1961 and 1969, the number of illegitimate children in the population increased by about one-third, but the number receiving AFDC more than doubled. Cutright estimates that the proportion of non-adopted, non-legitimated children receiving AFDC increased from 37 percent in 1961 to 65 percent in 1969.[11]

Despite these rulings, the proportion of the AFDC caseload whose fathers live away from home has changed little since 1961.

TABLE 24.—*Proportions of absent-parent families on AFDC by status of the father, 1961, 1967, and 1971*

[In percent]

Status of father	Year		
	1961	1967	1971
Divorced or legally separated from mother	22.8	22.0	23.8
Informally separated from or deserted mother	40.3	38.9	37.7
Not married to mother	36.9	39.1	38.5

Source: *Characteristics of Families Receiving AFDC, November–December 1961;* and U.S. Department of Health, Education, and Welfare, Social and Rehabilitation Service, *Findings of the 1971 AFDC Study: Data by State and Census Division, Part I, Demographic and Program Characteristics,* DHEW Publication No. (SRS) 72–03756, December 1971.

[11] Joint Economic Committee, "Illegitimacy and Income Supplements," Paper No. 12 (Part I), p. 90.

Personal reasons for family breakup or for formation of female-headed families, of course, are difficult to determine. But a recent analysis by Honig of the relationship between the level of AFDC payments and the number of female-headed families in 44 metropolitan areas found a significant increase in female-headed families as AFDC payment levels increased. An increase in female-headed families also was associated with low wages for men relative to AFDC payments; and, to a lesser degree, higher unemployment rates for men were related to family splitting. A 10-percent increase in AFDC payments appeared to raise the number of female-headed families by 3 to 4 percent, and to increase the number of AFDC recipients by 14 percent. Although most of the increase in AFDC recipients in areas with higher payments was likely due to separations for reasons other than AFDC eligibility, the AFDC program itself seems to have contributed to female family headship.

Parental Responsibility for Child Support

As more and more parents separate, or fail to marry, a basic issue becomes the responsibility of both father and mother to support their children. When families split, it is customary for the mother to keep the child, and increasingly unwed mothers are rearing children rather than placing them for adoption. Family life is a choice for parents, but providing for their children should be a duty. Morally and legally, we consider the father responsible for contributing to his children's support, but the mother also has a duty to help support the children she is rearing alone. This section examines how parents are fulfilling this obligation.

Support From the Father

By statute or by common law, all States require parents to support their natural or adopted children, and all States provide civil and criminal remedies for nonsupport. The law on the books, however, is not the law in action. Parents commonly evade this duty, often without penalty.

When a mother is divorced, separated, abandoned, or bears an illegitimate child, courts do not automatically order the father to contribute to the child's support. Private attorneys speak for the rich and welfare supports the poor. But there is little redress for mothers who stay off welfare but cannot afford a private lawyer. Even when it has a direct financial interest in collecting support, the State often fails to act. In 1973, 81 percent of the 7.7 million children receiving assistance from AFDC had absent fathers, yet court support orders or voluntary support agreements had been obtained for only 30 percent.[12]

Although most support orders require the father to contribute less than half the sum needed by his child, chances are that he will not pay even this amount and that law enforcement officials will fail to move against him. Data from the University of Michigan panel

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[12] *Findings of the 1973 AFDC Study: Part I*, table 17; *Findings of the 1973 AFDC Study: Part II–A, Financial Circumstances*, DHEW Publication No. (SRS) 75–03765, September 1974, table 5.

study of 5,000 families suggest that 47 percent of divorced female heads and 73 percent of separated female heads receive no alimony or child support income, and that the median amount received by those who do is about $1,350 a year.[13] Although court support orders were in effect for 21 percent of all AFDC families in 1973, less than 5 percent of AFDC families were receiving support payments that fully satisfied the court orders, and proceedings to secure compliance had been initiated for less than 3 percent.[14]

If, as the evidence suggests, relatively few absent fathers make substantial payments toward the support of their children, most of the burden of supporting children in broken families falls upon mothers and the State. Because of the trend toward families without a father, the problem is likely to worsen.

1. Reasons for noncompliance and nonenforcement.—How can so many fathers violate their child support responsibilities without penalty? The traditional explanation is that most fathers cannot afford to pay, so there is no point to trying to make them do so. This explanation cannot apply to most cases where a court has ordered support payments, for judges consider the father's ability to pay in writing the order. A growing number of officials believe that, even among welfare families, fathers can afford to make support payments and that the cost of collecting them would be much smaller than the amounts collected.[15]

Some observers assert that prosecutors, judges and legislators exhibit a "pro-male bias" against enforcement.[16] Others say that some lawyers and officials "are actually hostile to the concept of fathers' responsibility for children,"[17] and that many are bored with child support cases. In 1971 a task force appointed by the California Department of Social Welfare reported that a growing number of enforcement officials believe that child support orders are punitive and that welfare checks are a preferable means of support.[18]

2. Child support policy.—Congressional action has been limited to a series of directives exhorting State welfare agencies to collect more

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[13] Hugh Heclo et al., "Single-Parent Families: Issues and Policies," a working paper prepared for the Office of Child Development, U.S. Department of Health, Education, and Welfare, October 1973, p. 13. Mimeographed. See also K. Eckhardt, "Deviance, Visibility, and Legal Action: The Duty To Support," *Social Problems* (Spring 1968).

[14] *Findings of the 1973 AFDC Study: Part II–A*, tables 1, 7.

[15] See Comptroller General of the United States, Report to the House Ways and Means Committee, *Collection of Child Support under the Program of Aid to Families with Dependent Children* (Mar. 13, 1972); Office of New York State Welfare Inspector General, *Study of the New York City Department of Social Services Efforts to Obtain and Enforce Family Court Support Orders on Legally-Responsible Relatives in ADC Cases* (Dec. 12, 1973); California Department of Social Welfare, California Human Relations Agency, *Final Report of the Task Force on Absent Parent Child Support* (January 1971).

[16] S. Nagel and L. Weitzman, "Women as Litigants," *Hastings Law Journal*, 23 (1971): 171, 191.

[17] M. Winston and T. Forsher, *Nonsupport of Legitimate Children by Affluent Fathers as a Cause of Poverty and Welfare Dependence* (Santa Monica: Rand Corp., 1971), p. 19.

[18] California Department of Social Welfare, *Final Report of the Task Force on Absent Parent Child Support*, p. 12.

child support payments. This restriction to welfare families is unfortunate because the child support problem plagues nonwelfare families, too. Many families headed by the mother receive no income from welfare.[19] In fact, the existence of stronger support enforcement for welfare than for nonwelfare families may have the effect of forcing more mothers to apply for welfare.

Various bills pending in Congress would strengthen support enforcement on behalf of welfare families, permit garnishment of Federal wages for support purposes, and provide Federal help in enforcement of interstate support obligations. These measures for improved enforcement overlook the possibility that child support laws may be basically at odds with current social attitudes and living patterns.

Child support obligations must be reexamined and redefined to accord with the actual expectations of society. Several questions must be answered: What is the responsibility of absent fathers, of stepfathers in the home, of grandparents when the mother herself is a minor child? How is a "reasonable" support amount determined? Where does the parent's obligation end and society's begin?

Enforcement of child support rules also must be reexamined and reformed. This will require evaluation of current procedures for locating absent fathers, establishing paternity, obtaining support orders and agreements, and imposing penalties for violation of such orders. It is necessary to decide the proper balance between the public and private roles in enforcement and to decide whether the State should act on behalf of nonwelfare children as well as welfare recipients.

In order to deal with the child support problem, Congress must learn more about its dimensions and sources and must explore all policy alternatives. Until effective child support measures are enacted and enforced, the burden of supporting children in the rising number of fatherless families will continue to fall disproportionately on mothers raising children alone and on taxpayers financing income maintenance programs.

Employment of Poor and Nonpoor Mothers

Financial support of children is not the sole responsibility of the father. More and more wives are working to help support families, and a majority of women heading families are in the labor force. This is a result of increasing demand for women workers and changes in the role of women rather than a consequence of law, although AFDC legislation requires women to accept employment under certain conditions.

The decrease in poverty among male-headed families with children from 16 percent in 1959 to 6 percent in 1972 usually is attributed to improved employment opportunities and higher wages for men

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[19] In March 1973, female-headed families receiving AFDC represented 55 percent of all female-headed families with children (including families with deceased fathers); Ross estimated that 70 percent of such families received AFDC for some portion of the year (1971).

in the expanding economy of the 1960's. But the employment of wives in two-parent families also was an important factor. The proportion of working wives with children increased from 36 percent to 50 percent between 1959 and 1972.[20] Poverty of male-headed families is related to lower employment rates of wives as well as to low earnings of the men in these families. More than half of the mothers in nonpoor two-parent families worked in 1972, and 18 percent worked year round, full time; far fewer mothers in poor two-parent families worked, especially full time, year round.[21]

Almost two-thirds (65 percent) of all women heads of families with children were employed in 1972 and 30 percent worked year round, full time. But the average annual income for these families was little more than one-third of the average income of two-parent families. A major reason, of course, was their lack of a father's wages. If female-headed families have a second earner, it is likely to be another woman or an older child with lower earning capacity than an adult man.

Three out of ten families dependent on a woman worker were poor when the mother worked at some time in 1972, one out of ten when she was fully employed throughout the year. Even so, mothers' wages are an important factor in preventing poverty among broken families. Among nonpoor families with absent fathers, eight out of ten mothers worked during 1972, almost one-half year round, full time.[22]

The work experience of women heads of poor families thus differs significantly from that of nonpoor female family heads. Only about half as many poor women heading families worked (42 percent) and only 7 percent were fully employed throughout the year. Among poor fatherless families, 39 percent of black women worked, compared with 46 percent of white women.

There are several possible explanations for the lower rate of work among poor women, especially nonwhite women: presence of young children[23] or "problem" children; discrimination by sex, race, and

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[20] Data in this section are derived from "Characteristics of the Low-Income Population: 1972."

[21] The incidence of family poverty was cut in half, from 8 percent to 4 percent, when the mother worked, and was reduced to 2 percent when she worked year round, full time.

Among black two-parent families, the work of the wife was even more important. Seven out of ten wives in nonpoor families worked and four out of ten worked year round, full time. In poor families, 40 percent of the wives worked and only 7 percent were fully employed throughout the year. About one-third of black two-parent families were poor if the wife did not work; 11 percent were poor when she worked, but only 4 percent were poor if she worked year round, full time.

[22] There was little difference between the work experience of white and black female heads of nonpoor families, but employment of black women was less helpful than that of white women in reducing poverty. Forty percent of black families were poor when the mother worked for some portion of the year, and 17 percent were poor even when she was fully employed.

[23] Young children at home often are cited as reducing the employment of mothers. However, an increasing number of women with children under six years of age are entering the labor force: 44 percent of wives and 54 percent of women heading families with pre-school children worked for some portion of 1972.

education[24] in the labor market; residence in remote locations; unavailability of the types of jobs for which such women are qualified or which they desire to take; poor health; social, emotional, and mental problems; and the use of AFDC as an alternative to employment. Some women are simply unattractive to employers, and are screened out of the labor market. But the relative importance of these various factors is not known.

Employment of AFDC Mothers

Because most poor female-headed families with children receive AFDC benefits, the effect of AFDC on employment of mothers must be considered. Despite a loose work requirement, a special employment program, and financial rewards for work, in January 1973 only 16 percent of AFDC mothers were employed.[25] This figure is for employment in *one month* and is not comparable to data for annual work experience used in this discussion. AFDC mothers are likely to have seasonal or intermittent employment. In a year's time, perhaps three times as many would have some work experience. Still, employment rates are modest. Why is this?

AFDC mothers considered to be employable are referred to the work incentive (WIN) program administered by the Department of Labor and are expected to accept available employment.[26] Many other mothers not required to do so have voluntarily enrolled in WIN training programs. But WIN has not been very effective in upgrading job skills or in job placement after training.[27] Most employed AFDC mothers have found employment through their own efforts rather than through WIN. Penalties for failure to comply with work

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[24] Labor force participation increases with educational attainment, and the low educational levels of some poor heads of families is a deterrent to employment. About two-thirds of poor female family heads between the ages of 25 and 65 have less than a high school education. But almost one-half of poor family heads between the ages of 25 and 34 have at least a high school education, and their educational attainment is only slightly less than that of nonpoor heads of families. For younger women, therefore, educational levels alone do not account for the difference between employment status and income of poor and nonpoor female heads.

[25] *Findings of the 1973 AFDC Study: Part I, Demographic and Program Characteristics*, p. 58.

[26] Referral to WIN is required for a mother who is not ill, incapacitated, or of advanced age unless she has a child under the age of six in her care, or her presence in the home is required because of the illness or incapacity of another member of the household. Referral of a mother in an unemployed-father family is not required unless the father has refused referral. The mandatory referral applies to less than 40 percent of the caseload since 60 percent of AFDC families include a child under six. Mothers with children under age six may volunteer for WIN services. New WIN regulations proposed in the Federal Register on Sept. 18, 1974 would require AFDC recipients not only to register, but to *search* for employment. Also, a new manpower services option would be added to provide for the development of job-seeking skills for WIN-certified individuals.

[27] U.S. Congress, Joint Economic Committee, Subcommittee on Fiscal Policy, *The Effectiveness of Manpower Training Programs: A Review of Research on the Impact on the Poor*, by Jon Goldstein, Paper No. 3 (Washington, D.C.: Government Printing Office, 1972).

registration requirements are infrequently applied. Even if applied, they can be undercut by the operation of other programs.[28]

A major reason why more women on AFDC do not work probably is that AFDC cash and food benefits offer an alternative more attractive than low-paid employment. The traditional emphasis on welfare as a substitute for work still permeates the program, and the overall design of the program does not encourage employment. In most States, AFDC plus food stamps, medical care, and other benefits available to some low-income families (e.g., public housing, free school lunches) can provide total maintenance income larger than many welfare mothers could hope to earn. There may be an increasing reluctance on the part of young women to take low-paid, menial work, even though they may not be qualified by experience or training for higher-paid work. Also, it is likely that some mothers heading families prefer to sacrifice a higher income from a combination of work and welfare rather than to accept employment and leave their children in someone else's care.

Moreover, work is not always profitable for AFDC recipients. Because earnings reduce other benefits as well as the AFDC payment, the net increase in total income is not so great as would be anticipated from the benefit-loss rate applied to AFDC alone. There is evidence that some women who work do not report their earnings in order to avoid benefit reductions, but the extent of unreported earnings is unknown.

Finally, the traditional concept of work *versus* welfare is difficult to overcome. The primary original rationale for AFDC was to enable mothers to stay at home and give full-time care to their children. For more than 30 years it was generally understood that any earnings of family members would reduce the AFDC benefit dollar for dollar, and that unless the recipient could earn more than the amount of the benefit there was no financial incentive to work. In fact, there could have been a net loss of income since States were not required to disregard wages spent on work expenses until 1962. Consequently, many AFDC mothers thought they were not supposed to work and that they would lose all benefits if they did.[29]

The 1969 earnings-exemption provision, which requires that the first $30 of monthly earnings, plus one-third of the remainder, plus work expenses, be disregarded in determining the amount of the AFDC benefit, is rather complex. Recipients did not readily understand its potential for expanding their income. After 2 years of application of the provision, a study conducted for the Department of Health, Education, and Welfare found that many recipients still thought they

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[28] As a penalty for refusing work offered them, the AFDC benefit may be reduced by the mother's share of the payment, but increases in other benefits, such as food stamps, compensate for much of the lost cash income. See chapter III.

[29] The common belief that earnings *always* reduced the AFDC benefit dollar for dollar was, in fact, a misconception, since in more than half the States prior to 1969 the AFDC benefit structure permitted recipients to keep some earnings in addition to work expenses. See discussion of work experience of AFDC mothers below. Also see N. A. Barr and R. E. Hall, "The Taxation of Earnings Under Public Assistance," Massachusetts Institute of Technology Department of Economics Working Paper No. 85, April 1972.

would be penalized with dollar for dollar reductions in grants if they went to work.[30]

The earnings incentive appears to have had little overall impact on work effort nationwide. The proportion of AFDC mothers employed in January 1973 increased by only one percent over the proportion employed in 1967. There were extreme variations among the States, however, in changes in the proportion of mothers employed between 1967 and 1973. In the 33 States for which separate data are available, the proportion of AFDC mothers employed increased by 25 percent or more in 15 States; by 50 percent or more in nine States; and more than doubled in three States. At the other extreme, five States reported a reduction of more than one-third in the proportion of mothers employed.

Such a response to the work incentive could well be related to differences in understanding its advantages, and to differences in staff efforts to publicize and explain the new provision as well as to other factors unrelated to AFDC. The National Analysts' study found that only seven percent of the women recalled receiving an explanation in the mail from the welfare department, and only 14 percent recalled that a welfare department caseworker had explained the change in rules. In response to a mail questionnaire, one-half of the caseworkers in the study areas reported that they routinely told families about the earnings incentive; others explained it selectively; and one-fourth of the workers who took applications said it was not their function to explain this provision to applicants. Obviously, recipients cannot respond to an incentive provision they neither know about nor understand. The apparent positive response in a few States may have been due to a systematic effort in those States to be sure that recipients understood the advantage to them if they obtained employment.

There are also considerable variations among the States in the actual proportion of AFDC mothers employed—from seven percent in West Virginia to 35 percent in Nebraska.[31] The variations are due only partly to the initiation of the work incentive provision in 1969. A relatively high proportion of AFDC mothers has been employed in some States for many years. These are the States in which the traditional view of the separation of work and welfare has never applied. The structure of some State AFDC programs permitted women to increase family income by working even before 1969.[32] In 1967, before

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[30] In initial interviews 6 to 9 months after the new provision was effective, only 17 percent of AFDC mothers had heard about it. Half of them thought they would receive no benefits if their wages equalled their current AFDC payment. The effect of the earnings exemption was explained carefully to each recipient, but when re-interviewed a year later one-third of the women still thought that a job would cost them all benefits. Less than one-third recalled even hearing about the new provision, and less than half of these had a general understanding of its meaning. National Analysts, Inc., *Effects of the Earnings Exemption Provision on the Work Response of AFDC Recipients*, prepared for Social and Rehabilitation Service, Department of Health, Education, and Welfare, Contract No.: SRS 69-39 (Washington, D.C., 1971).

The study sample consisted of 2,245 AFDC mothers in 10 cities in different regions of the country.

[31] These and subsequent figures regarding employment rates for AFDC recipients are applicable to the month in which the surveys were conducted. As noted earlier, a larger proportion of recipients work for some portion of the year.

[32] These States placed a limit on the amount of benefits payable to a family with no private income, but allowed earnings or other income to make up all or part of the difference between the limited benefit and the State's standard of need.

the national work incentive provision, there were 15 States in which a woman with three children could have earned from $40 to $147 per month with no decrease in benefits. Earnings above these amounts reduced the AFDC benefit dollar for dollar, or at a benefit-loss rate of 100 percent. In another six States the benefit-loss rate was less than 100 percent of earnings and in three of these States, benefits were reduced by less than 50 percent of the mother's earnings. The median AFDC employment rate in States in which there was a financial work incentive in 1967 was 26 percent, almost double the national average of 15 percent. More than 30 percent of AFDC mothers were employed in nine States and more than half were employed in one State.

Data for 1973 are available for eleven States that offered a financial work incentive prior to 1969 and that currently have more generous earnings deductions or benefit-loss rates than required by Federal law. The median AFDC employment rate in these States was 26 percent in January 1973, and more than 30 percent of the mothers were employed in five of the States. In nine States that provided comparable benefits but that have a tradition of "taxing" away all earnings, the median AFDC employment rate was only fourteen percent. Among these States, the highest rate was 23 percent.

The highest rates of *increase* in the proportion of AFDC mothers employed between 1967 and 1973 is found among States that initiated the earnings exemption in 1969 and that have the highest AFDC payment levels. In the median State in this group, 16 percent of the mothers were employed. In five of these States the proportion employed increased by 70 percent or more, and the highest employment rate in 1973 was 24 percent. At the other extreme the greatest *reduction* in the employment rate of mothers occurred in States where the financial incentive to work was reduced, that is, in States that changed their payment structure from a more generous benefit-loss rate to conform to the more restrictive national provision. In Texas, the proportion of AFDC mothers employed dropped by 64 percent after this change (from 36 percent to 13 percent). In Louisiana and Alabama where, except for Mississippi, payment levels are the lowest in the nation, employment rates dropped by 42 percent. In 1973, 16 and 19 percent of AFDC mothers in Louisiana and Alabama were employed. By contrast, in Mississippi, which has the lowest benefit-loss rate in the country (27 percent), 31 percent of AFDC mothers were employed.[33]

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[33] Even though employment rates are higher in States that provide a generous work incentive, many mothers in these States do not work or work intermittently. In a study (multiple regression analysis) of the effects of cash payment levels and benefit-loss rates on employment rates of AFDC mothers, Garfinkel and Orr concluded that lower benefit-loss rates had a positive effect on employment. Mothers' employment rates were sensitive also to demographic factors (urban or non-urban residence, race, education, children under six) and labor market conditions (unemployment rates and wage levels). Their estimates suggest that considerable liberalization of earnings deductions and benefit-loss rates and reduction of payment levels might more than double AFDC mothers' employment rates. Even so, half or more would not be induced to work or could or would not work continuously, according to their estimates.

Irwin Garfinkel and Larry L. Orr, "Welfare Policy and the Employment Rate of AFDC Mothers," Institute for Research on Poverty, Discussion Paper No. 133–72, Madison, Wis., 1972.

In summary, there is evidence that AFDC has inhibited the work effort of recipients, but there also is evidence that many mothers of AFDC children will respond to a financial work incentive that they perceive can increase family income. Many mothers with low earning capacity cannot earn enough to fully support their families. Some have problems that virtually preclude employment. But to continue a system that can inhibit work, and that perpetuates the outworn division of welfare and work as mutually exclusive, is to abandon many families to poverty unnecessarily.

Family Size and Parental Responsibility

Trends in Family Size

The incidence of poverty among families increases as the number of persons in the family increases. Although families of all sizes have shared in the reduction of poverty in recent years, poverty rates still are relatively high for families with a large number of children, particularly in nonwhite families and female-headed families. More than half of families with five or more children were poor in 1959, but less than one-third were poor in 1972.

Table 25.—*Percent of families with income below the poverty level, by number of children, 1959 and 1972*

[In percent]

Race and sex of family head	1959	1972
All families	20	12
1 to 2 children	14	9
3 to 4 children	25	15
5 or more children	53	30
White families	16	8
5 or more children	45	21
Nonwhite families[1]	57	34
5 or more children	75	56
Male-headed families	16	6
5 or more children	48	19
Female-headed families	60	45
5 or more children	97	78

[1] Nonwhite family data used in 1959; black family data used in 1972.

Source: "Characteristics of the Low-Income Population: 1972."

The declining birth rate of recent years is reflected in smaller families among both the poor and nonpoor population. The total number of families with related children rose by 14 percent since 1959, but the number of families with five or more children decreased by 4 percent. The trend of changes in the number and proportion of large families is consistent for all family types except families headed by women. The total number of fatherless families with five or more children increased among both poor and nonpoor

families. In fact, large female-headed families increased at a faster rate than fatherless families in general. In 1959, one out of ten families with five or more children was headed by the mother, compared to almost one out of five families by 1972.

The shift in responsibility for large families from both parents to the mother only was even more marked among poor families. Poor male-headed families with five or more children *decreased* by 64 percent between 1959 and 1972, but poor families this size with a female head *increased* by 39 percent. The result is that while only 2 out of 10 poor families with five or more children were in the care of women in 1959, half of such families were female-headed in 1972.

Three factors may have contributed to this apparent shift of large families from male to female heads: (1) extended families are more common among families headed by a woman than among male-headed families; (2) the divorce rate for couples with four or more children almost doubled between 1960 and 1969; and (3) in most areas AFDC, food, and medicaid benefits to female-headed families, all generally geared to family size, can exceed the earnings of low-income workers, which often are insufficient even for moderate-sized families.

Public Welfare Benefits and Family Size

Although there is no evidence that AFDC induces increases in family size,[34] the incentives for family breakup and consequent AFDC eligibility are stronger for large families than for small families in most States. AFDC benefits generally are related to family size. Eleven States limit amounts of benefits to families by setting maximum amounts payable regardless of the number of children. But in other States, benefits are increased for each additional person in the home, resulting in benefits for large families that exceed wages of men in many localities. Ten States paid a family consisting of the mother and five children almost as much as the median earnings ($5,300 or $450 per month) of black men in 1972 and more than the median earnings of all male service workers, farm workers, and laborers. If such a mother were employed, the family remained eligible for an AFDC supplement, food stamps, and medical care until her earnings were more than the median earnings of all working men

[34] The average number of children in AFDC families actually fell from 3.1 in 1961 to 2.8 in 1971. In part, this decline is due to the increasing number of applicants with only one child, but in 1971, 60 percent of applicants approved for benefits had more than one child and 10 percent had five or more children. The size of AFDC families appears to be related to racial or ethnic factors more than to amount of benefits. In general, States with high benefit levels have the smallest families while the Southern States, with very low benefits, have the highest average number of children per AFDC family. The AFDC families with the largest average number of children and the highest proportion of families with five or more children are those with a disabled father in the home. In 1971, 29 percent of AFDC families with an incapacitated father had five or more children, as compared to 19 percent of families with separated parents, 14 percent with divorced parents, and 9 percent of families with unmarried parents. *Findings of the 1971 AFDC study.*

($7,991). All of these benefits—AFDC, food stamps, and medical care—increase as the number of children in the family increases.[35]

In contrast, social security limits the amount payable to families to one and one-half to two times as much as the covered worker's primary benefit. Because this maximum is reached with one or two children, a family with three or more children receives no more than a smaller family. Although benefits are not strictly wage-related, families of workers with low average covered wages receive less than families of higher-paid workers, regardless of the number of children in the family.

Federal Benefit Policy Concerning Family Size

The national trend toward smaller families is fairly recent but may continue as more families consider the cost of rearing children, their responsibility as parents, and their desire to maintain or increase the family's standard of living.

The decrease in large families with two parents and the contrary increase in large female-headed families may reflect the penalties to two-parent families imposed by welfare. Federally subsidized cash and medicaid benefits available to broken families, but generally denied to intact families, have become more than competitive with parental ability to support large families.

Programs that provide open-ended benefits from public funds for any number of children are unfair to parents who limit the size of their families; and they place an economic value on children that is inconsistent with current social and economic trends. Children no longer are economic assets, as they were when the society was agricultural. Indeed, they have become something of a "consumption" item. That is, many parents tend to have the number of children they believe they can afford on the expectation that they will be responsible for them.

Need for Reform of Family Policy in Income Supplement Programs

Priority must be given to clarifying policy and formulating the goals of a better income distribution system on behalf of families and children, rather than to attempts to improve separate segments of the existing outmoded system. The slackened rate of growth in AFDC families is no reason for delay; nor is there need to wait for precise evidence that AFDC creates a specified number of female-headed families. The present system, based on categorically-defined risk concepts, is inequitable and unrealistic. It provides an irrational set of incentives and disincentives by rewarding failure to marry and by penalizing parents who stay together.

[35] The food stamp program, for instance, provides a bonus of $24 a month ($288 a year) to a two-parent family with two children and gross earnings of $600 a month ($7,200 per year). A family with five children and the same earnings would receive bonus stamps worth $78 ($936 per year). A family with five children may receive food stamps until total family income is $900 a month or $10,800 annually. At this level of income, the family is eligible for a $36 monthly food stamp bonus ($432 per year). With six children, a family with $11,900 annual income may receive $480 in benefits, and the eligibility level is increased by $876 for each additional family member. The median income of two-parent families with five or more children in 1972 was $11,500.

The present system not only fails to support family stability; it is a disservice to low-income women as well as to men who are working to support families. After poor parents separate, the result is a family that the mother is even less able to support than was the father when he was there. Available noncash benefits plus AFDC discourage return of the father whose earning capacity cannot match the welfare income of his wife; and women heads of families are less able than men, on average, to earn the equivalent of the multiple benefits received by the family. If giving benefit preference to female-headed families does encourage family splitting, it is unreasonable to view the mother's work as the only solution to family support and growth of the AFDC rolls without first correcting the design features that are helping to create fatherless families.

To the extent that AFDC encourages poor men to leave home, it is a disservice to them, too. It provides an incentive for the father to sever family relationships when his earnings are inadequate for family support. He then is subject to legal action and criticism for failure to support, although his earning capacity is no greater than when he was at home.

The system is a disservice to taxpayers since it assumes public responsibility for support obligations when parents fail to marry or separate after marriage. It results in a transfer of tax funds from two-parent families and childless persons to one-parent families, and, in effect, it redistributes money from fathers who are supporting their families to fathers who are not. Furthermore, additional tax expenditures are required to enforce support obligations of fathers whom the system has encouraged to leave home.

The goal of public policy should be to support parental responsibility, not supplant it. An understandable public interest in preventing the destitution of fatherless children should not be construed as a public duty to provide full financial support for children whose parents do not maintain a home together. This is a distorted concept of public versus parental responsibility for children. It amounts to expecting parents who stay together to do their duty but relieving them of responsibility if they decide to separate.

A ceiling on public responsibility for the number of children in a family is sensible. But couples should not be expected to refrain from having any children simply because their wages are low. Income maintenance programs should supplement their low wages to help them rear a reasonable number of children. Beyond two to three children, however, parents should be treated as having made a consumer choice to forego a higher living standard in order to enjoy more children, and benefits should be less than the costs of rearing them. To help assure that the choice is genuine, family planning information and assistance should be available to help parents achieve their desired family size.

No income maintenance plan can solve all family problems, especially for poor families. No welfare plan can eliminate unwed motherhood, divorce, desertion, death of the father, or problems in collecting child support. Even with a plan that covers intact families, some still could be poor. And some fatherless families are likely to have special financial problems that even a relatively generous income maintenance plan cannot solve completely.

Chapter V. EMPLOYMENT AND INCOME DEFICIENCIES

Wages, salaries and fringe benefits account for nearly three-fourths of personal income in the United States. Thus, one concerned with the poverty of American families turns first to their employment problems.

The supremacy of jobs as a source of income has influenced the design of government programs aimed against poverty. The government has sought to stimulate aggregate employment in the economy and to provide income for individuals and families lacking jobs or potential workers. However, this strategy overlooks the poverty of millions of persons whose breadwinner already has a steady full-time job. Nearly 87 percent of all male-headed families relied on work in 1972 for 75 to 100 percent of their total incomes, and 50 percent of all poor families headed by men received a similar proportion of their income from earnings.[1]

Types of Employment-Income Deficiencies

Families or individuals fail to earn enough money for many reasons. Low-income breadwinners include: the medical student whose spouse must care for their baby; an auto worker who has been laid off because of a sudden drop in the demand for automobiles; a full-time service station worker whose regular wages are below the poverty level for his family; and a father with a long-term disabling illness. None of these families earns enough to attain a decent living standard. But no one would suggest that the root of their problems is identical or that the government should act in the same way to help each. To decide the appropriate role for government policy, one must first identify the major causes of insufficient earnings.

Life cycle factors operate in the case of the medical student. Some families have low incomes because the prime worker or workers are students or have jobs with low starting pay but high ultimate salaries. Income data for a given year classifies many of these families as poor even though their income gap merely indicates that they are in an early career stage.

The Council of Economic Advisers recently suggested that the role of age in determining current income probably is increasing, partly because workers spend more years in school.[2] As a result, the

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[1] "Characteristics of the Low Income Population: 1972," table 42, p. 128.

[2] "Annual Report of the Council of Economic Advisers," in *Economic Report of the President: February 1974* (Washington, D.C.: Government Printing Office, 1974), pp. 145–148.

share of families with low earnings in a given year may rise while the share of families with long-term deficiencies in employment income does not change.

To illustrate that life-cycle poverty is relatively short-lived, one can examine the effect of age of the family head upon income received by families with the same male head for five years, 1967-71. Of those families who were poor or near-poor in any of the five years, only about 10 percent made consistent gains in income that lifted them out of poverty by the end of the five-year period. However, for families whose head was less than 25 years old, the comparable figure was 36 percent.[3] Clearly, much of the poverty of young male-headed families in this national sample was temporary in nature.

Temporary deficiencies in earnings occur for many reasons. Recessions or milder downturns in the economy raise the overall unemployment rate for periods of 6 to 18 months, costing many families their jobs.[4] Earnings are cut by shifts in labor demand or supply by industry, occupation, or geographic area. The layoffs made by the Boeing Corporation and more recently by the auto industry show that many families who normally are well above poverty suddenly can face large temporary deficits in wages and salaries. Also, such diverse factors as natural disasters and temporary illness or injury cause short-term income losses to families.

Data on the 1967–71 income experience of families are useful in assessing the importance of temporary phenomena. Of all families in poverty or near poverty at least one of the five years, about 13 percent had average incomes for the entire five years of more than 1.5 times the poverty line.[5] In most of these cases, low earnings were responsible for the short-term income problem. Census data provide another estimate of the role of unemployment and of temporary illness or injury in causing poverty. In 1971, about 16 percent of the men heading families with incomes under $5,000 were part-year workers whose main reason for not working all year was either unemployment, illness, or injury. Of course, some of these men may suffer some unemployment or illness in most years, and thus face persistent poverty.

The worst and most pervasive problem facing poor families is a *chronic deficiency* in wages. Some poor families have insufficient money despite the full-time, year-round job of an adult. Family heads fully committed to year-round, full-time employment may not earn enough because their wage rates are low, either absolutely or relative to family size. First, low educational attainment and lack of training may prevent the family head from obtaining a moderate-wage job. Nearly three-fourths of men heading families that were poor all five years between 1967 and 1971 had completed

[3] J. P. Lane, "Turnover in the Poverty Population," unpublished manuscript, 1973, pp. 6–8.

[4] Students of national unemployment no longer regard the problem as a fixed body of workers unable to find any job. Instead they emphasize job turnover factors, such as the impact of job search activities and wage expectations, on the duration of unemployment. Unfortunately, public policy generally has failed to adapt to these realities.

[5] Lane, pp. 4–5.

only 8 years of schooling or less. Many of these men worked at jobs with little on-the-job training or advancement possibilities.

Location is a second reason for chronic low earnings. Of the families headed by men who were poor 1967 through 1971, more than half lived in rural areas where wages generally were below the national average.[6] And about half of all poor male-headed families in 1972 resided in the South, the region with the lowest average wages.

A third cause of chronic inadequate earnings is discrimination by race, by sex, and by national origin. Past discrimination did permanent damage, preventing minority workers from taking many jobs with substantial on-the-job training components, jobs that by now would be yielding moderate incomes. Similarly, current discrimination restricts the future earnings capacity of its victims.

Fourth, some families lack earnings sufficient to escape poverty not because absolute earned income is extremely low but because family size is large. The average number of children under 18 in poor families headed by men that were poor from 1967 through 1971 varied between 5.2 and 5.9, whereas families whose poverty was temporary averaged between 3 and 4 children.[7]

Many families remain poor year after year because no member is available for steady, full-time work. In 1972, about 37 percent of all poor families and about 67 percent of all poor unrelated individuals earned nothing.[8] The share of families with no steady earner approached 50 percent among those who were poor from 1967 through 1971.[9] Nearly all poor families without a steady worker were headed by a mother, by a person over 65, or by a disabled person. Few of the poor able-bodied fathers of prime age failed to work.

Although it appears easy from these data to divide families into two groups, those headed by "employables" and those headed by "unemployables," such a classification would be misleading. It implies a strict division between those for whom work is convenient and those for whom work is impossible. Actually, employability is a matter of degree. Large numbers of aged persons and mothers raising preschool children alone do work, and their work effort depends significantly on such factors as the availability of nonwork income and the quality of job offers. For example, more than one-third of men age 65 and over worked during 1972 and 12 percent worked full time, year round.[10] In 1967 more than half the married men age 72 and over whose other family income was below $500 worked or looked for work, but only 10 percent of those with other family income between $1,500 and $3,000 did so.[11] Work effort by these aged men was related to economic need.

The categories described here—life cycle factors, temporary deficiencies in earnings, and chronic deficiencies in earnings—emphasize the problems of too little income rather than those of too few jobs. The number of poor and near-poor persons is viewed as more

[6] Lane, pp. 6–8.
[7] Ibid.
[8] "Characteristics of the Low Income Population: 1972," table 40, p. 123.
[9] Lane, p. 4.
[10] "Characteristics of the Low Income Population: 1972," table 14, p. 71.
[11] U.S. Department of Labor, Bureau of Labor Statistics, "A Micro Model of Labor Supply," by Malcolm Cohen, Samuel Rea, Jr., and Robert Lerman, Staff Paper 4 (Washington, D.C.: Government Printing Office, 1970), p. 41.

important than the number of unemployed persons. Differentiating temporary and chronic difficulties also is more useful for modern labor market analysis than making the traditional distinctions between the employed and the unemployed, and between low- and moderate-wage workers. One cannot look simply at surface symptoms, particularly unemployment, to diagnose a particular family's income deficiency. Unemployment of less than five weeks may signal a temporary drop in income caused by the brief layoff of a manufacturing worker with a steady, good-paying job, or may be a sign of chronic poverty such as that suffered by workers moving through a succession of low-wage, unstable jobs.[12]

Chronic Income Deficiencies and Existing Benefit Programs

A large number of Federal, State, and local programs, described earlier, provide income to families whose earnings are low. But these programs are inadequate for the task. As a result, cash programs designed for other purposes have been stretched to perform a welfare role, reducing their capacity to achieve their original goal, yet leaving them inefficient against poverty.

Consider the case of unemployment insurance (UI). The basic purpose of UI is to partly compensate workers for a temporary loss of earnings in covered employment. Problems arise when UI's role is expanded (*a*) to provide long-term benefits, sometimes beyond six months, and (*b*) to compensate workers who are subject to expected seasonal unemployment. The UI program is a poor vehicle to help those with persistent poverty, for its benefits go to some families but not to others with equal or worse wage problems. For example, UI gives nothing to the worker with a steady, low-wage job, but it aids the worker with equal annual earnings prospects from a moderate-wage *seasonal* job. UI fails to deal adequately with even the lack of wages caused by unemployment because the jobs of many low-wage workers are uncovered by UI or too short to qualify them for benefits. A survey of low-income areas in 51 cities demonstrated that many low-income fathers received no help from UI during their unemployment. Of 69,000 men heading families with annual incomes below $5,000 who experienced unemployment, 54,000 of whom were unemployed for more than 5 weeks, only 21,000 received *any* UI benefits.[13]

Attempts to use UI to relieve chronic problems have the unfortunate side effect of depressing wage-replacement rates for workers with above-average wages. Generous but temporary aid from UI is the appropriate way of helping families through such employment dislocations as those caused by economic downturns, specific business failures, and sudden demand shifts like those caused by the energy crisis. Such short-term benefits should replace a high proportion of after-tax earnings of both low-wage and high-wage workers. Weekly

[12] Lane, pp. 10–12.

[13] U.S. Department of Commerce, Bureau of the Census, *Census of Population: 1970 Employment Profiles of Selected Low Income Areas. Final Report PHC (3)-1 United States Summary-Urban Areas* (Washington, D.C.: Government Printing Office, 1972), pp. 193–196.

benefits are adequate for low and moderate-wage earners but somewhat low for above-average workers. The average UI weekly payment in 1970 was 69 percent of after-tax earnings for a married man earning 70 percent of the median wage in his State, but the comparable wage-replacement figure for the married man whose normal wage was 130 percent of the State median wage was only 46 percent.[14] Thus, an above-average wage earner who suffered from some economic displacement beyond his control was compensated for less than half of his normal after-tax earnings.[15]

Government training programs also attempt to alleviate chronic poverty. The Federal manpower training effort has cost significant sums, much of which has been earmarked for disadvantaged workers. A subcommittee staff study [16] found that some programs were worthwhile and others were not, but concluded that they certainly could not have a massive impact on the incomes of the poor. First, training graduates of successful programs often remained poor in spite of gains in earnings. Second, the number of trainees over the last decade has been small relative to the low-income population, but massive expansion of training programs would likely reduce rather than increase the return on individual trainees. To quote directly from the staff study:

> Increased enrollments will make it difficult to duplicate the quality of past training programs. Instructors are a scarce resource, and attempts to hire more of them may increase the per capita cost of training. Selecting the positions for which participants should be trained is already an uncertain task, and the risk is multiplied as the program grows. Judgment errors will occur, creating excess supplies of some occupational skills.
>
> Thus far, trainees have comprised a negligible proportion of the labor force, and the additional competitive pressure which they have exerted on wage rates has probably been small. A much more ambitious program of training for the low-income population would encounter increasing difficulties in getting graduates absorbed into the private sector.[17]

In short, there is no satisfactory existing mechanism for supplementing the low earnings of most workers. If this is determined to be an undesirable situation, its remedy will require the development of a new program or programs.

Government and Individual Responsibilities for Attaining Adequate Incomes

Most Americans believe that the government should assume the duty of assuring that jobs exist for all who are willing and able to work,[18] that able-bodied individuals are responsible for working at

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[14] Feldstein, "Unemployment Compensation," pp. 12–13.

[15] Of course, employer taxes per worker are a higher percentage of earnings for a low-wage than for a high-wage worker.

[16] See Joint Economic Committee, Paper No. 3.

[17] Ibid., p. 13.

[18] A Gallup Poll taken in December 1968 found that 79 percent of a nationally representative sample of adults favored a government job guarantee to each

available jobs to earn enough to support themselves and their families, and that the government should aid persons unable to work steadily. If the country divided into two groups, persons fully capable of earning an adequate income and persons with no capacity to work, the current concept of government responsibility would be appropriate. However, many persons are neither fully capable of earning an adequate income nor completely incapable of working.

The wide range of potential for individual and family self-support requires flexible definition of the government's responsibility. Emerging is a concept of shared responsibility: the idea that nearly all low- and modest-income individuals should be eligible for government income support, and, simultaneously, that nearly all should be responsible for providing at least some of their own support. This general principle is hard to translate into action. How does one determine the appropriate government and individual shares for different persons and families? Ideally, the extent of government help would depend on the recipient's capacity for self-support. In practice, this approach would be impractical, arbitrary, and unfair because of the great difficulty in determining a family's potential. Past efforts to use such individualized approaches in AFDC have failed. If individual determinations are inappropriate, what other methods may be used to measure the government help each family should receive?

One approach would be to apply different benefit schedules to different population groups based on *group differences* in potential for self-support. Earnings capacities are lower and work expenses often are higher for the aged, the disabled, and mothers heading families than for single adults, childless couples, and two-parent families. These differences may be reason for giving the less advantaged subgroups more generous benefits but they do not justify total denial of aid to the more advantaged subgroups. Within subgroups there is substantial individual variation in the capacity for self-support. For example, the range in earning potential among two-parent families is at least equal to that between two- and one-parent families. Benefit schedules often offer income supplements on a sliding scale to take account of these within-group differences.

By providing the highest dollar benefits to those with the lowest incomes within each subgroup, the government helps most those with the worst unemployment problems and those with the poorest wage opportunities. But these same benefit variations result in paying different amounts to families who, despite the same potential for self-support, make differential efforts to reach their potential. The justifications for paying the same amounts to all families with the same income, whether the reason for low income is low potential or low effort, are: (1) it is nearly impossible to divide income deficiencies into those caused by low potential and those caused by low effort, and (2) even families not working up to their potential should not starve.

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family at a $60 per week wage, than 88 percent of the poverty line for a family of four. See the *New York Times*, January 5, 1969, p. 44. Although the wording of the question asked seemed designed to elicit the response it did, the response does indicate a concern for unemployed and underemployed persons.

The expectation of individual self-support also depends on the state of job opportunities open to low-income family heads. Is a job a realistic option? Or are general conditions so poor that there are simply no jobs available for many family heads?

In recent years aggregate unemployment rates have remained well above the 3.5–4.0 percent rates necessary to achieve full employment.[19] As a result, many workers have found it difficult to get a job. Poor families, especially, suffer from substantial unemployment. Of poor male family heads who worked in 1972, 23 percent worked less than a full year because of unemployment. In comparison, only 8 percent of nonpoor male family heads were limited to part-year work due to unemployment.[20] Unemployment rates in March 1973 were much higher for poor than for nonpoor family heads. Poor male and poor female family heads had unemployment rates of 7.9 and 17.8 percent, while rates for nonpoor heads were 2.5 and 8.5 percent, respectively.[21] However, their higher incidence of unemployment does not prevent most poor families from earning some of their own support. Nearly three-fourths of poor families headed by men and over one-half of poor families headed by women had some income from employment in 1972. About 3 percent of poor male heads in the labor force and about 6 percent of poor female heads gave "unable to find work" as the main reason for not working during the year.[22] Thus, although poor families do suffer a high incidence of unemployment, very few cannot earn at least part of their own support during the year. The apparently limited job opportunities of recent years should not fully relieve families from their obligations of self-support.

Individual Responsibility and Financial Incentives for Self-Support

In designing a good system of income support for poor persons, *financial incentives* for self-support are imperative so as to preserve recipients' work effort. It is well recognized that income support payments cannot avoid interfering to some extent with the goal of maximizing beneficiaries' own efforts at self-support. Thus, the relevant policy questions are: (a) How significant is the interference of benefits with self-support? and (b) What program features offer the best compromise among the competing goals of maximizing work efforts of beneficiaries, ending the most extreme poverty, and minimizing costs to the taxpayer?

These questions can be examined in the context of two different

[19] Full employment is the condition under which all persons looking for work (presumably at going wage rates) can find a job. The concept of full employment is consistent with some amount of frictional unemployment, or unemployment due to the voluntary movement from job to job that involves some short period of unemployment. The precise aggregate unemployment rate consistent with the concept of full employment is controversial.

[20] "Characteristics of the Low Income Population: 1972," table 30, p. 97.

[21] Ibid., table 26, p. 93.

[22] Ibid., table 30, pp. 97–8.

types of plans: (1) work-conditioned plans such as a wage subsidy,[23] an earnings subsidy,[24] or a guaranteed public job program, each of which would give no aid to individuals who failed to work, and, in the case of wage and earnings subsidies, to those unable to find work; and (2) a pure income supplement,[25] which would make payments to all families with low income, whatever the reason. Although it may appear otherwise, both types of programs carry the expectation of some self-support. For an income supplement that provided a low or modest payment to the penniless, and lesser amounts for those with some income, recipients would have to work in order to obtain an adequate or comfortable income. In fact, depending on the respective benefit schedules, recipients of an income supplement might have to work longer hours than beneficiaries of a wage subsidy to have the same total income.

INCOME SUPPORT AND HOURS OF WORK

Different programs would influence work behavior differently. In the case of a cash or noncash need-based benefit with a maximum benefit that is reduced by some portion of private income, recipients may reduce work effort for two major reasons. First, they may find income from government benefits sufficient to allow them to quit or reduce work effort. Second, since benefits are reduced as income rises, recipients may lose so many dollars in benefits that work becomes relatively unprofitable. In the case of a wage subsidy, recipients are encouraged to work more because their wage return rises with extra hours of labor. On the other hand, work-conditioned wage subsidy benefits also may cause recipients to work less by helping them afford added leisure.

Since many low-wage earners work well over 40 hours per week trying to support their families, small reductions in time at work by poor people may be a minor concern. If government benefits allow such families to attain an adequate income by working only a normal week, a small reduction in their work hours might even be desirable. The concern, however, is that some workers may either stop working entirely or cut work time significantly. These reductions would add greatly to the government cost of eliminating poverty, and the extra cost would fail to help poor families purchase more food, housing, or clothing.

A volume of papers prepared for the subcommittee reviewed a large body of studies on the work incentive issue[26] and provides three ways of judging the effect of government aid on work behavior.

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[23] A wage subsidy supplements low wages by setting a target wage and paying the worker some fraction of the difference between the target wage and his own wage. For further discussion of wage subsidies, see chapter VII.

[24] An earnings subsidy bases benefits on total earnings rather than the hourly wage rate. For further discussion of earnings subsidies, see chapter VII.

[25] In its most general form, an income supplement plan sets a basic benefit for persons with no other source of income and reduces this maximum benefit by less than one dollar as earnings rise by one dollar. For further discussion of income supplements, see chapter VII.

[26] U.S. Congress, Joint Economic Committee, Subcommittee on Fiscal Policy, *How Income Supplements Affect Work Behavior*, Paper No. 13 (Washington, D.C.: Government Printing Office, 1974).

1. Experimentation.—One paper reported on findings from a government-sponsored experiment with an income supplement program in New Jersey and Pennsylvania.[27] Poor husband-wife families received cash payments that were withdrawn gradually as earnings rose, and another group received nothing. On the basis of the work records of both, analysts tried to determine whether the availability of benefits altered work behavior. The results showed that husbands eligible for supplements worked only 6 percent fewer hours weekly than ineligible husbands, and that wives in assisted families worked about 15 percent less than those in unaided families. Because of the short length and sample nature of the experiment, and because of changes in New Jersey's welfare program that occurred during the three-year experiment,[28] these findings cannot be regarded as conclusive. Nevertheless, they are encouraging. Poor families offered a sizable payment chose to continue their efforts at self-support at nearly the same levels as those not offered a payment.

Chart 11 shows the effects, on hours worked and earnings, of cash supplements paid to husbands and wives in the New Jersey experiment.

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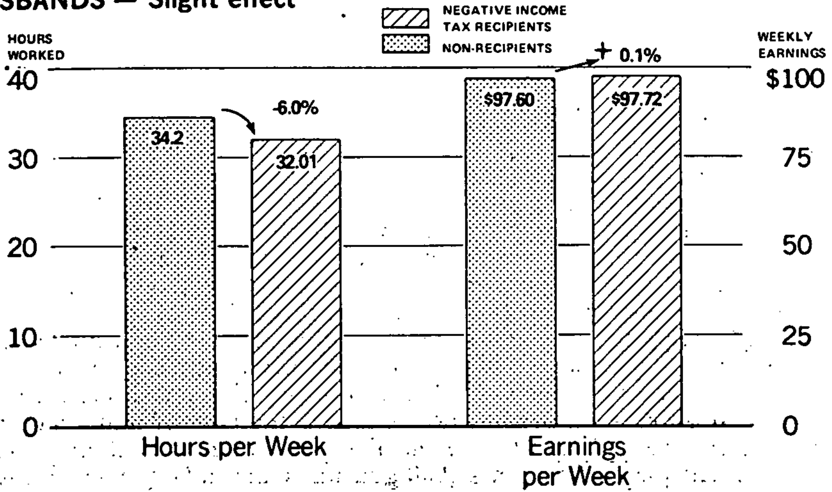
[27] See Joint Economic Committee, "Income Transfer Programs and Work Effort: A Review," by Irwin Garfinkel, Paper No. 13, p. 6.

[28] During the experiment, New Jersey initiated an AFDC–UF program, then terminated it, and replaced it with a State general assistance program that covered low-income unemployed and working fathers in two-parent families. Because benefits from this program sometimes exceeded experimental benefits, some families moved from the experiment to the State program.

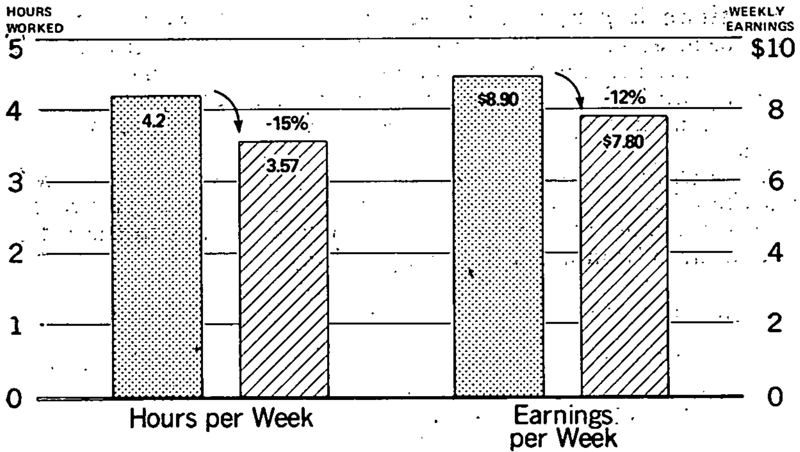
Chart 11.

EFFECT OF INCOME SUPPLEMENTS ON WORK EFFORT: NEW JERSEY INCOME MAINTENANCE EXPERIMENT

HUSBANDS — Slight effect



WIVES — Moderate effect



2. Cross-section analysis.—Analyzing work patterns among individuals with different wage rates and different family incomes is another method for estimating the impact of income supplement programs on work effort. Analysts have tried to simulate the effects of benefits themselves and of the reduction in net wages produced by benefit-loss rates by comparing how work patterns differ among individuals with different wage rates and different nonwage incomes. Such cross-section analysis requires two large and important assumptions, or leaps of faith, depending on one's point of view. One is that potential recipients will respond to income supplements just as they would to extra nonwage income of another sort, such as interest, dividends, and rent, and that they will react to the reduction in net wages caused by benefit loss as they would to any other wage cut. The second assumption is that individuals at different wage and nonwage incomes would work the same amounts if their wage and nonwage incomes were the same. For example, an individual whose nonwage income is boosted from $100 to $1,500 by a supplement would be expected to work as much as someone with otherwise similar characteristics whose pre-supplement dividend income is $1,500.

The findings from the best of these cross-section studies are similar to the New Jersey experimental results in the case of adult men but not in the case of adult women. The prediction is that an income supplement plan offering a $3,000 guarantee and a 50-percent benefit-loss rate would cause a slight decline of three to five percent in the work hours of able-bodied men, but a larger fall of perhaps 30 to 50 percent in work effort of wives. The estimate for wives is two to three times larger than the experimental results. One reason for skepticism about the larger estimates is that they are inconsistent with observed trends in work patterns of married women over the last twenty years. Large increases in the percentage of working wives have occurred alongside large increases in other components of family income.

3. Existing income support plans.—Analysis of AFDC indicates that the labor effort of mothers heading families is highly responsive both to the amount of benefit income available and to the net monetary rewards from work. (See chapter IV.)

Work Incentives and Other Income-Support Program Goals

How are these issues relevant to the taxpayer? First, many Americans who want to help the poor achieve a decent standard of food, housing, clothing, and transportation oppose spending money to subsidize large work reductions by the poor. Second, many Americans favor providing income support in a way that allows poor workers a moderate return on their labor. But to do so costs the taxpayer money. In considering whether spending the extra money is worthwhile, the taxpayer may want to know by how much improved financial work incentives will increase actual work effort. The greater the increase in actual work effort, the smaller the cost to the taxpayer of improving work incentives by lowering the benefit-loss rate.

A paper prepared for the subcommittee took into account probable work-reduction effects in comparing a large number of income supplement and wage subsidy proposals.[29] The predictions of work-reduction effects are derived from cross-section econometric studies that are subject to the inherent limitations discussed above, and so one cannot place great confidence in their accuracy. Nevertheless, this approach illustrates how one might address the problem of resolving the compromise among goals. The results are based on 1966 wage, income, and work hours data and they cover all families with at least one person age 25 and over who worked at any time in 1966. Since wages and incomes have risen considerably since 1966, all costs noted would be lower today at the specified benefit levels, and the impact on work would likely be lower as well.

Three income supplement plans were compared offering an income floor of $2,400 to a family of four but with benefit-loss rates of 67, 50, or 33 percent. Without taking account of work reductions, lowering the benefit-loss rate from 67 percent to 50 percent would have raised estimated budget costs from $4.6 to $7.5 billion; but a further decline to 33 percent would have doubled gross budget costs to $15 billion.

Since all the plans would have reduced recipients' own work, the government would have had to spend some additional money to compensate for lost wages. The lower the benefit-loss rate, the better the work reward and, hence, the lower the anticipated work reductions. Taking account of possible work reductions would have added $1.3 billion to the plan with the least generous benefit-loss rate (67 percent), but only $0.8 billion to that with the most liberal rate. The latter would have reduced work hours of recipients by an estimated six percent, but the 50-percent plan would have doubled their work losses, and the 67-percent plan would have almost tripled them. Although recipients would have curbed their percentage cuts in work as the benefit-loss rate declined, those lower rates would have raised eligibility levels and thus qualified more persons for benefits, inducing some extra reductions in work and limiting the differences among the three plans in the *total* number of lost work hours.

The plans also have different impacts on poverty. While the 50-percent benefit-loss rate plan would have cost $2.7 billion more than the 67-percent plan, the number of filing units[30] moved out of poverty by the 50-percent plan would have been 1.65 million, four times the number so aided by the least generous benefit-loss rate plan. Lowering the benefit-loss rate still further to 33 percent would have added $7.2 billion to budget costs but would have brought out of poverty only an added .8 million filing units.

This kind of analysis helps in the choice of parameters for an income supplement plan, although how one resolves the trade-offs among cost, work incentive, and poverty impact ultimately is decided by

[29] Joint Economic Committee, "Trade-offs Between Alternative Income Maintenance Programs," by Samuel Rea, Jr., Paper No. 13, pp. 33–63.

[30] Filing units are households with at least one person age 25 or over who was in the labor force. Persons "in the labor force" include those looking for work as well as those actually employed.

moral values.[31] According to these estimates, the 50-percent benefit-loss rate seems to have significant advantages over the 33-percent and 67-percent rates.

These estimates also allow comparisons between wage subsidies and income supplement plans in terms of costs, work-hour reductions, anti-poverty effects, and distribution of benefits to the poor. A note of caution is in order with respect to these comparisons, however. One cannot compare the basic program types solely on the basis of Rea's work because they may take a variety of forms, as discussed in chapter VII. Moreover, the wage subsidy simulations assume the abolition of food stamps, AFDC, AFDC–UF, and general assistance benefits for workers, benefits which may more easily be abolished in theory than in practice if the alternative is no benefits for persons unable to work or to find work.

Two wage subsidy plans of similar costs to the income supplements discussed above were also simulated. These wage subsidies had the following provisions: a 100-percent benefit-loss rate on nonwage income, a maximum of one subsidy per family, a target wage of $2.00 per hour, and a subsidy rate of 50 percent or 75 percent.[32] The gross budget costs of the less generous wage subsidy (50-percent subsidy rate) would have been $8.6 billion in 1966, or about the same as the income supplement with a $2,400 guarantee and a 50-percent benefit-loss rate. But the wage subsidy would have reduced the number of units in poverty by 2.6 million while the comparable reduction under the pure income supplement plan would have been 1.7 million. Part of the apparently higher anti-poverty effectiveness of the wage subsidy is due to its smaller percentage decline in work hours. Also, the result of reducing benefits $1 for each $1 of *unearned* income under the wage subsidy plan, rather than by 50 percent as under the income supplement plan, is to target more funds on the poor. The more generous wage subsidy would have cost $16 billion, or about as much as the income supplement with a $2,400 guarantee and a 33-percent benefit-loss rate. Again, the anti-poverty effect of the wage subsidy is larger; the margin is 3.7 million units to 2.4 million units.

Although the simulated wage subsidies remove more persons from poverty per dollar spent, the simulated income supplements concentrate a higher percentage of benefits on the lowest-income units. Comparing the two rival plans with an $8.6 billion cost, one finds that $3.1 billion of the wage subsidy benefits would have gone to

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[31] The amount by which benefits decline with income (the benefit-loss rate) is a significant factor in the division of labor between individuals and the government. If benefits fall a very high amount with each dollar of earnings or other private income, say 70–80 percent, then the implication is that the government is responsible for a very large amount of the income deficiencies of low-income people. Individuals could not play a large role in determining their total income until it reached the level at which no government benefits are paid.

[32] The subsidy rate is the percentage paid of the gap between the worker's actual wage and a government-set target wage. With a subsidy rate of 50 percent and a target wage of $2.00 per hour, the wage subsidy paid to a worker earning $1.50 per hour would be 25 cents per hour, or one-half of $2.00 minus $1.50.

units with incomes at or below the level of $750 per adult and $450 per child (or equivalent to $2,400 per year for a family of four), but $4.7 billion of income supplement benefits would have gone to these poorest families. Virtually none of the latter plan's benefits would have gone to aid families whose incomes were above the equivalent of $4,800 per family of four, but such families would have received $2.8 billion in wage subsidy benefits.

The finding that wage subsidies are more effective against poverty appears at odds with the finding that more dollars go to the poor under an income supplement. This apparent inconsistency is easily explained. Since someone must have some earnings in order to receive a wage subsidy, it may take only a small benefit to bring him from just under the poverty line to just over it.[33] Some persons cannot find or hold a year-round, full-time job, however, and such persons would account for the greater number of dollars going to the poor under an income supplement plan.

Summary

Some poverty seems related to temporary shortage of earnings, due either to prolonged schooling, illness, or one-time interruption of steady work. But chronic earnings deficiency is the most pervasive problem facing the working poor, who constitute a large proportion of the poverty population.

In discussion of welfare reform, a concept of shared responsibility is emerging: the idea that nearly all low- and modest-income individuals should be eligible for Government income support while simultaneously retaining responsibility for providing at least some of their own support. The problem is how to design a program which translates such a concept into action.

The key to reconciling these objectives is to provide financial incentives for work. Two types of general plans to do this: (1) work-conditioned plans, such as a wage subsidy, an earnings subsidy, or a guaranteed public job program, all of which would give no aid to most individuals who do not work; and (2) need-based cash payments that reduce benefits by less than $1 for each dollar earned.

On the basis of theoretical simulations and program experimentation, it has been found that low- and moderate-income workers can be aided in ways that do not significantly distort their own self-help efforts. Minimizing work disincentives, one desirable goal, is most easily achieved by giving benefits only to those who actually work. But, since many persons have difficulty obtaining full-time, year-round work, conditioning aid on actual work will decrease benefit dollars going to the poorest persons.

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[33] Using movement across the poverty line as the criterion, a plan which moves 10 workers earning $4,000 each to $4,600 each (above the line) is more effective than a plan which moves 10 persons with $2,000 each to $2,600 each.

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Chapter VI. DIFFERENT GEOGRAPHIC COSTS OF LIVING

The government's obligation to help the needy is the chief reason for income support programs. But controversy snarls the question of the Federal Government's duty to poor persons who live in areas where living costs and wages are abnormally high or low. Is the government responsible for helping families achieve adequate buying power even if they live in Arlington, Va., the Nation's richest county? [1] Or should the government provide equal dollar amounts to all, whether they live in rural Mississippi or urban New York, and rely on the families themselves to choose their best location? In answering these questions, the roles of the Federal, State, and local governments must be defined. Should the Federal Treasury mail checks directly to the poor or should it pay them indirectly through State and local governments? Should State governments be required, helped, or forbidden to give their poor extra money above any basic Federal benefits?

Alternative Policies for Setting Benefit Schedules

The Federal Government may adopt three primary patterns in benefit programs. First, it may establish 100-percent federally funded benefits. Such programs usually have uniform nationwide benefit schedules, but area variations are possible, especially in cases of local administration. Second, the Federal Government may give State and local governments Federal funds under various kinds of reimbursement formulas, but delegate to these governments the power to decide how much the poor shall receive. Third, the Federal Government may provide equal or varying benefits under a basic Federal program and allow States, sometimes with Federal reimbursement, to provide supplementary benefits.

1. Fully Federal benefits.—In the first category, Federal benefits flow directly to the individual recipient without any action by intervening governments. Most of these, such as veterans' pensions and social security,[2] use a single benefit schedule throughout the Nation. The food stamp program, federally funded but locally ad-

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[1] The Census Bureau reports that Arlington, Va., had the highest per capita income among U.S. counties in 1969.

[2] Social security uses the individual's record of dollar earnings in covered employment as the primary criterion for taxes and benefits. Thus, benefits for persons with equal earnings histories are identical regardless of the beneficiary's current residence. Beneficiaries may use social security benefits to live wherever they prefer. In this case, the national benefit schedule leads to higher payments in high-wage than in low-wage areas. This happens because workers and their dependents receive benefits that rise with the worker's level of covered earnings. However, since payroll tax payments are higher in high-wage areas and since benefit differences are narrowed by the high minimum benefit under the benefit computation formula, the program's net flow of Federal dollars may not run in the direction of high-income areas.

ministered, also uses a uniform benefit schedule for most recipients.[3] Such a policy is consistent with the method by which the Federal Government has counted the poor since 1964. The U.S. Bureau of the Census uses the same dollar income figure to assess a family's poverty status, whether the family lives in New York City or Topeka, Kans.[4] This approach also accords with the Federal personal income tax, which bases tax liability on absolute dollar income unadjusted for area prices or incomes.

One result of this approach is that the net flow of Federal benefits based on need is from the highest to the lowest income areas. This is the natural outcome of a Federal policy concerned with distributing benefits and tax burdens among individuals, not among geographic areas.[5]

Many argue that this policy is unfair, contending that benefit schedules should depend not only on a person's dollar income but also on the buying power of a dollar in his area of residence and the size of his income compared to that of his neighbors. This logic leads to Federal benefit schedules that offer higher payments in areas with higher prices. This is an appealing policy because it treats people with equal purchasing power equally. Currently, few programs make such price adjustments, probably because of the enormous technical problems in doing so.

2. State-determined benefits, subsidized by Federal funds.—Allowing State and local governments to establish benefits that the Federal Government helps finance is a second broad alternative. This is the policy of the AFDC and medicaid programs. As a result, benefits and coverage vary considerably, much more than price differences. Instead, they depend largely on State ability to pay.

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[3] Three features offset the general rule of uniform food stamp benefits. First, benefits are higher in Alaska and Hawaii because of much higher food costs in those States, and benefits are lower in Puerto Rico because the legislation takes into account the lower incomes in Puerto Rico. Second, welfare recipients whose income exceeds the food stamp schedule's maximum may nevertheless gain a specific dollar subsidy, worth about $24 monthly for a family of four, as long as they continue to receive cash welfare payments. Since the welfare recipients who benefit from this non-income criterion tend to live in relatively high-income areas, it partially offsets the general tendency of food stamps to channel money toward low-income areas. Third, the food stamp program allows recipients to deduct rent payments in excess of 30 percent of net income in determining income for food stamp purposes. This feature indirectly helps most those in high-cost areas.

[4] The Census Bureau does vary the poverty income thresholds by farm or nonfarm residence. This variation is designed to correct for the uncounted income farm residents may obtain from their own food production. The 1973 poverty index for a farm family of four persons was $3,869, 15 percent below that for an urban family ($4,540).

[5] In 1972, the South contained 45 percent of the nation's poor, 41 percent of families in the lowest income quintile, but only 31 percent of the entire population. Nearly 17 percent of all Southern families were poor, as compared to 9.6 percent of non-Southern families. People living in metropolitan areas (areas with an urban population of 50,000 or more) were less likely to have low incomes than people living outside them. The poverty rates among nonmetropolitan and metropolitan areas were 21.2 percent and 13.6 percent in the South, but a much closer 10.8 percent and 9.1 percent outside the South. Data from "Characteristics of the Low Income Population: 1972."

The higher a State's per capita income, the higher its AFDC benefits seem likely to be.[6] This is true even though some low-income States give higher benefits per dollar of State personal income than many high-income States. Since benefits are so dependent on State income, AFDC benefits go to nonpoor families in some States while many poor families in other States are ineligible for help. Thus, Federal reimbursement for State-determined benefits is likely to promote wide benefit variations that are mostly related to State income differences.

3. *Basic Federal floor plus State supplements.*—Another way to combine Federal and State programs is to allow each unit of government to decide benefit schedules. This method, used in the new SSI program for the aged, blind, and disabled, represents a shift in Federal policy. The Federal Government pays the entire cost of a uniform income floor in every State, but does not share in the costs of State-determined benefits that supplement the Federal payment.[7] Before 1974 the Federal Government paid at least half the costs of State-determined benefits for these groups. As a result of SSI, State payment differentials have narrowed considerably, although some remain.

If State or local governments set benefit levels, benefit disparities are likely to reflect those in State incomes. On the other hand, federally determined benefits are likely to be uniform or, if they vary, to do so in relation to differences in area *prices* rather than income. Thus, deciding whether the Federal or State government should set benefit schedules is mostly a judgment about whether benefit schedules should (*a*) be uniform, (*b*) differ only to the extent that area prices differ, or (*c*) differ largely with differences in area income.

Benefit Schedules and the Equity Criterion

Basic fairness dictates that those in equal situations deserve equal treatment, which in this case means equal benefits. But what constitutes equal situations? Are families in equal situations when they have equal dollar incomes, equal purchasing power, or equal incomes relative to their neighbors? Does equity imply equal actual purchasing power or merely equal opportunity to attain a given level of purchasing power?

Providing the same benefits nationwide appears inequitable to many because the result would be lower buying power for poor people living in high-price areas than for those in low-price areas. Accepting this argument for the moment, one might ask *how large* a disadvantage uniform benefits would be to poor residents of high-price areas. The answer is that for families at low-income levels the actual differences in purchasing power resulting from a single national benefit schedule would be small. A recent study

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[6] The correlation between median family income and average AFDC payments per family in 50 States and the District of Columbia was .67 in 1970.

[7] The Federal Government is sharing State costs of federally administered SSI supplements to the extent that they exceed calendar 1972 outlays for welfare payments to the aged, blind, and disabled.

shows that area cost differentials decline as income declines. At incomes near the poverty level, Smeeding estimates that the *widest* gap in living costs between *any* two urban areas is only 8 percent of the poverty income level. Low-income families must confine their purchases to the basic necessities; the cost of some of these necessities differs little from one area to another. Based on a survey of 20 cities, the Bureau of Labor Statistics found that the weekly costs of the Low Cost Food Plan for a family of four varied at most by only 1 percent. Although other commodities probably would vary much more throughout the country, it is unlikely that actual variations in living costs exceed 12–15 percent.[8]

Ironically, attempts to correct for price differences actually may expand area differences in the purchasing power that benefits give to poor people. This is because price differences are higher *within* regions than *between* regions and because any attempt to draw boundaries will be arbitrary. For example, differences in living costs between the average Southern city and the average Southern non-metropolitan area are greater than those between the average North Central city and the average Southern city. And, the cost range among cities *within* the Western region is wider than the range of average costs in metropolitan areas *among* regions.[9] So, to truly reflect price differences, benefits would have to be adjusted over small geographic areas such as metropolitan areas. There could be, for example, three benefit levels around Atlanta: one in the central city, one in near suburbs, and one twenty miles away in more rural areas. Persons on the wrong side of the street would find the boundary arbitrary and resent their lower benefits.

By themselves these considerations do not make a decisive case for ignoring potentially larger price variations. But, even if future variations were substantial and boundaries easy to define, other problems would arise in varying benefit schedules to reflect price differences. One would be to determine what price differences actually mean. For example, a suburb with apparently high rents may offer above-average housing for the premium price. In a small city or rural area, there may be few if any apartments of comparable quality to the house in the high-priced suburb. In other words, simply comparing prices confuses *standards* of living with *costs* of living. Moreover, quality to the resident means not simply the physical condition of the housing unit, but also such intangible neighborhood factors as quality of the schools, safety of the streets, and friendliness of neighbors. One city may have higher property taxes, and therefore higher rents than another. To judge price differences of these cities, it is necessary to take into account indices of quality that are hard to measure, such as whether these higher

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[8] See Timothy M. Smeeding, "Cost of Living Differentials at Low-Income Levels," Institute for Research on Poverty, Discussion Paper No. 190–74 Madison, Wis., 1974.

[9] Irene Lurie presents these data calculated by the Bureau of Labor Statistics. See U.S. Congress, Joint Committee, Subcommittee on Fiscal Policy, "Current Public Assistance Benefits and an Assessment of State Supplementation under Proposed Federal Alternatives", by Irene Lurie, *Issues in the Coordination of Public Welfare Programs*, Paper No. 7 (Washington, D.C.: Government Printing Office, 1973), pp. 221–254.

taxes buy better public services like free recreational facilities and free garbage collection.

Moreover, people in different areas purchase different combinations of goods, and this makes it difficult to compare prices of a common basket of goods. The high price of maintaining a car in New York City causes New Yorkers to use much more public transportation than residents of other cities. Thus, what sort of transportation should be assumed in measuring prices? The use of land is another example. Because land values are much higher in large cities than in rural areas, rural families tend to live in housing with significantly more acreage than urban families. To construct a common basket of goods would require asking either (a) What is the cost of the rural family's consumption purchases in their own areas compared to their cost in an urban area? or (b) What does an urban family have to pay for its basket of goods in their area compared to what it would have to pay in a rural area? Undoubtedly each would overstate the cost of attaining an equal living standard in the other area.

Because of these measurement obstacles, accurate adjustments for price differences may be unfair to families in low-price areas. Consider the case of San Francisco and a lower-cost city. Rents may be higher in San Francisco because its environmental advantages attract residents. In an economic sense, San Franciscans are sacrificing rent money or apartment size in order to purchase accessibility to the city's beauty and other environmental advantages. To give larger money payments to San Franciscans than to those in less attractive cities would provide higher real incomes to San Franciscans. People elsewhere would have the means to buy an equal quantity of goods and services, but they would lack access to San Francisco's environmental advantages.

Some arguments for varying benefit schedules by geographic area are based on the notion that feelings of economic deprivation depend not on absolute income, but instead on relative income. If a family feels poor because it can't keep up with the Joneses next door or down the block, one might want to vary benefit schedules by differences in area income. However, even if it is decided that relative income differences are the index of poverty, one would have to decide against what average income to measure adequacy: that of the neighborhood, the metropolitan area, the region, or the Nation? Individuals probably disagree sharply on this issue, but the press and television have made people familiar with living standards throughout the country.

A deeper objection is that this approach accepts and reinforces wide differences in standards of living. If average income in a Mississippi county is low, many people there will live in poor housing, eat low quality food, and have only shabby clothing for the children. If average income is considerably higher in Rochester, New York, the poor may also live in substandard housing and school children from low-income homes may be modestly dressed. But average conditions of the Rochester poor still will be better than those of the Mississippi poor. Those in Rochester may feel poorer than their Mississippi counterparts, since those around them

live much better. But to base benefit differences on average incomes would reinforce differences in living standards between the two areas. The implication would be that the Federal Government condones bare subsistence diets and housing in wooden shacks of Mississippi, but cannot tolerate lesser deprivation in Rochester.

We have discussed equity in terms of an immobile population, ignoring the considerable moves made by the poor. In fact, low-income families migrate about as much as other families. For example, 14 percent of families headed by married men with incomes below $5,000 in 1972 moved from one county to another between 1970 and 1973, compared to 13 percent of male-headed families with incomes of $5,000 or more.[10] Thus, for families at all income levels migration is a real alternative, and this is another reason for paying uniform national benefits. Needy individuals in a high-price area would have the opportunity to move to a low-price area, where the national benefit schedule would enlarge their buying power. Some who remained in high-price areas might do so because they found the overall advantages of life there to outweigh the disadvantages. According to the argument made here, the government would fulfill its duty to the needy wherever they lived by providing equal benefits to those with equal incomes. This would leave up to the needy individual or family the responsibility to choose the location most beneficial to it.

Benefit Schedules and the Impact on Migration

The impact of government benefits upon migration is a matter of concern and dispute. Wide State differences in AFDC benefit levels, it is commonly believed, may stimulate migration to already overcrowded northern central cities. There also is worry that a national income support program might reduce labor mobility and distort the allocation of workers among regions. This section examines potential migration effects, on the basis of experience and theory, as a criterion for deciding whether benefit schedules should vary by geographic area.

Migration-effect studies have dealt primarily with the AFDC program. Feeling runs so strong concerning AFDC's effect on migration that a weekly news magazine reported that the ". . . poor still flock to the high-welfare States in order to collect more money." [11] One would expect AFDC to induce migration since benefit differentials are larger than price differences between high- and low-benefit States. Consider that the maximum AFDC payments for a family of four were (as of July 1974) $60 per month in Mississippi, $125 in Alabama, and $112 in Louisiana, while comparable payment levels in northern States were $288 per month in Illinois, $356 in New Jersey, $411 in New York,[12] and $349 in Mas-

[10] U.S. Department of Commerce, Bureau of the Census, *Current Population Reports*, Series P-20, No. 262, "Mobility of the Population of the United States: March 1970 to March 1973," (Washington, D.C.: Government Printing Office, 1974), p. 45.

[11] Larry Long included this quote from *Time* magazine (Mar. 13, 1972) in his "Poverty Status and Receipt of Welfare Among Migrants and Nonmigrants in Large Cities," in *American Sociological Review* (February 1974).

[12] Figure based on rents for Albany. The figure could be higher or lower depending upon housing cost.

sachusetts. Or compare the $56 monthly payment in Puerto Rico[13] with the payment 7 times greater in New York. Differentials of such magnitude appear to offer powerful incentives to migrate, or at least not to go home again to low-payment States after once establishing the right to monthly cash from welfare in high-benefit States. And, access to medicaid, public housing, and other noncash goods and services is higher in States with high AFDC payments. However, careful studies have discerned little, if any, clear effect of welfare benefits on migration. Nor do they provide conclusive evidence that migration is indifferent to welfare.[14] Significant migration effects may have taken place undetected by the few systematic studies of the question. Except for calculating what package of benefits is potentially available in what areas, it is impossible to make any sure statements about the relationship of current welfare payments to migration.

Since experience offers few clues, we turn to theory to predict how needy families might be influenced to move or to stay put by an expanded income support program that offered help to all low-income families, including large numbers of the working poor.

Consider first the case of nonworkers. For this group, adjusting benefit schedules for variations in prices is undesirable, whatever the cause of the price variation. If the cause of price variations is differences in environmental and cultural attractiveness, recipients in desirable areas would enjoy the environmental advantages but not have to pay for them. If price differences are associated only with higher wages and not with environmental advantages, adjust-

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[13] Actual payments could be higher or lower depending upon housing costs.

[14] Long presented data showing that in six cities outside the South, migrants from the South—both black and white—were no more likely to have been welfare recipients in 1970 than were those born in their current State of residence. This evidence does not actually disprove the hypothesis that welfare payments influence choice of residence. Had welfare differentials been smaller, the total volume of migration also might have been smaller. The composition of migrants by welfare eligibility and by willingness to accept welfare may be the same as that of nonmigrants. Nevertheless, proportionately more of those who are eligible for welfare may move if differentials exist in welfare payments. The evidence indicates that white or black southern migrants account for no more of the AFDC population than would be expected on the basis of their population and the recipient rate of the native white and black population.

I. N. Fisher and S. W. Purnell examined the migrant status of AFDC and AFDC–UF recipients in Chicago in "The Connection Between Migration and Welfare Dependency in the Chicago Metropolitan Area," Rand Corporation Paper R–1388–115P, September 1973. Although nearly two-thirds of the beneficiaries were not born in Chicago, most of the migrants whose cases had been opened, or reopened, in 1971 had arrived in Chicago well before 1971. Unfortunately, this study also is inconclusive. Comparing time of arrival with the recipient's most recent case opening does not tell us whether many migrants went on and off welfare soon after arriving in Chicago. Another possibility consistent with these data is that welfare payments influence migration by deterring migrants who are dependent on welfare from returning to areas where payments are low.

Robert Reischauer, concentrating on the 1955–60 period, did find that the size of the welfare payment had a discernible independent effect on the pattern and extent of black migration from the South to metropolitan areas outside the South. However, the quantitative significance of this effect was small. See Reischauer, "The Impact of the Welfare System on Black Migration and Marital Stability" (Ph. D. dissertation, Columbia University, 1971).

ing nonworkers' benefits for price differences would encourage nonworkers to live in high-price areas that are suitable primarily for workers. Equal benefits may, indeed, cause differences in purchasing power, but this policy still appears to be fair since many nonworkers have the opportunity of moving to low-price areas. If they do so, they can expand their buying power at less cost to the government than by means of price-related benefits.

The case of workers is more complex because goals are conflicting. On the one hand, economic reasons, such as overcrowding of large cities, and noneconomic reasons, such as social stability, argue against encouraging workers to choose high-price, high-wage areas. On the other hand, real productivity is lower in low-price, low-wage areas. In general, it is believed that price-adjusted benefits would tend to encourage migration to high-price, high-wage areas. Benefits unadjusted for prices, however, could raise program costs if they encouraged workers to remain in or move to low-price, low-wage areas. First, although wages are lower in such areas, average benefits would be higher, since there would be less income to offset the maximum benefit payable. Second, there could be larger short-run reductions in work hours, since benefits would raise total income and purchasing power to levels that would encourage added leisure.

On balance, there are no compelling grounds of allocative efficiency for varying benefits according to price variations. To the extent that the goal is to encourage specific kinds of mobility, it may be achieved more effectively and more cheaply through greater use of moving allowances and programs to help new migrants adjust upon arrival.

Benefit Schedules and Administrative Efficiency

Administrative efficiency and feasibility also are important criteria for deciding how to set benefit schedules. To attempt to adjust benefit schedules for area price differences would complicate administration greatly. Such a policy would require that price indices be derived for each area to measure the ratio of area prices to a national standard. If an area's price index were greater than 1.00, say 1.10, then its benefits also would be 1.10 times the national average benefit level. Deriving such indices is a technical challenge that presents many difficulties: How to measure area differences in prices as distinct from area differences in product quality; whether and how to distinguish among areas with low product prices on grounds of non-product prices like low taxes and inferior public services; what package of goods to price;[15] and, last, how to draw boundaries that separate geographic areas of price difference.[16]

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[15] Using the appropriate package of goods may require a number of price indices for each area. Each area's consumption bundle might yield a different price index, as might that of each income group.

[16] Such boundaries and/or price indices might have to be readjusted often. It is not unusual for a rural area near a city to show large price increases in a very short time. Thus, frequent surveys and decisions concerning the appropriate boundaries would be required at potentially considerable cost.

Finally, there is the potential difficulty of excessive political influence on the measurement process. Already there is considerable controversy about Bureau of Census population estimates by area, partly because such counts help determine the amount of Federal funds that go to a State or local government. If benefit schedules were adjusted for price differences, small changes in an area's price index could have a significant effect on the flow of dollars to specific areas. And, the methodology used in measuring prices is much more controversial than that now disputed for counting people.

These administrative barriers to adjusting benefits for area price differences are substantial. Those who advocate benefits geared to prices bear a large burden if they are to show advantages great enough to offset the disadvantages.

Conclusions on Setting Benefit Schedules

The national concern with poverty should be to increase incomes of the needy no matter where they live. Because of the Nation's high mobility and because such limits illegally interfere with freedom to travel, efforts to limit eligibility for Federal income benefits to residents of specified States or counties are untenable. Further, abdication to State and local governments of the power to set benefits, for which the Federal Government pays a majority share, has produced AFDC benefits that have less relation to the needs of the poor than to the fiscal capacity of their States.

Defining poverty as a national problem does not per se settle the question of a national benefit schedule versus area schedules reflecting price differences. However, this chapter's analysis of the equity and migration effects and administrative efficiency of each option reaches a clear conclusion. A single national benefit schedule is highly preferable on almost all grounds. It is most equitable and most efficient administratively. And the national schedule's potential migration effects are as desirable as those of multiple benefit schedules.

Uniform benefits assure the automatic flow of more Federal money to areas where it is most needed to relieve poverty, that is, to areas that have the heaviest concentrations of the poor and near-poor. This result is not an anomaly, but as natural an outcome as the geographic distribution of tax revenues. Since tax burdens are functions of the taxpayer's ability to pay, the personal income tax automatically brings in more revenue from rich areas than from poor areas. To eliminate poverty is a national need that requires a basic Federal income floor for all Americans. Then, families and individuals have the responsibility for choosing the place of residence most beneficial to them.

Chapter VII. REFORM OPTIONS

Reviewed below are the following types of reform proposals: public assistance reform, comprehensive income supplements, demogrants, in-kind (noncash) programs, minimum wage increases, wage subsidies, earnings subsidies, and public employment programs.

Reform of Public Assistance

Since there is a public assistance structure in every State, this structure often is looked to as one on which to build in reform efforts. Two essential elements in the public assistance approach must be confronted when considering reform measures short of a federally run, funded, and ruled program: the State-option tradition and the individualized need approach.

ESSENTIAL ELEMENTS OF TRADITIONAL PUBLIC ASSISTANCE

1. State-option tradition.—First, State determination of benefit levels has resulted in wide differentials in benefits for similarly needy families.

A second difficulty with the State-option character of public assistance is that it prevents some of the needy from receiving cash and medicaid offered by the Federal Government. Despite the promise of Federal matching funds, fewer than half the States operate AFDC–UF, and Nevada never did implement aid to the permanently and totally disabled.[1]

Continued reliance on a Federal-State public assistance approach also would perpetuate the system of multiple jurisdictions, which raises costs and complexity and hinders enforcement of the law. Because it punishes the poor, the Federal Government has been reluctant to use its traditional enforcement weapon, a cutoff of the State's Federal welfare dollars, when State programs are out of compliance with provisions of the Social Security Act. (The one time that it did so, against Indiana in 1951, the money was restored retroactively by HEW.) Some welfare rights advocates have labeled welfare administration as "lawless" in that State and local administrators violate Federal law and regulations.

Another difficulty is that States lack access to Internal Revenue or Social Security income records to aid in income verification, and some are without modern computer technology.

2. Individual need.—The individual need approach of public assistance originated in social service casework as a method to restrain costs and meet special circumstances, but growing caseloads and changing attitudes have rendered it inefficient, inequitable, and

[1] The Federal supplemental security income program now aids aged, blind, and disabled persons in Nevada as elsewhere.

patronizing. Some of the worst elements of the individual need approach now are buried in the past, but many persist. For example, recipients in many States receive a payment that may depend on their actual rent; up to a specified level, the welfare check rises as rent does. This policy destroys the incentive to economize on rent. It is unfair to those families who double up or otherwise try to save money for other purposes, since it cuts their welfare payments below those of families who spend the maximum rental allowance.[2] Similarly, the incentive to save is reduced by rules that disqualify low-income families with modest assets, and, in many States, by a dollar cut in the welfare check for each dollar of unearned income. Another disincentive to thrift is the short income accounting period, a provision that serves current need, but implies that low-income persons cannot plan beyond one month.[3] AFDC has eliminated incentive to economize on work expenses by its full credit for employment-related expenses. The Supreme Court recently cited the individual character of public assistance in ruling that States cannot limit the amount of work expenses that a recipient may deduct from countable income for purposes of determining benefits.[4]

The individual approach gives caseworkers great discretion. For example, they must value assets and decide whether hairdressing, car payments, and convenience foods are necessary work expenses. Itemized expenses also contribute to administrative mistakes. If someone changes jobs and works closer to home, her transportation costs may decline and, hence, the welfare grant should drop. When the social security tax rate rises, grants must be recomputed upward, by hand in many areas.

Some States have been moving away from payments tailored to individual need toward such devices as flat grants and the recently disallowed standardized deduction for work expenses. If one believes in promoting individual responsibility for saving and spending, Congressional action is desirable to standardize basic payments.

Public Assistance Reform Proposals

1. AFDC.—Most reform plans would lift the lowest benefits and set more uniform eligibility rules and administrative procedures for AFDC. Since benefit levels now are State decisions, they can be raised in two ways: (1) indirectly, by more generous Federal reimbursement that would make it cheaper for States to give more to needy families; and (2) by setting a national minimum benefit financed wholly by the Federal Government. Only a federally financed na-

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[2] Because grants are based on rent in many States, welfare agencies get involved in approval of housing moves—sometimes requiring elaborate clearance procedures for assuring that housing is suitable, has no housing code violation, and so forth. Such procedures, of course, are administratively complex and costly.

[3] The income accounting period is the time period over which income and income need is examined in computing benefits. In AFDC, benefits are based on current monthly income. A family could have middle-class income from January through June and September through December, and yet be eligible for full benefits in July and August.

[4] *Shea v. Vialpando*, No. 72–1513 (U.S., Apr. 23, 1974).

tional minimum benefit would take the AFDC basic benefit decision out of State control (unless, as is unlikely, a State were to terminate the program).

Raising AFDC levels would be a mixed blessing, especially in States that lack AFDC for unemployed fathers or general assistance programs for two-parent poor families, because it would heighten the unfavorable treatment of excluded groups. Thus, the proposal for a federally prescribed minimum AFDC payment often is accompanied by a plan to require all States to offer AFDC–UF. This marked departure from the State-option tradition would be enforced by the threat of withdrawal of Federal funds from medicaid or from the regular AFDC program for fatherless families. Since mandatory UF would require greater State outlays, some States would be hard pressed to comply unless the Federal Government paid 100 percent of the national minimum benefit.

Higher benefits and mandatory nationwide extension of AFDC–UF both would enlarge the pool of eligible families with able-bodied fathers and mothers, increasing the need for more equitable Federal eligibility rules. As discussed in chapter II, one family may qualify for AFDC–UF cash, plus medicaid, if the father works less than 100 hours per month; but a similar family in the same State can receive neither cash nor medical benefits even though the father earns less money by working longer hours. The obvious solution to this inequity is to avoid arbitrary divisions and to rely instead on a continuous criterion such as income. Then small changes in a family's circumstances would not cause enormous changes in benefits. A similar reform would be to remove the double standard for AFDC eligibility: a high income limit (reflecting work incentive deductions) for working welfare mothers and a lower one for mothers not recently [5] on welfare. The remedy for this inequitable policy is again a straightforward one—a uniform eligibility limit, one that employs the same method of determining income for nonrecipients as for recipients.

2. General assistance.—Another proposed change would offer Federal funds to help pay for optional State general assistance to intact working families and to single individuals and childless couples not aged, blind, or disabled. A number of States now aid some of these groups at their own expense.[6]

3. Federalization.—Liberalized eligibility and coverage would be expensive for States, perhaps more so than some could afford, because it would extend coverage into dense sections of the income distribution. Moreover, it would strain the welfare administration machinery of many States, and increase chances for incorrect payments. Finally, the proposals for more liberal State-run welfare reflect a narrow view of the income distribution problem, contradicting the recent recognition that poverty is a national problem. Therefore, some have argued for a Federal takeover of welfare.

Federalized welfare could take a variety of forms. In the most common form, the Federal Government could fund and administer a

[5] Within the four months preceding application.

[6] For details on these programs see Joint Economic Committee, Paper No. 15.

basic benefit under uniform rules to designated groups. The model would be the supplemental security income program.

Necessarily, this discussion of public assistance reform has been tentative, filled with contingencies about what States *might* do and what the Federal Government *could* do in response to State action. The greater the options for States, the less likely that proposed changes would meet reform goals and the more likely that old problems of inequitable coverage and variable benefit levels would endure.

Depending on the nature of the reform, reform of public assistance programs could do little or a great deal to improve program coordination. Widening coverage of AFDC–UF, for example, might reduce some of the pressure for unemployment insurance to play a welfare role in addition to an earnings-replacement role. But nationwide extension of AFDC–UF in its current form would be undesirable, as would raising AFDC benefits in isolation from other programs. Broadened public assistance coverage could worsen the problems of high benefits and high rates of benefit loss for recipients of multiple aid. Although it is urgent to know how reformed cash welfare would work in combination with other income supplement programs, the matter seems unlikely to gain full attention in proposals for isolated changes in public assistance.

For reasons discussed above, building on the State-option approach to welfare, with piecemeal tightening and toughening of Federal law, does not constitute reform of the scope we believe necessary. Federalized welfare, in the form of comprehensive cash income supplements, is preferable.

Comprehensive Income Supplements

All comprehensive income supplement plans share some elements: (1) a *maximum benefit* or income floor, paid to all families of the same size with no countable income; (2) a formula for withdrawal of benefits as counted income rises, known as a *benefit-loss rate* (or marginal "tax" rate); and (3) the income eligibility limit, known as the *breakeven income*.[7] This is the point at which government payments equal zero and a family becomes ineligible for benefits.[8]

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[7] Any two of the parameters of an income supplement determine the third. If the maximum benefit and the benefit-loss rate are known, the breakeven eligibility level may be computed by dividing the maximum benefit by the benefit-loss rate. If the income floor and breakeven are known, the benefit-loss rate may be computed by dividing the income floor by the breakeven level.

[8] The term negative income tax (NIT) has become associated with a variety of income supplement plans. Originally, the concept of an NIT was a downward extension of the personal income tax to apply to those with too little income to benefit fully from their entitlement to exemptions and a standard deduction. Because of deductions and exemptions, a family of four currently has the same tax liability (zero) if the family's gross income is anywhere between zero and $4,300 per year. Thus, there is no progressivity in the income range below $4,300. In order for a family with $2,000 in income to pay less income taxes than a family with $4,300 in income, while at the same time not raising the zero taxes of the latter family, the tax system could provide that the lower-income family "pay" a negative amount, which is equivalent to receiving a positive amount from the government. This approach would extend the tax payment schedule

Most current benefits geared to income—AFDC, food stamps, veterans' pensions, supplemental security income—also can be described by these parameters. But they do not share many of the characteristics that are essential parts of the income supplement approach. The spirit of an income supplement is to use income and family size as virtually the only criteria on which to base benefits, and to have universal coverage, long income accounting periods, standardized administration, and national program uniformity.[9]

The equity and incentive features of an income supplement depend mostly on the values of the three parameters noted above. Table 26 illustrates how benefit schedules differ for four plans with equal income floors of $2,400 for families of four persons and benefit-loss rates that vary from 25 to 100 percent.[10]

TABLE 26.—*Annual benefits payable under $2,400 maximum payment programs with varying benefit-loss rates, to recipients with varying private income*

Private income	Benefits payable under plans with benefit-loss rates of—			
	25 percent	50 percent	75 percent	100 percent
0	$2,400	$2,400	$2,400	$2,400
$1,000	2,150	1,900	1,650	1,400
$2,000	1,900	1,400	900	400
$3,000	1,650	900	150	0
$4,000	1,400	400	0	
$5,000	1,150	0		
$6,000	900			
$7,000	650			
$8,000	400			
$9,000	150			
$10,000	0			

below the point at which tax liability is equal to zero; that is, into the negative range of tax liabilities. A negative tax is a positive government supplement. Some proposed NIT plans have simply built on to the existing tax schedules by paying a family with little or no income some portion of the family's unused deductions and exemptions. With deductions and exemptions totaling $4,300 per year for a family of four, an NIT with a gap-filling rate of 50 percent would pay $2,150 to a penniless family of four. The family's negative tax or positive payment would fall as its income rose, so that at $2,000 the payment from the Treasury would equal $1,150, or 50 percent of the gap between deductions and exemptions ($4,300) and family income ($2,000). At $4,300 of income, the family would pay neither positive nor negative taxes; this would be the breakeven point.

Many proposals for an NIT do not rely heavily on the personal income tax system. These plans may use rules that differ significantly from those operating in the current tax system.

[9] It follows that programs that use strict categorical provisions to avoid covering many poor persons, State-option programs, programs that earmark benefits to specific goods such as food or housing, and programs that rely on the individual current-needs approach to determine benefits do not fit the meaning of a comprehensive income supplement.

[10] To compute benefits payable at a given level of earnings, subtract the "counted" proportion of those earnings (the benefit loss) from the maximum payment made to those with zero other income. At $1,000 earnings, the $2,400 original benefit is reduced as follows:

100% plan: Benefit-loss=$1,000. Benefit=$1,400
75% plan: Benefit-loss= 750. Benefit= 1,650
50% plan: Benefit-loss= 500. Benefit= 1,900
25% plan: Benefit-loss= 250. Benefit= 2,150

Each of these plans has different effects on total income of wage earners. If the family increases (*or decreases*) its earnings by $1,000, it gains (*or loses*) total income of:

$0 under the 100-percent benefit-loss rate plan;
$250 under the 75-percent plan;
$500 under the 50-percent plan; and
$750 under the 25-percent plan.

The plans with the 75- and 100-percent benefit-loss rates offer poorer financial incentives to work for the families with incomes near or below the respective breakeven income levels of $3,200 and $2,400. These plans also seem inequitable because they imply little or no increase in total income from a substantial increase in hours of work. The plans that reduce benefits by only 25 or 50 percent of earnings appear superior on both incentive and equity grounds. But these plans also cost significantly more. Not only must the 25- and 50-percent rate plans pay more to recipient families at each level of income, but they also must cover far more families than the plans with high benefit-loss rates because they raise the breakeven level. Such plans provide aid and subject that aid to an earnings "tax" for families with higher incomes than do the other plans, so the potential disincentives apply to more people.

As long as the benefit-loss rate is held constant, a rise in the income floor elevates the eligibility limit. Raising the maximum benefit to achieve greater adequacy for the poorest, and retaining a 50-percent benefit-loss rate, yields the following benefit cut-off points:

Income floor:	*Eligibility cutoff*
$2,400	$4, 800 ($2, 400÷.50)
$2,600	5, 200
$2,800	5, 600
$3,000	6, 000
$3,200	6, 400
$3,400	6, 800
$3,600	7, 200
$3,800	7, 600
$4,000	8, 000

These examples help to illustrate the conflicts in setting the benefit formula for a comprehensive income supplement.[11] As discussed in chapter V, any income supplement requires compromise among the goals of minimizing budget costs, assuring adequate incomes for the poorest families, and providing reasonable financial rewards for work. A moderate income floor and benefit-loss rate would assure a minimum income for all and would reward workers with cash supplements. This approach assumes that employability and capacity for self-support are matters of degree.

A comprehensive income supplement is the only alternative welfare system that has been subjected to widescale pre-testing in urban and rural areas across the country.[12] These Federal experiments demonstrate that income supplement plans can be administered and at rea-

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[11] Although the income supplement has features that differ from AFDC and food stamps, these conflicts apply with equal force to AFDC and food stamps.
[12] Findings from the New Jersey experiment, as reported in chapter V, indicate that work reduction of male family heads was minimal.

sonable cost. They have discovered, analyzed, and resolved many of the kinks and administrative trouble-spots of a new national program of cash payments.[*]

A national program would require a centralized computer system for keeping track of family composition and income, and cross-checks could be made against other Federal income records.

Universal coverage and moderate benefits and benefit-loss rates provide greater opportunities for system control than other alternatives. Income supplements would replace or reduce several existing income-conditioned benefit programs such as AFDC and food stamps, and obviate potential new programs such as housing allowances. The plan would pay benefits to needy 58-year-old widows, and to the long-term unemployed, thereby alleviating the need for trying to use social security and unemployment insurance to help such persons.

Demogrants

The demogrant is a cash grant paid by the government to all persons in a specified demographic group. In theory, grants are unrelated to income. In practice, grants probably would be received on a net basis, as an offset to income tax liability, for example. Grants could go to population subgroups, such as persons 65 and older, or persons 17 and younger, or they could cover all persons regardless of age, family status, or income. One example of a universal demogrant is the subcommittee proposal to convert personal exemptions in the Federal income tax into refundable income tax credits (see chapter VIII). Instead of deducting $750 per person from taxable income and thus lowering one's tax liability, as at present, all persons would receive credits that would directly reduce their tax payments by some sum such as $225, the amount recommended initially by the subcommittee. Persons whose credits exceeded their tax liability would receive a government payment. Since the credits would go to everyone, they constitute a *universal* demogrant.

The equity and incentive features of a universal demogrant depend on the size of the grant. A low grant, such as a $225 personal credit to replace the existing personal exemptions, would not reduce the gain from work for most persons and would improve equity by allowing the poorest families to receive as large a benefit from the credits as the richest. Although equity and incentive features of this small demogrant are good, the plan by itself would not help the poorest much and could not replace any significant portion of existing welfare benefits.

Unfortunately, a demogrant with payment levels high enough to replace much of the existing system would require enormous increases in marginal income tax rates. Benjamin Okner of the Brookings Institution has estimated that financing a demogrant that paid $3,600 to a family of four in 1970 would have required increasing personal income tax rates so that every dollar of taxable income would have been subject to a 46-percent rate.[13] The average percent of pre-demogrant income paid as taxes would have been far lower than 46-percent, however, since the demogrants would act as credits

[13] Joint Economic Committee. "The Role of Demogrants as an Income Maintenance Alternative," by Benjamin A. Okner, Paper No. 9, p. 1.

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against the 46-percent tax on all private income. (Okner's estimates may be conservative because they ignore possible reductions in work hours, and assume elimination of Federal expenditures on food, housing, and cash public assistance programs, as well as enactment of a partial tax reform plan. On the other hand, they do not assume a restructuring of social security to remove "welfare elements," which could lower net costs.) To finance a demogrant of $5,000 for a family of four, marginal income tax rates would have to exceed 50 percent, and any generous universal demogrant would raise the taxes of single persons with middle incomes enormously.

High-level demogrants require such large increases in tax rates that their impact on work incentives of both middle-income families and low-income families must be considered. They also would redistribute large sums of income, not just from high- to low-income families, but among families of equal income but different size. If the grant were equal for all persons, say $800 per person, then a substantial amount of the redistributive impact would be to shift money from middle-income small families to middle-income large families. Many who favor increasing incomes of poor families might not favor transfers from small to large families at all income levels. Redistribution toward large families would be a government action at odds with the general goal of restraining population growth.

Since it is a direct extension of the existing personal income tax structure, the demogrant has an important administrative advantage. The Internal Revenue Service could operate the demogrant under existing income tax procedures. The only procedural changes necessary would be those required to make more "refunds" at more frequent intervals than now. And IRS would have to check many new income returns, those of persons now too poor to be required to file. The substantial increase in the tax and/or benefit loss associated with each dollar of income might increase attempts at tax evasion.

How the demogrant would operate in relation to other programs would depend on its size. As discussed above, high-level demogrants would permit substantial reductions in other programs and thereby lessen the need for elaborate program integration provisions. A low-level demogrant would leave the existing system largely intact and would require more intensive program coordination efforts.

Noncash (In-Kind) Programs

Income supplements are paid in many forms. In addition to giving cash to some needy families, the government gives free or subsidized food, housing, health care, and day care. Many purposes lie behind the use of noncash (or in-kind) benefits instead of cash benefits to supplement incomes. Among them are: (1) a desire to earmark benefits so that recipients use government support only for socially approved items; (2) a judgment that the private market does not function well in the provision of certain goods in certain locations; (3) an effort to help specific industries by increasing the demand for their goods; and (4) a belief that some services such as medical care are so important that the government must assure

their availability. These factors often bring greater political support to in-kind than to cash programs.

The conflicts among the goals of reasonable costs, adequate benefits for the poorest, and rewards for workers apply to noncash programs as well as to comprehensive income supplements because both types of plans share identical structures. Table 27 illustrates how a food stamp benefit and benefit-loss rate combined with a housing allowance benefit and benefit-loss rate can be made equivalent to a cash plan in terms of basic financial measures, including total cost. That in-kind programs can have significant work disincentive effects often goes unnoticed, and, hence, should be stressed. From table 27 it is clear that the financial reward from an extra dollar of wages can be the same under the cash plan as under the combination of in-kind programs.

TABLE 27.—*Comparison of benefits under a cash program versus a food and housing benefit package*

Earnings	Cash benefits		Noncash benefits			
	($3,200 guarantee, 50 percent benefit-loss rate)	Total income	Food ($1,700 guarantee, 25 percent benefit-loss rate)	Housing ($1,500 guarantee, 25 percent benefit-loss rate)	Total benefits	Total income
0	$3,200	$3,200	$1,700	$1,500	$3,200	$3,200
$1,000	2,700	3,700	1,450	1,250	2,700	3,700
$2,000	2,200	4,200	1,200	1,000	2,200	4,200
$3,000	1,700	4,700	950	750	1,700	4,700
$4,000	1,200	5,200	700	500	1,200	5,200
$5,000	700	5,700	450	250	700	5,700
$6,000	200	6,200	200	0	200	6,200
$7,000	0	7,000	0	0	0	7,000

Economists long have argued that cash supplements are a superior way to raise the recipient's economic welfare, a way that lets the recipient define his own well-being.[14] Noncash benefits have several drawbacks. First, they may cause recipients to consume much more of one item than they would if given an equal amount in cash. In Mississippi, for example, a welfare mother of three children receiving the AFDC maximum payment of $60 monthly but no outside income is eligible to buy each month $150 of food stamps for $13. Although the food stamp bonus significantly adds to the family's income, its value to the family is probably considerably below $137

[14] Recently, some economists have questioned the efficiency advantages of cash over in-kind income supplements. They argue that although cash supplements can raise the economic satisfaction of recipients at least by the dollar cost to taxpayers, the cash supplement approach may not retain its advantages when one takes account of taxpayer preferences as to what goods recipients consume. If taxpayers are willing to pay higher taxes in order to shift the consumption patterns of recipients, then it may be possible to make recipients and taxpayers better off by moving from a complete cash approach to a partial in-kind approach. Recipients may prefer to receive a higher cash plus in-kind income in spite of the lower cash income; and taxpayers may be willing to give up more in taxes in order to constrain recipients to consume only certain items.

($150−$13) because the $150 worth of stamps may be used legally only for food, not for improved housing or improved clothing for children. Of the family's total cash income plus food stamp allotment, over 76 percent must be spent on food. The Mississippi case is extreme, but percentages are also very high in other States. A comparable family in Alabama would have to spend 67 percent of its combined AFDC plus food stamp income on food; in Ohio, 50 percent and in Massachusetts, 37 percent. From this information alone, one would expect that many of these families would prefer a cash payment that is smaller than the bonus value of their food stamps. Empirical confirmation shows up in reports of black market sales of food stamps. Although recipients no doubt have to accept a significant discount to sell their stamps, some decide to do so anyway.

A second but related reason why noncash benefits are economically inefficient is that government costs of providing goods directly often exceed private market prices, or that the quality of government-provided goods is lower than that of private goods of similar cost. Public housing programs illustrate both situations. The Department of Housing and Urban Development reported that, on the average, government nonadministrative costs per public housing unit are 1.17 times those of a comparable private unit.[15] A related problem of public housing is that potential recipients may be compelled to choose between a subsidized apartment in a neighborhood they dislike or none at all.

This highlights another way in which noncash programs affect the economic welfare of recipients. The recipient no doubt finds a large difference between programs that constrain his choices to a general category, such as food stamps or housing allowances, and those that limit his subsidy to specific items, such as a particular public housing unit or a food basket from the commodity distribution program. In fact, program differences of this kind may be more significant to the poor than differences between a cash and general noncash supplement.

Persons favoring in-kind programs may dispute the definition of economic welfare used by economists. Many would argue that the government knows more about what is best for the poor recipient than he or she does, so that it is more helpful to give them goods than cash. This argument has some appeal but its importance is limited. First, recipients often can avoid changing their consumption patterns by using government-provided food or housing benefits to free income for other purposes that otherwise would have been spent on food and housing. How recipients spend this freed-up income cannot be controlled. Thus, one must distinguish between the earmarked benefit itself and the non-earmarked family income that is released. For example, a low-income family of four might pay $900 per year for food stamps worth $1,800 per year. If the family would otherwise have spent more than $900 on food, it can use its food savings to finance other purchases. Available evidence indicates that participation in the food stamp program does increase a family's

[15] House Report, "Housing in the Seventies," p. 2161.

purchase of food, but the increase is less than the full food stamp subsidy. Even an increase in food purchases cannot guarantee enrichment of the family's nutrition.

One of the rationales for in-kind programs has been the fear that cash payments would be used frivolously, wantonly, or not in the best interest of children. The income maintenance experiments allowed a look at the short-term impact of cash supplements on family consumption. While few significant differences emerged between those families who received income supplements and the control group families who did not, several differences did emerge in the New Jersey experiment:

> The recipients of experimental payments responded by purchasing homes more frequently than did members of the control group, by moving to apartments whose rental was higher, and by purchasing more appliances. Thus, for this response area, the graduated work incentives do seem to have had a discernible effect. Moreover, the effect seems to be one that would be widely considered as desirable. It induces people to become property holders, with a stake in the effective functioning of the community. . . .
>
> At least in some ways, such a program does tend to make for more "solid" citizens, who can be relied upon to avoid activities that undermine social arrangements. The results on consumption expenditure are also reassuring in this respect. The increased disposable income that the families spent on consumption went in the same proportions to the same kinds of things. In other words, people spent more, but they spent it in the same general proportions as before—and in the same proportions as people with higher incomes.[16]

A second argument for using the in-kind approach to income maintenance is that of market failure. Various rigidities in supplying goods such as housing and medical care may justify direct government provision of goods rather than reliance on raising the low-income family's purchasing power.

Some in-kind programs also may be justified on the grounds that it is inhumane to fail to supply minimum levels of certain goods. Medical care is the prime example. Even if individuals would prefer to receive cash and take their chances on illness or injury, there is reason to overrule their preferences.

Administrative considerations argue against the in-kind strategy. Noncash aid requires a larger number of programs than cash aid. Each in-kind program typically requires a separate administrative apparatus, including a separate income reporting and verification unit and a separate unit to verify that the benefits are used for the earmarked goods or, in the case of housing allowances, to assure that allowances are used only for standard housing.

Program integration problems also arise in noncash supplements. Expanded food, health, housing, fuel and transportation programs would have to adapt to the existing set of programs, many of which provide cash supplements. Such cash programs as AFDC, AFDC–UF, and general assistance cannot be replaced by expanded in-kind benefits, because this would leave the poorest families with no free cash

[16] William J. Baumol, "An Overview of the Results on Consumption, Health, and Social Behavior," unpublished manuscript.

for necessary items omitted from the benefit bundle. If, instead, an expanded housing program such as housing allowances were added to existing cash programs, the inequities and undesirable incentives of the current system would remain. In fact, the problems could worsen. For example, a comprehensive housing allowance covering all low-income families and having a 25-percent benefit-loss rate would raise combined marginal benefit-loss rates facing many recipients of AFDC and food stamps from 77 percent to 85 percent. That is, each dollar of earnings would net the worker only 15 cents or, conversely, each dollar not earned because of reduced work would cost her only 15 cents. Moreover, combined AFDC, food stamps, and housing allowance benefits would reach high levels in many States—higher than desirable on work incentive grounds, especially when coupled with a combined 85-percent benefit-loss rate. For example, tax-free combined benefits for a nonworking woman and three children could reach $5,304 annually (plus medicaid) in a State paying $3,600 in AFDC, if the family received food stamps and were eligible for $900 in housing subsidies (under a plan guaranteeing $1,800 and having a 25-percent benefit-loss rate). With AFDC benefits of $4,200, combined tax-free benefits would total $5,610 (plus medicaid).[17] Adding fuel stamps or transportation vouchers on top of this package would destroy financial work incentives—not just for recipients of AFDC but for the working poor as well.

For these reasons, the subcommittee recommends that the Nation not rely primarily on an in-kind approach to raise the living standards of poor families.

Work-Conditioned Income Supplements

Fear that a general income support plan would help persons who work below their potential and might discourage able-bodied persons from continuing maximum work has stimulated interest in work-conditioned supplement plans. In general, under a work-conditioned plan, no benefits would go to families headed by a nonworker unless he or she were deemed incapable of work.

It is easy to overstate differences between work-conditioned plans and pure income-related plans, however. First, since the level of benefits provided to a penniless family is likely to be moderate under a pure income-related plan, families would have to earn much of their total income themselves in order to reach reasonable total incomes. Second, barring substantial cutbacks in existing programs, a family with no working member could receive government benefits from other programs even if a work-conditioned plan were the primary income supplement plan. Third, by raising family income, work-conditioned benefits as well as other cash or noncash benefits could enable the fam-

[17] Some have argued that the addition of housing allowances to the current system, in combination with food stamps, would fill in the gaps in coverage, especially for the working poor. Given the above discussion, it seems clear that this should be done only if AFDC is largely scrapped. Otherwise, work incentive problems—in the form of high combined benefit levels and benefit-loss rates—become very severe. But, as also noted, there is natural reluctance to take away all discretionary cash. These and other program integration issues have not been analyzed thoroughly by most proponents of the in-kind approach.

ily head to reduce hours of work and other family members to quit or reduce work.

Minimum Wage

One alternative to spending government funds on the working poor is to raise the minimum wage. This alternative seems attractive. It appears that an Act of Congress, signed into law by the President, could increase the incomes of the poor. No appropriation would be required, except for enforcement. Unfortunately, increased minimum wages are unlikely to help poor families very much. First, many of the covered workers whose wages are the lowest are not in poor families. Of those aged 18 and over who worked or looked for work three months or more in 1971, about 14 million had average wage rates under $2.00 per hour. More than half of these 14 million were single individuals; another 2.7 million were in husband-wife families with no children; and 4.1 million were in families with children. However, only about 1.8 million low-wage workers were in *poor* families with children, and substantially less than 1 million were members of poor childless couples.[18] (These figures do not include the many low-wage workers under age 18, the bulk of whom are in nonpoor families.)

Second, minimum wage increases may make matters worse for large numbers of both needy and non-needy low-wage workers. Recent econometric studies suggest that raising the minimum wage reduces the number of jobs, particularly for teen-agers.[19] Raising the minimum wage also may push people who are unable to find jobs in sectors covered by the minimum wage toward uncovered sectors, thereby bidding wages downward in the uncovered sectors. This intersectoral movement may diminish as nearly all jobs become covered, but another problem then may become increasingly significant; workers may shift from jobs in which the minimum wage is easy to enforce toward jobs in which the minimum wage is difficult to enforce.[20] Already large numbers of workers in legally covered sectors earn less than the minimum wage. Enforcement problems will worsen as the minimum wage rises above the wage that many workers otherwise would have received. A prime example here is the recent increase to $1.90 of the minimum wage for household workers. Some such workers will lose their jobs because families will not pay this wage. Some will work for less than the legal minimum rather than not work at all. Similar problems have arisen with respect to enforcement of paying the social security tax. Efforts to enforce the law for household workers and their employers have been uneven, and there probably has been much easy evasion.

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[18] These figures were derived from unpublished tabulations drawn from the 1972 *Current Population Survey.*

[19] Finis Welch, "Minimum Wage Legislation in the United States," a paper presented at Conference on Evaluating the Labor Market Effects of Social Programs, Princeton University, May 2, 1974.

[20] A similar effect may already have taken place in Italy, where the percentage of workers in manufacturing whose jobs are in small firms has risen substantially in recent years. Many contend that this is because small firms are better able than large ones to avoid high employee taxes.

Another reason why high minimum wages may worsen the problem of poor families concerns macroeconomic policy. The government may take measures to expand the economy in order to reduce unemployment, but for a variety of reasons such expansionary policies may lead to high or increasing rates of inflation without overcoming unemployment. One effect of high minimum wage rates is to raise the level of unemployment that may be experienced under expansionary macroeconomic policies.[21]

For our purposes the importance of the minimum wage is that it reflects public dissatisfaction with the operation of the market. Other measures reviewed in this chapter also reflect a similar dissatisfaction, but would address the problem in ways that attempt to retain the allocative efficiency of the market.

Wage Subsidies

Another way to increase the incomes of low-wage workers is to provide wage subsidies. Unlike minimum wage increases, wage subsidies raise wages without reducing the demand for labor. In fact, wage subsidies actually may increase employment opportunities of low-wage workers. On the other hand, wage subsidies cost taxpayers a considerable sum and, yet, as in the case of minimum wages, may fail to help the poor very much.

Proposals to subsidize wages compute each worker's hourly subsidy as some percentage (called the subsidy rate) of the difference between a target wage and the individual worker's wage.[22] For example, assume the target wage is $3.00 per hour, and the subsidy rate is 50 percent; subsidies then will vary as shown in table 28.

TABLE 28.—*Wage subsidy and total wages for workers at various actual hourly wages, under a wage subsidy plan with a $3 target wage and a 50-percent subsidy rate*

Actual hourly wage	Hourly subsidy	Total hourly wage
$1.60	0.5 ($3−$1.60)=70 cents	$2.30
$2.00	.5 ($3−$2.00)=50 cents	2.50
$2.25	.5 ($3−$2.25)=38 cents	2.63
$2.50	.5 ($3−$2.50)=25 cents	2.75
$2.75	.5 ($3−$2.75)=13 cents	2.88
$3.00	.5 ($3−$3.00)=0	3.00

Variations in the subsidy rate or target wage make a significant difference among wage subsidy plans. Raising the target wage of a

[21] U.S. Congress, Joint Economic Committee, "Lowering the Permanent Rate of Unemployment," byb Marint Feldstein (Washington, D.C.: Government Printing Office, 1973).

[22] Algebraically, $S=r(W_t-W)$, where S is the per-hour wage subsidy, r is the subsidy rate, W_t is the target wage, and W is the worker's presubsidy wage rate. The total amount of the subsidy is equal to S(H), where H is the number of hours the recipient works.

plan with a constant subsidy rate raises costs and the number of subsidized workers. Similarly, at a target wage of $3.00, varying the subsidy rate between 25 percent and 75 percent implies a substantial program change. Note in table 29 how much more the 75-percent rate compresses the wage structure than does the 25-percent rate. Thus, higher subsidy rates reduce the financial reward from increases in wage rates and reduce the financial loss from decreases in wage rates. In addition, high subsidy rates mean high program costs. The advantage of high subsidy rates is that they provide substantial increases in the wage rates of the lowest-wage workers.

A primary advantage claimed for a wage subsidy is that it stimulates extra work by raising the financial return from each added hour of work. A worker whose pre-wage-subsidy return was $1.60 per hour may find that his post-wage-subsidy return in $2.30. But the wage subsidy, by reducing the family's income deficit, also may cause subsidized workers and other family members to reduce their hours of work.[23] This income effect may offset somewhat the work-stimulating effect of higher financial rewards for work under a wage subsidy.

The wage subsidy has important implications for incentives and equity, particularly regarding work behavior. By narrowing wage differentials as shown in table 29, the wage subsidy improves the relative opportunities of low-skill workers, workers in low-wage localities, and workers with limited capability. Although wage subsidies and income supplements both narrow wage-rate differences, they differ in their response to extra hours of work. At a given wage rate, an increase in hours worked reduces income supplements but increases wage subsidy benefits. The wage subsidy has the equity advantage of providing more benefits to those with similar wage opportunities but greater work effort.

TABLE 29.—*Total wages for workers at various actual hourly wages; under wage subsidy plans with a $3 target wage and subsidy rates of 25, 50, and 75 percent*

Actual hourly wage	Total hourly wages with subsidy rates of—		
	25 percent	50 percent	75 percent
$1.60	$1.95	$2.30	$2.65
$2.00	2.25	2.50	2.75
$2.25	2.44	2.63	2.81
$2.50	2.63	2.75	2.88
$2.75	2.81	2.88	2.94
$3.00	3.00	3.00	3.00

[23] For example, before the subsidy, a couple may have worked a total of 60 hours a week, 40 hours by the man, plus 20 hours by the wife, all at $1.60 per hour. This would have yielded them $4,992 over the course of a year. With a 75-percent subsidy rate, $3 target wage plan in effect, the man could reduce his hours to 20 per week, or his wife could stop working, and their income would be $5,512 a year ($2.65×40 hours per week×52 weeks per year). Thus, they could have more income by working less, and if they did not feel their needs great and if they valued leisure time and time with children more than extra cash, they might reduce their work hours.

Wage subsidies have been criticized on grounds that a substantial portion of their benefits would not go to the working poor, the group for whom the subsidies are intended, but rather employers or higher income families. Employers, for example, may reduce the wages they offer, confident that wage subsidies will make up much of the difference. Employers also will gain if the subsidized wages lure more workers into the labor force, bidding down employer-paid wages. Workers still would receive higher total wage rates because of the subsidy, but the increase in workers' income would be less than government outlays for wage subsidies if employers should lower wages. What proportion of benefits will be deflected to employers is a question that depends largely on how sensitive work hours are to changes in effective wages; that is, if the higher total wage (employer-paid plus subsidy) induces more work it may thereby bid down the wage which employers must pay. Empirical evidence indicates that since work hours do not vary significantly with wage rate changes, a wage subsidy would not induce much more work and should not, therefore, allow employers to pay lower wages. Thus, only a small percentage of government spending for wage subsidies is likely to subsidize employers instead of workers.[24]

Government expenditures also could be diverted from the working poor if wage subsidies were allowed for workers in nonpoor families. If all low-wage workers were equally eligible for subsidies, a large share of benefit outlays would be funneled to workers from nonpoor families. Barth estimated that under a program paying a per-hour subsidy of half the difference between $2.50 and a worker's wage in 1966, all but 14.2 percent of the benefits would have aided workers who were not poor.[25] Benefits can be focused more directly on the poor in several ways. One way is to allow only one subsidy per family, or to qualify only heads of families, or heads of families with children, for a subsidy. Another way is to subtract from a family's wage subsidy benefits some percentage of the family's nonwage income or some percentage of total family earnings. Rea estimates that such measures could significantly increase the proportion of wage subsidy benefits to reach the poor. He found that if only one subsidy per family were allowed and a 100-percent benefit-loss rate were applied to unearned income,[26] more than one-third of wage subsidy benefits would be paid to those who were poor before the subsidy.[27]

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[24] For a detailed examination of the incidence of benefits of the wage subsidy and of public employment programs, see U.S. Congress, Joint Economic Committee, Subcommittee on Fiscal Policy, "The Indirect Market Effects of Wage Subsidies and Public Employment Programs," by Peter Mieszkowski (Washington, D.C.: Government Printing Office, forthcoming).

[25] U.S. Congress, Joint Economic Committee, "Universal Wage-Rate Subsidy: Benefits and Effects," by Michael Barth, in *The Economics of Federal Subsidy Programs, Part 4, Higher Education and Manpower Subsidies* (Washington, D.C.: Government Printing Office, 1972).

[26] These changes introduce some administrative complexity and some adverse incentives with respect to savings and family splitting.

[27] This estimate is based on 1966 data and on a wage subsidy with a target rate of $2.00 per hour and a subsidy rate of 50 percent. In comparison, Barth's estimates, using target rates of $1.60 and $2.50 per hour and a subsidy rate of 50 percent, were that 23 percent and 14 percent of benefits accruing to recipients would have gone to the poor in 1966. See Joint Economic Committee, "Tradeoffs Between Alternative Income Maintenance Programs," Paper No. 13, p. 33.

One reason why wage subsidies pay relatively lower proportions of benefits to the poor is that they do not give much help to those who are unable to find a job, or unable to work or to work many hours for other reasons. As a result, proponents of wage subsidies sometimes envisage two companion plans: a low-wage public employment plan for persons unable to find jobs in the regular private or public market,[28] and a restricted-coverage income supplement plan for those with the greatest hardships in work—such groups as the aged and mothers heading families with pre-school children (or children under 15, or any minor children). They argue that this arrangement maximizes both work incentives for most persons who can work and aid for persons who cannot.

Administration of a wage subsidy plan shares many of the problems of cash and noncash benefit programs. However, one advantage of a wage subsidy is that it rewards the worker who fully reports wages, unlike programs that reduce benefits for earnings and, hence, provide a temptation to hide income. This advantage could be significant if substantial opportunities exist for misreporting income, as occurs in casual labor markets. However, many wage subsidy plans are indirectly related to the income of other workers in the family in order to constrain costs and to be more efficient in fighting poverty. If the amount of the subsidy or eligibility itself is related to income of other family members, there is an incentive to hide their income. Another offsetting feature is the difficulty of obtaining accurate reports of hours worked. Employers and employees could collude by overreporting hours worked, thereby raising the government payment to the potential advantage of both employee and employer. Misreporting hours worked might be easier than misreporting income. Aside from limited efforts made in enforcing the minimum wage law, the government has little experience in verifying hours of work.

The greatest administrative problem of a wage subsidy plan may result from the need to provide companion benefits to some low-income families ineligible for the subsidy because they lack a wage-earner. If benefits are available to temporarily disabled adults, administrators will have to decide what constitutes temporary disability. This is difficult, requiring assessment of a person's capacity for specific kinds of jobs. Is a temporarily disabled person "able" if he can work at very low-wage jobs substantially inferior to his last job? At what point does someone with limited intellectual ability, or emotional problems, or social problems become "disabled?" Similar issues would arise under an income supplement plan if benefits are more generous to the physically disabled than the non-disabled, but the cost of mistakes is much larger under a plan that gives benefits only to those considered unable to work. If administrators misjudge a disabled person, his family would receive no govern-

[28] If a public employment plan is not included in the package, able-bodied persons unable to find jobs will be excluded unfairly from benefits. Moreover, there would be incentives for family splitting, so that women and children at least could qualify for AFDC. On the other hand, our experience with public employment is very limited, and there is considerable question whether such a program could be administered well and whether the products or services would be useful. See the section below on public employment for a discussion of these areas.

ment benefits. A similar mistake under an income supplement plan at worst might reduce the family's government benefit moderately below what it would have been if the worker had been ruled disabled.

Adding a wage subsidy to the current set of benefits would cause new obstacles to coordination of income support programs. First, the system would become even more administratively cumbersome. Recipients would have to apply for another separate benefit and report to another office; and another administrative unit would have to verify incomes and issue payments. Second, work incentives could be affected. The wage subsidy would increase the recipient's effective wage and thereby mitigate to some extent the effect of benefit-loss rates from other programs. Currently, a family receiving food stamps and living in public housing finds that an added dollar of earnings due to *extra work* raises the family's payments for food and rent by about 55¢. Thus, the net gain for a worker in this family might drop from $2.00 to 90¢ per hour. A wage subsidy might raise the gain to $1.40 or $1.60 per hour. But if earnings increase because the *wage rate increases*, the subsidy rate intensifies the effects of benefit-loss rates from other programs. For example, a worker whose family receives food stamp and public housing benefits would find that his effective wage rate, after taking into account wage subsidy and benefit-loss effects, would go up or down by only 23 percent of the change in his presubsidy wage, given a wage subsidy rate of 50 percent. It might be decided, therefore, to eliminate the food stamp program—at least for "employable" groups—if a wage subsidy were introduced.

Earnings Subsidy

The earnings subsidy incorporates some elements of both the wage subsidy and cash income supplementation. Like the wage subsidy, an earnings subsidy pays benefits only to those who work (although a need-based program for certain groups probably would accompany it, too). But, as with income supplements, benefits decline with each dollar of added earnings over some range of earnings. Earnings subsidies have won considerable support, as shown by Senate passage in 1973 of such a plan (in H.R. 3153), earlier drafted as a "work bonus" by the Senate Finance Committee.[29]

The schedule of payments under an earnings subsidy has two separate components. As a low-income family's earnings rise from zero to some specified amount, the family receives a subsidy equal to a fixed percentage of earnings; above the specified earnings level, each dollar of earnings (or of non-wage income) reduces the subsidy by some share of a dollar. For example, the Senate-passed plan provides that a family be eligible for a subsidy of 10 percent of earnings up to $4,000; thereafter, the $400 maximum subsidy would be reduced by 25 percent of further earnings. This formula is illustrated in table 30.

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[29] **H.R. 3153 remained in Senate-House Conference Committee in November 1974.**

TABLE 30.—*The earnings subsidy benefit schedule in H.R. 3153, passed by the Senate in 1973*

Earnings	Subsidy	Total income
0	0	0
$1,000	0.10×$1,000=$100	$1, 100
$2,000	0.10×$2,000=$200	2, 200
$3,000	0.10×$3,000=$300	3, 300
$4,000	0.10×$4,000=$400	4, 400
$5,000	$400−0.25($5,000−$4,000)=$150	5, 150
$5,600	$400−0.25($5,600−$4,000)=0	5, 600

The important parameters of an earnings subsidy are the subsidy rate, the target earnings level, and the benefit-loss rate. The subsidy rate, 10 percent in table 30, is the percentage of low earnings that is paid to the worker. The target earnings level, $4,000 in the example, is the level at which added income reduces rather than increases the subsidy. The benefit-loss rate is the percentage by which each dollar of income above the target level reduces the earnings subsidy—25 percent of earnings or other income above $4,000 in the example. Given the subsidy rate, target income level, and benefit-loss rate, one can find the point at which total earnings subsidy benefits fall to zero. For the earnings subsidy of table 30, that point is $5,600. The maximum subsidy of $400 is phased out at a rate of $1 for each $4 earned. Thus it takes $1,600 in earnings above $4,000 to offset the subsidy.

The incentive and equity features of an earnings subsidy plan depend largely on its parameters. Above the target level (between $4,000 and $5,600 for the plan in table 30), income differences between subsidized workers are narrowed. Below the target level, income differences between subsidized workers are actually increased (for example, while the pre-subsidy difference between two workers earning $3,000 and $4,000 is $1,000, the post-subsidy difference is $1,100.)

For those below the target level the subsidy raises the financial return from work. This increase may raise or lower the number of hours worked, depending on the worker's desire for added leisure versus his desire for added income.[30] Above the target income level, the benefit-loss rate has the effect of reducing the financial return from working.

A recent study that simulated the effects of the Senate-passed earnings subsidy found that its total impact on work hours of recip-

[30] This case is similar to that described above in the wage subsidy section. A rise in the effective wage raises the financial return to added hours of work, thereby influencing workers to increase work hours. But the rise in the effective wage also raises the worker's total income at each level of hours worked. This latter effect allows the worker to attain the same income as before the subsidy while working fewer hours. Whether the subsidy induces more or fewer hours depends on the relative size of the two offsetting effects.

ients appeared to be negligible because features that encouraged or discouraged work tended to offset each other.[31]

The choice of subsidy rate, target earnings level, and benefit-loss rate forces trade-offs among conflicting objectives. In the Senate-passed plan, a low subsidy rate combined with a moderate benefit-loss rate and moderate target level would keep program costs low and, on balance, would maintain work hours. But this program would do little for the poor. A full-time worker earning the minimum wage ($4,000 per year) would receive a subsidy of $400, and his total income would be well below the poverty level for a family of four. Tripling the plan's subsidy rate to 30 percent would increase its help to the poor, but would cost much more. At the target level of $4,000, the subsidy would equal $1,200 (30 percent of $4,000). Retaining the benefit-loss rate of 25 percent above $4,000 would qualify workers for continued subsidies up to $8,800 in earnings. Since many families are in the $6,000 to $8,000 earnings range, a large share of benefits would go to the nonpoor. One way of lowering the eligibility cutoff for earnings subsidies is to raise the benefit-loss rate above the $4,000 target level. A benefit-loss rate of 50 percent would lower the eligibility limit from $8,800 to $6,400. This range would reduce the number of beneficiaries and save money at the cost of lower work incentives for those earning $4,000 to $6,400. And a 50-percent benefit-loss rate in the earnings subsidy program would necessitate intensive program coordination efforts to keep combined benefits and benefit-loss rates under control.

Since many low-wage workers are from nonpoor families, extending earnings subsidies to all workers would be expensive and inefficient in reaching the poor. For this reason, the Senate plan restricts its subsidy to families with children, applies the subsidy to total family *earnings*, and determines target incomes and benefit losses above target incomes on the basis of total family *income*, including social security payments and bonus food stamps.

Administration of an earnings subsidy would encounter problems generally similar to those of other income maintenance programs. Like a wage subsidy, a separate program based only on income need would likely be required for certain groups such as women with children under 6, a group which includes 60 percent of the AFDC population. One potential advantage relative to an income supplement plan is that the poorest workers would gain by reporting rather than hiding wages. However, if eligibility for and amount of benefits is related to family income as well as the individual worker's earnings, recipients would profit by underreporting family income above the target level. The primary administrative advantage of an earnings subsidy over a wage subsidy is lack of need to determine number of hours worked.

Introduction of an earnings subsidy would raise problems of program integration. A low-level earnings subsidy of the type voted by the Senate almost certainly would not eliminate any existing benefit programs.[32] Unless combined with guaranteed public employ-

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[31] See estimates in P. M. Greenston, C. D. MacRae, and D. P. Riordan, "Categorical Earnings Subsidies: Market Effects and Program Costs," Urban Institute, Working Paper No. 3606-06, Washington, D.C., 1974.

[32] The Senate-passed earnings subsidy, however, was originally designed by the Senate Finance Committee in 1972, along with a guaranteed job and a wage subsidy, to replace AFDC for 40 percent of welfare families, those with no children below 6.

ment, programs such as food stamps, AFDC–UF, and general assistance would have to be retained for persons unable to find jobs or to work for reasons not covered by social insurance and categorical welfare programs. An earnings subsidy would add another administrative structure to count and verify income and to disburse benefits. Tacking an earnings subsidy onto the existing set of programs also could raise work incentive problems. A benefit-loss rate of 25 percent in the income range above $4,000 by itself would not be undesirable; but, when added to reductions in the food stamp bonus and to higher social security taxes and personal income taxes caused by an extra wage dollar, it could reduce the worker's net gain per dollar to 40 cents.[33] If there also were benefit-loss rates from public housing and health insurance, the combination of benefit losses, work expenses, and taxes could make extra work unprofitable.

Also, the earnings subsidy would not relieve unemployment insurance and social security from being stretched to alleviate chronic poverty, for the earnings subsidy, like the wage subsidy, would give no help to the long-term unemployed worker or to the 60-year-old who has difficulty working. In summary, an earnings subsidy would improve equity by providing some direct Federal cash to the working poor, but it would leave untouched most of the other problems analyzed in this report.

Public Employment Programs

Public employment has an immediate appeal and seems simple and straightforward; if someone is willing to work, the government will see that he or she has a job. Public employment plans seem free of design problems like those of cash welfare programs. In fact, however, they raise other difficulties if viewed as welfare reform alternatives.

Public employment programs of the Federal Government can either subsidize expanded employment by State and local governments or directly hire people for new Federal jobs. The Comprehensive Employment and Training Act (CETA) in late 1973 assured continuation of federally aided "general public employment" launched by the Emergency Employment Act of 1971, and there are proposals for massive expansion of spending for such jobs.

Another kind of public employment, which may be called "guaranteed employment," has been proposed by the Senate Finance Committee. In 1972 the committee approved a plan to guarantee a public job at low wage rates to all family heads with children, in H.R. 1. That proposal differed from the existing public employment in three ways: wage rates would have been far below existing average wage rates for regular public jobs, jobs would have been guaranteed to all eligible applicants, and the program would have replaced AFDC for welfare families whose children all were of school age.[34]

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[33] The gain would be greater than 40 cents if the earnings subsidy counted the food stamp bonus as income.

[34] The Finance Committee's amended version of H.R. 1 provided the earnings subsidy earlier described, plus a wage subsidy as companion features to its guaranteed job plan for poor family heads.

This section examines the capacity of the two kinds of public employment programs to relieve problems of chronic poverty and to replace existing income supplement programs.

1. General public employment.—Viewed as income maintenance programs, general public employment programs are very unfair. Programs such as PEP (public jobs provided for under the Emergency Employment Act) provide at best a large transfer to a small number of persons, and nothing to other persons who are equally needy. For example, PEP employed about 300,000 persons on a regular full-time basis at average salaries in excess of $6,000 per year, but the number of regular public and private sector workers earning *less* than $6,000 exceeded 25 million.

Restricting the new public jobs to heads of families with dependent children would not solve this problem. In 1971, 7.7 million such fathers and mothers worked for less than $6,000. Not even the most enthusiastic advocates of public employment programs have suggested the expenditure levels necessary to provide jobs to all of them ($46 billion initially in wages alone if they all claimed jobs). Nor would such spending be a wise method for increasing family incomes. Of the 7.7 million family heads with children who earned less than $6,000 per year, 3.4 million earned between $4,000 and $5,999. Thus, the public employment program would spend $6,000 to raise the incomes of many families by only $2,000 or less. Of course, not all workers earning less than $6,000 would apply for public jobs since private employers would bid up wages to compete with the public sector for some of them.

2. Guaranteed public employment.—Since there would be workers in the private sector earning less than a public job wage of $6,000, and since it is desirable to minimize disruption of the private economy [35] and control the number of public jobs, some propose guaranteed public employment in which the government acts as employer of last resort. Such plans call for wages substantially below $6,000–$8,000, and require a wage subsidy or income supplement plan to supplement low private wages. This approach is particularly appropriate if the added government output from newly hired public workers is small or has low value relative to the added private output obtainable from utilizing low-wage workers.

Programs guaranteeing an unlimited number of public jobs at some minimum wage rate might have a variety of effects: (*a*) If employers found it costly to replace eligible workers with other workers or machines, they would raise their wages in order to prevent the government from bidding away their workers. In this case, the wages and incomes of many low-wage workers would rise substantially at the cost of a small loss in private output. But if the increase in wages stimulated a large number of nonworking people in the target group to become workers, government costs would rise.

(*b*) If private employers replaced workers whom they lost to public jobs with persons ineligible for the guaranteed jobs, the loss in private output might not be large; but government costs would

[35] See Joint Economic Committee, "The Indirect Market Effects of Wage Subsidies and Public Employment Programs," for a detailed analysis of the possible effects.

be larger because there would be a larger inflow into the public sector, and the increase in private wages of the target group would be smaller, as private employers switched to ineligible workers instead of competing with the government for those in the target group.

(*c*) If employers found it easy to substitute machines for workers who were guaranteed higher wages from the government, they might cut their use of low-wage workers rather than increase their wages. This possibility should concern those who advocate guaranteed public jobs, for unless employers bid up wages to retain low-wage workers, virtually all of the cost of increasing low wages would fall on the government.

Existing research cannot provide reliable predictions of the response of employers and eligible workers to a guaranteed job offer. Such a program seems likely to boost the number of working women moderately, but unlikely to increase significantly the number of working men. Researchers are uncertain and divided about the probable response of employers. Empirical work on this question has yielded some estimates that suggest that employers would reduce their low-wage work force by only a small amount, but other estimates indicate the likelihood of a much larger reduction.[36]

Equity issues complicate the guaranteed jobs approach. If public jobs were the primary income support program, one might want to vary wages by some measure of need, such as presence of children and size of family. For example, $4,000 ($2 per hour for full-time work) is below the poverty level for a family of four, but well above it for a single individual. But paying a bigger wage for the same work to a husband than to a bachelor, or to a mother of three than to a mother of one, would violate the principle of equal pay for equal work. On the other hand, raising the wage guarantee high enough to provide an adequate income for a family would raise costs to intolerable levels if all persons were eligible to claim a job.

Possibly the most convincing arguments against a guaranteed job program concern administrative problems, to which comparatively little attention has been given. The first problem is whether enough jobs could be created, in the needed locations, with reasonable promptness, and with the option of terminating the job when the public employee found work in the private sector. Counting projects such as the Work Projects Administration, the Federal Government has had little experience in operating public employment plans, let alone guaranteed public employment to certain groups.

Administrative costs are likely to be heavy, particularly in rural areas and small towns, where an office and supervisors would be needed even though jobs might be requested only in the off-season, or only by several job seekers.

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[36] The estimate of a high disemployment response would be a favorable indication for those proposing a wage subsidy, although it would be unfavorable from the standpoint of a guaranteed job program. If small changes in wage rates cause large changes in employer demands for workers, then a reduction in the wage that employers must pay, as could occur under a wage subsidy, would produce a large expansion in employment of low-wage workers. It is assumed that the supply response to wage changes is the same for both the wage subsidy and the guaranteed job programs.

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Another problem is whether what would be produced by holders of guaranteed public jobs would be useful. Although the current mix of public employees has a much higher educational level than the average for all workers (even excluding teachers), workers hired for the guaranteed jobs would have educational levels below the national average. It is not clear to what extent such workers could be utilized productively. The higher the wage relative to productivity, the greater the welfare component of the wage.

A related problem would be how to maintain discipline among workers whose jobs are guaranteed by law, and who would include many persons screened out by private employers for objective reasons. Temporary suspensions might or might not be effective. Distributing the available tasks also would be difficult. Some might require more effort than others but pay the same amount. In the private market such discrepancies would cause pressure for wage changes, but the public job program probably would lack automatic features to help even out the supply of tasks and demand for workers. Rapid job turnover might also prevent effective use of workers.

Administrative, equity, and program integration issues become more difficult when a public employment program is viewed as part of a system of income maintenance programs. As in the cases of the wage subsidy and earnings subsidy, a guaranteed job program would need a companion program to provide cash benefits based on need for at least some groups of poor persons. A guaranteed job plan requires classifying persons by work capacity, making some inequities unavoidable. It is likely that many of those classified as eligible for a pure income payment would have more actual job potential than those deemed eligible only for a work-conditioned benefit. An individual erroneously classified as capable of work would receive no direct government support in spite of severe need. Moreover, to avoid extensive disruption of the private market and to restrain the number of public job claimants, a cash income supplement or wage subsidy plan (and perhaps continuation of food stamp benefits) would be necessary for private-sector workers earning low wages. The "simple" guaranteed employment program could turn into a tripartite system, each component of which had separate administrative problems.[37]

In general, we believe that public employment programs are most useful as complements to, rather than substitutes for, cash-based income supplement programs. Public employment makes sense under conditions of reasonably full employment as a limited program for the hard-core unemployed. During such periods, it can provide valuable work-experience and jobs for those rejected by the private labor market.

Summary of Reform Options

1. *Reform of public assistance.*—Limited reforms could take place within the context of the two traditional pillars of the public assistance

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[37] One such combination plan, including a guaranteed public employment component paying $2.30 per hour, could require the creation of 2.5 million jobs. See U.S. Congress, Joint Economic Committee, Subcommittee on Fiscal Policy, "JOIN: A Jobs and Income Program for American Families," by Robert I. Lerman (Washington, D.C.: Government Printing Office, forthcoming).

system—State options, and casework to determine individual need. The inequitable variation in State benefit levels, and the administrative complexities and arbitrariness of casework would remain. A national minimum benefit level for AFDC would increase equity among female-headed families, but it would make the situation of poor male-headed families more inequitable than at present. Federalization of AFDC would simplify administration and improve equity among recipients, and a nationwide extension of AFDC–UF would broaden coverage. But if these steps were taken in isolation they would worsen the problems of high rates of benefit loss for recipients of aid from multiple programs.

2. Extension of noncash (in-kind) programs.—Such programs raise the fundamental issue of whether the government knows better than individuals what is good for them to consume. When specific goods are offered, the cost of providing them publicly may exceed private market costs, and recipients find themselves very constrained in the choices they can make. More generalized forms of aid in kind, such as vouchers for food or housing, give the consumers more choice. But a proliferation of such programs will create a multiplicity of administrative units, will increase problems of program coordination, and may worsen combined benefit-loss rates and thereby increase work disincentives.

3. Work-conditioned income supplements.—Plans along these lines represent attempts to help the working poor without weakening work incentives. The greatest difficulty common to all such plans is that it would be necessary to maintain a parallel program of income supplementation for families without potential wage earners. The plans, therefore, require an administrative apparatus capable of determining on a case-by-case basis who is able to work. Specific difficulties inherent in each of the proposed methods are discussed below:

(*a*) Raising the minimum wage.—Such a measure seems attractive at first sight but would not target in very effectively on the poverty problem. It happens that the overwhelming majority of low-wage workers who might benefit from minimum wage increases are not in poor families. Also, it would be difficult to raise the minimum wage to levels adequate for large families. A minimum wage of $2.87 would be required just to bring a one-earner family of five up to the July 1974 poverty threshold. Most important, there is a danger that a higher minimum wage will increase unemployment and drive marginal workers into noncovered employment.

(*b*) Wage subsidies.—This method represents an alternative to raising the minimum wage which would not distort labor markets or reduce the demand for labor. The basic notion is for the government to pay a portion of the difference between each person's actual wage and a target wage. But a large share of the subsidy would go to low-wage workers in nonpoor families unless, for instance, benefits were limited to heads of families only. Another difficulty is that by helping most those who work long hours the program would fail to give much help to those who are unable to find a job. Hence, advocates of the wage subsidy sometimes argue that it should be accompanied by a program of guaranteed public employment.

(*c*) Earnings subsidies.—A variation of the wage subsidy is an earnings subsidy, which would give families with incomes below a given level a subsidy equal to a certain percentage of what they earn. It targets aid more effectively on poor families than the wage subsidy,

but it raises many problems of program coordination, and gives no help to the long-term unemployed.

(*d*) Public employment programs.—A distinction should be made between "general public employment" programs intended to relieve unemployment by funding State and local hiring of large numbers of workers at wages approximating the median wage, and "guaranteed employment" under which the Government acts as "employer of last resort" by undertaking to hire at low wage rates anyone or any family head in need of a job.

Viewed as income maintenance programs, general public employment programs are very unfair, offering good incomes to a limited number of persons and leaving those excluded from the program without help. There is a great danger that most of the new jobs will be filled by persons who were not in poor families to begin with. Moreover, the funds would not result in a dollar-for-dollar increase in net employment, since experience has shown that a substantial portion of Federal funds are used by State and local governments to effectively refinance old jobs.

Guaranteed employment threatens to be administratively costly and complex and it is unclear whether low-wage, low-skill workers could be utilized productively in public services. How to enforce job discipline would also be a problem.

4. Demogrants.—The demogrant is a cash grant paid by the government to all persons in a specified demographic group, or in the entire population. In theory, grants are unrelated to income. A low-level demogrant, such as a $225 personal credit to replace existing personal tax exemptions, would not reduce the gain from work for most persons and would improve equity in the tax system by allowing the poorest families to receive as large a benefit from tax exemptions as the richest. But it could not replace any significant portion of existing welfare benefits. A demogrant high enough to replace existing benefits would be very costly, and financing such a grant would require raising marginal tax rates to as high as 50 percent, cutting work incentives for middle- and high-income persons and redistributing income away from single individuals and small families to large families. The huge gross cost of such a scheme probably makes it politically unrealistic.

5. Comprehensive income supplements.—All comprehensive income supplement plans involve an income floor paid to penniless families, a formula for gradual withdrawal of benefits as private income rises and an income eligibility limit known as the breakeven income. The basic notion is to use income and family size as virtually the only criteria on which to base benefits, and to have universal coverage and national program uniformity. Such a program could replace many existing welfare programs. The main issues in setting up an income supplement system are determination of the two basic parameters of the scheme—the income floor and the benefit-reduction rate. The subcommittee favors the comprehensive income supplement as more equitable and administratively manageable than a piecemeal reform of public assistance, extension of noncash programs or work-conditioned income supplements. An income supplement plan with a moderate benefit floor would be far less costly than a universal demogrant, and if benefit-loss rates were not set too high, the program would not significantly undercut work incentives.

Chapter VIII. THE SUBCOMMITTEE PLAN: BASIC FEATURES[1]

The purpose of these recommendations is to replace or rationalize the many public programs offering support based on family and individual income by establishing, as a part of the income tax, a new Federal system of tax credits and allowances. This new system is designed to increase the equity, strengthen the administration, and improve the adequacy of income maintenance programs, and to restore desirable social and economic incentives to the Nation's system for income support. It significantly alters the old welfare reward system by ending the penalties on work, marriage, and family responsibility.

This reform proposal is based upon both a reformed tax system and a reformed welfare system. In the tax system, the deductions from income for personal exemptions are replaced with tax credits, which are deducted *from* tax liability with excess credits paid to the tax filer(s). Several current welfare programs (principally AFDC and food stamps) are scrapped in favor of a comprehensive system of allowances to poor people administered by the Internal Revenue Service.

As a result of this reform, people with little or no private income would receive full allowances and credits and pay no income tax. Those with very small incomes would still receive full credits but reduced allowances. Persons in the modest- and middle-income range would not be eligible for allowances, but they would pay less income tax than is now the case. Some taxpayers in the high-income brackets would owe more taxes than now.

Tax Credits

Everyone permanently residing in the United States, and anyone else required to file a Federal income tax return, would be entitled to a $225 per person annual credit against income tax liability. If the total credits for a tax filer and dependents exceeded their tax liability, the unused credits would be paid to the filer. Certain tax filers (for example, aliens without permanent resident status) would be entitled to use the credits to reduce taxes but could not receive rebates of unused credits.

Much of the tax revenue lost through these credits would be recouped through the elimination of two present income tax features: (1) the personal exemption; and (2) the low-income allowance. The personal exemption permits a taxpayer to reduce taxable income by $750 for him(her)self, spouse and each dependent. The low-income allowance sets a minimum floor of $1,300 on the amount by which

[1] Chapters IX and X examine separately each basic feature of the plan. Chapter XI makes recommendations for meshing the basic program with other public welfare programs to achieve a smoothly functioning *system*.

each taxpayer can reduce taxable income through the standard deduction. (The standard deduction is 15 percent of adjusted gross income up to a maximum of $2,000.)

In general, the advantage of a tax credit over the personal exemption is that the $225 credit is worth the same $225 to everyone, regardless of income. In contrast, the $750 personal exemption is worth little or nothing to those persons with little or no taxable income, but as much as $525 to the high-income taxpayer. For most taxpaying families of four with annual incomes below $25,000, the $225 credit would cut income taxes. For many other taxpayers income taxes would rise by varying amounts.

The tax credit also has specific advantages in the context of other features of the subcommittee's recommendations. By having a universal per capita tax credit upon which to build, the system of allowances based on need (described below) can be designed so that grants to low-income families are lower than they would be otherwise. This permits a reduction in the number of people with whom the administering agency would otherwise have to deal on a monthly basis, since families with credits but no allowances can be reimbursed through the regular tax withholding and annual tax return. Also, since the credit reduces the tax burden on moderate-income people, the subcommittee plan can rationalize existing welfare programs while aiding inflation-squeezed workers simultaneously.

Allowance for Basic Living Expenses (ABLE)

Basic Federal funding would be ended for aid to families with dependent children (AFDC), and the food stamp program would be abolished. Many existing income maintenance programs would be replaced by, or rationalized with, a new system of allowances operated by the Internal Revenue Service (IRS) in conjunction with the Federal income tax. These Allowances for Basic Living Expenses (referred to as ABLE grants hereafter) would be payable to qualified low-income families and individuals every month. Allowances would be uniform throughout the Nation and available to all the poor, except the aged, blind, and disabled and their dependents covered by the Federal supplemental security income (SSI) program.

1. Who may apply.—ABLE applicants generally would have to be age 18 or over and not claimed as a dependent by any other adult. The members of the filing unit would be the filer, spouse, dependent children, and any other persons dependent upon the filer or spouse. A person under age 18 could file if he had a spouse or dependent child and were not claimed by someone else as a dependent.

2. Schedule of allowances.—ABLE grants in the starting year, 1977, would be determined by subtracting a filing unit's offset income (defined below) from its total allowances, based on the following schedule:

Member of unit:	*Annual allowance*
(a) Married couple filing jointly	$2,050
(b) Head of household filer (as defined by IRS)	1,225
(c) Single filer	825
(d) Dependent age 18 or over	825
(e) First and second child in filing unit, each	325
(f) Third, fourth, fifth, and sixth dependent child, each	225
(g) Seventh and successive dependent children	0

Thus, allowances would total $2,700 a year for a couple with two children ($2,050+$325+$325), or $2,325 for a divorced mother of four ($1,225+$325+$325+$225+$225). These allowances, when added to the personal tax credits, would constitute a Federal floor under individual and family incomes. Thus, a couple and two children with no private income would receive $900 in tax credits and $2,700 in ABLE grants for a total income of $3,600. A penniless mother of four would receive $3,450 ($2,325 from ABLE, $1,125 from credits). It must be stressed that these are maximum allowances, and would go to those relatively few families or individuals with no other income.

The ABLE schedule chosen necessarily resulted from a compromise among many factors, including cost, the relationship of benefits to the cost of living and to wage levels, and the probable impact of family income on decisions to have another child, to marry, or to split a single family unit into two independent units. The benefit schedule has been carefully constructed to hold to a minimum incentives for family splitting or nonmarriage in low-income families. Per-child benefits in the allowance system also are tailored downward as family size increases so as not to encourage large families. Making two-parent families eligible for income supplementation will not automatically make them more stable. But supplements to low earnings will reduce the most severe economic pressures that plague families, and desertion no longer will be the only means some fathers have to increase their families' cash income.

Benefit amounts are not designed to provide "adequate" levels of living for several reasons. First, comparatively few families have no income or income-producing opportunities. Even in today's slack job market many low-wage jobs are available which, in combination with benefits, would yield more nearly adequate total incomes. The program is designed to build on private efforts, rather than substitute for them. Thus, the program fits the vast majority of cases rather than being stretched to cover the worst possible cases of destitution. For most persons, the program will provide only a minority share of total income, since most beneficiaries will be low- and modest-income working families. For example, a one-earner, two-parent family of four with earnings of $4,000 would receive supplementation totaling $1,717.

Second, the basic Federal allowances and tax credits will help those with little capacity for self-support. Persons with greater needs will be helped by SSI or other existing programs for disabled persons, or can be aided by States and localities on a case-by-case basis.

Third, costs and caseloads rise rapidly as levels of allowances and/or credits are increased (see chapter IX). Costs constrain levels on the one hand, while the goal of eliminating food stamps and Federal financial participation in AFDC necessitates benefits of certain levels on the other.

Benefit levels would be expected to rise gradually over time, particularly if the recent inflation continues. The subcommittee plan offers two ways to raise benefits: (1) raising ABLE allowances to help low-income people; or (2) increasing the value of the universal tax credit to help everyone. These are not necessarily alternatives; simultaneous changes could be made in each. But we prefer an initial emphasis on tax credit relief for two reasons. First, when inflation boosts their

wages, middle-income taxpayers must pay more taxes because they are pushed into higher tax brackets. Unless credits were increased over time, their real income would fall. Second, raising the value of the credit relative to ABLE allowances would move closer toward a system that could dispense with explicit supplementation based on low income and instead provide all Americans with an income floor in the form of tax credits.

3. Benefit-loss rates.—Some portion of private income would be subtracted from, or offset against, a unit's ABLE allowances, resulting in lower benefits for those in less need. ABLE would differentiate among four kinds of income, applying a different subtraction rate to each. The rates, which were selected to promote fair treatment and preserve work and saving incentives at reasonable cost, are as follows:

Benefit-loss rate:	*Type of income to which rate applies*
50 percent	Earned income (wages, salaries, commissions, tips, net income from self-employment) less social security taxes and special earnings deductions for single parents and married couples in which both spouses work. These deductions would reduce the ABLE income-offset rate (benefit-loss rate) for most earners to 47 percent or lower.
80 percent	Public housing subsidies.
100 percent	Veterans' pensions, farm subsidy payments, refunds from Federal income tax overwithholding.
67 percent	All income not otherwise classified (such as property income, public or private retirement benefits, child support, alimony, annuities).

Allowances would be reduced by 50 cents for each earned dollar. But, since social security taxes paid would be deducted from income charged against grants, benefits would be reduced by a maximum of only 47 cents for each dollar earned. For certain types of earners the benefit-loss rate would be even lower and the net gain from work higher. There are two sets of circumstances that require special consideration: two-earner families and one-parent families headed by a worker. Many low- and modest-income families have two earners. The second earner's wages are a vital contribution to the family's income. Work expenses for such families are higher than one-earner families, and if the second earner is a spouse, the family must forego the value of his or her home labor as well. These considerations apply even more strongly to the working mother who is raising children alone. Hence, special earnings deductions would be given to two-earner households and to one-parent households in which that parent works, in lieu of complex itemized deductions for work expenses and the current child care deduction allowed under the income tax. The earnings deduction for two-earner families would help to reduce the marriage penalty that many couples now face under the income tax.

The moderate initial benefit-loss rate, coupled with the deduction of social security taxes and the special earnings deductions, would have three positive effects: It would provide significant supplementation of low earnings; maintain a reasonable income differentiation between workers and nonworkers and between those who work more or less; and keep work disincentives to a moderate level.

A unit consisting of two parents and two children, with maximum gross allowances of $2,700 and husband's earnings of $3,000, would

have a net allowance of $1,288 and a total income of $5,188, computed as follows:

Gross allowance	$2,700
Gross earnings	3,000
Social security tax	−176
Net earnings	2,824
	×.5
Offset income	−1,412
Net allowance	1,288
Tax credits	900
Earnings	3,000
Total income	5,188

The net allowance would amount to $690 if the family received $3,000 in social security benefits:

Gross allowance	$2,700
Social security benefits	3,000
	×.67
Offset income	−2,010
Net allowance	690
Tax credits	900
Social security	3,000
Total income	4,590

If the unit's offset income were less than its total ABLE entitlement, the unit would be eligible to receive payment of the difference (total allowances less offset income). Units receiving allowances would be exempt from the Federal income tax and would receive a rebate of all their tax credits. If offset income were greater than allowances but by an amount smaller than the unit's income tax liability, the filer would be eligible for income tax relief when the annual tax return is filed. The amount of that relief would be the difference between the income tax liability and the excess offset income.[2] The income tax return would be used to reconcile taxes, credits and ABLE allowances, and all ABLE units would have to file a tax return.

4. Income accounting methods.—We recommend basing benefits on past income (retroactive accounting) to improve administration and avoid the overpayment bias of benefits based on anticipated future income. The accounting period would be one month, making the system as responsive to the needy as is administratively feasible. A carryover of past "excess" income (income for the preceding 12 months that was above the level for benefit eligibility) would be used to establish equity

[2] In such cases, the ABLE unit's income tax payment equals its excess offset income. For example, assume that income tax liability were $500, and that offset income were $300 in excess of maximum allowances. The family could opt to pay $300 in taxes, thereby saving $200.

between people with steady incomes and those with incomes that fluctuate over time, and to keep payment costs down by avoiding payments to people whose longer-term incomes exceed eligibility limits on a monthly basis. The frequency of income reporting, once a month, should be sufficient to ensure accurate reports without imposing too heavy a paperwork burden on either recipients or administrators. Those who failed to file a monthly income report would lose ABLE payments. As an additional verification measure, all ABLE units would have to file an annual income tax return.

5. *Administering agency.*—ABLE would be administered by the Internal Revenue Service, which should integrate the operation of ABLE with procedures used for the income tax. IRS should allocate resources in such a way as to insure the same quality of service to filers and the same degree of program integrity in both ABLE and the income tax systems.

Relationship to Other Programs

In order to achieve a smoothly functioning income maintenance system and to reduce the problems created by program overlaps now, considerable change in existing programs is necessary. These changes are outlined below. Their overall impact is to reduce the inequities in treatment of persons in similar circumstances and to assure that combined benefit levels and benefit-loss rates are reasonable. Benefit levels could not cascade to unreasonably high levels, nor could the reward for work plummet.

1. *Supplemental security income (SSI).*—An SSI recipient (or one receiving a State supplement to SSI) could not file under ABLE, be counted as a filing unit member, or have his/her income counted as available to the unit.

SSI is a new program that sets a Federal income floor for the needy aged, blind, and disabled. To give these recipients ABLE coverage would, in effect, eliminate the SSI program. But SSI should be kept as a separate program because, first, it is too new to be properly assessed, and second, because improvements in SSI can best be accomplished by dealing with associated issues in social security and the veterans' pension program concurrently.

Although we recommend retention of SSI, we propose three revisions to avoid inequities and irrational overlaps between SSI and ABLE: (1) inclusion of dependents (spouse and children) in SSI; (2) transfer of disabled and blind SSI beneficiaries under age 18 to ABLE family units; and (3) liberalization of the assets test for the basic SSI program.

2. *AFDC.*—States would be required to make supplementary payments to AFDC families already on the rolls in amounts sufficient to keep total family income from being reduced under the subcommittee plan. Mandatory supplementation would include 80 percent of the cash value of families' food stamp bonus, if any. This protection, which is needed to prevent a sudden loss of income because of altered Federal law, would be required for two years. These provisions for transitional mandatory supplements are similar to those enacted by Congress for SSI.

Federal funds would be promised to protect States against any increase in State expenditures in 1977 or 1978 above their calendar year 1976 share of AFDC payments.

However, the cost of the mandatory supplement is not expected to reach this "hold-harmless" level in any State because:

(1) The basic ABLE benefit plus the tax credit for a family would exceed the Federal share of the maximum AFDC payment in most States, even with the food stamp bonus added to the AFDC levels.

(2) In most States the amount of the AFDC payment varies because of living arrangements or amount of rent paid, and in some States there are regional variations in payment standards. Therefore, even in States with high payment standards, there are a number of families who would require little or no supplementation. Families with income would require lower supplementation than families with no private income of their own.

(3) The normal turnover in AFDC cases should quickly reduce the number of families entitled to a mandatory supplement.[3]

States could voluntarily supplement new cases and continue to supplement old cases beyond 2 years. But they could not impose a benefit-loss rate on net earnings that, when combined with the Federal plan, totaled more than 60 percent.

3. Food stamps and surplus commodities.—The subcommittee's plan for universal tax credits and ABLE cash allowances would make these food benefits obsolete, and they would be scrapped.

4. Medicaid.—The subcommittee proposal assumes that medicaid will be replaced before 1977 with one of the pending proposals for national health insurance, and thus, makes no recommendations to change medicaid.

5. Housing subsidies.—It is recommended that a family's ABLE grant be reduced by 80 percent of the value of any housing subsidy (defined as the difference between a unit's fair market value and the tenant's rent payment). This recommendation meets an important objective in program coordination, which is to avoid the high combined benefit-loss rates that discourage work effort. With this provision, those who receive both ABLE and a public housing subsidy would lose a total of 52.5 cents in benefits for each added dollar of earnings, only 5 cents more than the loss that would occur under ABLE alone. If ABLE did not count the subsidy as income, the combined benefit-loss rate would be 62.5 cents on the dollar.

A second objective of this housing provision is to improve equity. Public housing subsidies give residents a sizable income benefit, and housing projects have lists of persons waiting to live there. Our provision would narrow the differential between poor families who receive public housing subsidies and poor families who do not, but ABLE families in public housing would have some advantage in benefits over ABLE families not in public housing. Thus, public housing would be less a device for increasing family income and

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[3] Approximately one-third of the AFDC caseload newly enters the program each year and one-third leaves it.

would more exclusively serve its original function of increasing the supply of low-cost housing.

6. *Day care.*—Federally aided day care centers would be prohibited from using fee schedules related to income. Instead, modest, fixed fees should be charged everyone. Special earnings deductions to be allowed under the income tax for a one-parent working head of household and for two-earner families would help low-income workers pay the modest fee (or a babysitter), and would substitute for the current child care deduction in the tax code.

7. *Basic educational opportunity grants.*—Grants to students under this higher education program would be offset dollar for dollar by any cash supplements they received under the new program.

8. *Indian assistance.*—Cash payments to reservation Indians would be replaced almost completely by the new grant program, although some short-term supplementation might be needed to protect current recipients from loss of income.

Costs of the Subcommittee Plan

The net full-year cost to the Federal Government is estimated to be $15.4 billion (see table 31). However, this cost is almost equally divided between (1) income taxes forgiven for low- and middle-income taxpayers, and (2) additional benefits to low-income units. Gross tax relief will result as follows:

	In billions
Taxes offset by tax credits	$36.3
Taxes reduced by standard employment expense deductions	2.8
Taxes forgiven for ABLE units	3.7
Taxes reduced by provision integrating ABLE with the income tax	1.6
Total tax reductions	44.4

Revenue *increases* of $35.8 billion, which result from elimination of personal exemptions, the low-income allowance, and the deduction for child care expenses, produce net tax relief of $8.6 billion, or about 7 percent of income tax revenues projected for 1976 under current law.

More than half of the benefits to low-income units would be provided through the income tax in the form of rebated credits. Since tax credits in excess of a unit's tax liability will be paid to the unit, many low-income units will receive such rebates. Based on 1976 projections, rebates of $12.9 billion will be paid to those units.

The costs of Federal expenditure programs will actually decline under this proposal. The estimated ABLE grants of $11.4 billion and the cost of administration will be exceeded by savings in the elimination or reduction of current welfare programs. Reductions in current programs are estimated to total $16.0 billion, assuming projected expenditures for these programs as shown in table 31.

The estimates of tax changes and ABLE grants were made by simulating the way the proposal would affect each household in a census survey. A number of factors the computer model could not allow for, but which have major cost implications, have been handled as adjustments to the model's estimates (see bottom section of table

31). These adjustments include our best guesses about effect on costs of the following: (1) less than 100-percent participation of persons eligible for ABLE grants or tax savings; (2) the undercount of transfer income in the census survey data; (3) the potential reduction in labor force participation by recipients; (4) the potential for some members of filing units to file independently to increase benefits; (5) the inability of the model to accurately simulate the plan's system of income accounting; and (6) the model's inability to reduce benefits for the proposed imputation of income to the assets of ABLE recipients. Some of the adjustments increase, and some decrease, costs. The net result is a $2.5 billion reduction in the plan's estimated Federal cost, included in the $15.4 billion estimate.

These costs are for fiscal year 1976, rather than 1977 (the year the program would begin), but the 1-year difference should not have much effect on net costs. They assume average wage increases of 5 percent in 1974, 1975, and 1976. If wages rise more rapidly, costs would be lower, or, benefit levels could be raised at constant costs.

TABLE 31.—*The subcommittee plan's estimated annual net Federal cost, based on projected data for calendar year 1976* [1]

[In billions of dollars]

Change in revenue or expenditure	Amount of change
Change in Federal income tax revenues:	
A. Revenue increase from elimination of personal exemptions, low-income allowance, child-care deduction	+$35.8
B. Revenue reductions from tax relief provisions:	
1. Taxes offset by tax credits	−36.3
2. Taxes reduced by earnings deductions for single parents, second earners	−2.8
3. Taxes forgiven for ABLE units	−3.7
4. Taxes reduced by provision for transition between ABLE and income tax	−1.6
C. Tax credits disbursed	−12.9
Total revenue lost	−57.3
Net change in revenues	−21.5
Change in Federal expenditures:	
A. Expenditures under new system:	
1. ABLE grants paid [2]	+11.4
2. Administration of ABLE	+1.0
Total ABLE expenditures	+12.4

See footnotes at end of table.

TABLE 31.—*The subcommittee plan's estimated annual net Federal cost, based on projected data for calendar year 1976* [1]—Continued

Change in revenue or expenditure	Amount of change
B. Savings from reductions in current programs:	
1. Termination of Federal matching for AFDC payments	−5.0
2. Termination of Federal matching for AFDC administration	−0.5
3. Termination of food stamp program	−8.0
4. Reduced subsidies under national health insurance [3]	−1.0
5. Offset for housing subsidies	−0.7
6. Reduced loans and grants for higher education	−0.5
7. Reduced school-lunch subsidies	−0.2
8. Reduction in aid to Indians and Cuban refugees	−0.1
Total program reductions	−16.0
Net change in expenditures	−3.6
Adjustments to cost estimates for the following factors:	
Potential reduction in work effort by recipients	+0.7
Effects of accounting period not allowed for in TRIM	+0.3
Potential for filing unit members to file separately	+2.0
Reduction of benefit estimates for income under-reporting in the census	−2.5
Reduction of benefit estimates to allow for less than 100-percent participation	−2.0
Reduction of benefit estimates for income to be imputed to assets	−1.0
Net adjustment to cost estimate	−2.5
Net Federal cost of subcommittee plan (net revenues lost less net change in expenditures and net adjustments)	+15.

[1] Estimated changes in the income tax and estimated ABLE payments were made by using the Urban Institute's TRIM (Transfer Income Model) computer program. TRIM simulated these changes in law and applied them to a 1976 projection of census survey data on the U.S. population. Costs of administration, reductions in current programs, and adjustments to the TRIM estimates were estimated by subcommittee staff, based on the best information available from the U.S. Budget and the various Federal agencies involved.

[2] Some relatively small share of the estimated ABLE payments would actually be paid through the SSI program. This results from a subcommittee recommendation that the dependents of SSI recipients be covered under SSI rather than ABLE. The estimated ABLE payments exclude SSI eligibles but not their dependents.

[3] It was assumed that a national health insurance program would count ABLE benefits as income. Thus, introducing ABLE would reduce health subsidy costs.

It is impossible to assign a dollar amount to every change that would be likely under the subcommittee plan. The following is a list, not necessarily exhaustive, of such changes for which no estimates of costs or savings have been made:

Costs to Federal Government not estimated

1. Possible increases in Federal matching of State social services outlays to cover local emergency aid.
2. Federal "hold harmless" protection for required State supplementation of certain "old law" AFDC cases.
3. Liberalized asset limit for SSI.
4. Potential for uncollected overpayments.

Savings to Federal Government not estimated

1. Counting of farm subsidies at full value in income offset against ABLE allowances.
2. Recently enacted minimum wage increases not reflected in 1976 projection of wage income.
3. Other types of income counted by ABLE but not recorded in the census data (e.g., value of employer-provided housing, gifts of more than $250 a year).

Eleven million families and individuals, including 34 million persons, would be eligible to receive ABLE benefits (see table 32). The average ABLE benefit for eligible four-person units would be $1,303 per year, plus $900 in tax credits. The program would almost halve the income deficit of families in poverty in 1976, from a projected $19.3 billion under existing programs to $10.4 billion. The number of families and individuals in poverty would fall from 11.9 to 9.4 million.[4] Since the net cost of the entire program is only $15.4 billion, the plan would have a relatively high target efficiency, with a 58-cent decline in the poverty gap for every dollar of net cost. With State supplementation of Federal benefits, the income deficit and the number of poor persons would be further reduced.

Another 4.8 million families and unrelated individuals just above eligibility limits for ABLE, including 16.3 million persons, would have their taxes reduced by the way ABLE and the income tax would be meshed (see table 33). The average tax saving for four-person units in this group would be $368 a year.

Of course, many who would benefit from ABLE would *not* be new additions to the income maintenance system; they benefit now from a wide variety of programs such as AFDC, general assistance, food stamps, subsidized housing, medicaid, and veterans' pensions.

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[4] These calculations use a poverty threshold based on *disposable* (that is, after-tax) income. Also, it assumes 1976 price levels which would be 15 percent above 1973, with zero growth in real income over the 3-year period. By contrast, the Census Bureau, which uses a before-tax measure of poverty, estimated that the poverty population in 1973 comprised 9.5 million families and unrelated individuals, with an aggregate income deficit of $12.0 billion.

TABLE 32.—*Average annual ABLE benefits*[1] *by*

[Number of units

Annual before-tax income	1: Number of units	1: Average amount	2: Number of units	2: Average amount	3: Number of units	3: Average amount	4: Number of units
0	564	$886	466	$1, 640	311	$1, 948	226
$1 to $999	988	517	353	1, 458	203	1, 888	154
$1,000 to $1,999	1, 549	187	689	907	281	1, 320	150
$2,000 to $2,999	34	198	805	476	294	866	170
$3,000 to $3,999			360	343	273	657	139
$4,000 to $4,999			166	122	232	346	130
$5,000 to $5,999					71	210	159
$6,000 to $7,999					20	76	74
$8,000 to $9,999							7
$10,000 to $11,999							
$12,000 to $14,999							
$15,000 to $19,999							
$20,000 to $24,999							
$25,000 and over							
Totals (11,230 units)	3, 135	417	2, 838	857	1, 685	1, 122	1, 209

Column groups 1–4: Number of persons in filing unit.

[1] Benefit amounts shown are exclusive of tax credits.
[2] Estimated by TRIM computer model. See footnote 1, table 31.

TABLE 33.—*Average annual tax relief benefits to units just above eligibility*

[Number of units

Annual before-tax income	1: Number of units	1: Average amount	2: Number of units	2: Average amount	3: Number of units	3: Average amount	4: Number of units
0 to $999							
$1,000 to $1,999	369	$142					
$2,000 to $2,999	587	72	20	$191			
$3,000 to $3,999	23	155	117	132	8	$313	3
$4,000 to $4,999	6	9	265	321	36	237	14
$5,000 to $5,999			321	195	234	420	53
$6,000 to $7,999			95	90	445	246	506
$8,000 to $9,999					59	131	155
$10,000 to $11,999					1	7	40
$12,000 to $14,999							6
$15,000 to $19,999							
$20,000 to $24,999							
$25,000 and over							
Totals (4,843 units)	985	100	818	214	783	289	776

Column groups 1–4: Number of persons in filing unit.

[1] Estimated by TRIM computer model. See footnote 1, table 31.

filing unit size and before-tax income (1976) [2]

in thousands]

Number of persons in filing unit—Continued								
4	5		6		7		8+	
Average amount	Number of units	Average amount	Number of units	Average amount	Number of units	Average amount	Number of units	Average amount
$2, 221	128	$2, 505	106	$2, 701	47	$3, 136	65	$3, 201
2, 043	87	2, 515	48	2, 589	33	3, 092	47	3, 484
1, 622	94	2, 088	51	2, 718	29	2, 713	48	3, 120
1, 259	90	1, 616	55	1, 975	41	2, 753	32	2, 897
1, 007	74	1, 150	51	1, 473	27	2, 077	27	2, 753
626	100	851	50	1, 278	46	1, 596	33	2, 657
380	124	593	75	955	37	1, 087	44	1, 638
261	104	454	126	509	86	803	118	1, 531
43	21	178	49	470	34	586	65	1, 148
			6	365	9	533	33	707
							16	739
							2	214
1, 303	823	1, 430	619	1, 553	389	1, 811	531	2, 149

limits for ABLE grants, by filing unit size and before-tax income (1976) [1]

in thousands]

Number of persons in filing unit—Continued								
4	5		6		7		8+	
Average amount	Number of units	Average amount	Number of units	Average amount	Number of units	Average amount	Number of units	Average amount
$515								
185	2	$223	3	$223				
533	16	360	3	373				
370	219	489	73	642	24	$760	6	$820
338	239	331	181	412	64	634	32	617
335	85	299	94	545	96	696	81	739
138	24	358	42	524	59	680	72	868
			2	63	12	535	51	827
368	586	387	398	493	255	676	243	782

Phasing in the Subcommittee Plan

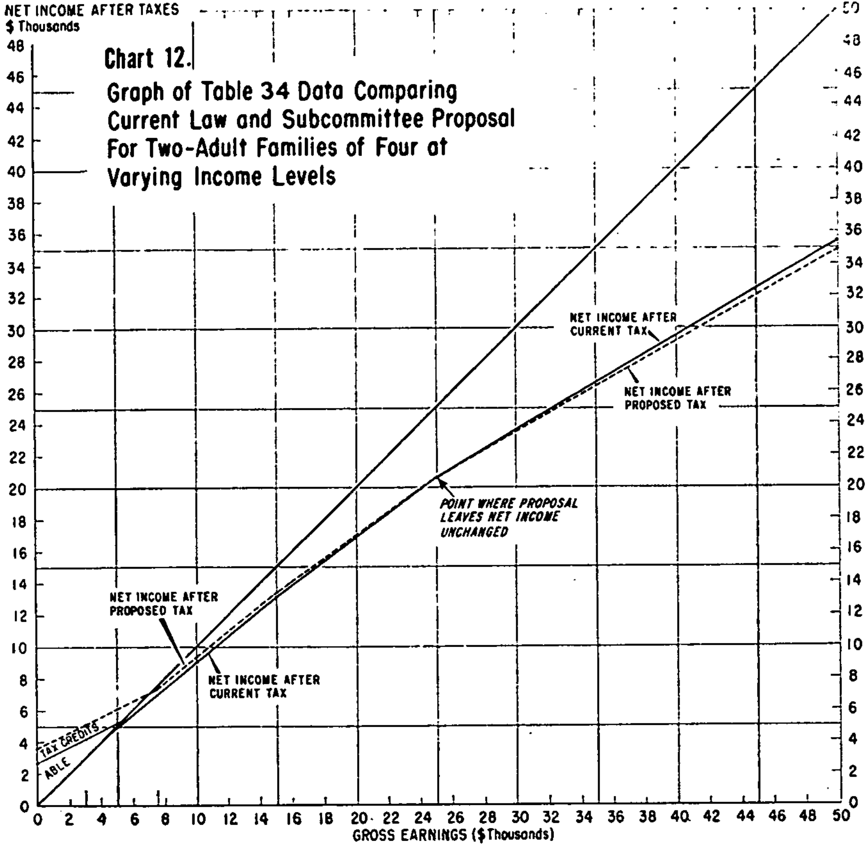
Implementing the entire subcommittee plan in calendar year 1977 would have a major effect on the Federal budget in that year. If it seems desirable to spread out this fiscal impact, the plan could be broken into several parts and phased in gradually. There are four major pieces of the plan which could be implemented separately. These four phases, and their estimated 1976 Federal costs, are as follows:

Phase	*Elements*	*Net Federal cost (billions)*
1	Replace personal exemptions with nonrebatable tax credits	$3.2
2	Replace child care deduction with standard employment expense deduction	2.6
3	Add coverage of dependents to SSI program	0.5
4	Make credits rebatable; replace low-income allowances, AFDC, and food stamps with ABLE program	9.1
	Total, all phases	15.4

Since enactment of a bill in 1974 would permit implementation of phase 1 effective for calendar year 1974, each succeeding phase could be implemented in 1975, 1976, and 1977 respectively. Thus, the subcommittee's target date for reform would be realized by phasing in, but the final goal would be reached in smaller steps and the fiscal impact would be lessened for any one year.

Examples of Benefits Under the Subcommittee Proposal and Under Current Law

Table 34 and chart 12 compare after-tax income for families of four at different levels of earned income under current law and under the subcommittee plan. Because of State variations in what welfare benefits such families are entitled to under current law, none are shown. For more specific examples of the treatment of various family types under the subcommittee plan and of current benefits for various family types in various States, see tables 35–44.



NET INCOME AFTER TAXES
$ Thousands
Chart 12.
Graph of Table 34 Data Comparing Current Law and Subcommittee Proposal For Two-Adult Families of Four at Varying Income Levels
NET INCOME AFTER CURRENT TAX
NET INCOME AFTER PROPOSED TAX
POINT WHERE PROPOSAL LEAVES NET INCOME UNCHANGED
NET INCOME AFTER PROPOSED TAX
NET INCOME AFTER CURRENT TAX
TAX CREDITS
ABLE
GROSS EARNINGS ($Thousands)

TABLE 34.—*After-tax income under current law and under subcommittee plan for 4-person families at different earnings levels: Families of 2 parents and 2 children; 1 parent works full time*

	A		B		C		D	
	Current	Proposed	Current	Proposed	Current	Proposed	Current	Proposed
Earnings	0	0	$3,000	$3,000	$5,000	$5,000	$7,500	$7,500
Allowances	(1)	$2,700	(1)	2,700	(1)	2,700	(1)	2,700
Offset income [2]	(1)	0	(1)	1,500	(1)	2,500	(1)	[3] 2,700
ABLE payments	(1)	2,700	(1)	1,200	(1)	200	(1)	0
Tax liability [4]	0	0	0	0	98	0	484	[3] 1,050
Credits		900		900		900		900
Net tax	0	[5] (900)	0	[5] (900)	98	[5] (900)	484	150
Net income	(1)	3,600	[1] 3,000	5,100	[1] 4,902	6,100	[1] 7,016	7,350
Gain (or loss)		[1] +3,600		[1] +2,100		[1] +1,198		[1] +334

	E		F		G		H	
	Current	Proposed	Current	Proposed	Current	Proposed	Current	Proposed
Earnings	$10,000	$10,000	$15,000	$15,000	$25,000	$25,000	$50,000	$50,000
Allowances	10,000	10,000		2,700		2,700		2,700
Offset income [2]		[3] 2,700		[3] 2,700		[3] 2,700		[3] 2,700
ABLE payments		0		0		0		0
Tax liability [4]	905	1,490	1,820	2,510	4,380	5,340	14,560	16,060
Credits		900		900		900		900
Net tax	905	590	1,820	1,610	4,380	4,440	14,560	15,160
Net income	9,095	9,410	13,180	13,390	20,620	20,560	35,440	34,840
Gain (or loss)		+315		+210		−60		−600

[1] Family might be eligible for AFDC or food stamps under current law, but amount would vary based on a number of factors.

[2] Earnings offset allowances by 50 cents for each $1. Not shown is the deduction from earnings of social security taxes permitted under the allowance system (see ch. XI).

[3] 50 percent of earned income exceeds gross allowances, so only that portion of income which completely offsets allowances is shown here. Thus, no ABLE payment is received. For family D, the excess offset income is $1,050 ($3,750 − $2,700), which is less than the regular income tax liability of $1,071. Thus, family D would substitute the smaller amount, against which credits are then applied. For a description of this proposed optional tax computation, see ch. XI.

[4] Standard deduction of 15 percent up to $2,000 is assumed. A family with income of $50,000 undoubtedly would itemize deductions and pay less tax.

[5] Numbers in parentheses indicate net payments to, rather than from, taxpayers because of tax credits.

TABLE 35.—*Benefits and taxes for single individual at varying earnings levels under the subcommittee plan*

Annual earnings	Federal income tax liability [1]	Tax credits	Net Federal income tax liability [2]	Social security tax	ABLE grant	Net cash income [4]
0	0	$225	+$225	0	$825	$1,050
$500	0	225	+225	$29	589	1,285
$1,000	0	225	+225	58	354	1,521
$1,500	0	225	+225	88	119	1,756
$2,000	[3] $117	225	+108	117	0	1,991
$2,500	334	225	109	146	0	2,245
$3,000	414	225	189	176	0	2,635
$4,000	576	225	351	234	0	3,415
$5,000	742	225	517	292	0	4,191
$6,000	921	225	696	351	0	4,953
$7,000	1,100	225	875	410	0	5,715
$8,000	1,302	225	1,077	468	0	6,455
$9,000	1,506	225	1,281	526	0	7,193
$10,000	1,715	225	1,490	585	0	7,925
$15,000	2,920	225	2,695	772	0	11,533
$20,000	4,510	225	4,285	772	0	14,943
$25,000	6,390	225	6,165	772	0	18,063

[1] Based on the standard deduction but with no low-income allowance. Personal exemptions are replaced by $225 per person tax credits.
[2] Numbers with plus sign indicate net payments to rather than from taxpayers because of tax credits.
[3] Tax is reduced amount from regular schedule because of provision for smooth transition from ABLE recipient to nonrecipient status.
[4] Assuming no State supplementation. Social security taxes, using the current tax rate and taxable wage base, are deductible from earnings in computing ABLE grants.

TABLE 36.—*Benefits and taxes for a married couple at varying earnings levels under the subcommittee plan*

Annual earnings	Federal income tax liability [1]	Tax credits	Net Federal income tax liability [2]	Social security tax	ABLE grant	Net cash income [4]
0	0	$450	+$450	0	$2,050	$2,500
$500	0	450	+450	$29	1,814	2,735
$1,000	0	450	+450	58	1,579	2,971
$1,500	0	450	+450	88	1,344	3,206
$2,000	0	450	+450	117	1,108	3,441
$2,500	0	450	+450	146	873	3,677
$3,000	0	450	+450	176	638	3,912
$4,000	0	450	+450	234	167	4,383
$5,000	[3] $304	450	+146	292	0	4,854
$6,000	[3] 774	450	324	351	0	5,325
$7,000	990	450	540	410	0	6,050
$8,000	1,152	450	702	468	0	6,830
$9,000	1,314	450	864	526	0	7,610
$10,000	1,490	450	1,040	585	0	8,375
$15,000	2,510	450	2,060	772	0	12,168
$20,000	3,820	450	3,370	772	0	15,858
$25,000	5,340	450	4,890	772	0	19,338

[1] Based on the standard deduction but with no low-income allowance. Personal exemptions are replaced by $225 per person tax credits.
[2] Numbers with plus sign indicate net payments to rather than from taxpayers because of tax credits.
[3] Tax is a reduced amount from regular schedule because of provision for smooth transition from ABLE recipient to nonrecipient status.
[4] Assuming no State supplementation. Social security taxes, using the current tax rate and taxable wage base, are deductible from earnings in computing ABLE grants.

TABLE 37.—*Benefits and taxes for a mother and 3 children at varying earnings levels under the subcommittee plan*

Annual earnings	Federal income tax liability [1]	Tax credits	Net Federal income tax liability [2]	Social security tax	ABLE grant	Net cash income [4]
0	0	$900	+$900	0	$2, 100	$3, 000
$500	0	900	+900	$29	1, 914	3, 285
$1,000	0	900	+900	58	1, 729	3, 571
$1,500	0	900	+900	88	1, 644	3, 956
$2,000	0	900	+900	117	1, 358	4, 141
$2,500	0	900	+900	146	1, 173	4, 427
$3,000	0	900	+900	176	988	4, 712
$4,000	0	900	+900	234	617	5, 283
$5,000	0	900	+900	292	246	5, 854
$6,000	[3] $124	900	+776	351	0	6, 425
$7,000	[3] 495	900	+405	410	0	6, 995
$8,000	907	900	7	468	0	7, 525
$9,000	1, 073	900	173	526	0	8, 301
$10,000	1, 260	900	360	585	0	9, 055
$15,000	2, 315	900	1, 415	772	0	12, 813
$20,000	3, 695	900	2, 795	772	0	16, 433
$25,000	5, 325	900	4, 425	772	0	19, 803

[1] Based on the standard deduction but with no low-income allowance. Personal exemptions are replaced by $225 per person tax credits.
[2] Numbers with plus signs indicate net payments to rather than from taxpayers because of tax credits.
[3] Tax is a reduced amount from regular schedule because of provision for smooth transition from ABLE recipient to nonrecipient status.
[4] Assuming no State supplementation. Social security taxes, using the current tax rate and taxable wage base, are deductible from earnings in computing ABLE grants.

TABLE 38.—*Benefits and taxes for a father, mother, and 2 children at varying earnings levels under the subcommittee plan*

Annual earnings	Federal income tax liability [1]	Tax credits	Net Federal income tax liability [2]	Social security tax	ABLE grant	Net cash income [4]
0	0	$900	+$900	0	$2,700	$3,600
$500	0	900	+900	$29	2,464	3,835
$1,000	0	900	+900	58	2,229	4,071
$1,500	0	900	+900	88	1,994	4,306
$2,000	0	900	+900	117	1,758	4,541
$2,500	0	900	+900	146	1,523	4,777
$3,000	0	900	+900	176	1,288	5,012
$4,000	0	900	+900	234	817	5,483
$5,000	0	900	+900	292	346	5,954
$6,000	[3] $124	900	+776	351	0	6,425
$7,000	[3] 595	900	+305	410	0	6,895
$8,000	[3] 1,066	900	166	468	0	7,366
$9,000	1,314	900	414	526	0	8,060
$10,000	1,490	900	590	585	0	8,825
$15,000	2,510	900	1,610	772	0	12,618
$20,000	3,820	900	2,920	772	0	16,308
$25,000	5,340	900	4,400	772	0	19,788

[1] Based on the standard deduction but with no low-income allowance. Personal exemptions are replaced by $225 per person tax credits.
[2] Numbers with plus signs indicate net payments to rather than from taxpayers because of tax credits.
[3] Tax is a reduced amount from regular schedule because of provision for smooth transition from ABLE recipient to nonrecipient status.
[4] Assuming no State supplementation. Social security taxes, using the current tax rate and taxable wage bases, are deductible from earnings in computing ABLE grants.

TABLE 39.—*Benefits and taxes at varying earnings levels for a father, mother, and 2 children living in public housing: subcommittee plan*

Annual earnings	Federal income tax liability [1]	Tax credits	Net Federal income tax liability [2]	Social security tax	ABLE grant [3]	Net cash income	Public housing subsidy [4]	Total net income [6]
0	0	$900	+$900	0	$1, 619	$2, 519	$1, 352	$3, 871
$500	0	900	+900	$29	1, 445	2, 816	1, 274	4, 090
$1,000	0	900	+900	58	1, 272	3, 114	1, 197	4, 311
$1,500	0	900	+900	88	1, 099	3, 411	1, 119	4, 530
$2,000	0	900	+900	117	925	3, 708	1, 042	4, 750
$2,500	0	900	+900	146	752	4, 006	964	4, 970
$3,000	0	900	+900	176	579	4, 303	886	5, 189
$4,000	0	900	+900	234	232	4, 898	731	5, 629
$5,000	[5] $115	900	+785	292	0	5, 493	576	6, 069
$6,000	[5] 461	900	+439	351	0	6, 088	421	6, 509
$7,000	[5] 808	900	+92	410	0	6, 682	266	6, 948
$8,000	1, 152	900	252	468	0	7, 280	50	7, 330
$9,000	1, 314	900	414	526	0	8, 060	0	8, 060
$10,000	1, 490	900	590	585	0	8, 825	0	8, 825

[1] Based on the standard deduction but with no low-income allowance. Personal exemptions are replaced by $225 per person tax credits.
[2] Numbers with plus signs indicate net payments to rather than from taxpayers because of tax credits.
[3] The public housing subsidy values were deducted from the ABLE grants at an 80-percent rate.
[4] The public housing subsidies were based on a market rent of $150 a month and a rent charged the tenant based on the Brooke formula. Since ABLE grants were counted as income in computing rents, the housing subsidy and the ABLE grants were calculated jointly.
[5] Tax is a reduced amount from regular schedule because of provision for smooth transition from ABLE recipient to nonrecipient status.
[6] Assuming no State supplementation. Social security taxes, using the current tax rate and taxable wage base, are deductible from earnings in computing ABLE grants.

TABLE 40.—*Benefits and taxes for mother with 3 children at varying earnings levels under current law: New York City*

Annual earnings	Federal income tax liability [1]	Social security tax	AFDC payment [2]	Net cash income	Food stamp bonus [3]	Net total income
0	0	0	$4, 248	$4, 248	$660	$4, 908
$500	0	$29	4, 248	4, 719	552	5, 271
$1,000	0	58	4, 248	5, 190	336	5, 526
$1,500	0	88	4, 248	5, 660	288	5, 948
$2,000	0	117	3, 992	5, 875	288	6, 163
$2,500	0	146	3, 687	6, 043	288	6, 331
$3,000	0	176	3, 384	6, 208	288	6, 496
$4,000	0	234	2, 775	6, 541	288	6, 829
$5,000	$98	292	2, 265	6, 875	288	7, 163
$6,000	252	351	1, 811	7, 208	288	7, 496
$7,000	426	410	1, 377	7, 541	288	7, 829
$8,000	606	468	951	7, 877	288	8, 165
$9,000	784	526	518	8, 208	288	8, 496
$10,000	974	585	100	8, 541	288	8, 829
$15,000	1, 940	772	0	12, 288	0	12, 288
$20,000	3, 260	772	0	15, 968	0	15, 968
$25,000	4, 800	772	0	19, 428	0	19, 428

[1] Based on the standard deduction using current rules.
[2] Monthly work expenses are assumed to be $60 plus Federal income and social security taxes. The family is assumed to receive $125 a month for shelter.
[3] Based on the July 1974 benefit schedule, using the work-related deductions allowed.

TABLE 41.—*Benefits and taxes for father, mother, and 2 children at varying earnings levels under current law: New York City*

Annual earnings	Federal income tax liability [1]	Social security tax	Welfare payments [2]		Net cash income	Food stamp bonus [3]	Net total income
			AFDC–UF	Home relief			
0	0	0	$4,248	0	$4,248	$660	$4,908
$500	0	$29	4,248	0	4,719	552	5,271
$1,000	0	58	4,248	0	5,190	336	5,526
$1,500	0	88	4,248	0	5,660	288	5,948
$2,000	0	117	3,992	0	5,875	288	6,163
$2,500	0	146	3,687	0	6,043	288	6,331
$3,000	0	176	0	$2,144	4,968	552	5,520
$4,000	0	234	0	1,202	4,968	552	5,520
$5,000	$98	292	0	358	4,968	552	5,520
$6,000	245	351	0	0	5,404	336	5,740
$7,000	402	410	0	0	6,188	288	6,476
$8,000	569	468	0	0	6,963	0	6,963
$9,000	744	526	0	0	7,730	0	7,730
$10,000	934	585	0	0	8,481	0	8,481
$15,000	1,820	772	0	0	12,408	0	12,408
$20,000	3,010	772	0	0	16,218	0	16,218
$25,000	4,380	772	0	0	19,848	0	19,848

[1] Based on the standard deduction using current rules.
[2] Monthly work expenses are assumed to be $60 plus Federal income and social security taxes. The family is assumed to receive a shelter allowance of $125 a month. The father is assumed to become ineligible for AFDC–UF (by working more than 100 hours a month) at an earnings level of $3,000 a year, becoming eligible for the State- and city-funded Home Relief program at that point.
[3] Based on the July 1974 benefit schedule, using the work-related deductions allowed.

TABLE 42.—*Benefits and taxes for mother with 3 children at varying earnings levels under current law: Texas*

Annual earnings	Federal income tax liability [1]	Social security tax	AFDC payment [2]	Net cash income	Food stamp bonus [3]	Net total income
0	0	0	$1,680	$1,680	$1,356	$3,036
$500	0	$29	1,680	2,151	1,236	3,387
$1,000	0	58	1,680	2,622	1,092	3,714
$1,500	0	88	1,680	3,092	1,020	4,112
$2,000	0	117	1,424	3,307	948	4,255
$2,500	0	146	1,119	3,473	948	4,421
$3,000	0	176	816	3,640	876	4,516
$4,000	0	234	207	3,973	804	4,777
$5,000	$98	292	0	4,610	660	5,270
$6,000	252	351	0	5,397	444	5,841
$7,000	426	410	0	6,164	288	6,452
$8,000	606	468	0	6,926	0	6,926
$9,000	784	526	0	7,690	0	7,690
$10,000	974	585	0	8,441	0	8,441
$15,000	1,940	772	0	12,288	0	12,288
$20,000	3,260	772	0	15,968	0	15,968
$25,000	4,800	772	0	19,428	0	19,428

[1] Based on the standard deduction using current rules.
[2] Monthly work expenses are assumed to be $60 plus Federal income and social security taxes.
[3] Based on the July 1974 benefit schedule, using the work-related deductions allowed.

TABLE 43.—*Benefits and taxes for father, mother, and 2 children at varying earnings levels under current law: Texas*

Annual earnings	Federal income tax liability [1]	Social Security tax	Net cash income	Food stamp bonus [2]	Net total income
0	0	0	0	$1, 800	$1, 800
$500	0	$29	$471	1, 752	2, 223
$1,000	0	58	942	1, 608	2, 550
$1,500	0	88	1, 412	1, 500	2, 912
$2,000	0	117	1, 883	1, 356	3, 239
$2,500	0	146	2, 354	1, 236	3, 590
$3,000	0	176	2, 824	1, 092	3, 916
$4,000	0	234	3, 766	876	4, 642
$5,000	$98	292	4, 610	660	5, 270
$6,000	245	351	5, 404	336	5, 740
$7,000	402	410	6, 188	288	6, 476
$8,000	569	468	6, 963	0	6, 963
$9,000	744	526	7, 730	0	7, 730
$10,000	934	585	8, 481	0	8, 481
$15,000	1, 820	772	12, 408	0	12, 408
$20,000	3, 010	772	16, 218	0	16, 218
$25,000	4, 380	772	19, 848	0	19, 848

[1] Based on the standard deduction using current rules.
[2] Based on the July 1974 benefit schedule, using the work-related deductions allowed.

TABLE 44.—*Benefits and taxes for father, mother, and 2 children at varying earnings levels under current law: New Jersey*

Annual earnings	Federal income tax liability [1]	Social security tax	General assistance payment [2]	Net cash income	Food stamp bonus [3]	Net total income
0	0	0	$2, 592	$2, 592	$1, 092	$3, 684
$500	0	$29	2, 592	3, 063	948	4, 011
$1,000	0	58	2, 405	3, 347	876	4, 223
$1,500	0	88	2, 072	3, 484	876	4, 360
$2,000	0	117	1, 739	3, 622	876	4, 498
$2,500	0	146	1, 405	3, 759	804	4, 563
$3,000	0	176	1, 072	3, 896	804	4, 700
$4,000	0	234	405	4, 171	732	4, 903
$5,000	$98	292	0	4, 610	660	5, 270
$6,000	245	351	0	5, 404	336	5, 740
$7,000	402	410	0	6, 188	288	6, 476
$8,000	569	468	0	6, 963	0	6, 963
$9,000	744	526	0	7, 730	0	7, 730
$10,000	934	585	0	8, 481	0	8, 481
$15,000	1, 820	772	0	12, 408	0	12, 408
$20,000	3, 010	772	0	16, 218	0	16, 218
$25,000	4, 380	772	0	19, 848	0	19, 848

[1] Based on the standard deduction using current rules.
[2] Payments are based on the July 1972 rules of New Jersey's State-run aid to families of the working poor program.
[3] Based on the July 1974 benefit schedule, using the work-related deductions allowed.

Chapter IX. THE SUBCOMMITTEE PLAN: ISSUES OF BENEFIT ENTITLEMENT

Coverage

A basic issue in income supplementation is who should benefit. Most current programs for the needy limit income protection to specified groups, defined by conditions that represent a particular risk to income, or a particular family structure. This is inequitable, and it creates incentives for people to change their behavior or their family structure in order to qualify. Administrative procedures are complicated by the need to check evidence of categorical eligibility. Given these problems with categorical aid, **we recommend that the new program of basic income protection apply to all needy individuals and families except the aged, the blind, and disabled adults, who would remain under SSI.**

All together, ABLE, tax credits, and SSI would give income protection to all needy groups. Universal coverage would make it possible to eliminate AFDC, food stamps, and some State or local aid programs, and would provide a basis for eventual incorporation of several other benefit programs.[1]

Recipient Unit Definition and Benefit Structure

One major objective of basic income supplements should be to promote stable family life. A broad-scale income supplement program cannot eliminate personal and social problems, but an income floor should provide an economic base for family life. Supplements should be designed to minimize: (1) financial incentives for family breakup or creation of one-parent families; (2) financial penalties for meeting parental responsibilities; (3) disincentives for work, savings and other self-help measures; and (4) constraints on living arrangements and participation in family life. The choice of recipient unit and the structure of benefits will determine success in meeting these goals.

Implications of Various Recipient Unit Definitions

Current programs use many definitions of the eligible recipient unit: an individual, an individual and specified dependents, a family or related persons living together, or a household of related and/or unrelated persons. Selection of a recipient unit for a comprehensive income supplement program affects support obligations, income-sharing within households, and family structure and living arrangements, as well as administrative feasibility and quality.

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[1] The subcommittee plan would expand SSI by adding dependents' benefits and liberalizing its asset rules (the reasons for not absorbing this program initially are discussed in chapter XI).

1. Individuals.—Treating each individual as a separate beneficiary unit—making each eligible for benefits in his own right if he meets other conditions such as income need—has no apparent influence on family structure, but it would be unrealistic. To treat children or spouses as individual beneficiaries would ignore legal support obligations of spouses and parents and the customary sharing of family income.[2] Moreover, because it would disregard the economies realized in per-person costs as family size increases, an individual recipient plan would pay too much to large families relative to small ones (six children do not cost twice as much to support as three).

2. The family.—By contrast, defining all related persons living together in the same household as the recipient unit would take account of the economies of family size and of customary income-sharing. This definition assumes that family members are interdependent and that combined family income is available to all family members.

The broadest definition recognizes extended families consisting of adults, their minor children, if any, plus other relatives, provided that they live together. However, considering each person's income to be available to all other relatives who live with him provides an incentive for relatives with income to depart and establish separate households in order to maximize benefits.

To remove this incentive, the recipient unit could be further refined as the nuclear family (married couples and parent-child families, the most common family form). The nuclear family definition recognizes income-sharing, mutual responsibility, and usual legal obligations, but it can establish a financial incentive for men and women to live together without marrying. This happens when benefits are larger for a family unit composed only of the woman and her children than for a unit that also includes the man and his income. Under a strict family definition, if the man is not legally responsible, as husband or father, for their support, his income could not reduce benefits for the women and children. Thus, under current law, in many States children can collect full AFDC benefits despite the income of stepfathers, but are not eligible for such benefits if their natural father is in the home.

3. The household.—Defining all household members, including unrelated persons, as the recipient unit assumes that income is shared among them all, even in the absence of legal responsibility for each other or any evidence of actual income-sharing. Thus, a low-income family that moved in with a moderate-income family to economize on rent could lose entitlement to its benefits because income of both families would be lumped together in determining income need. Programs based on household eligibility are the most difficult to administer because of the problems in identifying household membership and because household composition changes more frequently than family membership.

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[2] This type of definition may be appropriate in a system in which all individuals are entitled to a benefit regardless of income, such as a demogrant. In such a program the Federal income tax system adjusts for income and treatment of dependents.

The advantage of using the household as the benefit unit is that it treats persons who are living together the same way regardless of whether they are married or related. Thus, marriage brings neither a penalty nor a bonus, and administrators do not have to monitor family relationships. The food stamp program is the only current program that uses this definition, and it may have a particular rationale due to the joint purchase and preparation of food. But using a household definition in a general income supplement program would be unrealistic because of the complex financial arrangements among members and the often false assumption of mutual responsibility among unrelated persons.

Recommended Filing Unit

The subcommittee's recommended filing unit recognizes family groups who ordinarily share income, other persons who are claimed as tax dependents, and individual filers who have no dependents. **To file a benefit application, a person generally would have to be age 18 or over and not claimed as someone else's tax dependent. The members of a filing unit might be the filer, spouse, dependent children, and any other person dependent upon the filer or spouse. A person under age 18 could file if he or she had a spouse or dependent children and were not claimed by someone else as a dependent.** Therefore, there could be more than one beneficiary unit in a household. Individual adults or families living with other persons could file as separate units. For example, a married couple claiming the husband's resident brother as a dependent could receive benefits for themselves and the brother. If the resident brother were independent and had sufficient income of his own, the low-income married couple still could file for benefits on their own behalf without reporting the brother or his income. But a husband, wife, and dependent children would have to file together as a unit.

This benefit-unit definition recognizes individuals and groups who normally constitute separate economic units and does not require that they artificially pool income for benefit computation purposes. Thus, two families living together to economize on rent would not be thwarted in their efforts to achieve a better living standard. It also avoids the administrative complexity of reconciling or apportioning benefits when such households separate or change their composition.

Recommended Benefit Structure

Alternative ways of structuring benefits include: (1) a uniform amount for each individual; (2) uniform amounts for adults and smaller amounts for children; (3) amounts for adults varied by marital status or family responsibility; (4) a uniform amount for each child, or a declining amount or no benefit for additional children above a specified number in the family; and (5) amounts that decline with each added family member regardless of age or family responsibility.

A uniform amount for each individual would be convenient administratively but would ignore the difference in maintenance costs between adults and children. **We have chosen a larger amount for adults than for children in recognition of adult responsibility for**

home maintenance, to recognize economies of scale in household operations, and to avoid unfairness toward small families. We have set an equal amount for spouses in recognition of the equality of their relationship and to avoid the reward for separation or divorce that is implicit in other benefit structures.

However, an equal amount for all adults would ignore the added responsibility of single adults who are maintaining a home for dependents. Therefore, **the benefit we propose for single heads of household is somewhat more than half the benefit for a couple.** This is similar to the preferential treatment of single household heads by the income tax.

For single persons without dependents we propose an amount less than half that for couples. Needy aged and disabled adults are covered by the SSI program, and so single individuals covered by ABLE generally would be able-bodied and nonaged persons with some capacity for self-support. The lower benefit for single adults reduces greatly any financial incentive for a couple to avoid marrying. Those who live together without benefit of wedlock would receive lower ABLE benefits than a married couple. Similarly, if a man moved in with, but did not marry, a woman with children, any benefits would continue to be based on his lower single-adult entitlement. If he had income and it could be shown that he was providing more than half the support of the woman and children, the woman would have to file as a single adult with children rather than as head of household.[3]

Benefits for children require a balance among several factors: providing benefits for all children; the needs of large families; parental obligation for family support: government's responsibility to avoid encouraging large families; and economies of scale in large families. **Our recommendation is that the benefit be lower for the third through the sixth child than for the first and second child, and that no benefit be paid for more than six children in a family.** Few needy children would be excluded by this formula. In 1973, two-thirds of families with children of their own had one or two children, and only 2.6 percent had six or more children.

Benefit Levels

Adequacy of benefits is perhaps the hardest issue in any system of income supplementation. On the one hand, it is the essential reason for providing income benefits. On the other hand, adequacy is a most controversial quality to define, and, once defined, it often proves to be immeasurable.

To most people, income adequacy means enough income to assure some minimum level of living in our society. But there is little agreement on what constitutes the minimum. For example, how does one measure the adequacy of diet? By variation from an ideal standard diet? Whose standard? Similar difficulties arise regarding "minimum" shelter, health care, or clothing. Should a minimum standard of living make allowance for buying a daily newspaper, owning a TV, or eating in a restaurant twice a year?

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[3] To assist in auditing the grants paid unmarried couples, the ABLE application could require names of all household members, whether or not they were ABLE unit members.

Clearly, there can be no general agreement on what an adequate income is. Present SSI State supplement levels and AFDC standards of need set by State welfare agencies dramatize the relativity of the concept.[4]

The most commonly used yardstick for measuring income adequacy is the Census Bureau's poverty index. Originally designed in the early 1960's as a statistical tool for targeting anti-poverty expenditures, the poverty index has come to be used as the strict delimiter of the "poor" and "nonpoor." Yet the index is merely a multiple of the food budget deemed necessary for subsistence by the Department of Agriculture. Although it has been updated, and differentiates needs for the elderly, for people in urban areas, and by family size, the poverty index clearly is an imprecise tool for determining when a particular family is no longer poor, especially since it does not count income in the form of free food, housing, and health care.

Constraints on Benefit Levels

Of necessity, an income supplement program's guarantee level will be a politically determined standard. But how do we incorporate a payment standard into the design of an income supplement system? It must be remembered that most of those for whom the system is being designed already have some income or income opportunities. If a family income standard of $3,000 were set, it would not be applied only to people with no income, who then would have total incomes of $3.000. Census data[5] show that only 17 percent of poor families in 1972 had zero non-welfare income. In addition, work incentive considerations dictate that benefits not decline dollar for dollar with income, and, hence, a $3,000 benefit level must qualify some families with incomes above $3,000 for partial supplements. So to judge adequacy of benefits, one must consider how much private income beneficiaries have and what proportion of it is subtracted from their benefit. A $3,000 maximum benefit might sound too low, but if the average recipient has $3,000 of income, and only $1.500 of it serves to reduce the benefit (a 50-percent benefit-loss rate), the $3,000 benefit level results in an average total income of $4,500.

A major constraint on benefit levels is concern about their effect on work. If a $5,500 benefit level for a family of four were offered in an area where many full-time workers earned less than that amount, some would reduce their hours of work. Even if low benefit-loss rates made work profitable, a person accustomed to living on $5,500 or less might choose more leisure instead of continued work.

Costs also constrain the benefit level. If the benefit-loss rate is held to 50 percent to provide a work incentive, the income eligibility level goes up $2 for every $1 in the benefit level, so a $3,000 guarantee level produces a $6,000 eligibility limit, or a $3,500 guarantee a $7,000 cutoff. Raising benefits higher moves the eligibility cutoff into denser segments of the income distribution, raising program

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[4] AFDC need standards for four-person families currently range from $187 a month in Texas and Louisiana to $427 in Wisconsin.

[5] See footnote 10, chapter III.

costs at an accelerating rate. For example, family income in 1973 was distributed as follows:

Total money income:	Percent of families
0 to $5,000	14.7
$5.000 to $10,000	24.4
$10,000 to $15,000	25.5
Over $15,000	35.4

Source: U.S. Bureau of the Census, "Money Income in 1973 of Families and Persons in the United States (Advance Report)," Series P-60, No. 93, p. 1.

The $5,000–$10,000 income bracket contains nearly 70 percent more families than the lowest bracket.

The following tables (tables 45–47) show 1976 estimates of *gross* payments and eligible recipients for a wide range of benefit levels and benefit-loss rates.[6] These figures show the rapid escalation in costs and number of eligible persons as benefit levels rise, given a benefit-loss rate.

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[6] Two different computer models were applied to projected census data to produce the estimates of payments and recipients used in this report. The TRIM (Transfer Income Model) model is a complex simulation model that was developed by the Urban Institute and used by the subcommittee to analyze the subcommittee's recommendations and closely related alternatives. The results of that analysis are summarized in this chapter. For a description of the TRIM model, see John F. Moeller, "TRIM Technical Description," Urban Institute, Working Paper No. 718–1, Washington, D.C. 1973.

The second model (RACE, or Rapid Cost Estimator) is a greatly simplified version of TRIM and is operational on the computer of the House Information Systems office. The RACE model was used to generate payment and coverage data on 192 distinct income supplement plans for the purpose of illustrating the trade-offs one confronts when a wide variety of program options are at hand. These data are used throughout this chapter to help the reader see the consequences of changing benefit levels and benefit-loss rates.

Aside from TRIM's greater complexity and detail, there are differences in RACE and TRIM that prevent a mixing of the two sets of estimates. The two major differences are as follows:

(1) RACE cannot model changes in the income tax, but such changes were built into the TRIM results; and

(2) The TRIM estimates are based on a population that excludes SSI eligibles, but the RACE estimates were derived from applying plans to the entire U.S. population.

Thus, the TRIM estimates apply to the specific type of system the subcommittee recommends. The RACE estimates are simply an educational device to depict general income supplement plans without regard to merger with the income tax system or with related Federal programs like SSI.

TABLE 45.—*Gross annual income supplements costs in 1976, excluding potential work reduction, by benefit level and benefit-loss rate* [1]

[In billions of dollars]

Maximum benefit to family of 2 adults and 2 children [2]	Benefit-loss rates [3] 33 percent	40 percent	50 percent	60 percent	67 percent	75 percent	100 percent
$2,400	15.0	12.1	9.8	8.4	7.8	7.2	6.2
$3,000	24.8	19.5	15.2	12.7	11.5	10.5	8.7
$3,300	30.8	24.1	18.5	15.3	13.7	12.5	10.1
$3,600	37.8	29.3	22.3	18.2	16.3	14.7	11.7
$3,900	45.5	35.3	26.6	21.5	19.1	17.1	13.4
$4,200	54.1	41.9	31.4	25.2	22.2	19.8	15.3
$4,500	63.5	49.2	36.7	29.2	25.7	22.8	17.3
$4,800	73.7	57.2	42.5	33.7	29.5	26.0	19.5
$5,400	96.0	75.2	55.9	44.0	38.3	33.4	24.5
$6,000	120.8	95.8	71.5	56.1	48.6	42.2	30.3
$6,600	147.6	118.5	89.2	70.0	60.5	52.2	37.0
$7,500	190.8	156.3	119.7	94.3	81.4	70.1	48.7

[1] These estimates were made using the RACE computer model (see text footnote 6). The figures in the table are the income supplements that would be paid to a projected 1976 U.S. population at different benefit levels and benefit-loss rates. For example, a benefit level of $4,200 and a loss rate of 60 percent could require supplemental payments of $25,200,000,000 in 1976. These figures are not the net costs of the plans. Net costs would be derived by subtracting from these figures the costs of programs that these plans might replace, such as AFDC, SSI, and food stamps.

[2] The maximum annual benefit to a family of 4 with no income. The benefit amount for an adult was set at twice the child's benefit. Thus, the first plan assumes $800 per adult and $400 per child ($800+$800+$400+$400=$2,400). A family of 1 adult and 6 children would receive $3,200 ($800+6×$400=$3,200).

[3] The rate at which income from all sources was deducted from the maximum benefit level.

NOTE.—These estimates do not include the costs of potential work reduction, which would rise rapidly as benefit-loss rates approach 100 percent and benefit levels rise.

TABLE 46.—*Number of persons eligible to receive income supplements in 1976, excluding potential work reduction, by benefit level and benefit-loss rate* [1]

[In millions]

Maximum benefit to family of 2 adults and 2 children [2]	Benefit-loss rates [3] 33 percent	40 percent	50 percent	60 percent	67 percent	75 percent	100 percent
$2,400	50.5	38.0	28.1	22.3	19.8	17.9	13.7
$3,000	70.5	52.8	38.0	29.8	25.6	22.3	16.7
$3,300	80.7	60.9	43.5	33.7	29.3	25.1	18.6
$3,600	91.4	69.6	49.7	38.0	32.7	28.1	19.9
$3,900	102.5	78.1	56.3	42.7	36.5	31.4	21.7
$4,200	112.8	87.0	62.5	47.8	40.4	34.7	23.7
$4,500	122.4	95.5	69.6	52.8	44.8	38.0	25.8
$4,800	131.5	104.5	76.2	58.3	49.3	41.8	28.1
$5,400	147.4	121.1	90.2	69.6	58.9	49.7	32.9
$6,000	160.9	135.7	104.5	80.8	69.1	58.3	38.0
$6,600	171.8	148.4	117.8	92.5	79.1	67.2	43.6
$7,500	184.0	164.4	135.7	110.4	94.7	80.8	52.9

[1] These estimates were made using the RACE computer model (see text footnote 6). The figures in the table are the numbers of persons in filing units that would be eligible in a projected 1976 U.S. population to receive income supplements at different benefit levels and benefit-loss rates. For example, a benefit level of $4,200 and a loss rate of 60% would make 47.8 million persons eligible. Many of these now receive welfare benefits or are eligible for current programs.

[2] See footnote 2, table 45.

[3] See footnote 3, table 45.

NOTE.—These estimates do not include increases in the eligible population because of work reduction; which would rise rapidly as benefit-loss rates approach 100 percent and benefit levels rise.

TABLE 47.—*Number of families and unrelated individuals eligible to receive supplements in 1976, exclusive of potential work reduction, by benefit level and benefit-loss rate* [1]

[In millions]

Maximum benefit to family of 2 adults and 2 children [2]	Benefit-loss rates [3]						
	33 percent	40 percent	50 percent	60 percent	67 percent	75 percent	100 percent
$2,400	17. 8	13. 7	10. 4	8. 4	7. 5	6. 7	5. 2
$3,000	23. 9	18. 5	13. 7	10. 9	9. 6	8. 4	6. 3
$3,300	27. 0	21. 0	15. 6	12. 3	10. 8	9. 4	6. 9
$3,600	30. 1	23. 6	17. 6	13. 7	11. 9	10. 4	7. 5
$3,900	33. 3	26. 2	19. 6	15. 3	13. 2	11. 5	8. 2
$4,200	36. 3	28. 8	21. 5	17. 0	14. 5	12. 6	8. 9
$4,500	39. 2	31. 3	23. 6	18. 5	16. 0	13. 7	9. 6
$4,800	42. 0	33. 9	25. 6	20. 2	17. 5	14. 9	10. 4
$5,400	47. 1	38. 8	29. 7	23. 6	20. 4	17. 6	12. 0
$6,000	51. 6	43. 3	33. 9	27. 0	23. 5	20. 2	13. 7
$6,600	55. 3	47. 5	37. 8	30. 4	26. 5	23. 0	15. 6
$7,500	60. 0	52. 8	43. 3	35. 6	31. 1	27. 0	18. 5

[1] These estimates were made using the RACE computer model (see text footnote 6). The figures in the table are the number of filing units (families or unrelated individuals) that would be eligible in a projected 1976 U.S. population to receive income supplements at different benefit levels and benefit-loss rates. For example, a benefit level of $4,200 and a loss rate of 60 percent would make 17 million units eligible. Many of these units now receive welfare benefits or are eligible for current programs.
[2] See footnote 2, table 45.
[3] See footnote 3, table 45.

NOTE.—These estimates do not include increases in the eligible population because of work reduction, which would rise rapidly as benefit-loss rates approach 100 percent and benefit levels rise.

Another consideration in setting the level of benefits, but one pushing them upward, is the existing welfare system. A national income supplement cannot be justified unless it largely supplants the current AFDC, food stamp, and general assistance programs. Although setting Federal benefits at the highest level currently paid by any State is impractical if not undesirable, the new program must meet one test. That is, benefits must be high enough to avoid a future Federal role in State-run welfare programs. This means that the new system must cover the cost of food stamps and the Federal share of present AFDC payments. If these costs should be more than covered by the new program, the States would save money that could be used to supplement Federal benefits at their option.

We estimate that all States would have this choice under the subcommittee plan. Our proposed benefit levels, applied to the circumstances of AFDC families, were compared with the AFDC payments and food stamp bonuses actually received by those families in January 1973. This analysis indicated that under ABLE all States could supplement ABLE plus tax credits to continue present AFDC benefit levels for current recipients and still spend less than they do now. Near total replacement of AFDC by the new system in some States would give them large savings. State funding of residual programs is discussed further in chapter XI. The subcommittee rejected regional variations in ABLE benefits as inappropriate for a Federal program, impractical and inequitable (chapter VI explored this issue).

Recommendation

Based on all of the above-mentioned considerations, **our recommended schedule of allowances is as follows:**

Member of unit	*Tax credits*	*Annual allowances*	*Maximum Federal benefit*
(a) Married couple filing jointly	$450	$2, 050	$2, 500
(b) Head of household filer [1]	225	1, 225	1, 450
(c) Single filer	225	825	1, 050
(d) Dependent age 18 or over	225	825	1, 050
(e) First dependent child in filing unit	225	325	550
(f) Second dependent child	225	325	550
(g) Third dependent child	225	225	450
(h) Fourth dependent child	225	225	450
(i) Fifth dependent child	225	225	450
(j) Sixth dependent child	225	225	450
(k) Seventh and successive dependent children	[2] 225	0	[2] 225

[1] A head of household filer would have to meet the same criteria for this status as under the Federal income tax. A head of household filer must be (1) separated, divorced, widowed or single; (2) supporting a child or a dependent relative; (3) sharing the same household with the dependent(s); and (4) paying at least half the cost of the entire household.
[2] Each.

The recommended schedule has the following characteristics:

(1) A family of two parents and two children with no income would have a benefit income equal to at least 71 percent of the July 1974 proverty line, which was $5,058. Because most families also would have some private income, the Federal income supplements would take them out of poverty;

(2) One-parent families would be better off than now in many States, and all States could afford to supplement the Federal benefit up to current AFDC and food stamp payment levels without spending more than now;

(3) There would be no financial advantage for couples to live together without marriage in the vast majority of cases;

(4) There would be no significant advantage for a low-income father to desert or pretend to desert his family under most circumstances; and

(5) There would be no net financial gain to a family from having additional children, given the cost of raising children.

A part of the suggested benefit schedule consists of uniform personal credits applied against income tax liability. The flat $225 personal credit would replace the current $750 personal exemption, which gives greatest benefits to those with highest income. If the total credits for a tax filer and dependents exceeded the tax unit's liability, the balance of the credits would be refunded to the filer. Because of the greater progressivity of the credit, most taxpaying families of four with incomes below $25,000 a year, for example, would receive an income tax cut.

Reducing Benefits as Earnings Rise

Effects of Benefit-Loss Rates

In order to relate benefits to need, they must be scaled to income. The rate at which earnings (or other income) are subtracted from the maximum basic benefit, the benefit-loss rate, has several crucial effects.

1. Effect on labor force participation.—In general, the available research indicates that higher benefit-loss rates have a dampening effect on work effort, but the studies do not indicate precisely the rate at which reduction of work effort is minimized.[7]

2. Effect on poverty reduction.—The benefit-loss rate can have as decisive an impact on a recipient's total income as the program's maximum benefit for the pe' niless. Benefit-loss rates under 100 percent increase recipient income a .d reduce poverty because they enable the needy to supplement benefits by other income.

3. Effect on fair treatment.—Most Americans accept the general principle that persons who work should be better off than those who do not. But no technical basis exists for deciding how much better off workers should be than nonworkers, or, conversely, to what degree benefit programs should narrow the gap. This is essentially a question of fairness, and must be decided on moral grounds. The higher the benefit-loss rate, the less the income difference between workers and nonworkers, or among workers at varying wage levels.

TRADE-OFFS IN SETTING BENEFIT-LOSS RATES

Setting the benefit-loss rate to be applied to earnings require balancing several factors: impact on cost and caseload; effect on wor incentives; fairness to workers relative to nonworkers; relation to th benefit paid to persons with no other income; and the possibility that enrollment in other benefit programs will further reduce the net gain from work.

Assuming benefit levels of $3,600 for a two-parent family of four and $3,000 for a one-parent family of four, table 48 shows the 1976 cost and caseload impact of varying the benefit-loss rate on income from 33 to 100 percent.[8]

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[7] For a summary of available research, see Joint Economic Committee, Paper No. 13; and U.S. Congress, Joint Economic Committee, Subcommittee on Fiscal Policy, *Public Welfare and Work Incentives: Theory and Practice*, by Vee Burke and Alair Townsend, Paper No. 14 (Washington, D.C.: Government Printing Office, 1974).

[8] These estimates were derived using the RACE model. See footnote 6 for an explanation of the estimating procedure.

TABLE 48.—*Effects of varying benefit-loss rates on income supplement costs, number of eligible persons, and eligibility ceilings, given a maximum benefit of $1,200 per adult and $600 per child (1976), excluding potential work reductions*

Benefit-loss rate [1]	Gross income supplements (in billions) [2]	Number of eligible recipients [3] (millions)	Private-income eligibility ceiling for 2 adults and 2 children
33 percent	$37.8	91.4	$10,800
40 percent	29.3	69.6	9,000
50 percent	22.3	49.7	7,200
60 percent	18.2	38.0	6,000
67 percent	16.3	32.7	5,400
75 percent	14.7	28.1	4,800
100 percent	11.7	19.9	3,600

[1] Rate at which income from any source was offset against maximum benefit level.
[2] The amount of income supplements a projected 1976 U.S. population would be eligible to receive. The net cost of these supplements would be the supplements less payments under programs such as AFDC that would be reduced or ended.
[3] The number of persons in family units eligible to receive supplements in 1976. Many of these eligibles would already be eligible for, or receive payments from, existing programs.

NOTE.—These estimates do not include the impact of potential work reduction, which would raise costs and caseloads rapidly as benefit-loss rates approach 100 percent.

Table 48 shows that small decreases in the benefit-loss rate cause dramatic increases in the number of program beneficiaries and costs. This is because the income cutoffs for grant payments rise rapidly, making more people eligible, and eligible for higher benefits, if they have private income.

In the past a standard device used to keep costs and caseloads down has been to keep the benefit-loss rate high. But this is not a reasonable option in a new program whose beneficiaries are predominantly workers. High rates would probably reduce hours worked and earnings reported, thereby adding to program costs and coverage. It is unlikely that the higher benefits caused by work reduction with a 75-percent rate would reach a total of $7.6 billion, which is the cost of reducing the rate from 75 percent to 50 percent for the plan in table 48. But factors other than cost buttress arguments for a rate closer to 50 percent. First, we believe on equity grounds that a 75-percent rate fails to differentiate enough between workers and nonworkers and between low and moderate earners. Second, the rate on the basic program should be set low enough to allow for the possibility that many recipients will participate in another need-based program, such as health insurance. The lower the rate in the basic program, the greater the margin of safety in terms of cumulative loss rates. Third, the maximum rate on earned income in the personal income tax schedule is 50 percent.[9]

[9] The marginal individual income tax rate on earned income reached a maximum of 70 percent before the Tax Reform Act of 1969. In reducing this rate, reported the staff of the Joint Committee on Internal Revenue Taxation: "The Congress concluded that extremely high rates of tax, particularly in the case of earned income, are unrealistic and tend to create distortions in our tax system. It was concluded that a 50-percent maximum marginal rate on earned income would be an effective method of reducing the disincentive effect of high tax rates in the case of earned income." See *General Explanation of the Tax Reform Act of 1969* (Washington, D.C.: Government Printing Office, 1970), p. 224.

Recommendation

Balancing the factors above, we recommend a 50-percent rate on earned income. The large number of persons aided by this choice should not arouse alarm. All family heads who will gain from it already are in the labor force and have low or moderate wage income. (Persons with no earnings would not be affected immediately by the choice of rate.) These working families are by no means well off. Inflation and rising payroll taxes have badly eroded their purchasing power and living standards. Added income—whether in grants or tax savings—should be extended to these workers ungrudgingly.

The 50-percent rate would be applied to *net* earnings for many earners after two earned-income deductions. One deduction would be for social security taxes paid (see chapter XI). The other would be a standard deduction for single-parent family heads and for second earners in two-parent families to offset the higher work expenses such earners normally face (see "Treatment of Work Expenses" below).

Reducing Benefits for Nonemployment Income

Many public welfare programs now treat earned income more generously for benefit computation purposes than "unearned" income from social security, unemployment insurance, rents, interest, dividends, alimony, and child support. The AFDC program is perhaps the most extreme example. Whereas Federal rules require States to ignore the first $30 of monthly earnings, one-third of the remainder, and all expenses reasonably related to work, in many States no portion of unearned income is ignored.[10] This practice has the effect of making such income worthless.

There are two main reasons for applying 100-percent benefit-loss rates to unearned income: First, high benefit-loss rates reduce program costs, and, second, they allow limited funds to be used for higher benefits for all recipients rather than being channelled to persons with unearned income.

Other factors argue against confiscatory benefit-loss rates on unearned income, however. The most important is that unearned income usually represents some earlier work or savings. Insurance proceeds, whether public or private, result from premiums or taxes paid by oneself, relatives, or one's employers. Interest, dividends, and rents require conscious acts of saving or management. To obtain child support or alimony often involves legal proceedings and continual struggles. Thus "unearned" income generally requires effort, and some reward or recognition of this effort seems appropriate.

At issue here is the principle of vertical equity, the principle that persons in unequal circumstances should be treated unequally. Applied to income maintenance programs, this principle means that persons whose incomes are unequal before benefits should not have their relative income positions equalized—or reversed—after benefits.

As with the treatment of earned income, the benefit-loss rate applied to unearned income has an important effect on the program's gen-

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[10] In the States that impose maximums or use ratable reductions in calculating AFDC, various portions of unearned income—as well as additional amounts of earned income—may be ignored.

erosity. Since many people have some sort of unearned income, such income can help to assure adequacy of total income if not fully offset against benefits.

Reducing the benefit-loss rate applied on unearned income below 100 percent, as we recommend, increases the income eligibility level for persons with unearned income; as a consequence, program costs rise and the distribution of beneficiaries changes. Tables 49 and 50 show national estimates for 1976 of payments and eligible recipients under alternative income supplement plans.[11] For a given benefit level and earned-income loss rate, the tables show the increased costs and coverage caused by a lowering of the unearned-income loss rate from 100 percent to 75, 67, 50, or 33 percent.

TABLE 49.—*Estimated gross supplement payments in 1976,[1] excluding potential work reductions, by benefit level, earned-income benefit-loss rate, and unearned-income benefit-loss rate*

[In billions of dollars]

Benefit-loss rate [2] applied to—		Annual benefit level for a 2-parent family of 4 with no private income—				
Earnings	Unearned income	$2,400	$3,000	$3,600	$4,500	$7,500
33 percent	100 percent	10.9	17.7	27.1	46.5	153.1
	75 percent	11.6	18.9	29.0	50.0	163.4
	67 percent	11.9	19.5	30.0	51.6	167.6
	50 percent	12.9	21.3	32.8	56.3	178.1
	33 percent	15.0	24.8	37.8	63.5	190.8
50 percent	100 percent	8.1	12.2	17.7	29.0	99.1
	75 percent	8.6	13.2	19.2	31.6	107.5
	67 percent	8.7	13.6	20.0	32.9	110.9
	50 percent	9.8	15.2	22.3	36.7	119.7
67 percent	100 percent	7.1	10.2	14.3	22.3	71.2
	75 percent	7.5	11.1	15.6	24.6	78.4
	67 percent	7.8	11.5	16.3	25.7	81.4

[1] See footnote 2, table 48.
[2] See footnote 1, table 48.

NOTE.—These estimates do not include the impact of potential work reduction, which would raise costs and caseloads as benefit-loss rates on earned income rise and as benefit levels rise.

[11] Estimates were made using the RACE model. See footnote 6 for an explanation of these estimates.

TABLE 50.—*Estimated number of eligible recipients of income supplements in 1976,*[1] *excluding potential work reductions, by benefit level, earned-income benefit-loss rate, and unearned-income benefit-loss rate*

[In millions]

Benefit-loss rate [2] applied to—		Annual benefit level for a 2-parent family of 4 with no private income—				
Earnings	Unearned income	$2,400	$3,000	$3,600	$4,500	$7,500
33 percent	100 percent	36.3	52.2	69.8	98.6	164.8
	75 percent	38.9	56.0	74.9	105.0	172.3
	67 percent	40.1	57.7	76.9	107.9	174.8
	50 percent	43.8	62.7	83.1	114.7	179.6
	33 percent	50.5	70.5	91.4	122.4	184.0
50 percent	100 percent	22.0	29.9	39.6	57.0	121.9
	75 percent	24.1	32.8	43.2	61.8	128.6
	67 percent	25.0	34.2	44.7	64.0	130.7
	50 percent	28.1	38.0	49.7	69.6	135.7
67 percent	100 percent	17.2	22.0	28.1	39.0	86.8
	75 percent	18.9	24.5	31.3	42.8	92.8
	67 percent	19.8	25.6	32.7	44.8	94.7

[1] See footnote 3, table 48.
[2] See footnote 1, table 48.

NOTE.—These estimates do not include the impact of potential work reduction, which would raise costs and caseloads as benefit-loss rates on earned income rise and as benefit levels rise.

Cost considerations must play a role in setting the unearned-income benefit-loss rate. If the rate were identical to that applied to earned income, administration would be easier and there would be no discrimination among sources of private support. However, since potential program recipients have less current personal control over their unearned than their wage income, it is less important for incentive reasons to have as low a rate applied to unearned income as to earnings.

Recommendation

We recommend a rate of 67 percent as a reasonable compromise between rewarding unearned income and adding to total income adequacy on the one hand, and controlling costs on the other. Furthermore, it is an outgrowth of our view of the proper government role in income support. We believe that the government's role in income maintenance is chiefly to supplement private income, a role compatible with the facts of income distribution and with the nature of the American system.

Treatment of Work Expenses

How to treat work expenses under ABLE raises complex issues of fairness and incentives. Conceptually, equity means that persons with equal incomes receive equal supplements. The practical problem is to decide whether supplements should be based on net income, and, if so, what costs to subtract from gross income. A second issue is the extent to which work deductions affect the incentive to work

and the incentive to shift spending to deductible work-related items.

In principle, the worker's ability to consume is measured by gross earnings less work expenses. Allowing beneficiaries to deduct work expenses would imply that a worker with a $180 weekly salary and $70 in weekly work expenses would receive the same supplement as a worker with a $120 weekly salary and $10 in weekly work expenses. Although this policy appears fair, it is impractical to apply evenly because of the difficulties in distinguishing voluntary consumption from involuntary work expenses. For example, transportation costs are not pure work expenses because they depend on the worker's desired residential location and his preferred means of travel. One worker may have low transportation costs because he pays a rent premium to live near his job while another worker may incur high transport costs and low housing costs by living far from his job. Three workers who live equidistant from their jobs will have different transportation costs if one takes the bus, another rides in a car pool, and a third drives his own car. In these cases, it would be unfair to allow a deduction for transport costs without taking into account differences in housing costs and in quality of transportation.

The Federal individual income tax handles this problem by presuming that in the long run most taxpaying families will incur similar amounts or similar percentages of work expenses. Because of the practical difficulties cited above, the tax code generally does not single out specific work expenses. However, the code does allow deductions for extraordinary work expenses such as moving costs, day care, and home child care expenses.

A related issue involved in distinguishing optional consumption from pure work expenses is that of encouraging recipients to shift expenditures to work-related items. If transportation costs are deductible and rent payments are not, recipients will have a government-generated financial incentive to move to less accessible, low-rent areas. In the case of a program with a 50-percent benefit-loss rate for earnings, the recipient could increase his total current income by 50¢ by shifting $1 from housing to more expensive commuting arrangements. Currently, AFDC regulations, which require full reimbursement of working recipients for job-related expenses, strongly encourage recipients to shift their spending to items that may be classified as work expenses.[12] This policy reduces a recipient's normal incentive to economize on work expenses.

The primary reason for allowing recipients to deduct work expenses is to improve the financial gain from work. A simpler way to improve work incentives for the same cost, and one that would not distort spending patterns, would be to reduce the overall benefit-loss rate.[13]

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[12] A recent Supreme Court decision prevented States from setting standardized work expense allowances in lieu of considering each work expense item separately. See *Shea* v. *Vialpando*, (U.S., Apr. 23, 1974).

[13] The main advantage of deducting social security taxes—increasing the worker's net dollar return from working—could also be achieved by lowering the overall program benefit-loss rate on earnings, but at a somewhat higher cost, since not all earners pay the social security tax.

The problem of extraordinarily large work expenses is troublesome, however. The presumption that all workers have similar choices about work expenses does not fit the working single parent, compared with the working husband.[14] The single-parent worker may face much higher work expenses in the form of child care expenses. Setting a benefit-loss rate that offers an acceptably high net return from work to the mother raising children alone will be too generous to the working husband.

The method now used by the Federal income tax for resolving this problem is to allow deductions for special work expenses. The one-parent family or the family with both parents working is offered a tax deduction for household and day care expenses. Although this provision improves tax equity between families of the same income with clearly different work expenses, the deduction has some of the disadvantages discussed earlier; inequities and incentives to shift expenditures,[15] and extra administrative burdens for both the taxpayer and IRS.

An alternative to itemized deductions for household and day care expenses is to allow a general earned-income deduction that would be a flat percentage of earnings, up to a maximum, based on certain family circumstances. One-parent families and two-earner, two-parent families with young children face especially high work expenses because of child care. Allowing single-parent workers and second workers in two-parent families to deduct a fixed percentage of their earned income has advantages over the itemized deduction approach. It raises the incentive to work for families that usually have high work expenses, yet does not increase generosity to workers who usually face low work expenses: it encourages economizing on expenses,[16] and it eliminates the administrative burden of the itemized approach.[17] The only disadvantage of this percentage deduction approach is the continued inequity between people of the same family type who have different actual expenses. One working mother heading a family with children may have a relative baby-sit free while another mother may have to hire someone.

An earned-income deduction that extends to all two-earner married couples has the additional advantage of relieving the current tax penalty these couples face.[18] Under the current tax-rate schedules for single individuals and married couples, a man and woman who both work full time often find that their taxes are higher if

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[14] Another way of looking at the inequity is to note that the real income derived from the home production of the wife is not counted as part of the family's income, while the entire income of the working single parent is counted as income.

[15] The tax provision is generous enough to allow a deduction for a full-time household worker at $100 per week.

[16] Since the deduction is a flat percentage of earnings (up to a maximum), people have an incentive to economize on work expenses and thereby maximize their spendable income.

[17] This is because the allowance is a flat percentage of earnings that is independent of actual work expenses.

[18] Joseph Pechman of the Brookings Institution advocates this approach in his testimony before the Joint Economic Committee. See U.S. Congress, *Economic Problems of Women*, hearings before the Subcommittee on Fiscal Policy, 93d Cong., 1st sess., 1973, p. 257.

they marry and file jointly than if they remain single. For example, if a woman who earns $2,000 a year marries a man who earns $3,000, together they will pay $184 more in Federal income tax than if they had remained single. This policy is inequitable, and it is inappropriate for the government to penalize marriage.

How large this earned-income deduction should be depends on financial incentive effects and program costs. An income supplement program designed to replace AFDC should strive to provide work incentives at least equal to those under AFDC. Although the AFDC program reduces benefits by 67¢ for each dollar increase in countable earnings, the definition of countable earnings lowers the actual percentage of gross earnings lost through benefit reductions. As of 1973, AFDC working mothers retained about 60 to 65 percent of gross earnings after AFDC benefit losses, spent 20 to 25 percent on work expenses (as defined by the States), and had left about 40 percent of gross earnings after benefit losses and work expenses. Under ABLE with its 50-percent benefit-loss rate, a 20-percent earned-income deduction would allow the working mother to retain 60 percent of gross earnings after benefit losses [100% − (100% − 50% × 100% − 20%) = 100% − 40% = 60%], and nearly 40 percent after benefit losses and work expenses.[19] To keep costs in check, a maximum deduction would be set, and the percentage deduction for husband-wife families would be lower than 20 percent.[20] Thus, a working single parent with at least one child under 15 would be allowed to deduct 20 percent of earnings up to a total deduction of $1,500, but the percentage would be only 10 percent up to $1,000 for the second earner in two-earner husband-wife families with a child under 15. The percentage deduction would be 10 percent and the maximum would be $500 for two-earner married couples with no children under 15. These rate and limit variations focus the gain from the earned-income deduction on families with the highest potential work expenses and on those with lowest potential income.

The figures below illustrate how an AFDC family of four will fare under ABLE as compared to AFDC, given different amounts spent on child care. It was assumed that the mother earned $4,000 a year, paid a social security tax of $234, had other work expenses of $250 ($5 a week for 50 weeks), and lived in a State where the AFDC payment standard is $3,000 (equal to ABLE allowances of $2,100 plus tax credits of $900).

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[19] This assumes the working mother continues to spend 20–25 percent of earnings on "work expenses," is also allowed to deduct social security taxes, and does not pay Federal income taxes. Work expenses as allowed by State and local AFDC administrators also include consumption items. This is, therefore, a conservative estimate of the net return from work under this plan.

[20] The lower rate also reflects a higher priority on encouraging the single parent to work than on inducing both parents in an intact family to work.

Out-of-pocket child-care expenses	Current law: AFDC grant	Subcommittee plan: ABLE grant	Subcommittee plan: Tax credits	Subcommittee plan: Total
$0 (many AFDC families have in-home care by relatives and neighbors; others receive center care paid for by charities or public funds)	$1,057	$617	$900	$1,517
$400 (this cost would bring total work expenses up to 22 percent of gross earnings, which is about average for AFDC families)	1,457	617	900	1,517
$800 (this cost would bring work expenses up to 32 percent of gross earnings)	1,857	617	900	1,517
$1,600 (this cost would bring work expenses up to 52 percent of gross earnings, an unrealistic figure)	2,657	617	900	1,517

The average AFDC family, with 22 percent of earnings taken up by work expenses, is treated more favorably under ABLE.

The benefits of the earned-income deduction should not be viewed as flowing only to ABLE recipients. A large share of the benefits from the deduction would be tax relief and improved tax equity for families ineligible for ABLE. Therefore, much of the budget cost of the earned-income deduction should be assigned to tax reform. The deduction recommended below accounts for $3.2 billion of the annual cost of the proposed tax reforms and income supplements. Of this amount, only $600 million is in the form of increased payment amounts, and half of that is in added tax credit rebates rather than higher ABLE payments. The other $2.6 billion is revenue lost through tax savings to working single parents and spouses, net of the $200 million tax cost of the current child care deduction.

Recommendation

1. The ABLE program should not allow recipients to itemize and deduct any actual work expenses from income except social security taxes paid.

2. ABLE and the income tax should allow the following amounts as deductions from countable income in determining both tax liabilities and ABLE grants:

(*a*) For all single-parent families with children, with at least one child under age 15 or a disabled dependent, 20 percent of gross earnings up to a maximum deduction of $1,500;

(*b*) For all other single-parent families with children, 10 percent of gross earnings of the single parent up to a maximum deduction of $1,000;

(*c*) For all husband-wife families with at least one child under age 15 or a disabled dependent, 10 percent of gross earnings of the spouse with the lower earnings up to a maximum deduction of $1,000; and

(*d*) For husband-wife families with no children under age 15 and no disabled dependents (this category includes childless couples), 10 percent of gross earnings of the spouse with the lower earnings up to a maximum of $500.

3. The earned-income deduction should replace the present child care deduction under the Federal income tax.

Assets Tests

Assets tests traditionally have been used in need-based programs to define the eligible population and to control welfare outlays. Allowable asset limits typically are low, permitting only very modest savings, and stated in flat dollar amounts. There are usually some exclusions of types of assets considered essential, such as personal effects, household furnishings, an automobile, or a home owned by the applicant if within a specified value, and some types of income-producing property. The basic premise is that assets other than those considered essential represent wealth that should be utilized for living expenses before a person with a low cash income is given public aid.

But traditional asset limits have other effects. Savings are discouraged and the meager limits typically applied contradict commonly accepted social values of thrift, home ownership and emergency planning. Flat dollar ceilings require evaluations and border-line decisions that make the difference between full benefit entitlement or no benefits at all. Moreover, exclusion of some categories of assets from limitation encourages transfer of excess amounts to excluded items rather than to use for living expenses.

The problem is to achieve greater fairness while still limiting benefits to the truly needy. The solution should recognize differences in need that are related to differences in assets; but it should not penalize thrift, and it should avoid substituting tax dollars for reasonable asset decumulation or utilization of income from income-producing assets. Individuals with considerable assets have a potential for self-support not available to others.

We recommend imputing income to all gross assets on a formula basis. This is a reasonable compromise that satisfies the above objectives better than the present practice of setting all-or-nothing limits on the value of allowable assets. The assumption that a low proportion of assets will be converted into cash should not discourage saving. Imputation of income based on the gross value of assets yields lower benefits to persons with more assets. A progressive imputation schedule, which rises steeply above the $40,000 level, should be used. This method allows beneficiaries to decide for themselves when liquidation of an asset is to their advantage instead of forcing liquidation upon them as a matter of survival.

To simplify the administration of this imputation, we recommend that assets be valued once a year, with each recipient's assets asigned to $10,000 bracket. Amounts actually earned by assets (that is, interest on savings) and counted as regular income would be deducted from the imputed amounts. If income actually earned by assets exceeds imputed income, the higher amount will be used to offset ABLE benefits. Income would be imputed as follows:

Total value of gross assets:	*Annual amount of income imputed to gross assets*
0 to $9,999	0
$10,000 to $19,999	$100
$20,000 to $29,999	200
$30,000 to $39,999	300
$40,000 to $49,999	800
$50,000 to $59,999	1,300
$60,000 to $69,999	1,800
$70,000 and up	[1] 2,800

[1] Plus 10 percent of assets in excess of $70,000.

A benefit-loss rate of 67 percent then would be applied to income imputed to assets.

Chapter X. THE SUBCOMMITTEE PLAN: ADMINISTRATIVE ISSUES

Administering Agency

Four bureaucracies exist with experience in large-scale check-mailing and income verification and a network of local contact offices. They are the State welfare agencies, the Social Security Administration (SSA), the Veterans' Administration (VA), and the Internal Revenue Service (IRS). To administer a new income supplement program, one must either choose one of these or create a new agency.

Federal Versus State Administration

A basic premise of welfare reform is that the government's treatment of the poor should be more uniform. In considering State administration of a welfare system reformed by Federal legislation, a dilemma arises: How could States be permitted to control programs through administration, yet be required to relinquish control over setting benefit levels and eligibility rules?

The advantage of using State agencies is that offices, payment systems, and personnel are already in place. But there are two major disadvantages, aside from the need for new administrative procedures to implement a new system. First, uniform administration of a national system requires central control over staff hiring and training. Second, modernized, efficient payment and audit systems dictate use of a national or at least regional data processing system.

Given the goals of national uniformity and Federal financing of income supplements, and given the burden of the history of State-operated welfare, Federal administration of a new system is desirable.

Is a New Agency Better Than an Old One?

The advantage of creating a new Federal agency is the desirability of starting off fresh. Offices and staffing could be optimally arranged, the latest information retrieval and data processing technology could be utilized, and the bureaucratic problems of grafting a new function to an old-line agency could be avoided. But what are the problems of starting a new agency?

The first problem is size. Although it would be a major undertaking for an existing agency to run a new national system, setting up a wholly new agency would require an even greater investment in buildings, training classes, and computers. And the three existing agencies are very big, as the following data show:

Agency	Number of permanent employees (June 30, 1974)	Number of local offices
Internal Revenue Service	69, 217	58
Social Security Administration	71, 665	1, 246
Veterans' Administration (excluding hospital system)	21, 148	78

So, the first question is whether a new agency is worth the enormous initial investment.

The second issue is the compounding of overlapping bureaucracies. A goal of public welfare reform is to reduce overlapping programs and to simplify administration. Already IRS, VA and SSA need to check each other's data files. Many VA benefit recipients also receive social security checks. Many recipients of social security and veterans' pensions must also file tax returns with IRS. To add a fourth major Federal agency would compound an existing problem.

Choosing Among VA, SSA, and IRS

A third issue is technical efficiency. That is, what are existing agencies doing that would be useful to the new income supplement system? In the case of the VA, there is probably little that could be used by a new system. Except for the VA pension program, veterans' benefits depend mainly on veteran status and physical condition; and even the pension program is too limited to offer much administrative guidance or help.

Two aspects of SSA are of interest. First, all workers in covered employment have their earnings reported to SSA every quarter. This gives the agency direct access to data that are important in audits of benefit payments and adjudications of appeals. The major drawback in using the earnings records is that there is a 6 to 9 month time lag in getting the information on file. But this lag would not preclude using the data for post-audits in a benefit system based on past income or even for current use in situations that carried over past income.

SSA already administers the SSI program, which provides income support to the needy aged, blind and disabled. Thus, SSA has had to develop the type of resources and methods needed by a more general income supplement system.

The main problem with having SSA take on a general income supplement program is that it would alter the character of the agency. Although it does run SSI, SSA's main business still is sending pension checks to retirees, disabled workers, and survivors. A large income supplement program would overwhelm this function, dominating the agency's resources and transforming the public's image of it. The social insurance program ultimately would seem like an appendage to the new ABLE system.

IRS lacks experience in operating a benefit program. However, it is the most experienced agency in matters of income measurement, income audits, and mass mailings to virtually all the Nation's households. IRS has access to more income data than any other agency and has the administrative mechanism in place to obtain regular

reports on more than 80 percent of all personal income. After all, the income tax is simply the mirror image of an income supplement program, taking income away rather than supplementing it. As with supplementation, the tax depends on amount of income by source, on the time-flow of income, on how it was spent, and on a variety of household and individual characteristics.

A significant advantage of IRS administration of ABLE would be psychological in nature. Recipients would feel that they were dealing with a tougher, more efficient, and fairer agency than the State welfare agency.

The two major drawbacks of IRS administration are that: (1) information would be needed on income not now taxed; and (2) the agency lacks the capacity to deal with millions of families on a monthly basis. The former issue is not a serious problem since much of untaxed income (e.g., unemployment compensation, social security) easily could be reported to IRS. With respect to the latter issue, any existing agency including IRS would have to greatly expand its personnel and data processing facilities to handle such a workload. Perhaps a bigger problem for IRS would be the lack of an existing local office network as extensive as that of SSA or the State welfare agencies.

Recommendation

We recommend that the ABLE system be administered by the IRS, on a basis of the fullest possible integration with the administration of the income tax.

Income Accounting Period [1]

Implicit in the design of all income-related programs is the need to relate payments to income of beneficiaries *measured over some time period.*

Income accounting and reporting procedures help determine the costs and caseloads of income maintenance programs, as well as their administrative burden. Moreover, accounting procedures exert a subtle influence on the character of a program and help to shape the public perception of it as fair or unfair, rational or irrational.

How much aid is received by two persons of identical *annual* but fluctuating *monthly* income depends on the choice of a monthly or an annual accounting period, and the difference can amount to several hundred dollars. A short accounting period favors sporadic work and fluctuating income; a long one is fairer to the steady worker. A short accounting period is immediately responsive to sudden need; a long one gives more recognition to individual responsibility for money management.

Moreover, a benefit program must calculate payments either on the basis of predicted future income or reported past income—prospective or retrospective reporting. And it must decide how frequently to re-

[1] This section draws extensively from Jodie T. Allen. U.S. Congress, Joint Economic Committee. Subcommittee on Fiscal Policy, "Designing Income Maintenance Systems: The Income Accounting Problem," by Jodie T. Allen, *Issues in Welfare Administration: Implications of the Income Maintenance Experiments,* Paper No. 5 (Part 3) (Washington, D.C.: Government Printing Office, 1973).

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quire reports (the reporting period), to pay benefits (the payment period) and to adjust payments (payment adjustment period).

The principle of equity requires that persons in equal need receive equal help. But one must decide over what time period need itself is to be measured. If the time chosen is a week or a month, a family may be found in current need although it received twice as much income in the previous 6 months as its non-needy neighbor. It would seem more reasonable, and more consistent with usual ideas of equity, to adjust benefits to income over some relatively long time period.

Income accounting systems can have a significant effect on recipient work efforts. The persons most likely to be in the target group for payments—that is, the families whose breadwinners have worked intermittently or at low wages or have been jobless—have income that fluctuates quite a bit.[2] Although their control over income flow is less sure and less sophisticated than that of the self-employed businessman, the underemployed wage-earner does have considerable control as a result of his job choices. How quickly does the laid-off worker look for something else? Faced with a choice of steady work at $2 an hour or a seasonal job at $3 an hour, which will he take? A system with a short accounting period will not do much to strengthen the low-wage earner's will to find steady work.

An accounting system can also operate either to reinforce or mitigate the work disincentive effect of the income maintenance plan's benefit-loss rate. Under a system with a short accounting period, the maximum disincentive effect of a high loss rate may be realized. If benefits are immediately adjusted to changes in income, a recipient who has recently increased work effort will immediately feel the bite of the benefit reduction. The disincentive effect is maximized on the downside as well.

By contrast, a slow-moving accounting system, by determining current benefits on the basis of past income over a longer period such as a quarter or a year, softens the effect of the benefit-loss rate. Under such a system, benefits increase only gradually as earnings decrease and, conversely, fall less precipitously as work effort increases.

Work incentive considerations thus reinforce those of equity and cost-effectiveness in arguing for a relatively long accounting period. But there is another side of the coin. Considerations of responsiveness to need require that some compromise system be found that will serve the current income requirements of the neediest families in a prompt and regular fashion.

The Development of a Monthly Income Accounting System

Experience gained in the administration of the Federal income maintenance experiments showed that excess payments created by a quarterly or monthly accounting system relative to an annual system are not recoupable. Without specific provision for annual accounting, a family with varying income could be "overpaid" by a monthly system, but the excess could never be recovered if the family's income

[2] Families with the lowest income have the highest income variability. See Thad Mirer, "Aspects of the Variability of Family Income," *Five Thousand American Families*, Vol. 2.

in the month in which it received payment was in fact within the program's monthly limit.

Another problem is that unrecoupable overpayments are certain to occur frequently if prospective accounting systems are used because forecasts will not be accurate. Given the natural inclination of families to hedge their bets against future misfortunes, forecasts are likely to understate actual income, thus giving rise to a true overpayment.

In the income maintenance experiments, a monthly retrospective income reporting and payment adjustment system was most responsive to the needs of chronically poor people who experienced reverses of fortune. The experiments demonstrated these advantages to monthly reporting of income and monthly adjustment of benefits:

- Income is best remembered (or estimated) over short periods of time. This is especially true of the poor, who typically experience very irregular patterns of income and employment.[3]
- Given automated procedures for processing and storing family income histories, regular monthly income reports are far easier to plan for and process than a volume of sporadic notifications of changing circumstances.[4]
- Low-income families are able to report their income reliably on a self-administered form and will do so promptly and regularly if receipt of benefits is contingent upon such action. This is true of both the newly covered "working poor" families and current welfare families.

It was found that a monthly system of income reporting and benefit adjustment could provide annual equity for less-poor persons with fluctuating income through use of a "carryover" system. Essentially, all that a carryover system does is to "remember" past income in excess of allowances over some period and use it to offset current allowances.

Three features of a carryover system can be varied:

(1) The length of time over which past income in excess of allowances is "remembered."

(2) The order in which past excess amounts are applied against current allowances—most recent first (last in, first out, or LIFO), or oldest first (first in, first out, or FIFO).

(3) The amount of income in excess of allowances that is remembered.

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[3] In OEO's rural income maintenance experiment, a significant deterioration of recall over a 3-month period was found. About one-third of the families in the labor force did not remember correctly details of their employment 3 months before—they either forgot about a job they had, remembered one they did not have, or did not recall their wage rate correctly.

[4] In addition, a shorter reporting period, each month versus each quarter, requires a higher frequency of filing reports. With experience comes increased accuracy. Thus a quarterly system may turn out to be more expensive administratively because of the need to audit more thoroughly. In addition, a quarterly system implies more recipients because it encourages underreporting of income. On balance, a monthly income reporting system is preferred for its greater accuracy and the likelihood that it will cost less to administer.

Since a carryover permits monthly adjustments without serious violation of annual equity, this alternative is very attractive. Further, since monthly accounting enables payments to be adjusted quite rapidly to changing needs, there is no need to rely on prospective accounting. Thus, the problem of overpayments can be minimized as well.

To demonstrate how the carryover works, consider a system that remembers income for 12 months, applies the ABLE offset rate to excess income, and uses the oldest first in offsetting current allowances (12-month FIFO). The carryover system takes income in excess of the program eligibility level in any month and uses it to fill up the deficit between income and the eligibility level in later months in which income has fallen. If the family is over the eligibility level for a month, a negative entitlement is computed. No benefit is paid but the "negative entitlement" is recorded in a carryover acount to be subtracted from future positive entitlements until it is used up or becomes too old to be considered.

Assume a program in which a penniless two-parent family is eligible for a maximum benefit of $300 per month. With a 50-percent benefit-loss rate, benefits are phased out at the rate of $1 for each $2 of income, and benefits decline to zero at $600 of monthly income. Assume a family which earned exactly $600 a month in one year, but has an annual earning pattern in the next year as follows:

$900—January	$400—July
$900—February	$400—August
$900—March	$400—September
$900—April	0—October
$900—May	0—November
$900—June	0—December

If this family applies for benefits in July, when income first falls, the past year's income above the $600 monthly eligibility limit will be carried over and counted as if currently received. In this example, the family had "excess" income of $300 a month for 6 months, or $1,800 total, which yields $900 in carryover income after application of ABLE's 50-percent benefit-loss rate. In July, only $200 of carryover income makes the family ineligible for benefits ($400 earned +$200 carryover=$600 eligibility limit). August and September each draw the carryover down by another $200. In October, since the family earns nothing, the carryover balance is reduced $300 down to zero ($900−$200−$200−$200−$300). In November, the family begins to receive full benefits.

Several liberalizing features may be incorporated in a carryover accounting system. Perhaps the most important is a provision that the past income, including carryover, used in computing grants shall include only the income of persons *currently* members of the family. Thus, if a family breadwinner dies or deserts, the family could immediately become eligible for maximum benefits without regard to the income of the departed breadwinner.

Under any income maintenance system, emergencies will arise such as fire, illness, or other calamities. Under ABLE, as under the current system, it will be necessary to maintain a separately administered

program that can provide the social services, cash and noncash aid needed to deal with crisis problems of individual cases that the carryover system might disqualify for ABLE for one or more months.

A paper prepared for the subcommittee analyzed 17 alternative accounting schemes.[5] The analysis used the maximum benefit levels and benefit-loss rates of the first version of the Family Assistance Plan and actual data on family income from the urban income maintenance experiments. The data suggested that an efficiently run carryover system would be more responsive to the needs of low-resource families suffering sharp drops of income than the current public assistance system with its waiting periods, complicated eligibility determination procedures, and strict asset disposal requirements.

Recommendation

On the basis of data from the income maintenance experiments, we recommend a monthly retrospective accounting system for ABLE with a 12-month carryover provision (FIFO, first-in, first-out). This would achieve the best balance among cost, caseloads, equity and responsiveness to need. Experience in administering the experiments has demonstrated that such procedures, including monthly reporting, are administratively feasible and efficient for large caseloads, given the availability of automatic data processing capability.

The Federal income tax, of course, would continue to operate on the basis of a calendar-year, retrospective accounting period. The two different periods raise the question of what would happen to people who both owe taxes and receive ABLE supplements in the same year. Having different periods will be no problem if the mechanics of the two systems are effectively disengaged from each other. We propose to do that by rebating income taxes withheld to ABLE recipients and by deducting from ABLE grants any tax refunds which result from overwithholding.

The tax return would serve as a vehicle for annually reconciling both taxes and grants and correcting any inaccuracies. Even if an ABLE recipient had no taxable income, he would have to file an annual tax return.

System for Reporting and Verifying Income and Other Family Circumstances[6]

The income reporting system as a whole should aim for:

- *Accuracy and cooperation.*—The form should be simple and cover a period of one month. No benefit should be paid unless the form is filed.

[5] The results of this analysis may be found in Joint Economic Committee, Paper No. 5 (Part 3), pp. 69–97. Only the conclusions drawn from the analysis are discussed here.

[6] This section draws extensively from David N. Kershaw's "Administrative Issues in Establishing and Operating a National Cash Assistance Program," Joint Economic Committee, Paper No. 5 (Part 3).

- *Self-administration.*—Techniques should be used that permit families to exercise their rights and obligations with minimal interference from the agency.
- *Low administrative costs.*—These techniques should be developed in the context of minimizing costs.

The Income Report Form

The income report form should list:

1. Family composition and size.—Families should report each month any changes in status (births, deaths, marriages, members moving out, members moving in). Household members not in the ABLE filing unit should be reported as well, as an aid in the auditing of benefit payments.

2. Location.

3. Income.—Since incomes tend to fluctuate, actual income should be reported each time the family reports. Families should report total income by category and by the name of the person who acquired it. A detailed, well-structured report form serves basically as a reminder, although initially it may be more difficult to learn. It will result in the reporting of more irregular income and will generate more information from which internal consistency checks can be made by an automated audit.

4. Deductions from income.—Social security payroll taxes should be recorded on each report. Deductions because of farm and business expenses could be made only once a year if self-employed people elect the option of an annual accounting period.

5. Resources and assets.—These items are infrequently changed and would be reported on either an occasional supplement to the regular form or on a special yearly form.

Problems With Certain Kinds of Income

Farm income, other self-employment income, rent, and gifts raise special reporting problems.

1. Farm income.—Currently, serious discrepancies exist between farm income reported to IRS and that established by the Agriculture Department. Presumably, some of the discrepancy results from the need for farmers to recall income and expenses over a 12-month period. ABLE's monthly reporting system should improve accuracy, but farmers (and other self-employed persons) would have the option to report on a yearly basis. Rising values of land and livestock inventory generally are not reported as income until sale. Imputing income to assets should alleviate this problem. Like many other businessmen, farmers are allowed by IRS to use accelerated depreciation schedules. Even with monthly reporting, this problem would be magnified by ABLE, but imputing income to assets would help to alleviate it.

2. Other self-employment income.—Some self-employed persons are able to report a low net income from substantial assets because of loopholes in the definition of expenditures. Our proposed treatment of assets should reduce this problem. Yet, it is difficult to eliminate the advantages that the self-employed possess over wage earners.

Because the businessman often has considerable flexibility to defer income, we propose a 2-year carryover for the self-employed including farmers.

3. Rent.—Return on investments and rental income should be treated as unearned income and subject to a 67-percent benefit-loss rate unless the income is from investment combined with self-employment, defined by actual time spent in acquiring this income. When investment is combined with self-employment, income would be considered earned and would be "taxed" at 50 percent. It is suggested that all expenses incurred in the operation of a trade or business be allowed as deductions—including depreciation. However, renting out rooms should constitute a trade or business only if there are usually four or more roomers; renting out property to a tenant, only if the lessor is actively engaged for at least 5 hours a week in managing the property. Otherwise, rental operations should be classed as a pure investment (like stocks and bonds).

4. Gifts.—It is recommended that ABLE not count the first $250 of gifts received in a year. Market value should be the guide used in valuing gifts.

AUDIT

Recipients should be audited to minimize waste, deter fraud, and protect the reputation of ABLE and IRS. Putting the audit on a sound basis from the start is probably the most critical thing the agency can do for its image and the image of its beneficiaries. An audit should be made at time of application; among a random sample of families after enrollment; and among families whose income or family composition have been questioned. In addition, the automated audit should be used, and administrative cross-checks can be made with other Federal agencies.

1. Audit at application.—The program should accept "reasonable" statements by applicants at face value, provided they are verified by such documents as income tax returns, birth certificates, and marriage licenses. Defining what is reasonable is the key to the system. Giving too much discretion to local intake workers might cause abuse and arbitrary and unstandardized practices. We recommend that the enrollment form itself indicate past sources of income and employment activities. Persons with doubtful applications could receive initial payments but should be required to furnish additional documentation.[7] Any applicant whose eligibility seemed dubious would be placed temporarily in the "audit for cause" category (explained below). He would be informed of this and encouraged to obtain, or retain, documents to establish his ABLE entitlement.

2. The random audit.—The sample would be a randomly chosen group of recipients stratified by type of income, living arrangements, payment levels, and other key factors. Recipients in the sample would be told that they had been selected by chance, not on the basis of suspected fraud. They would be required to supply evidence of income, family size and composition, employment, and assets. For

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[7] In exceptional circumstances, either when the documentation warranted it or no documentation was available, applicants could be temporarily denied benefits pending an eligibility investigation.

some recipients additional techniques could be used to verify income and family size, such as employer contact, the net worth approach, the consumption approach, use of IRS tax information, and comparison with social security records.

3. Audit for cause.—Recipients of whom fraud is suspected should be kept separate from the random group to maintain the clear distinction between the audit for cause and the random audit. On the sensitive issue of developing methods for detecting fraud we suggest the following guidelines:

(*a*) Reports from the public.—Although most of us dislike "spying" by neighbors and others, IRS will need to be prepared to respond to complaints by the public about specific ABLE recipients. In these circumstances no investigation should be started until the recipient has had opportunity to explain. If the explanation is insufficient, the recipient should be audited for cause.

(*b*) Reports from agency staff members.—When a local ABLE representative finds that a recipient is engaged in a suspicious activity, the matter should be handled in the same way as a public complaint.

(*c*) Unclear application at enrollment.—Applicants whose initial applications were very unclear or suspicious would be placed, at least temporarily, in the "audit for cause" group. Inquiries of employers, neighbors, friends, and relatives would be limited to cases where there is good reason to suspect fraud.

(*d*) Previous findings of fraud.—Any recipient found guilty of fraud in the past could be placed in the "audit for cause" group over some time period and would be treated as if on probation.

4. The automated audit.—The automatic or "machine" audit is an effective way to detect both intentional and unintentional errors in routinely reported information. On the simplest level, errors are spotted by recognition of illogical or inconsistent data. For instance, recipients could be automatically flagged in the computer system if their income suddenly dropped below a recognized subsistence level, dropped to zero without clear reason, or varied drastically in other ways. More broadly, the machine audit can save clerical time, identify families whose income or expenses indicate a probability of having cheated, and detect on-going mistakes in administrative processing or respondent reporting.

5. Administrative cross-checks.—A number of administrative cross-checks can be established with other Federal agencies on either a regular basis or for use with the random audit or audit for cause. Through the use of the records of the Social Security Administration, Internal Revenue Service, Veterans' Administration, Railroad Retirement Board, and Employment Security agencies (unemployment insurance system), rather extensive documentation on earnings and family composition could be obtained.

Although a sophisticated data bank would make such routine checking simple, ways to protect confidentiality of information must be developed, and the compliance of other agencies must be secured. Cross-checks will not uncover all unreported items, since what is not reported to one program may be hidden from another as well.

Work Requirements

To minimize economic cost and social cleavage, benefit programs for the needy must supplement and support their own self-help efforts, not supplant them. We have urged strong financial rewards for those who work yet require income supplementation. But the question arises as to whether beneficiaries who can work but do not should be required to register for work and take jobs when available.

To have a work-or-train rule in a benefit program, it is necessary to decide the following: who must work; what sort of jobs or training people may be required to accept, and at what pay if any; [8] on what grounds work may be refused; and whom to penalize and by how much in cases of work refusal.

Determining Employability

One basic decision is who is employable and subject to the work rule. While the employable/unemployable distinction is clear in theory, in practice there are many borderline cases, for employability has little meaning apart from specific people and specific labor markets. When a large manufacturing plant opens or closes in a small town, the employability of specific individuals in that town will change overnight. When labor markets are tight, employers hire some of the so-called unemployables. When unemployment is up, personnel directors tighten their standards. They look for experienced, young, and healthy people. They are less flexible in terms of educational requirements and work hours.

These processes have operated and will continue to operate regardless of the decisions of benefit program directors about who is employable. The director of an Employment Security office handling manufacturing jobs in Detroit testified before the subcommittee as follows:

> Well, a few years ago when the economy was better . . . we were placing a high ratio of individuals, our unemployment rate was down, the welfare rolls were down because everybody needed people. In fact it was almost like when I went into the (military) service; they felt me and if the body was warm, I'm in. For a while it was that way when we really needed people.
>
> Now that the economy has changed, the employer is becoming highly selective and unreasonable in some respects.[9]

Similarly a welfare caseworker responsible for making referrals of AFDC recipients to the Work Incentive program in Atlanta, testified:

> Most of the people are marginally employable, having few skills and little self-direction. Although there have been many attempts since the beginning of the program to set up criteria which would help both the referring caseworker and Labor De-

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[8] No compensation—beyond the amount of their welfare grant—is paid AFDC mothers who are put to work in public service jobs arranged by the Secretary of Labor under the Work Incentive Program.

[9] Joint Economic Committee, *Problems in Administration of Public Welfare Programs*, pp. 573–4.

partment personnel identify a recipient who would succeed in the program, the selection of enrollees is still a matter of "educated" guess.[10]

More than a few people are marginally disabled—whether physically, mentally, or socially. They do not qualify for disability aid programs, but neither are they attractive to employers; indeed, in many cases they have been screened out by a series of employers.

Another issue in employability determinations is whether work rules should apply to mothers. Most people agree that the presence of children above some age does not hamper a mother's ability to work, but notions of what that age should be range from birth to 18 years of age. To avoid having to provide costly child care for mothers of pre-school children, AFDC exempts them from its work rule. If they were not exempt, the Federal Government would have to be more involved in child care under Federal standards that are extremely costly. Expenditures on government-provided child care can easily exceed program savings in reduced cash grants. But while cost-benefit ratios may be reasonable grounds for exempting mothers of young children from work rules, equity considerations may not justify their exemption. Since many mothers of pre-school children do work, questions of fairness would arise if other mothers were exempted from a work requirement.

The Substance of Work Rules

In most programs that impose work rules, the basic requirement is mandatory registration for work at State Employment Service offices by persons classified as employable. This is, for the registrant, a relatively painless process, and here the matter usually rests. Registrants receive whatever referral and placement services the Employment Service provides. In most cases, this means only that their names appear on a roster of persons available for employment.[11] A branch manager of the Michigan Employment Security Commission in Detroit testified with respect to services provided to food stamp recipients who were required to register for work: ". . . there is no special treatment that they get over and above any other applicant."[12]

Of course, Employment Services actually are required to give welfare registrants priority consideration in making job referrals. However, in subcommittee hearings in Detroit and Atlanta, testimony from Employment Service officials indicated that referral priorities set by Congress may be counter-productive and unacceptable to employers. Employers reduce their hiring standards only when labor market conditions force them to do so; they start high and work down. By contrast, Employment Services are required to

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[10] Ibid., p. 1093.

[11] Special services could be provided income supplement program registrants. The Work Incentive program provides a model, and such special services were envisioned in the Opportunities for Families portion of the Family Assistance Plan. But available evidence indicates that such services have not been effective in the past for low-skilled persons. See Joint Economic Committee, Paper No. 3.

[12] Joint Economic Committee, *Problems in Administration of Public Welfare Programs*, p. 576.

give priority in referrals to "disadvantaged" persons except for veterans; that is, they are under orders to start low, and work up. Some employers are apparently reluctant to request referrals from the Employment Service, since they believe persons referred may not be suitable.

PENALTIES FOR NONCOMPLIANCE

If registrants refuse to take jobs offered to them, and if this fact is reported to the Employment Service, and if the Employment Service in turn reports to the payment agency, registrants may be subject to a penalty. Other testimony given during subcommittee hearings, however, indicates that there is considerable slippage in this process and that it may be nearly impossible to monitor such cases. Moreover, the truly recalcitrant individual can circumvent even the most perfectly administered system:

> Chairman GRIFFITHS. In a study some years ago, Joseph Becker estimated that as many as 15 to 20 percent of unemployment insurance referrals could be manipulated by the worker in such a way as to discourage a job offer being tendered. Have you experienced any abuses of this sort . . . ?
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> WITNESS (Northwest Detroit Branch Manager, Michigan Employment Service Commission). I would have to agree that it does have merit. Many an individual can go to an employer and present himself in such a fashion that the employer wouldn't hire him. I would say that this is not the majority, it's a limited few.[13]

Usually the requirement for registrants to take proffered jobs is hedged with many conditions pertaining to the job and to the recipient and his family. Jobs usually must meet Federal and State minimum wage or "prevailing wage" standards,[14] as well as health and safety standards. Often jobs cannot be located too far from the recipient's residence. Sometimes registrants can refuse a job if it is not related to his usual type of occupation—a condition difficult to apply to low-income persons with limited job histories or frequent job changes. Sometimes women can refuse work if child care satisfactory to them is unavailable.

All these conditions, and possibly others, limit the most arbitrary application of work rules. But the more protection given to recipients, the easier it is for them to evade the work requirement. A rule that jobs must pay at least the Federal minimum wage, for example, effectively excludes lower paying jobs in which some people in the community already work, and which may offer the only type of work available to an unskilled person.

Even if work rules are couched in terms that seek to protect registrants against "unsuitable," "unsafe," and sub-standard jobs, there is danger that the rules—especially with respect to who must take which job or suffer a penalty—may be applied unfairly whenever potential job applicants exceed the supply of available jobs. Under

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[13] Ibid., p. 574.

[14] Food stamp law, however, requires registrants to accept jobs at $1.30 an hour.

any conditions work rules may be unevenly applied and sanctions rarely used. Unfortunately, there is little more than anecdotal evidence about enforcement practices of current work rules.

Recommendation

It is difficult to build an effective mandatory work policy on the general—and reasonable—consensus that persons who can work should do so. Work rules assume that an administrator can judge who is or is not employable. Even if reasonable satisfactory classifications were made about employability, shifting conditions such as termination of a brief illness would change employability of nonregistrants, thus requiring periodic reviews.

Work requirements raise two paramount policy questions:

1. Can work requirements assure that those who can work do so, and is the cost of administering such a test less than what it saves in benefits?

2. Can such administrative requirements substitute for monetary work incentives in benefit programs?

We have found little evidence or experience to support—and several grounds to oppose—reliance on administrative pressure and sanctions. To the extent that such measures are not uniformly effective, they discriminate against those who freely choose to work or who are compelled to work and favor those who do not work but still receive benefits. In addition, work requirements typically mandate only the fulfillment of minimal conditions. They fail to promote, encourage, or reward the extra effort of second jobs, second earners in a family, or longer work hours.

We have concluded that to maximize work of program recipients, the program must be designed to give monetary *rewards* for more work, and that in most cases the operation of the market and financial incentives should be sufficient. **We recommend that a work registration requirement and the attendant costly bureaucracy not be attached to a new program.** Benefits have been set at levels which assume that recipients have other sources of income, primarily earnings. Thus, moderate benefit levels contain their own work requirement. But this is a matter that is not taken lightly. If, at the end of a reasonable settling-down period, data indicate that public benefits are substituting for private efforts to a significant degree, then the work registration issue should be reopened. Systematic analysis of work behavior then should be conducted; decisions on work rules should not be based on anecdotal evidence. Careful consideration would have to be given to projected costs of work rules and likely savings.

Work requirements may have a rationale in State programs which supplement Federal payments. States should not be discouraged from undertaking careful case-by-case reviews of applicants for supplementary payments, which is more feasible for the reduced number of applicants they would have once a Federal benefit program were instituted. As part of such reviews, States could impose work requirements and discontinue all supplementary benefits for persons refusing to take jobs.

Research, Overview and Oversight Needs

Given the size of income maintenance expenditures, the number of programs and their tangled relationships, and the wide range of policy issues that envelop these programs, it is imperative that policymakers have access to good program data, survey statistics, experimental results, and analyses of these data in order to do their jobs well. Unfortunately, there are major deficiencies in these areas.

Although $62.2 billion in cash welfare and social security benefits were paid out in fiscal year 1973, the U.S. Budget reports that only $12 million, or 0.02 percent of payments, were spent by the Federal Government to gather welfare and social security statistics. Another $81 million, 0.1 percent of payments, were spent on research by the income maintenance agencies in HEW. By contrast, government-wide research and development expenditures constitute 7 percent of total Federal outlays. In the area of income maintenance, the Federal Government's investment in research and data gathering has been unequal to the task.

However, meager outlays only partially explain the deficiencies in information about income maintenance programs. The other major factor is that statistics generally are gathered only for a single program, whereas recipients live in a multi-program world and typically receive more than one benefit.

One way to overcome this problem of overlapping programs is to survey the recipients of a program (or programs), determining in the process what other benefits they have received. The Social Security Administration is making such a survey of recipients under the new supplementary security income program. HEW surveys AFDC case records to obtain program survey data about every 2 years. At the request of the subcommittee, the Department of Agriculture is surveying recipients under the food stamp and surplus commodity programs. But most programs do not survey recipients. There are no national surveys of unemployment compensation claimants, veterans on pension, or public housing tenants.

From an income maintenance viewpoint, the general income data collected by the Census Bureau and other Executive agencies also have serious flaws. There are two major difficulties with census income data. First, information on noncash income (e.g., food stamps) traditionally has not been obtained, and such data now are collected only on an experimental basis. Second, income maintenance payments are seriously underreported in census surveys.

The four income maintenance experiments undertaken by HEW and OEO focused on the differential impact of cash payments on work effort, given different program structures. Other types of information, most notably data on the effectiveness of different administrative methods, have been byproducts rather than direct objects of experimentation. However, new efforts are underway to experimentally study different mechanisms for financing health care and alternative ways of offering subsidized housing.

Recommendations

1. We urge that top priority now should go to learning more about the people receiving income maintenance benefits, without regard to the enactment of reform legislation. Every major program periodically should collect comprehensive data on its beneficiaries, including the benefits they receive from other public programs. Such data collection need not be done separately for each program. It might be desirable for closely related groups of programs (e.g., AFDC and food stamps) to conduct joint surveys.

2. Next, we urge improvement of general income statistics. The Census Bureau should obtain better financial data on the low-income population by: (*a*) obtaining more accurate reports on cash transfers received by poor households; and (*b*) capturing the full impact of public benefits on household consumption. This is required because of the rapid growth of in-kind benefit programs that increase purchasing power without giving recipients cash.

3. We recommend caution in funding new experiments in income maintenance until some consensus emerges on the value of what the first projects taught us, relative to their cost. New experiments, of course, should profit from the mistakes made in designing the original efforts. In particular, we would urge that future experiments examine a broader range of policy issues, including those related to administration of income maintenance programs.

4. Finally, we recommend much more attention to monitoring income maintenance programs, not singly but as a system. An official concerned with welfare policy can go to a single Federal agency and get some idea of how its program (or programs) work. But many programs overlap, and still others are administered and even funded locally, and there is no place to turn to learn the potential impact of all programs on some particular issue or group of households. One agency should be responsible for maintaining a profile of how all income maintenance programs work together, how they affect different groups, and how these effects vary from place to place.

One approach taken by the subcommittee that seems promising was reported in a staff study (Paper No. 15. Welfare in the 70's: A National Study of Benefits Available in 100 Local Areas). The staff selected 100 counties on a statistical basis that would permit the counties to represent the entire Nation. For each county, State or local agencies filled out questionnaires telling how much each of 130 specifically defined, hypothetical households would receive from a variety of welfare programs. Assigning the appropriate weights to the county responses enabled the staff to describe the entire welfare system in terms of several major welfare issues such as work and family structure incentives.

Such sample surveys could be made periodically as a way to monitor the income maintenance system. We urge that the Federal Government adopt such a method to meet this need on a continuing basis.

Chapter XI. RECOMMENDATIONS FOR PROGRAM COORDINATION

The subcommittee's proposed ABLE grants and tax credits are designed to achieve a sweeping overhaul of welfare programs.

To achieve an integrated income maintenance system that seeks fair help for the poor, yet does not seriously impede work, ABLE must be carefully coordinated with other programs that would continue to help the needy, and with the income and social security tax as well. Moreover, if ABLE were implemented, proposals for new programs, or changes in the old, should be carefully evaluated in terms of whether they would undermine the equity and incentive features of ABLE.

This chapter makes recommendations for program integration, including necessary revisions in existing programs. Although the recommendations are tailored to ABLE, we emphasize that similar extensive planning for coordination would be required by a smaller reform program or a fundamentally different one, such as a housing allowance or a "work bonus" like that passed by the Senate in H.R. 3153.

Coordination With the Federal Income Tax

The Federal income tax would have to be extensively revised to mesh exactly with ABLE. Major changes in the tax code cannot be proposed here, and much work remains to be done before a completely integrated tax and supplement system could be considered. However, because the two systems could affect people in bizarre ways that would undermine the reform if uncoordinated, rules must be established for their smooth interaction.

There are basically three ways to coordinate the two systems. The first is to have individuals and families continue to pay the income tax at their present rates, in effect subtracting their ABLE entitlement from the Federal income tax that they owe (and having IRS make a payment to those who have a negative balance). This would provide a smooth transition in disposable income as a person moved between taxpayer and tax recipient status, but it would have two disadvantages. First, the marginal tax rate from the income tax and the benefit-loss rate from ABLE would be additive over the range of income where the individual both pays the income tax and receives a supplement. This would cut work incentives below ABLE's intended level. Not only would a wage earner have his ABLE supplement reduced by 50 cents of each earned dollar, but he might also have to pay an additional 14 cents for income taxes. Second, it is illogical for ABLE recipients to be required to pay Federal taxes on incomes that are below levels the Government deems in need of supplementation.

A second method of coordination is to exempt individuals from the Federal income tax so long as they receive an income supplement, after which they would pay the Federal tax according to its rules.

The only possible advantage of this approach is its simplicity. The major disadvantage is that it imposes confiscatory marginal tax rates at the income level where ABLE eligibility ends. At this notch point, if the family earned another dollar, all taxable family income, not just the last dollar, would become subject to the Federal income tax. For example, the ABLE eligibility cutoff for a two-parent, one-earner family of four is $5,400. At that amount of earnings, the family would neither receive a supplement nor pay any income tax. But if annual earnings should rise to $5,401, the family would be subject to the full income tax on that amount ($732 under the proposed tax, before credits). Thus, a gain of $1 in wages would produce a net loss of $731 in disposable income.

A third approach to coordination is not only to forgive taxes owed by an ABLE unit, but also to forgive part of income tax liability for some range of income above the ABLE eligibility level. This method can prevent the effective benefit-loss rate from rising at the point where ABLE grants stop.

As an example of this approach, suppose the family of four now had total annual wages of $5,500, which is $100 over the eligibility level. If that $100 were subject to ABLE's 50-percent benefit-loss rate, the family would have a negative allowance (owe a positive tax) of $50. Since the proposed income tax liability for this family before credits would be $748, the family would be better off paying the $50 under the ABLE rules.

The subcommittee recommends the third alternative to avoid the problems of poor work incentives and income notches. Families would be exempt from the income tax while receiving ABLE. For some range of income above that point, they would pay either the ordinary Federal income tax, or a tax based on ABLE's allowances and offset income, including income above the allowance levels, thereby "receiving" a negative allowance. They could choose the computation that gave them the larger disposable income. Of course, this approach has a cost, in the form of foregone tax revenues, estimated at $5.3 billion a year ($3.7 billion in taxes foregone from ABLE units and $1.6 billion in taxes reduced for individuals and families above the ABLE cutoff).

State and Local Income Taxes

A similar but easier problem exists in coordinating ABLE with State and local income tax systems. Not everyone is subject to State and local tax systems. Ten States, which cover 19 percent of the population, do not tax personal income at all, or tax only specific types of income, such as dividends. Although many cities and counties impose income taxes, including New York City, Detroit, Philadelphia, Cleveland, and St. Louis, at least 75 percent of the Nation's population is free of local income taxation. In addition, State and local income tax rates are quite low in low-income brackets. The Federal income tax minimum rate is 14 percent, but the initial State rate ranges from 0.5 percent in Ohio and Oklahoma up to 5.0 percent in Massachusetts. Local tax rates are even lower, varying from 0.2 percent in a number of small towns in Pennsylvania to 3.3125 percent in Philadelphia.

Since many people pay no State or local income tax, and since most who do are subject to low rates, these taxes pose no significant work

incentive problem. **Accordingly, the subcommittee recommends the first approach discussed above for the Federal income tax; that is, let the State and local taxes operate as they do now.** Some people will both pay these taxes and receive Federal income supplements from ABLE, but the combined tax and benefit-loss rates will not be troublesome. This approach will not add to the cost of the benefit program, nor will it interfere with State-local tax systems.

Coordination With the Social Security Tax

The effect of the social security tax on the work effort of ABLE recipients must also be considered. Because the payroll tax rate is high, applies to the first dollar of earnings, and affects most workers, the work incentive question is important. The social security tax on employee wages now is 5.85 percent on earnings up to $13,200 per year (a maximum of $772.20). (Other mandatory retirement deductions, such as those for public employees not covered by social security, are generally higher, but these deductions are not like taxes because such employees can usually withdraw contributed funds if they quit the jobs.) ABLE's benefit-loss rate of 50 percent would be raised to nearly 56 percent if the full payroll tax were added to it. Some relief from this combined impact is necessary.

Short of altering the payroll tax, ABLE could respond to this tax in three ways:

(1) the payroll tax could be ignored, which would make the tax and benefit-loss rates additive [50%+5.85%=55.85%];

(2) the payroll tax could be deducted from the income to which the benefit-loss rate applies, which would make the two rates only partially additive [50%+(50%×5.85%)= 52.925%; or

(3) the payroll tax could be deducted from income after the benefit-loss rate has been applied. This would reimburse a recipient for the payroll tax and negate its addition to the loss rate [50%+5.85%−5.85%=50%].

The problem with the first option, of course, is that the combined rate adds to 55.85 percent. The third option, a reimbursement for payroll taxes paid, is the current practice of the AFDC program, which provides such a credit for all work-related expenses. Although this option succeeds in maintaining a 50-percent benefit-loss rate, it has two problems. First, it raises income supplement costs by more than the amount of payroll taxes recipients pay. This is because it not only reimburses recipients fully, but it also extends the eligibility level to bring in new recipients. Second, it effectively relieves recipients of their obligation to pay taxes to the social security system. While payments would be entered into their accounts by the Social Security Administration, ABLE recipients, unlike other workers, would suffer no loss in current disposable income. If the social security tax rate were raised, most workers would pay more, but ABLE recipients would simply pass the increase along to the ABLE program. Free coverage for a large class of workers could erode public trust in social security as a contributory retirement system.

The subcommittee recommends the second alternative; that is, deduction of the payroll tax from gross earnings before offsetting

income against allowances. This approach would cost $1.4 billion (a little less than half the cost of the third alternative), would retain the low-wage worker's contributory link with social security, and would increase the overall net gain from work. It also would make the social security tax progressive in part, since low-income workers covered by ABLE would in effect pay a lower proportion of their income in social security taxes (2.925 percent) than workers with incomes above the ABLE benefit cutoff but below $26,400 (twice the ceiling on earnings subject to the social security tax).

AFDC and State Supplementation

The function of ABLE's basic benefit level would be different from that of State-determined AFDC benefit levels. ABLE is designed as a *supplement* to other income, on the assumption that poor beneficiaries have or can acquire other sources of income. By themselves the ABLE grant and the tax credit are not expected to meet all a family's needs.

In contrast, AFDC maximum payment levels traditionally have been related to the total amount of income considered necessary to meet a family's full maintenance costs. Today, even though all States must permit AFDC families to add a portion of earnings to their welfare grant, maximum grants of many States are expected to meet full family needs.

AFDC *maximum* payment levels for four-person families now are higher than the proposed plan's basic benefit (ABLE grants plus tax credits) to a mother and three children in about half the States. However, changing to the proposed plan would not affect all families within a State the same way. In most States payments of many families are based on lower standards than the State maximums, which are reserved for families in special circumstances (high rent, certain living arrangements).

In their periodic reports of payment standards to the Department of Health, Education, and Welfare, States usually report the highest amount that can be paid anywhere in the State. For example, Michigan reports a standard of $400 a month for a family of four, but this applies in only one county. The level for Detroit is $354, and it is even lower in some other counties. Thus, to compare ABLE benefits with State AFDC maximum levels reported to HEW is to considerably overstate AFDC generosity.[1]

Two-parent families on AFDC (those of unemployed or incapacitated fathers) would fare better than one-parent families in the transition to the new plan, since the ABLE grant for the second adult is larger than is usually the case under AFDC. Large AFDC families generally would face a greater loss of income than smaller families, since ABLE reduces its per-child allowances in large families.

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[1] A growing number of States have flat grants, or a fixed amount by family size, but many include the amount of rent paid up to a maximum. Hence, AFDC payments to many families are well below the proposed plan's basic level. On the other hand, some States pay extra amounts for special needs not included in their payment standards for basic maintenance, so some families have AFDC income above the proposed benefit levels even though their State payment standards are lower.

The major impact of reduced benefits would fall on families who have no income from other sources. Families who receive social security benefits, for instance, would be less likely to lose income since ABLE would treat social security income more generously than most State AFDC programs do. Some families with earnings also would benefit from transfer to ABLE due to its method of counting earnings against benefits.

Mandatory Supplements for Current Recipients

In all, for nearly half the families currently receiving AFDC benefits, transition to the proposed national program could reduce cash income. In addition, AFDC families would lose the food stamp bonus, which about 60 percent use to stretch their incomes.

In planning for transition to ABLE, one must face the threat of income loss to these recipients. Should they be protected, and how? It is assumed that States which previously chose high payment standards would want to maintain them through supplemental payments. Furthermore, they could afford to do so since ABLE would assume a large share of the total cost by its funding of the basic benefit.

However, the Federal Government should help protect current recipients in the transition process since its reimbursement policies helped bring about their benefit levels. Congress also has a duty to protect States against increased costs caused by a change in Federal law. Congress acknowledged both of these obligations in the law that converted State welfare rolls for the aged, blind, and disabled to SSI.

We recommend that States be required to make supplemental payments to families receiving AFDC in October through December 1976 in amounts needed to maintain total family income at the December 1976 level. States should redetermine eligibility and payments during the last quarter of the calendar year so the December payment would be up to date, reflecting current need based on State standards. The penalty for State refusal to supplement current AFDC recipients who qualify for supplements would be the loss of Federal funds for social services. The States would administer the supplements and adjust the amounts as family circumstances change. **The supplements should be discontinued when families no longer meet the eligibility conditions for the old AFDC program or when rising income reduces the supplement to zero. This requirement for State supplemental payments would lapse after 2 years.**

At the time of transition to the new system, the amount of the supplemental payment to a family would be equal to the difference beween (a) the total of the AFDC payment, and 80 percent of any food stamp bonus actually received by the family in December 1976; and (b) the sum of the new plan's benefits received by the family in January 1977, plus tax credits prorated to a monthly basis. The value of the food stamp bonus is discounted since the family will be saved the personal cost of obtaining and using stamps and since discretionary cash income is more valuable than restricted coupons to most families.

In the event that a State's costs for this mandatory supplementation exceeds its calendar year 1976 share of AFDC expenditures, the State could charge the Federal Government for the

excess cost. However, this would be unlikely to happen since ABLE benefits plus tax credits are expected to exceed the Federal share of the maximum AFDC payment in all States. Even with the food stamp bonus included, in every State the total amount of a State's supplemental payments should be less than the State's AFDC costs.[2] Because of the variations in AFDC payments within States and the differences in treatment of income, there should be many families, even in high-payment States, who require little or no supplementation; and the normal turnover in AFDC families should quickly reduce the number entitled to a State payment. By the end of the 2-year mandatory period, normal turnover and changes in family income and composition should have reduced or eliminated mandatory supplementation for most families.

Optional Supplementation for New Eligibles

Some States might want to supplement the basic benefit for new applicants, or for categories of new applicants such as one-parent families. Questions of equitable treatment would arise during the transition since some AFDC recipients in December 1976 would be guaranteed a supplement while new applicants with similar characteristics would not. Savings from abolition of AFDC might enable States to provide supplements to new recipients, but Federal participation in costs of such State supplementation is not recommended. Federal money to help States support higher benefits or selective supplementation for certain types of families would perpetuate harmful features of the present system.

The question remains: Should States be completely free to supplement new applicants at their own expense? If a State supplement were structured in a way that increased Federal costs or defeated the objectives of the Federal program, some Federal limit on State supplements would be necessary. For example, Federal benefit costs could be increased if a State were to maintain a high benefit level to a family with no income and apply a high benefit-loss rate to earnings, thereby discouraging work.

We recommend that States have the option to supplement Federal benefits but that the combined Federal-State benefit-loss rate be limited to no more than 60 percent on earned and 80 percent on unearned income. If a State's plan violates this condition, the State supplement would be offset dollar for dollar in determining a family's entitlement to ABLE, thereby increasing the cost of such supplementation to the State.

Social Services, Emergency Aid, and WIN

Replacement of AFDC by ABLE would force reconsideration of Federal-State roles in funding and administering some components of AFDC and related programs, such as AFDC foster care, social services, and emergency assistance.

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[2] Based on 1973 AFDC payments and food stamps actually received. Growth in food stamp benefits or AFDC payments could mean that a few States would have federally protected deficits in later years.

Considerable revision of social services legislation would be needed since services no longer could be tied to the receipt of State-administered welfare. Many of the services that Congress now funds are not necessarily income-related, and their primary purpose is not to move people off the welfare rolls. Many are not simply income substitutes and they cannot be cashed out like food stamps. Even under ABLE and SSI, many services would be needed by handicapped children and adults, and by individuals and families in many situations where there is a public concern for developing human potential, even if there were no "welfare" program from which services could help recipients to escape.[3]

Under ABLE, need for emergency assistance might increase since the new program would not meet crisis needs or provide short-term assistance in times of urgent need. **State and local general assistance programs, which would be largely replaced by ABLE benefits, could use their funds for emergency aid. Any Federal reimbursement for such aid should be part of a comprehensive approach to services that defines Federal, State, and community responsibility and provides for a flexible system of service delivery.**

The work incentive program (WIN), which provides employment training and placement services for AFDC recipients, should be incorporated into the manpower programs administered under the Comprehensive Employment and Training Act of 1973. There would be no categorical differentiation of individuals and families under ABLE, no work requirement, and therefore no justification for a separately administered manpower program for a specified group of welfare recipients. The Comprehensive Employment and Training Act includes provision for training, child care, and other employment-support services comparable to those in the WIN program. Prime sponsors are required to provide assurance that, to the maximum extent feasible, manpower services will be provided to those most in need of them, including low-income persons and persons of limited English-speaking ability. The phrase "those most in need of them" should be interpreted to include women in low-income families who wish to improve their ability to support or help support their families. Before the present referral system, there were more WIN volunteers from AFDC families than available slots in most WIN projects, so the elimination of a work or training requirement should have little effect.

Food Stamps[4]

We recommend that the food stamp program be terminated, since its income supplementation feature would be met through tax credits and the grant program. ABLE would reach essentially the same population and provide cash benefits rather than a less efficient cash substitute.

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[3] For example, there is general need for protective services for children to prevent and correct child abuse and neglect, foster care services, services that help parents improve home conditions and care of children, adoption services, services to protect the elderly who are isolated and need human concern, and other services for the aged who need prepared meals, homemaker services, help in getting adequate housing or medical care, or appropriate group care when they cannot manage for themselves.

[4] See chapter VII for a further discussion of the food stamp program.

The surplus food distribution and food stamp plans were farm programs designed to utilize surplus food production. The food stamp program, which is replacing the food distribution program to households in all areas, has had the further purpose of expanding sales of agricultural products by grocers. By offering stamps to all the needy and limiting benefits to food purchases, the program has tried to improve the nutrition of the poor. However, the present program's rules have resulted in family income eligibility levels that extend into the moderate income range. It is estimated that by fiscal year 1977, 60 million persons could be eligible, on income grounds, for food stamps sometime during the year, costing $10 billion a year if all eligibles participate.

Eliminating food stamps would improve efficiency. It has been inefficient to maintain a complex and costly administrative structure to provide benefits worth less than their face value that serve mainly as cash substitutes to increase consumer purchasing power, when the cash equivalent could be provided directly. Work incentive features could be preserved more easily since only one benefit-loss rate would be applied against income. Under present arrangements, the splintering of legislative and administrative authority has made it impossible to control cumulative benefits and benefit-loss rates.

Supplemental Security Income

State programs of federally aided cash welfare for the aged, blind, and disabled were ended in January 1974, when SSI was launched. The Social Security Administration sends monthly checks to more than three million people in SSI, and another three million may be added in the next few years.

It would be unduly disruptive to the aged poor to make another drastic change in their aid so soon. We recommend keeping SSI as a separate program, but giving it dependents' coverage, liberalizing its assets rules, and moving its blind and disabled children to ABLE to smooth its coordination with ABLE. We also urge that the overlapping functions of social security and SSI be corrected. Structural changes should be made so that social security, supported by payroll taxes, is more clearly a wage-replacement program, while SSI, supported from general revenues, provides minimum income protection. After this is accomplished, the needy aged, blind, and disabled could more readily be absorbed into the ABLE plan if that seemed desirable.

Since SSI would continue as a separate program, the ABLE plan would provide that a person receiving an SSI payment and/or a State supplement to SSI could not file for grants under ABLE or be included as a filing unit member. SSI recipients would be eligible for tax credits, however. The tax credits would increase income for most of the aged, and would compensate for the loss of food stamps. (For example, the $192 in annual food stamp bonuses for single individuals receiving only SSI benefits of $146 monthly are less than the $225 tax credits, and the $312 in annual food stamp bonuses for couples receiving only SSI benefits of $219 monthly are less than the $450 in tax credits that couples would receive under ABLE.) Grant levels would be higher for SSI beneficiaries than for single individuals or couples in the ABLE plan, and

although there are differences in benefit-loss rates for earned or unearned income, SSI would be preferable in most instances.

Provision for Dependents' Benefits Under SSI

SSI is one of the few income security programs, and the only major need-based program, that deals solely with individuals. Social Security, veterans' benefits, railroad retirement, coal miners' benefits and the proposed ABLE grants either include benefits for dependents when primary eligibility is based on the individual, or treat the family as a unit. This disparity between SSI and other programs requires special rules for determining eligibility and allocating family income when individual SSI beneficiaries are members of family units. For example, an SSI beneficiary who is the father of children on AFDC must have his income and resources excluded when family benefits under AFDC are figured. It is administratively cumbersome for two separate agencies to deal with the same family, and technical differences between the programs can cause inequities in total family income.

The family unit concept is appropriate when an aged, blind, or disabled SSI recipient is married or has dependent children. In practice, SSI recognizes family need by counting the ineligible spouse's income as available to the eligible individual after making allowance for the needs of ineligible family members. Maintaining separate ABLE and SSI units in the same family with appropriate allocation of income would be extremely difficult to administer and is unnecessary. It would be simpler and more sensible to include both the SSI beneficiary and any dependents in the SSI benefit unit itself. **Thus, we recommend including in SSI payments amounts for the spouse and children comparable to the ABLE plan's alowances for a spouse and children.** There could still be cases in which there are SSI and ABLE beneficiaries in the same household, if for example, an aged woman drawing SSI lives with her low-income son and his family.

Transfer of SSI Blind and Disabled-Children Beneficiaries to ABLE Family Units

The primary purpose of SSI is to provide a minimum income to persons whose earning potential is limited by old age, blindness, or disability. But while a disabled child has exceptional needs for medical care and treatment, in addition to normal needs for general support, not even an able-bodied child is expected to support himself.

SSI is helping poor parents of a blind or disabled child with extra income, but its primary aid to them is admission to medicaid for the child. For meeting the exceptional needs of these children, an adequate health insurance plan for all families and access to medical treatment and training facilities are more appropriate than an income supplement. A child's maintenance needs, on the other hand, would be more appropriately met through the family income support that ABLE will give. **Therefore, we propose that SSI be available to blind and disabled persons age 18 and over and that all blind and disabled children under 18 be included in the ABLE family unit.** This

is consistent with the purposes of the programs, and it avoids the complexities and distortions of attempting to allocate family income when an individual is treated separately from the family unit to which he belongs. **Provision should be made for an SSI supplement to the family with a blind or disabled child who was receiving SSI at the time ABLE began if total family income would otherwise be reduced under ABLE.**

Asset Limitation for SSI Eligibility

Although SSI would be continued as the need-based program for aged, blind, and disabled adults and their families, uniform general eligibility conditions should apply to all needy persons. **Therefore SSI should adopt the rules on assets of the proposed ABLE plan (see chapter IX.)** Otherwise, assets would bar some needy aged, blind and disabled persons from SSI even though they might be eligible for the lower supplements of ABLE. Having the same assets test for both programs would give equity to aged, blind, and disabled persons.

Unemployment Insurance

To determine how unemployment insurance (UI) and ABLE should adjust to each other, it is useful to reexamine briefly their respective roles regarding unemployment problems.

The primary purpose of UI is to insure experienced workers against the risk of temporary unemployment that is unavoidable in an industrial society with substantial labor mobility. Unemployment insurance provides benefits to workers who have sufficient work experience and (most of whom) have become unemployed for reasons other than quitting or being fired for cause.[5] To fulfill their main purpose, UI benefits should be (a) short-term; and (b) reasonably closely related to wage losses of recipients.

The existence of ABLE's comprehensive income supplements would allow State unemployment insurance programs to concentrate on their primary purpose of cushioning the short-run unemployment suffered by many workers. UI currently also tries to relieve chronic income deficiencies among the lowest income workers through liberal eligibility provisions, dependents' allowances, and extending benefits as long as a full year, but the attempt is largely unsuccessful. ABLE, rather than UI, should deal with earnings deficiencies of a chronic, long-run nature. ABLE benefits are the same whether the low-earnings problem is the result of chronic low wages or spells of unemployment.[6] And benefits continue as long as low earnings persist.

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[5] Unemployed workers with sufficient covered earnings who quit or are fired may claim UI benefits in some States after a waiting period of several weeks.

[6] Treating both unemployment-related and wage-related causes of low earnings is appropriate for a long-run program. Chronic low earnings generally are caused by limited access to, or limited numbers of, high- or moderate-quality jobs, not by the inability of workers to find any job. Jobs available to many workers offer little on-the-job training or chance for advancement. Thus, one may realistically see unemployment as an investment by a worker who is seeking a good job. He may suffer more unemployment than a steady worker at a low-wage job, but obtain higher wages when he works. Assuming their annual earnings were the same, ABLE would provide equal benefits both to the low-wage steady worker and moderate-wage worker with more time spent unemployed.

UI's Adjustment to ABLE

Relieved of the task of aiding the chronically poor, the UI system could improve its effectiveness in replacing lost earnings of moderate- to high-wage unemployed workers. To move toward this goal, the UI system should make four adjustments to enactment of ABLE.

1. UI should raise or at least maintain high eligibility standards for UI in terms of work experience. Those with little work experience may be involuntarily unemployed, but their unemployment is not a temporary disruption in a pattern of sustained earnings. Their aid should come from ABLE rather than UI.

2. UI should limit eligibility to short periods of unemployment. Currently, UI benefits are paid to some claimants for as long as 39 or even 52 weeks. When a person remains unemployed beyond four to six months, his unemployment can hardly be regarded as a short-term, temporary dislocation. The earnings deficiency from a long-term unemployment problem is not easily distinguishable from other chronic earnings deficiencies. Since most workers with chronic earnings deficiencies will have access only to ABLE, those with UI coverage should not receive added benefits of long duration.

Limiting UI benefits to short- or medium-term unemployment appears particularly desirable in light of: (a) the high wage-replacement rates likely for recipients of UI who also become eligible for ABLE; and (b) the high benefit losses facing those who consider part-time work. Many observers note that UI replaces less than half of weekly earnings for many beneficiaries. However, they often measure this as a portion of gross earnings. Because this index fails to take account of the tax-free nature of UI benefits, it is not the measure relevant to the recipient. The recipient is interested mainly in take-home pay. Looking at UI replacement rates from his viewpoint, one finds that UI benefits are well above 50 percent of after-tax weekly earnings for most workers who earn no more than the median wage for their State. Although this net replacement rate omits fringe benefits workers might receive if they remained at work, it also excludes work expenses they would incur. If replacement rates currently are high for many workers, net replacement rates would rise still further with the introduction of an ABLE program that supplements UI payments.

Strict time limits on UI benefits also are needed because the program penalizes part-time work severely. Many, if not most, claimants lose a dollar in benefits for each dollar of part-time earnings. A good rationale for this policy is to prevent part-time work from resulting in greater income for the beneficiary of UI than is received for full-time work by many workers.[7] This would be unfair and would encourage spells of unemployment supplemented by part-time earnings. Another rationale for this policy is that UI claimants should spend their time in full-time job search so that they may leave the rolls entirely. UI benefits are intended not only to cushion income losses, but also to encourage claimants to search for a suitable job, not simply any job. To the extent that part-time work would not inter-

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[7] In part, this is because UI benefits, unlike earnings, are not subject to taxation.

fere with productive job-search activities, its absence is a loss to society, and this loss is borne partly by the recipient and partly by those ultimately paying the UI taxes. There is empirical evidence that such disincentives to part-time work do in fact reduce the claimant's work activity, although it is not clear whether there is any compensating benefit in improved job search.[8] One method for limiting the extent of the part-time work disincentive without significantly discouraging job search would be to reduce the duration of UI benefits and to use the savings to intensify counseling and placement efforts of the Employment Service.[9]

3. UI should eliminate dependents' allowances after enactment of ABLE. Such allowances exist in 10 States and cover about one-third of total UI recipients. There are two basic reasons to end these allowances: First, large family size relates more to long-term needs than to the severity of adjustments when actual earnings fall below expected earnings (and hence, are a problem for ABLE not UI). Second, work incentive problems are created by high wage-replacement rates. If the percentage of after-tax earnings replaced by UI is about 50 percent for a single worker, adding in dependents' allowances raises the replacement percentage as high as 80 to 90 percent, and significantly discourages some workers from minimizing unemployment. The problem is intensified by extension of family-sized benefits beyond 26 weeks. The jobless worker is unlikely to improve his family's income by taking a job, because UI typically "taxes" away 100 percent of wages by subtraction from the benefit check. ABLE benefits, which rise moderately with family size, cause no such disincentive because ABLE reduces benefits by only 50 percent of earnings. Moreover, large families would receive dependents' benefits under ABLE when the worker was employed, not only when he was unemployed. Thus, under ABLE unemployment could not boost benefits to levels nearly equal to those of employment.

4. UI should increase the after-tax replacement rate for above-average wage earners. Having witnessed dramatic reductions in employment among well-paid workers such as engineers at Boeing, the country understands that unemployment is not limited to medium- and low-wage workers. There is a legitimate purpose in helping all workers avoid sudden major drops in living standards. If UI benefits are to serve adequately as a temporary replacement for paychecks, UI benefits for above-average workers must rise. Currently, the after-tax percentage of earnings replaced averages 60 percent for an unemployed husband who is earning the median wage in his State and has a nonworking wife. But the average replacement rate drops to 46 percent for a worker who earned 1.3 times the median wage in his State.[10] Since ABLE would aid low- and moderate-wage

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[8] Joint Economic Committee, "Programing Income Maintenance: The Place of Unemployment Insurance," by Raymond Munts, Paper No. 7, p. 40.

[9] See Charles C. Holt et al., *The Unemployment-Inflation Dilemma: A Manpower Solution* (Washington, D.C.: Urban Institute, 1971); and "Manpower Programs To Reduce Inflation and Unemployment: Micro Lyrics for Macro Music," Urban Institute Working Paper 350–28, Washington, D.C., 1971, in which a strong case is made on other grounds for enlarging placement services provided by State Employment Service agencies.

[10] Martin Feldstein, "Unemployment Compensation."

workers, the need for providing higher wage replacement through UI to low- than to high-wage workers should recede.

ABLE's Adjustment to UI

Another issue is how ABLE should adjust to the presence of UI. UI recipients could be excluded from ABLE (as they now are from AFDC–UF); or, in what amounts to nearly the same thing, each dollar of UI benefits could reduce ABLE benefits by a dollar. Another option would be to ignore UI benefits altogether for purposes of computing ABLE benefits. But a compromise somewhere between these extremes seems most appropriate.

One reason for "taxing" UI payments by reducing ABLE benefits is simply that ABLE should adopt a comprehensive income definition. But there are additional reasons. Suppose ABLE checks were unaffected by UI payments. First, a potential savings in ABLE costs would be lost by ignoring families' income from UI. Second, the net income of many low-wage workers as jobless recipients of UI and ABLE would be higher than, or nearly as high as, their net income from full-time work. This would offer a strong inducement for many workers to delay returning to employment. Many workers would find that short-term unemployment covered by UI could actually increase their income. This would be inefficient, and it would be unfair to steady workers who did not take advantage of the perverse financial incentive. Third, the UI claimant who obtained part-time employment and remained on UI would actually lose income. Each dollar of part-time earnings would reduce UI benefits a full dollar in most States and would reduce ABLE payments by 50 cents. Thus, earning a dollar in part-time employment would cost the dual recipient $1.50 in lost benefits.

The opposite of the above policy of ignoring UI benefits would be to have ABLE take back every penny of them by subtraction from the ABLE grant, as AFDC now does. But this would rob UI coverage of any value for large numbers of low-wage workers. Such an outcome would violate the concept that experienced low-wage workers suffering short-run and involuntary cuts in earnings deserve more aid than those who have little or no earnings for other reasons.

A 100-percent benefit-loss rate on UI payments is particularly undesirable because of the current method of financing UI. UI taxes are levied directly on employers based on each employee's first $4,200 of earnings. To the extent that the UI tax is borne indirectly by the employee through lower wages, low-wage employees bear a higher percentage of UI costs than do high-wage employees. It would be extremely unfair for low-wage workers to pay the bulk of UI taxes through lower wage rates while receiving none of the benefits because of the interaction between UI and ABLE.[11]

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[11] However, there would be one advantage to having ABLE apply a high benefit-loss rate to UI benefits: improved incentives to work part-time. Currently, a UI recipient in most States finds that each dollar of part-time earnings reduces his UI benefits by a full dollar. But if the ABLE program reduces its benefits by 90–100 percent of UI benefits, the decline in UI benefits resulting from higher earnings would be nearly offset by an increase in ABLE payments. The mechanism would work as follows: a $1 increase in earnings would cause

Since it is undesirable to apply very low or very high benefit-loss rates to UI payments, the Subcommittee recommends an intermediate rate of 67 percent as a compromise. The net result would be to retain a total (post-UI, post-ABLE) benefit-loss rate on part-time earnings of 83 percent. Such a compromise mitigates but does not eliminate the problems mentioned above. A jobless low-wage family head who receives ABLE benefits might continue to find his total income from UI and ABLE not far below his total income from full-time work.[12] Nevertheless, the compromise does appear to be the best solution, given the current UI system.

In summary, recommendations for coordination of UI and ABLE are:

- **UI eligibility requirements should be tightened, and UI should cover only workers with a reasonable amount of work experience;**
- **UI benefits should be limited to no more than 26 weeks, perhaps somewhat less, and ABLE should fill income needs of the long-term unemployed;**
- **UI dependents' allowances should be eliminated;**
- **UI benefits as a percentage of former *net* wages should be raised for high-income workers, but should be limited to no more than 50 to 60 percent for all workers; and**
- **ABLE should impose a 67-percent benefit-loss rate on UI benefits.**

Housing Programs

Federal housing programs that subsidize shelter costs of the needy would overlap with ABLE. Since both types of aid increase the purchasing power of low-income families, it is necessary to examine the programs together to determine their joint impact. Housing subsidy programs have purposes other than raising the real incomes of poor families, such as increasing the supply of low-rent housing, improving the functioning of the mortgage market, and reducing racial discrimination in housing. This section focuses, however, on how housing programs operate to provide real income to many low-income families.

The major Federal programs that directly subsidize the purchase of housing services, primarily on the basis of income, are low-rent public housing, public housing under a homeownership program, rent supplements, the new program which replaces the section 23 leasing program, section 235 homeownership program, and section 236 rental and cooperative housing program. Only these housing programs are considered here.

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a $1 decrease in UI benefits, which in turn would cause a 90-cent to $1 increase in ABLE payments because of the reduced UI income and a 50-cent decrease in ABLE payments because of the increased earned income. The net result would be a 40- to 50-cent gain to the ABLE–UI recipient who earned an added dollar from part-time work.

[12] On the other hand, low-wage workers could end up bearing a higher than average proportion of the costs and receiving a lower than average proportion of the benefits of UI.

The essential question in coordinating benefit programs is: How does each benefit program treat income derived from the other? Consider first how housing programs should take account of ABLE benefits. Virtually all current housing subsidy programs use income as a criterion for determining benefits, although their methods vary.[13] In the rent supplement program the tenant must pay at least 25 percent of his adjusted income as rent, and in the new program which replaces the section 23 leasing program, the tenant pays a maximum of 25 percent of his adjusted income as rent, and the government pays the rest (up to fair market value). Tenants in section 236 subsidized units may pay a rent that is constant over a broad range of income, but they are subject to an income test for admission to the program. Rental payments in the public housing program are set by local housing authorities. And, low-rent public housing tenants are subject to the Federal provision that rental charges cannot exceed 25 percent of the tenant's adjusted family income.

Housing Programs' Treatment of ABLE Income

Since Federal laws direct that "income" be considered in determining housing benefits, the policy question is whether ABLE benefits and income tax credits should be included in the income counted by housing programs. Counting income supplements would seem appropriate since payments are clearly part of any comprehensive income definition and will be important sources of income for recipients of housing subsidies. Moreover, similar benefits now are included in the income definition of housing programs. Work incentive and equity considerations clearly favor the inclusion of ABLE and tax credits in the definition of income. If housing authorities were to set rents at 25 percent of income but not to count ABLE benefits, public housing tenants who received ABLE payments would lose 75 cents in combined ABLE-housing benefits for each added dollar of earned income. Alternatively, counting ABLE as income for purposes of determining public housing rents results in lowering the combined benefit losses to 62.5 cents for each added dollar earned.[14]

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[13] See U.S. Congress, Joint Economic Committee, Subcommitte on Fiscal Policy, *Handbook of Public Income Transfer Programs*, compiled by Irene Cox, Paper No. 2 (Washington, D.C.: Government Printing Office, 1972), pp. 223–252, for the details on how different housing programs have taken income into account in determining rent or mortgage payments, which in turn determine total benefits.

[14] A dollar of added earnings reduces ABLE payments by 50 cents. If housing programs did not take account of changes in ABLE payments but did adjust rents in response to earnings changes, then the added dollar of earnings would raise rents by 25 cents while the decline in ABLE payments would have no effect on rents. As a result, the recipient would lose 50 cents in ABLE payments and pay an added 25 cents in rent with each added dollar earned. On the other hand, total benefit reductions would be 62½ cents instead of 75 cents if housing programs included ABLE in their definition of income. The 50 cent decline in ABLE payments as well as the $1 increase in earnings would affect the total income figure used to determine rents. The net increase of 50 cents in income would cause a 12½ cent rise in rent charges (25 percent of 50 cents) for a total reduction in benefits of 62½ cents.

ABLE's Treatment of Housing Income

The question of how ABLE treats housing income is more complex. Currently, AFDC and SSI ignore housing benefits in calculating payments, but there are good reasons to change this policy. Housing subsidies reach only a small percentage of the families eligible on an income basis. This means that some low-income families receive a sizable housing subsidy while most poor families receive none.[15] If ABLE were to ignore income from housing subsidies in computing its benefits, the result would be to perpetuate the sharp disparity in combined aid available for families with equal private incomes. A further problem is that of work incentives. If ABLE benefits were not bigger for those with smaller housing subsidies, the financial reward for the work of dual recipients would be only 37.5 percent of added wages.

Including housing subsidies as income and applying a high ABLE offset rate to housing subsidy income[16] would improve work incentives considerably. Reducing ABLE benefits by a high percentage of the value of housing subsidies also would lessen the pressure to expand housing benefits as a way to help the poor. But, by increasing the supply of housing, government programs to encourage construction and renovation of low-rent units still could make an important contribution to the welfare of poor families.

For all these reasons, the Subcommittee recommends that ABLE count housing subsidies as income and reduce ABLE grants by 80 percent of the subsidy. The combined loss in housing and ABLE benefits would total only 52.5 percent of added earnings, as compared to a 62.5 percent rate if the ABLE program ignored housing subsidy income, and 75 percent if both ignored each other, assuming a housing benefit formula that raised rent by 25 cents for each extra earned dollar.

To see how this policy would reduce inequities among people with equal incomes, assume that the annual value of a housing subsidy to a family with $4,000 in income were $800. If ABLE ignored housing subsidy income, the dual recipient would gain $800 more in subsidies than an otherwise similar family of equal income that was unable to obtain a housing subsidy. Applying an 80-percent benefit-loss rate to housing subsidies would reduce the benefit differential to $160, since $640 (80 percent of the $800 housing subsidy) would reduce cash benefits from ABLE. This policy would allow dual recipients to retain some advantage over ABLE recipients who lack a housing subsidy, but the advantage would be narrowed considerably.

Local housing authorities would be required to specify a market rent for every housing unit. Too high an appraisal would be unfair

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[15] HUD estimates that only 3 percent of income-eligible beneficiaries receive housing subsidies from any of the major subsidy programs. Of eligible beneficiaries with incomes below $3,000, only 6.5 percent receive housing subsidies. See House Report, "Housing in the Seventies."

[16] The income value assigned to the housing subsidies would depend on the housing program. For families in rental programs, the value would equal the difference between the market rent and actual rent paid by the family. In homeownership programs, the benefit would be the dollar value of the monthly interest rate subsidy.

to the housing subsidy recipient. Of course, if the estimated market rent exceeded the actual market rent significantly, the dual recipient might lose from retaining the housing subsidy and so might decide to move. Thus, vacancies that could result from too high an estimate would act to restrain estimates by local housing authorities. At the same time, the housing authorities would avoid making too low an estimate of market rent in order to maintain their rental income.

A potential problem with this policy of having ABLE and housing programs each define the other's benefit as income is administrative. Each program would have to keep track of benefits from the other. A change in one benefit would affect the other in a chain reaction. To deal with this problem and to improve on the existing situation, which requires many local housing authorities to verify incomes of tenants, the Federal ABLE administration could compute federally determined maximum rents under the Brooke formula for each recipient of both cash income supplements and housing subsidies. The Federal agency would have all the necessary income and family information necessary to make such computations. Providing local administrators with such information would reduce their administrative workload.

In summary, we recommend that:

(1) ABLE benefits and tax credits be counted as income by housing subsidy programs;

(2) ABLE benefits be reduced by 80 percent of housing subsidy "income"; and

(3) The Federal ABLE administration compute federally determined maximum rents for each recipient of both cash income supplements and housing subsidies as an administrative aid for housing officials.

Child Care Subsidies

Demands for child care facilities and child care subsidies have risen in recent years because increased numbers of mothers have entered the labor force and because Federal law now requires some welfare mothers to seek work. Since large child care expenses can significantly discourage mothers from work, AFDC program rules require States to reimburse working mothers for these and other work expenses.[17] In addition, Federal, State and local governments have sponsored child care centers that are free to poor mothers, particularly working welfare mothers.

In discussing work expenses earlier (see chapter IX), we argued that it was preferable to provide a general earned-income deduction than itemized deductions for specific work expenses. The earned-

[17] A Senate-passed amendment to H.R. 3153 that attempts to prevent recipients from gaining dollar for dollar credits on work expenses would allow recipients to deduct child care expenses but no other work expenses.

Although Federal regulations require States to reimburse AFDC mothers for child care and other work-related expenses, a subcommittee staff study found that 42 percent of AFDC families lived in States that, in July 1972, failed to do so. See Joint Economic Committee, Paper No. 15, p. 21.

income deduction preserves the work incentive features of child care deductions, yet also encourages mothers to economize on child care expenses. In this section we consider how child care subsidy benefits should be treated under the ABLE program.

Day care may be supplied to families by providing a large number of child care facilities and charging users a fee that rises with income. This method was voted by Congress but vetoed by President Nixon in 1971. Another method is to consider day care for children under 5 a downward extension of the public school system and to furnish it to all children independently of income. Although both methods may seem similar to the poorest families, they would have different impacts on a general cash income supplement program like ABLE.

Day care subsidies that decline as income climbs present the same issue for ABLE as housing subsidies that drop as income rises. If ABLE and child care programs each were to cut benefits as income rises, but take no account of each other's reduction, the result would be high additive benefit-loss rates that would discourage work. Also, the programs would tend to intensify benefit inequities among families of similar size and income, because child care subsidies are not available to all low-income families with children.

To deal with the problems resulting from having income-related day care subsidies available to ABLE families, the Federal Government could use the solution earlier suggested for housing subsidies. Unfortunately, such an approach could be administratively costly. ABLE administrators would have to know the fee schedules in a large number of day care facilities; or each day care facility would have to notify all customers of what they paid and what amount should be reported as income to ABLE administrators.

We recommend an alternative method that achieves largely the same results at far less administrative cost. This method is to disallow the use of Federal funds for day care facilities that use fee schedules based on income. The overwhelming majority of organized day care facilities receive, and will no doubt continue to require, Federal support. State and local governments that set up day care facilities for low-income people generally make use of Federal money allocated to social services.

Of course, some day care facilities will operate without Federal funds and some of them might decide to charge fees based on income, but there are unlikely to be enough of them to cause a significant problem for ABLE.

Thus, enactment of the ABLE program should be accompanied by laws that prevent the use of Federal money to support any day care facility charging fees based on income. Instead, day care facilities should be urged to charge modest, fixed fees to all users. The proposed earned-income deduction (chapter IX) will partially reimburse parents with low and moderate incomes for whom even a modest fee might be a barrier.

A study prepared for the subcommittee found child care subsidies, even more than other in-kind help, an undesirable and inappropriate

way to help poor families.[18] Since day care facilities using Federal aid theoretically must meet stringent standards specified by Congress and based on Federal regulations, subsidy costs per child are high. Government expenditures per child far exceed what most working mothers are able or willing to pay. In some cases, the day care subsidy could be nearly as high as all other government subsidies combined to a low-income family. Most low-income families probably would prefer the dollar value of the day care subsidy in cash rather than in the form of enrollment in an expensive day care center. Of course, there might be reason to override the family's preference if it could be demonstrated that this would bring significant long-run benefit to the child. And if the benefits outweighed the costs per child, it would be wise to provide such care to all children who otherwise would lack access to it. But best current information indicates that expensive day care is an inefficient way to help poor children.

Coordination With Health Programs

In coordinating health subsidies with a system of income supplements, there are three major issues. First, eligibility rules of health care programs, by excluding certain groups, may introduce inequities that the ABLE program has been designed to eliminate. Second, the way in which health care benefits are financed, or the way in which coverage is restricted, can seriously reduce the work incentives of ABLE recipients. And third, inadequate health care coverage can exert pressures for higher ABLE payment levels.

Medicaid and Other Current Programs

Many Federal health care programs are of little concern in designing an income supplement, because they provide for very specific medical needs that either affect relatively few people (such as disabled veterans who use VA hospitals) or are of short duration (such as prenatal care in federally funded clinics for the poor). The distribution of health care resources among such programs is more a problem of efficient use of health care dollars than of income maintenance.

But two health care programs do affect the incomes of a great many people—the medicare program run by social security for the aged and disabled, and the Federal-State medicaid program for certain categories of the poor. Since access to medicare depends primarily on age or disability—not on income—and since the aged and disabled are largely excluded from ABLE, this section will focus on the relationship of medicaid to income supplementation.[19]

Coordinating the new ABLE system with medicaid is much more difficult than some of the other integration problems previously discussed. Subsidized housing and food stamps can be handled much more neatly than medicaid, for straightforward reasons. Food stamps can be replaced by cash with few problems. Public housing and other

[18] Joint Economic Committee, "Day Care: Needs, Costs, Benefits, Alternatives," by Vivian Lewis, Paper No. 7, p. 102.

[19] For an analysis of problems in medicaid, see chapter II.

housing subsidy programs are not sufficiently widespread to require cashing out. But medicaid is a valuable benefit to a large number of people, and society's needs for health care seem almost unlimited. In short, one cannot simply abolish medicaid or cash it out; nor can the problem of high combined benefit-loss rates be solved by imputing an income value to medicaid benefits and counting them as income under the cash plan. Congress could proceed with welfare reform and leave medicaid as is for a while. But it clearly would be preferable to start the ABLE plan under more rational circumstances.

National Health Insurance

Any attempt to improve medicaid requires that publicly subsidized health care be expanded to cover more of the population. Groups not now covered, such as needy couples with no children and most needy two-parent families with children, must be treated more fairly, and benefits must be related more sensibly to income.

This report does not endorse a specific health insurance plan; but **we urge Congress to enact national health insurance as a step toward rationalization of the many cash and noncash welfare programs.** The features of a health insurance program that are desirable from the point of view of ABLE are described below.

Health insurance affects income maintenance reform in two basic ways. First, the more a health insurance plan meets basic health care needs of all poor persons, the less pressure there will be on a cash program to meet those needs. Second, health insurance benefits for the poor give rise to an incentive problem in terms of benefit-loss rates. It is this factor—how a health plan "taxes" income—that is of most concern in reform.

If a generous package of medical benefits is determined to be the plan of choice, and if coverage is extended to all groups of people, the plan will be expensive, even net of current private and public expenditures. Costs can be reduced by imposing premiums, deductibles, and co-payments. If these features are related to income so that the poor pay less, the result would add to benefit-loss rates.

A simple example shows how benefit-loss rates can escalate. Consider the equivalent of a $700 health insurance package that is provided free to low-income persons, say below $4,000 for a family of four, with the requirement that they contribute to the cost of their insurance as their income situation improves. This requirement would set up a benefit-loss rate for the medical plan similar to the current food stamp benefit-loss rate. If ABLE reduced cash benefits at a rate of 50 percent of income, and the medical plan imposed a 20-percent rate above $4,000, the family would face a combined 60-percent benefit-loss rate above the $4,000 level.[20] If the medical benefit-loss rate were reduced to 10 percent, it would yield a combined benefit-loss rate of 55 percent. However, lowering the medical benefit-loss rate would make the medical plan more expensive, by extending health subsidies to persons with higher incomes.

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[20] For each dollar earned above $4,000, ABLE would reduce cash benefits by 50 cents. Thus, the medical plan would impose its 20-percent benefit-loss rate on only the net cash gain of 50 cents (and so would reduce medical benefits by 10 cents). The combined benefit loss would be 60 cents per dollar earned.

We recommend that whatever financing means is adopted, a health plan should not reduce benefits by more than 10 cents per dollar of earnings for the preponderance of lower-income workers. A higher benefit-loss rate would not only make future welfare reform more difficult; it also would affect the present work incentives of AFDC recipients, food stamp recipients and taxpayers.

Integration With Other Programs and Benefits

Several other public programs give benefits to likely recipents of ABLE supplements, so it is necessary to specify how they will relate to the proposed new income supplements.

How Benefits Are Counted as Income

Since ABLE is based on financial need, it should take into account the income people receive from other public programs. Some of these other programs pay benefits that are principally or partially work-related fringe benefits based on past earnings. Since such income from private sources would be offset against a family's allowances at a 67-percent rate, the same treatment is proposed for the public benefits. **Thus, we recommend that benefits from the following programs reduce ABLE benefits by 67 cents for each benefit dollar:**

(1) Social security retirement, disability and survivors' benefits;

(2) Railroad retirement, disability, survivors', sickness and unemployment benefits;

(3) Workmen's compensation, including compensation for Federal employees;

(4) Public employees' retirement, disability, survivors' and unemployment benefits, whether Federal, State, or local;

(5) Compensation to veterans and their survivors for service-connected disability and death;

(6) Veterans' education (GI bill) benefits; and

(7) Special benefits to disabled coal miners and their survivors.

Another Federal program, non-service-connected pensions to veterans (and to their dependents and survivors), serves a purpose similar to ABLE. That is, it serves to keep income from falling below some minimum level. In contrast to veterans' compensation, which is based on service-incurred disability, veterans' pensions are based on income need of veterans who have become disabled or aged after leaving military service. **Since the goal of the veterans' pension program is income support, its benefits will be offset fully against allowances under the proposed system. That is, ABLE benefits will be reduced by $1 for each dollar of veterans' pensions.**

Previous sections have described how current State and locally administered welfare programs would either be eliminated or reduced to a supplementary role under the new system. Two Federal welfare programs would be treated the same way, since their

benefits are keyed to the State welfare benefit levels. These two programs are:

(1) Assistance to Cuban refugees (Federal funds now reimburse States for welfare payments to refugees); and

(2) The Bureau of Indian Affairs (BIA) program of cash aid to needy Indians on reservations.

It is proposed that BIA supplement "old law" recipients to prevent their being worse off under the new system. In addition, BIA would be authorized to supplement the new ABLE benefits for Indians in any State where non-Indians are being supplemented by the State. The BIA also could continue offering emergency aid.

The new Federal BOGS program (basic opportunity grants to students), aids college students based on financial need. Since ABLE would cover the student-age population, some students could qualify under both BOGS and the cash program. **To avoid duplicate aid, it is proposed that ABLE benefits to students be deducted dollar for dollar from any entitlement they may have under BOGS. In other words, BOGS would be offset by ABLE benefits at a 100-percent rate.** This is consistent with current BOGS policy regarding Federal benefits to students from social security and the Veterans' Administration.

Proposed Changes in Veterans' Pensions

Two Federal programs now aid the needy aged and disabled: the supplemental security income (SSI) program run by the Social Security Administration, and the pension program run by the Veterans' Administration. The veterans' pension program is conditioned on the financial need of aged veterans, veterans who became disabled subsequent to military service, and their dependents and survivors. Despite valid historical reasons for this parallel program structure, there is no reason why both SSI and the VA program should continue separately. Eventually, the two programs should be merged. Such a merger would be best done in the context of changes in social security. **However, several changes could be made in the VA pension program immediately that would both improve the present program and make its rules more consistent with SSI's. These proposed changes are:** [21]

(1) Count more of a spouse's income in determining the pension amount. Presently, a working spouse's earnings generally are not counted in measuring the veteran's need. As a consequence, some veterans are presumed to be needy and are given benefits no matter how much their wives may earn.

(2) Promptly revise VA pension amounts upward or downward as the pensioner's income falls or rises through the year. Since this is a program for the needy, benefits should be changed as need changes. Such changes, especially benefit reductions, now are usually made at year's end, distressing recipients who have become accustomed to a higher total income over the preceding months.

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[21] For a fuller description of the problems these changes are designed to correct, see chapter III.

(3) Eliminate the income brackets now used to compute pension amounts and compute them strictly on a formula basis. This would eliminate the present income notch upon leaving the last benefit bracket, a notch that can amount to several hundred dollars a year. Thus, instead of having a few dollars more in income result in large pension losses, pension benefits would decline smoothly to zero.

Programs for the Aged, Blind, and Disabled; Future Directions

Social Security

A complex set of programs serve the aged, blind, and disabled, including social security; supplemental security income and State supplementary programs; veterans' pensions (largely though not exclusively limited to the above groups); railroad retirement and disability; Federal civil service, foreign service, and military retirement and disability; black lung benefits for disabled coal miners; and food, health, and housing programs for the aged. Fiscal year 1975 Federal benefit outlays to annuitants, other aged, and the disabled are expected to total $97 billion.

There is great concern over the future of these programs, their fairness, and, most especially, their cost and financing. Social security, the cornerstone program, is in deepening trouble, such that, in our judgment, the entire benefit and financing structure urgently requires careful review and prompt action. This is an exceedingly technical matter and the specific problems are best analyzed by an independent organization such as the Social Security Advisory Council. We hope that this council, recognizing the growing necessity to channel public funds efficiently, will reach beyond traditional notions of what can and should be achieved by social security to make a comprehensive study of its role in conjunction with other public and private programs for the aged. Because the structure and financing of social security are under active review by the Council, we advance few specific recommendations for that program or the major need-related programs for the aged, blind, and disabled. **All these programs should be reoriented as part of one package, so that they operate smoothly together with less overlap among functions. Specifically, we believe that social security must be reoriented to perform a stricter wage-replacement function.**

In our judgment the social security program has been stretched too far in order to serve traditional welfare functions. Through social security we have been trying to do contradictory things. We want benefits to be "adequate" for the poor, and yet we want to relate benefits to past earnings so that higher income workers do not suffer large declines in their standard of living. But there is no way to provide adequate earnings-related benefits to people with a history of inadequate earnings. So, we have increasingly warped the benefit schedule in favor of those with lower covered earnings.

Unfortunately, expanding social security is one of the most expensive, inefficient and inequitable ways to help those in need. It is overly expensive because the benefits of "welfare elements" go to high- as well as to low-income persons. It is inequitable because the taxes financing these benefits come from a payroll tax

that requires relatively more from the poor worker than the rich one. It is also inequitable because, forced to serve welfare purposes, funds are siphoned away from wage-replacement for steady workers. It is inefficient because truly low-income persons can receive SSI.

To date, social security benefits have far exceeded the payroll taxes paid by most beneficiaries and their employers, plus accumulated interest. The cost of benefits for each generation of beneficiaries—yesterday's workers, their families, and survivors—is paid by today's workers and their employers. Because the work force and economy have expanded rapidly, payroll tax collections have risen fast enough to permit retired persons to share fully in the Nation's economic growth and productivity gains. It has been easy to use social security to help many people who are assumed to be needy without explicitly cutting back on benefits to retired and disabled workers with steady, high-wage work histories. However, this happy situation is not likely to endure. No longer is the work force expanding faster than the population of ex-workers and their dependents and survivors. It is estimated that in the coming fiscal year 100 million workers will be paying $64 billion in payroll taxes to support 30 million social security beneficiaries. That is only slightly more than three workers supporting each beneficiary. Because of the changing age distribution of the population projected for the beginning of the next century, however, this already low ratio of payors to payees will worsen. Based on current trends, by the year 2125, it is expected to shrink to 2.2 workers per social security beneficiary. Not only will there be more retirees for each worker to support, but those retirees will have to be supported longer, since many workers now retire before age 65, and life expectancy is rising. It is clear that we cannot go on lowering the age of paid retirement, yet there were on the calendar of the House Ways and Means Committee in April 1974 a total of 26 bills to either lower the social security retirement age or reduce the financial penalty for early retirement. Further liberalization of the system eventually will become impossible to finance with a tolerable payroll tax rate and taxable wage base. It will be difficult even to keep pace with the law's present promise of cost-of-living increases without resorting to general revenue taxation, to further increases in the wage base on which social security taxes must be paid, or to a higher payroll tax rate. Resorting to general revenue financing would shift the burden somewhat but would *not* reduce the heavy cost to taxpayers. (Moreover, Federal, State and local general revenues also will be strained in future years to fulfill the liberal pension pledges made to public employees.)

The aging of the population will force a re-evaluation of the proper roles of social security and other public pension programs, on the one hand, and cash aid based on income, on the other. The goal of adequate income for the aged need not be discarded, but the stress must be on greater efficiency in the use of tax dollars. Pressure to help the needy must be removed from social security. Equally important, candor is required and overdue about social security as well as other public retirement programs and about private pensions. Current social security beneficiaries have not been discouraged from the belief that every penny of their checks has been "earned" because of their taxes. No effort is made to ap-

prise workers automatically (say, every year) of their accumulated retirement benefits to date and future projections. These comments apply with equal force to other public retirement programs.

The Role of Need-Based Programs

We have argued that public retirement programs be reoriented to perform stricter wage-replacement roles. At the same time, SSI should continue to provide an income floor for the aged, disabled, and blind, and ABLE should be enacted to assure a minimum income for all other persons.

We have recommended three improvements in SSI to coordinate it with the ABLE plan. But SSI must be strengthened and enlarged if it is to substitute for the welfare elements of social security and other public retirement and disability programs. **Supplemental security income benefits, now set at $146 for individuals and $219 for couples, should be raised, initially by more than cost-of-living increases, and eventually by price changes alone.** Raising this cash amount will help needy recipients more than other piecemeal ventures for the aged such as transportation stamps, housing allowances, and extra food stamps.

Because programs for the aged, blind, and disabled do not constitute a coordinated system, small changes in one program can have unfortunate and unintended consequences. If social security benefits are increased, some people lose valuable medicaid coverage; others are removed from the veterans' pension program; many receive no gain because it is offset by welfare benefit reductions; others must pay more for their food stamps or for their public housing and do not understand why. Efforts should be made to help people understand why income-tested benefits must change when income rises.

Although the problems are complicated by recipient misunderstanding, they are basically structural. Perhaps the most critical is that recipients of SSI or State supplements to SSI see no gain from social security increases unless corresponding increases are granted in either or both the need-based programs. For SSI, this problem should be solved by coordinating social security and SSI increases, as provided for in Public Law 93-368.

The second serious problem is that the value of social security benefits and coverage declines as welfare benefits are raised. More and more social security annuitants will find that their total monthly income is only $20 above what it would have been if they had never paid social security taxes. Moreover, all social security beneficiaries without other private income who qualify for SSI will have identical total incomes, regardless of the amount of the taxes they paid to social security or the size of the benefit checks they receive from social security. This is because, except for $20 monthly, all social security income offsets SSI benefits on a dollar-for-dollar basis. Since a substantial share of social security beneficiaries now receive amounts greater than employer-employee contributions plus interest, there is some logic to a 100 percent benefit-loss rate. **But if social security is reoriented so that benefits more truly are earned, the SSI benefit-loss rate applied to social security income should be reduced at least to 67 percent.** This would permit a desirable differentiation among retirees based on their former status as social security contributors.

Appendix A. Description of Programs

This part provides brief descriptions of the various programs discussed in the body of the report. For detailed descriptions of both the laws and program operations of many programs mentioned below, see *Handbook of Public Income Transfer Programs*, Paper No. 2, prepared for the Subcommittee on Fiscal Policy, Joint Economic Committee, October 16, 1972, and available from the U.S. Government Printing Office.[1] See also *Social Security Programs in the United States*, prepared in 1973 by the Social Security Administration and available from the Department of Health, Education, and Welfare or the U.S. Government Printing Office.

Programs are grouped here as they were in table 3 of chapter I, benefits primarily for the needy, social insurance, and deferred compensation.

Benefits Primarily for the Needy

Cash

Aid to families with dependent children (*AFDC*).—Federally aided cash assistance is provided at State option to needy families with dependent children whose father is absent, incapacitated, or in 24 States, unemployed. Benefit amounts, set by States, vary by family size, and are decreased as the family's other income rises. The program is administered and partially funded by State and/or local governments. The percentage of AFDC costs paid by the Federal Government ranges from 50 percent of total costs in New York to 80.55 percent in Mississippi. All 50 States, the District of Columbia, Guam, Puerto Rico, and the Virgin Islands offer AFDC benefits to families without an able-bodied father.

Supplemental security income (*SSI*).—Cash assistance is provided by the Federal Government to needy aged, blind, and disabled persons. Benefit amounts vary by the number of eligible persons in the family, and are decreased as the family's other income rises. The program, which began in 1974, is administered and funded by the Federal Government. It provides a uniform national income floor that is supplemented by two-thirds of the States. SSI replaces Federal-State programs of aid to the blind, aid to the aged, and aid to the permanently and totally disabled.

Emergency assistance (*EA*).—Federally aided emergency aid is extended at State option to needy families with children under federally approved State plans. The Federal Government pays 50 percent of the cost. Benefits may be in the form of cash, voucher payments, or goods and services, but are limited to 30 days' duration in a 12-month period. Twenty-two States reported expenditures under this program in February 1974.

[1] Scheduled for revised publication, fall 1974.

Assistance to Cuban refugees.—Fully Federal cash assistance is extended to needy Cuban refugees by State and local governments. This program also finances health care facilities for refugees in Dade County, Florida, resettlement costs in other parts of the Nation, and special aid to school districts burdened by large refugee populations.

General assistance to Indians.—The Bureau of Indian Affairs (BIA) offers cash assistance to needy Indians who reside on reservations or in areas under BIA jurisdiction, when such aid is not available from State or local public agencies. All costs are paid by the Federal Government. Benefit amounts are the same as those in State public assistance programs, except that no income is disregarded in computing benefits.

Veterans' pensions.—The Veterans' Administration pays benefits to disabled veterans in need and to their dependents and to needy survivors of deceased veterans. For pensions, the disability or death need not be service-connected (other benefits, known as compensation, are available without regard to income for veterans disabled by their military service).

General assistance (GA).—Welfare payments are made in cash or in kind by States and localities to low-income persons ineligible for federally subsidized aid—two-parent families with an employed father, the nonaged poor without children. General assistance programs are authorized, administered, and financed solely by State and local governments. Rules of eligibility and benefit levels vary widely from place to place, and some localities offer virtually no general assistance.

Food

Food stamps.—The Department of Agriculture, through local welfare agencies, provides food coupons for needy families and individuals. Eligible persons without countable income receive free stamps; others buy them for a price that rises with counted income. For households of the same size, coupon allotments and prices are uniform across the Nation. The coupons are redeemed at face value by grocery stores for food items purchased by recipients. State and local governments share administrative costs with the Federal Government, but cost of the bonus stamps is paid by the Federal Government. All counties now are required to offer food stamps, but until the latter part of 1974 they could, instead, provide the poor with surplus commodities donated by the Agriculture Department.

Food distribution.—Prior to mandatory extension of the food stamp program to all counties, the Department of Agriculture, through local welfare agencies, provided surplus commodities for needy families and individuals in counties that did not participate in the food stamp program. Income limits for eligibility were set by States and varied with family size. All eligible persons received the same package of commodities, varied by family size. State and local governments paid most of the administrative costs.

School lunch, breakfast, and special milk programs.—The Department of Agriculture makes cash and commodity grants to schools for subsidized lunches. Grants are made through State educational agencies in some States and directly to schools in the others. Participating

schools must agree to provide free or reduced-price lunches for students from needy families, based on income standards set by the Department of Agriculture.

Supplemental feeding.—Foods are donated by the Federal Government for pregnant and lactating women (and infants up to 13 months old) who receive free or substantially free medical care.

Special supplemental feeding for women, infants, and children (WIC).—A specific package of foods, financed by Federal cash grants to State departments of health, is made available to pregnant and lactating women and children up to 4 years of age who receive free or subsidized health care.

Meals for the elderly.—Where available, this Federal program offers five hot meals per week for those over 60 years old (and their spouses) who are unable to afford proper meals or without ability or desire to prepare them. Regulations prohibit any test of need.

Health

Medicaid.—State and local governments make vendor payments for medical care on behalf of needy families, the aged, blind, and disabled. The Federal Government pays from 50 to 80.55 percent of the cost. Most beneficiaries are recipients of Federal cash assistance (AFDC or SSI), but in some States additional persons defined to be medically indigent are also eligible. (For administration and financing, see "aid to families with dependent children.")

Veterans' hospital, domiciliary, and medical care (non-service-connected disability).—The Veterans' Administration, through direct operation of a national hospital system and through grants to various types of State facilities, provides free hospitalization and other types of institutional and medical services to veterans. Veterans whose illness is unrelated to military service may receive care from VA if they are VA pensioners or if they declare themselves financially unable to pay for health care.

Comprehensive health services.—157 comprehensive health centers operated as of autumn 1974 in areas with high concentrations of poor people and marked inadequacy of health services for them. These centers, founded by local health groups and institutions, coordinate the delivery of health care to the target populations. There are federally set income eligibility ceilings which vary by family size, but some of the former OEO centers extend eligibility to higher levels, charging fees as income rises.

Dental health of children.—Dental care is provided to children in low-income areas who otherwise would lack such care. Projects are operated by local health departments with Federal grants.

Other child and maternal health care.—Programs include: health care of children and youth (comprehensive health care for children in low-income areas who otherwise would lack care); intensive infant care projects (first-year health care to very high risk infants who otherwise would lack care); maternity and infant care projects (prenatal and postnatal care, including dental services, for mothers who otherwise would lack care); crippled children's services (diagnostic and medical care for crippled children). Projects are financed by partial Federal grants.

Housing

Low-rent public housing.—Housing units are made available to needy families and individuals at below-market rents by local housing authorities. Public housing rents are related to household income and family size.

Local housing authorities receive funds from the Department of Housing and Urban Development to help them meet debt service and maintain rent levels. Every family in regular public housing must pay a rent not less than either (*a*) 5 percent of its gross income or (*b*) that portion of its welfare payment (if any) specifically designated for housing, whichever of the two is higher.

There are also homeownership programs for public housing tenants, including programs that permit tenants, by performing maintenance labor, to build up "sweat equity" in the unit.

Sec. 235 homeownership assistance.—Low- and moderate-income families receive insured mortgages, on which monthly interest subsidies are paid to the mortgage lender. Initial income eligibility limits are related to (though higher than) those set by local housing authorities, and family payment requirements are fixed in the law and are related to income. Income limits are set at 80 percent of the median income for the housing market area.

Sec. 101 rent supplements.—The Department of Housing and Urban Development makes payments to the owners of approved multifamily rental housing projects in order to permit their charging below-market rents to needy families and individuals. Rents charged must be at least 25 percent of income after certain deductions.

Sec. 236 rental housing assistance.—Federal interest reduction payments are made to reduce the debt service requirements of a market-rate mortgage. Mortgages may be insured by the FHA or projects may be financed through a State or local program of loans, loan insurance, or tax abatement. Benefits are passed on to tenants in the form of lowered rents. Income eligibility limits are set at 80 percent of median income in each area.

Rural housing loans (sec. 502).—Loans for low- to moderate-income families to buy, build, or improve homes and farm service buildings. Loans are insured and low-income families receive interest subsidy payments. In general, for interest subsidies the adjusted family income limit is $5,000; but exceptions may be allowed to $7,000, and with approval of national office, higher.

Low-income housing repair loans (sec. 504).—Direct loans for essential minor repairs for low-income rural homeowners who cannot obtain insured loans.

Farm labor housing (secs. 514 and 516).—Insured loans and grants for housing farm labor (chiefly migrants).

Rural self-help housing technical assistance (sec. 523).—Grants for nonprofit organizations to hire persons who will train low-income families to build their own homes in rural areas.

Indian housing improvement program.—Grants to needy Indians for housing repair and construction.

Education

Basic educational opportunity grants (BOG).—Basic grants not exceeding one-half the cost of attending an institution of post-second-

ary education are available to needy students. The Federal Government certifies eligibility for grants.

College work-study.—The Office of Education makes grants to institutions to pay wages for students. This program provides part-time, on- and off-campus employment at the student's individual institution. The student receives earnings limited to his need.

Supplemental educational opportunity grants (SEOG).—Grants for students of exceptional financial need, for which the institution determines eligibility.

Direct loans (formerly NDEA student loan program).—Loans are available for students from needy families. The Federal Government provides capital for the loans, and interest reverts to the loan fund. Loans are administered and eligibility determined by the student's institution of post-secondary education.

Guaranteed student loans.—Loans may be obtained from participating lenders for educational expenses. The Federal Government may pay a limited amount of interest on the loans of students while the student is in school. A student's institution of post-secondary education determines eligibility.

Nursing student loan program.—The Federal Government provides low-interest loans for students in need and scholarships for those in "exceptional need," as determined by the individual institution.

Health professions student loan program.—Low-interest loans are available for students in need and scholarships for those in "exceptional need." Students covered are those at schools of medicine, dentistry, osteopathy, optometry, podiatry, pharmacy, or veterinary medicine. Institutions decide students' need, but funds made available to them take into account the proportions of their students from low-income families.

Headstart.—Federal project grants for comprehensive programs of educational, nutritional, medical, dental, psychological, and social services for pre-school children from low-income families. Ninety percent of the enrollees in a program must come from families whose income is below the established poverty guidelines.

Vocational education work study.—Part-time jobs are provided for vocational education students who need earnings to stay in school.

Jobs and Training

Neighborhood youth corps.—Federally funded jobs and training for students from poor families, eliminated as a national program by the Comprehensive Employment and Training Act (CETA), signed into law in late December 1973.

Operation mainstream.—Federally financed jobs for adults with poverty-level income who are chronically unemployed (40 percent must be more than 55 years old). (Eliminated as a national program by CETA.)

Senior community service employment.—Jobs for low-income persons 55 or older with poor job prospects. Jobs are to pay at least the Federal minimum wage ($2.00 per hour) or the prevailing wage for the task, but no more than $3.00 per hour.

Job Corps.—Job training, counseling, health care in 65 residential centers is provided for low-income young men and women aged 16–21.

Work incentive projects.—On-the-job training, classroom training, and work experience for welfare recipients.

Senior companions.—Part-time jobs for low-income persons, 60 or over, to provide supportive services to persons (other than children) with exceptional needs. Federal poverty guidelines for eligibility are used, with allowance for higher income in high-cost areas. Jobs pay the Federal minimum wage. Stipends are tax free and cannot be counted as income by any benefit program.

Career opportunities program.—Jobs for low-income community residents and Vietnam veterans as teacher helpers and other paraprofessionals in schools in areas with highest concentration of low-income families.

Social Services

Services to needy families on welfare (and to former and potential welfare families).—Services include counseling (money and home management, child development, family planning), day care, homemaker services, health care. Services are financed by Federal, 75-percent grants to States.

Services to needy aged, blind, or disabled.—Services include homemaker services, chore services, assistance in getting medical care, and similar aid. Current, former, and potential recipients of SSI (and State welfare) are eligible. Services are financed by 75 percent Federal matching funds.

Legal services for the poor.—Local communities set income rules for providing legal services, limited to civil cases, to indigent clients.

Social Insurance

Cash

Old-age and survivors insurance (OASI).—Social security benefits are paid to insured workers who are 65 years of age and retired, and to their dependents. Reduced benefits are available at age 62. Benefits are also paid to survivors of deceased workers who had social security insured status at the time of death. Benefits are paid from a trust fund, which is financed by an 11.7 percent payroll tax on individual earnings up to $13,200 per year (employer and employee each pay 5.85 percent). This payroll tax finances old age and survivors' insurance, disability insurance, and the hospital insurance programs. Most nongovernment jobs are covered by the social security system. Benefit amounts are based on average covered wages, but amounts are relatively higher for low wages than for high wages.

Disability insurance (DI).—Social security benefits are paid to insured workers who become permanently disabled and unable to continue working and whose disability is expected to last 12 months, and to their dependents. When a disabled beneficiary reaches age 65, he is transferred to the old-age insurance program. Disability benefits are financed by a separate allocation from the social security trust fund.

Unemployment insurance (UI).—Benefits are paid to persons currently unemployed who meet minimum requirements for prior employment in covered jobs. Benefits are related to prior wages; the duration over which benefits can be paid depends on total earnings and time

employed while previously in the work force. Specific benefit amounts and eligibility rules are set by the States, which administer the program through the State employment offices. Benefits are financed by employer taxes on the first $4,200 of each covered employee's annual wages. The taxes are paid into the Federal Unemployment trust fund; the trust fund reimburses the States for benefit payments. Unemployed civil servants and ex-servicemen are covered by Federal law administered by the States, but federally funded. Extended UI benefits are financed half by the Federal Government, half by the States; but emergency extended UI benefits are wholly paid by the Federal Government.

Trade adjustment allowances.—A special program for workers adversely affected by trade concessions, provided by the Trade Expansion Act of 1962, is financed by general revenues and pays federally set benefits.

Black lung benefits for disabled coal miners.—As a part of the Coal Mine Health and Safety Act of 1969, Congress authorized the Social Security Administration to pay benefits to coal miners disabled by pneumoconiosis (black lung disease) and to the survivors of miners whose deaths are attributable to the disease. Benefits are paid out of general revenues and are related to the wage level for a GS-2 Federal civil servant rather than to the miner's wage. For most new claimants since June 1973 the program has operated as a workmen's compensation program administered by the Department of Labor.

Railroad employee benefits.—The Railroad Retirement Board runs programs of retirement, disability, survivors', unemployment and sickness insurance for covered railroad workers and their dependents. Benefits are financed by an employer-employee tax of 21.20 percent on individual wages up to $13,200 per year (employees pay 5.85 percent and employers 15.35 percent). Retirement, disability, and survivors' benefits are paid from the Railroad Retirement trust fund; unemployment and sickness benefits are paid out of the Unemployment trust fund. Benefits are related to covered wages earned by the worker in the railroad industry; retirement benefits are partially coodinated with those paid under social security for those with vested rights under both social security and railroad retirement. However, recently enacted legislation will eliminate dual benefit rights for future beneficiaries.

Health

Medicare.—Vendor payments are made by the Social Security Administration on behalf of eligible elderly individuals for covered medical expenses. Payments are made from two trust funds, the Hospital Insurance (HI) trust fund and the Supplementary Medical Insurance (SMI) trust fund. Virtually all of the aged are enrolled in the HI program, which is financed by the employer-employee payroll tax. The SMI fund is financed by general revenue contributions and by individuals' premium payments, set at $6.70 per month per insured individual in July 1974. The SMI program provides insurance against most medical costs except prescription drugs. Persons eligible for disability insurance (DI) payments for 24 consecutive months are now eligible for HI and SMI. Persons afflicted by kidney disease and who are covered by social security as a worker, dependent,

or survivor—though not receiving social security benefits—are newly covered by HI and SMI.

Deferred Compensation

Cash

Veterans' compensation.—The Veterans' Administration makes payments to veterans with service-connected disabilities, the amount of the payment varying with the degree of disability. Payment levels are set at rates intended to replace the income an average man would lose if suffering from the different levels of disability. There is also a dependency and indemnity compensation (DIC) program to compensate the survivors of veterans whose deaths were attributable to service-connected causes. DIC benefits for widows and children are related to the military pay grade of the veteran. DIC benefits for dependent parents are related to the parents' income.

Civil service retirement.—Benefits are paid to Federal civil servants retired because of age and length of service or disability and to the eligible survivors of deceased civil servants. Benefits are paid from a trust fund financed by a contribution of 14 percent of current civil service pay (7 percent from employees, 7 percent from the Federal Government). Benefit amounts are calculated as a percentage of the retiree's salary averaged over the highest 3 years with the percentage rising with length of service. Benefits increase automatically with increases in the Consumer Price Index.

Retirement (other programs).—In addition to the retirement programs described individually above (OASI, railroad retirement, civil service retirement), the Federal Government also administers several other retirement programs for employee groups. Some of them (for example, Foreign Service retirement) require contributions to trust funds by employees and the Federal Government. Others (the military, Coast Guard, and Public Health Service retirement programs, for example) are noncontributory and are financed from general revenues.

Workmen's compensation.—Workmen's compensation programs pay cash benefits and medical expenses to persons out of work due to work-related injury or disease. Federal employees are covered by a Federal compensation program, but there is no Federal financial or administrative role in the programs protecting other employee groups. Consequently, they vary greatly from place to place. Financing is generally by employer contributions to insurors of the covered work force. In some States a State insurance fund is designated to operate the program. In other States many commercial insurance companies share the operation on a competitive basis. Cash benefits paid are related to the worker's prior wage level.

Health

Veterans' medical care.—The Veterans' Administration, through direct operation of a national hospital system and through grants to various types of State facilities, provides free hospitalization and other types of institutional and medical services to veterans. All vet-

erans whose medical problems are service-connected receive these services without charge.

Housing

Veterans' housing loans.—The Veterans' Administration guarantees or insures loans to veterans.

Education

Veterans' educational assistance.—The Veterans' Administration provides a stipend, per academic month, to veterans for educational assistance. Additional cash aid is available if the veteran needs tutorial help or has dependents.

Vocational rehabilitation for veterans.—For veterans with at least a 30 percent disability, a subsistence allowance plus free tuition, books, and supplies are provided by the Veterans' Administration.

War orphans' and widows' educational assistance.—For survivors of veterans and for dependents of disabled veterans, the Veterans' Administration provides a stipend per academic month of full-time study.

Appendix B. A Model of Program Design Trade-Offs

To see the conflicts in program design clearly, it is useful to look at a simplified model. Assume that 50 units of government aid can be budgeted to help the poor. Further assume that the government low-income standard per family of 3 is 10 units per family. Families of three are considered poor if they have less than 10 units, and near-poor[1] if they have 10–12 units. Upon analysis, the poor and near-poor population is found to be comprised of 15 families. Ten consist of mothers with two children each, and the other five consist of a mother, father and one child. Most of their income is from wages, but one of the broken families receives a survivors' check from social security, and one of the two-parent families receives unemployment insurance. The income situation of the 15 families is as follows:

	Income units family has	*Income deficit in units*
Mother and 2 children:		
Family A	0	10
Family B	3	7
Family C	5	5
Family D	6	4
Family E	7	3
Family F	9	1
Family G	10	0
Family H	11	0
Family I	11	0
Family J	12	0
Subtotal	74	30
Mother, father, and 1 child:		
Family Aa	0	10
Family Cc	5	5
Family Dd	6	4
Family Ff	9	1
Family Hh	11	0
Subtotal	31	20
Total	105	50

The five near-poor families collectively have 55 units, but the 10 poor families have only 50. Thus, the total income deficit, or poverty gap, is 50 income units, equal to the units of aid that the government has available. How shall the aid be distributed? There are four main options:

Option 1. Pay 100 Percent of Unit Deficit to Some Categories of the Poor

Our first option—the one adopted for the family portion of public assistance in 1935—is to restrict aid to women and children on

[1] The Census Bureau defines the "near poor" as those whose money incomes are less than 25 percent above the poverty line.

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grounds that they are less able to work than two-parent families and are disproportionately poor. The six poor one-parent families suffer an income deficit of 30 units, compared with the 20-unit deficit of the four poor intact families. Thus, 30 units are spent to bring the six broken families up to the adequate income level—but nothing is given to the four intact families who are poor, nor to the five near-poor families. This leaves a government surplus of 20 units. However, undesirable consequences follow. First, some of the four two-parent families who are unable to make ends meet split up so that the women and children at least have access to government units. Soon more than 10 of the families are "fatherless." Second, some of the recipients reduce their private efforts to acquire units, since they are assured 10 units without work and their aid is reduced by the full amount of their earnings. Their jobs, generally low-paid, lack any appeal other than money, and that appeal now is gone. Third, some of the four women heading families who used to keep themselves from poverty by earning 10, 11, and 12 units decide to settle for the government's 10-unit income floor; and they, too, stop acquiring private units. They reason that their net earnings—after taxes and work expenses—are below 10 units anyway. Soon the income deficit of the 15 families has climbed above 50 units, the budgeted amount. The categorical aid of Option 1 has aggravated the problem it sought to solve.

Option 2. Pay 100 Percent of Unit Deficit to All Who Are Poor

A second option is to renounce categorical aid, which promotes formation of eligible poor families, in favor of help for *all* poor families. Since the deficit of the poor families totals 50 income units and since the government has 50 units of aid to spend, the obvious formula is to distribute the 50 units exactly according to measured need. This gives each family at least the minimum total of 10 units. Poverty is ended. But there are many undesirable consequences as well. First, all the poor families are equalized at 10 units, regardless of how many units they have privately and regardless of the reasons for their lack of sufficient private income units. The two families who had nine units of their own feel that their work has been ignored and they resent being no better off than those who earned fewer income units. The two families with social security and unemployment insurance checks also resent winding up with no more than those who earned nothing. In time, many of the poor families who formerly worked to acquire some income cease to do so, since they now can get 10 units in any case. Moreover, some of the five near-poor families stop working, too, since they can net as much from leisure. Soon more than 10 families have private income below the poverty standard, and the total deficit rises to, say, 85 units, up from the 50-unit deficit at the start of the program. Because of reductions in work effort, the budgeted amount of 50 units no longer is sufficient.

Option 3. Pay Poverty Level Benefits to the Penniless, Reduce Aid Gradually as Private Income Rises

A third option is to give units to all needy families, but to do so in a way that recognizes differential private income—a proxy for

differential effort as well as differential need. This option seeks to encourage the needy to continue or commence their self-help efforts by permitting them some net gain above the income floor from work. It does this by bringing all who have some private income units *above* the income floor.

Like Option 2, Option 3 gives a full 10 units to all penniless families, but, unlike Options 1 and 2, it withdraws these units only gradually when recipients acquire some units of their own. Thus, formerly penniless Families A and Aa can lift their total income above 10 units by work. If one-half unit of aid is subtracted for each full unit of private income, for example, it takes 20 units of private income to wipe out their 10-unit aid entitlement. This schedule of aid looks as follows:

OPTION 3

Families' private units	*Deficit*	*Government-provided units*	*Families' total units*
0	10	10. 0	10. 0
1	9	9. 5	10. 5
2	8	9. 0	11. 0
3	7	8. 5	11. 5
4	6	8. 0	12. 0
5	5	7. 5	12. 5
6	4	7. 0	13. 0
7	3	6. 5	13. 5
8	2	6. 0	14. 0
9	1	5. 5	14. 5
10	0	5. 0	15. 0
11	0	4. 5	15. 5
12	0	4. 0	16. 0
13	0	3. 5	16. 5
14	0	3. 0	17. 0
15	0	2. 5	17. 5
16	0	2. 0	18. 0
17	0	1. 5	18. 5
18	0	1. 0	19. 0
19	0	0. 5	19. 5
20	0	0	20. 0

As the schedule shows, Option 3 always rewards those who have earned some private units, but it extends aid beyond the "adequate" level of 10 units. Its eligibility cutoff is not reached until private income totals 20 units, double the "adequacy" standard. Such a program will cost much more than 50 units, since (a) more families will be eligible (all families of three with less than 20 units of their own), and (b) payments will be larger than under Option 1 for all families except the penniless. If we apply this schedule only to our original population of 10 poor and 5 near-poor families, in fact, it will cost 97.5 units of government aid. This is almost double their original poverty income deficit of 50 units, and it means that 47.5 units of aid will go to the nonpoor (17.5 units to those originally nonpoor, and 30 units to those poor before any aid).

OPTION 4. PAY LESS THAN POVERTY LEVEL BENEFITS TO THE PENNILESS, REDUCE AID GRADUALLY AS PRIVATE INCOME RISES

If the Government wants to restrict aid to the poor and near-poor, since it does not have 97.5 units of aid, it must modify Option 3. If it

decides to give nothing to those who have more than 13 units and hence are out of the near-poor class, but if it nevertheless still wants to reward private acquisition of units by reducing aid gradually as earnings rise, it must lower the maximum number of units that it provides to the penniless as well. If it pays 70 percent of their unit deficit to families with zero income and then reduces aid by 50 percent of earnings, the schedule looks as follows:

OPTION 4

Families' private units	Government-provided units	Families' total units
0	7.0	7.0
1	6.5	7.5
2	6.0	8.0
3	5.5	8.5
4	5.0	9.0
5	4.5	9.5
6	4.0	10.0
7	3.5	10.5
8	3.0	11.0
9	2.5	11.5
10	2.0	12.0
11	1.5	12.5
12	1.0	13.0
13	0.5	13.5
14	0	14.0

As the schedule shows, Option 4 also has consequences. It removes from poverty only families who earlier had 6–9 units of their own, whereas Option 3 abolished poverty. However, Option 4 confines its help to the poor and near-poor, helping only families with no more than 13 units, whereas Option 3 continued aid until private income was double the poverty standard. Further, like Option 3, it consistently rewards work. If we apply Option 4 to our original population of 15 poor and near-poor families, it will cost 52.5 units of government aid, only slightly more than their poverty gap. (Additional costs would be incurred to aid families with 13 units of private income as well.)

The comparative short-term impact of the four options upon our hypothetical population of poor and near-poor families is summarized below:

Family	Initial income unit deficit	Government-provided units: Option 1	Option 2	Option 3	Option 4
Mother and 2 children:					
Family A	10	10	10	10.0	7.0
Family B	7	7	7	8.5	5.5
Family C	5	5	5	7.5	4.5
Family D	4	4	4	7.0	4.0
Family E	3	3	3	6.5	3.5
Family F	1	1	1	5.5	2.5
Family G	0	0	0	5.0	2.0
Family H	−1	0	0	4.5	1.5
Family I	−1	0	0	4.5	1.5
Family J	−2	0	0	4.0	1.0
Mother, father and 1 child:					
Family Aa	10	0	10	10.0	7.0
Family Cc	5	0	5	7.5	4.5
Family Dd	4	0	4	7.0	4.0
Family Ff	1	0	1	5.5	2.5
Family Hh	−1	0	0	4.5	1.5
Total [1]		30	50	[2] 97.5	[2] 52.5

[1] These totals are short term and do not reflect later cost increases required because of family breakup and work reductions.
[2] These totals reflect costs only for the hypothetical poor and near-poor population, and do not include benefits for persons at higher income levels who would be eligible for aid under Options 3 and 4.

As Options 1, 2, 3, and 4 demonstrate, in income maintenance programs the goals of adequacy, fairness, and desirable incentives cannot be fully achieved simultaneously. These conflicts among objectives are unavoidable:

Aiding only some groups among the needy (Option 1) is unfair to other groups and establishes financial incentives to change groups. But it retains full incentives for unaided categories to work and struggle to get along on their own, reduces program costs if it does not induce large changes in family structure, and targets funds on certain groups acknowledged to have acute income problems.

Providing aid based on the exact amount of income families need to live at a predetermined level, so that aid equals 100 percent of their income deficit (Options 1 and 2), discourages private efforts because total income is the same regardless of effort. This seems unfair to those who do work, and if many families reduce their self-help efforts, the result is higher program costs and larger number of beneficiaries.

Building in financial incentives and rewards for private efforts, yet guaranteeing an adequate income to the penniless (Option 3), raises costs by extending the income range over which families are eligible for help and by enlarging payments to most families.

If costs are constrained, and if financial rewards for work are provided, maximum benefit levels must be lowered (Option 4) so that benefits are less adequate for the poorest. Benefit levels that are less than "adequate," however, also encourage personal efforts. Any aid can affect work decisions, but this type of plan helps to minimize the disincentive to work.

ADDITIONAL VIEWS OF REPRESENTATIVE BOLLING

The final report, with recommendations, of the public welfare study of the Subcommittee on Fiscal Policy of the Joint Economic Committee represents the most extensive examination to date of the evolution of Federal programs of assistance to the needy in providing them with cash, food, health, and housing services. Certainly it is the most comprehensive study ever undertaken and especially impressive from the standpoint of demonstrating the abilities of Congress, through its committees, to conduct a major inquiry into a significant set of public policy questions.

Although I am not in complete agreement with the entire set of recommendations in the report, I believe the study clearly reveals how unevenly we treat the poor: welfare benefits can be more generous to one family than to another with the same family income and size, and some of the poorest households receive little public aid. The recommended tax credit may not, however, be an adequate instrument for identifying individuals it is designed to reach, and the Allowance for Basic Living Expenses (ABLE) requires flexibility to meet future economic considerations.

The main point of the study, however, must not be missed: there are too many needy people who, for a variety of reasons amply illustrated in this report, are not being helped. It is up to the Congress to modernize the system and the product of this 3 year effort represents, in my judgment, a fine beginning.

ADDITIONAL VIEWS OF REPRESENTATIVE CAREY

The subcommittee's report is a sound effort to resolve major problems in our assistance programs without displacing those social service personnel who play a vital role in such programs.

Our efforts in recent years have fallen short of our goals. Too often these programs have reflected frustrations for both those who seek aid and those who seek to administer such aid. The worst injustice of our current welfare program has been the omission of many millions of Americans who really do need assistance. In 1972 alone, we found that 20 million Americans could barely make ends meet, if at all. At the same time, we have faced a strong problem with the built-in work disincentives of such programs. Nonwork and nonmarriage are more profitable under the current system than work and family concerns. For many, it is a better economic picture when they do not try and hold down a job than if they do. It is, in effect, a situation which must be remedied as soon as possible.

It is not the glaring inequities alone which require reform. For subtle problems have also hampered us. Duplications of effort, unnecessary expenses, abuses of aid and the frustrations that frequently surround those who actually deserve aid, must also be eliminated or we will continue to waste time, effort, money and not help all those who need help.

Assistance programs touch the lives of all Americans since those who foot the bills for such aid are the American taxpayers. Hence, at a time when inflation has hurt all citizens, it becomes even more important that we be sure that each dollar spent goes where it is needed the most.

It is an exacting task to try and establish revisions which ultimately will achieve the goals of insuring that those who truly are in need are not overlooked and that both State and Federal Governments will be able to cope with the fiscal and social responsibilities in the administration of such programs. What is equally as important is that the resulting programs demonstrate not only to the recipients but to all citizens that it is work which is rewarded as jobs are made available.

Despite all the considerations of such a task, I believe the subcommittee has done an admirable job in establishing the groundwork for an assistance program which will respond not only to present needs but future ones as well. In effect, the subcommittee has taken a giant first step in tackling a complex situation.

In supporting this work as a whole, however, I believe that some serious questions still remain unanswered and must be dealt with before the program is implemented.

1. Unemployment compensation.—I do not believe that limiting unemployment compensation to a maximum period of 26 weeks is a realistic approach. At a time when spiraling inflation and a tight job market have made job hunting extremely difficult, every effort must

be made to insure that those who sincerely seek work will be able to keep themselves out of debt and off the welfare rolls until they are able to find gainful employment. Surely if we seek to encourage rather than discourage working, we have an obligation to at least provide the unemployed with the time to find a job. Such an extension would do this.

While such an extension is by no means the panacea for our economic ills, it would insure that we would not be penalizing the unemployed for the Nation's economic problems and that while we attempt to open job markets, the unemployed and their families will not be victims of poverty. Both President Ford and the Economic Summit have realized the importance that such extensions of compensation play for the unemployed.

2. Day care.—Adequate day care facilities often mean the difference between a parent working or being forced to stay at home with children and rely on welfare. If we provide a fixed fee schedule, then we will increase the likelihood that many who would work if they could place their children in day care programs will choose instead to stay home on welfare. If our goal is to encourage working, then surely adequate day care facilities for all parents who need such programs is mandatory.

3. Food stamps.—Elimination of the food stamp program may improve the efficiency of assistance programs, but it will not ultimately reduce costs for the Federal Government since the reforms proposed produce their own hidden costs. At the present time, approximately two-thirds of those on AFDC choose the stamp program. However, should the program be turned into cash grants, there will be a rush to cash in on this.

4. Public housing.—Reducing cash grants according to the amount of subsidized housing a person receives would be tragic for our citizens. At a time when spiraling inflation has caused prices to skyrocket, particularly those on fixed incomes find it a day-to-day struggle to make ends meet. If cash grants were reduced by 80 percent of housing subsidy expenses, many in a city like New York would be forced to choose between a place to live or food to eat. Both needs could never be met under this proposal.

5. Social security.—The subcommittee has wisely suggested that workers be informed each year of their accumulated social security earnings. In this way, our citizens will have a more realistic picture of what their future will be once they stop working and retire.

However, the subcommittee's suggestion that social security concentrate on its insurance aspects would be discriminatory and a hardship for many who sustain themselves through this program. For example, mentally retarded children over the age of 18 who are considered "adult children" receive benefits under the social security program if a parent is a social security recipient. Should there be a narrow interpretation of the social security law, such people could suffer. I, therefore, believe it would be wiser to maintain both the social welfare and insurance approaches to this program.

6. Welfare cash grants.—The subcommittee has proposed that the States provide additional assistance for 2 years in instances where the new grant program provides a family with less money than they currently receive. However, the report does not indicate how a family

would cope once the 2 years have ended. We cannot sustain a family for 2 years and then let them sink deeper into poverty when the time has ended. Yet, this is exactly what would result for those who must rely on the additional aid to make ends meet. Hence, it would be wise to seek a means by which these people will be able to deal with their problem once the State's role in the matter has changed.

ADDITIONAL VIEWS OF REPRESENTATIVE WIDNALL

In recent years there has been great wringing of hands and anguish regarding public welfare and the accompanying social breakdown. Most observers have been concerned not only with the fiscal impact of our vast welfare system, but also with the negative effects on family stability and support patterns and work incentives. Specifically, many experts in this area have been greatly worried about a weakened will to work and contribute positively toward the economy in a large segment of our society as one consequence of a welfare system which has now been in effect and constantly expanding for several generations.

This report is the first in which a congressional committee has, in my opinion, attempted to come fully to grips with the background and operation of our overall welfare system. The chairman of the subcommittee, Mrs. Griffiths, should be most heartily commended for her activities in this area and the leadership which she has displayed. Welfare is certainly not a happy field to enter. Large numbers of people are entrenched in our welfare system, not only as recipients of aid, but as administrators of the programs themselves. These administrators, as one might expect, defend their own operations most vigorously. They are very capable at presenting lengthy justifications regarding the usefulness of their work, in the classic tradition of "defense of the realm" by any bureaucracy.

This report is a solid beginning not only as a basis for halting growth in our present inefficient system but for constructive changes in the future. Solutions to welfare problems must be introduced quickly. Their implementation should not be postponed for more years of factfinding. The basic factfinding work has been done and done well; the record of that work appears in this report. The backbone of our Nation is being weakened every day we delay in introducing reforms in the critical problem areas before us. Those areas include our present monstrous welfare system.

ADDITIONAL VIEWS OF REPRESENTATIVE CONABLE

This report is an important first step toward needed reform in this area. It is the culmination of more than 3 years of intensive work in the welfare area by the subcommittee and its staff, under the leadership of Congresswoman Griffiths. During this period the subcommittee held a number of highly informative hearings and produced a series of 15 well-researched papers on various aspects of the welfare system.

This long, careful report reveals in great detail a public welfare system in disarray, with expensive, overlapping programs, administered by a large number of executive agencies and departments and overseen by an even larger number of congressional committees. The total cost of our public welfare programs is immense, but poverty does not appear to be decreasing at anything like the rate at which program costs increase.

Additionally, as the report makes clear, these many uncoordinated programs have a large number of unintended and undesirable side effects. Overlapping, disjointed programs result in very high benefits for some individuals or families who are able to participate in a number of programs. Indeed, some such participants achieve greater benefits and income levels than those realized by working people similarly situated. On the other hand, some persons in identical economic circumstances may, because of gaps among the many programs and the vagaries of qualification procedures, find themselves qualifying only for a very low level of benefits and income. Some programs operate at cross purposes, with mutually exclusive or at least contradictory objectives. As the report details at length, the present structure of programs has some extremely pernicious effects on family stability and support and on work incentives. Additionally, our present system results in numerous administrative inefficiencies as a result of both the multitude of programs and administrative agencies. The waste of public moneys implicit in such a poorly designed system is of course great.

Although I do not necessarily support all of the specific recommendations in the report, I believe that it is an important contribution toward enlightened decisionmaking in this area, in which far-reaching reform is long overdue. Our welfare system simply cannot continue operating as it does at present. The report provides the type of careful, detailed factual analysis necessary for sound reform. I hope that it will receive the attention from the Administration, the Congress and serious students of welfare problems which it merits. I hope also that it will serve as the basis for meaningful congressional action on welfare in the 94th Congress.

ADDITIONAL VIEWS OF SENATOR BENTSEN

The subcommittee has done a commendable job of isolating and documenting the major flaws in our public welfare programs. As the report indicates, the programs are ill-administered, unfair, degrading, and ultimately self-defeating. I agree that a major overhaul of these programs is long overdue.

I do, however, reserve judgment on the subcommittee's recommendations for welfare reform. In my view, there are serious public policy questions involved in a universal coverage cash program funded and administered by the Federal Government, questions which I would want to review further before endorsing any specific concept of welfare reform.

ADDITIONAL VIEWS OF SENATOR JAVITS

This is a thoughtful, provocative report which merits serious study by the Congress. I note with special interest the fact that this report deals with problems of welfare often overlooked by Congress in enacting programs to aid the poor. Certainly in setting up the myriad of programs described herein more attention should have been paid to the impact on the working poor, those Americans who do not qualify for assistance, who work full time, and who also pay taxes to support these programs. As the report reveals, because a wide range of benefits are available to the very poorest Americans, it is possible that in some cases their total income—in cash and services received—can exceed that of a wage earner who works full time at a low-income job. This is unseemly and inequitable and must be corrected, but is not a simple matter, for to reform the welfare system as comprehensively as this report proposes to do we must take apart the entire complicated interdependent system we now have, and put it back together again.

In doing so, I believe we will face some of the following problems:

(1) Will we be able to set the family allowance at a level high enough to compensate for the phaseout of such extensive programs as food stamps?

(2) If we make day care further available to working mothers without regard to income won't this require a very significant increase in Federal support? Will low-income mothers be able to pay even minimum fees? Should they be required to do so?

(3) If we take into consideration the cash value of subsidized housing when determining eligibility will this encourage an exodus from publicly assisted housing into substandard, privately owned housing?

(4) Won't the requirement that basic educational opportunity grants be offset by cash supplements effectively end this useful program and if so, in what alternate way should we provide Federal assistance to educate the children of the poor?

(5) Is it necessary to disrupt severely the unemployment insurance program in order to implement this plan? I view unemployment insurance as an entirely different measure designed to assist a group which is different from the chronic poor. Unemployment insurance is a temporary program structured for emergency use in aiding persons who are usually part of the work force. It is paid for by worker and employer contributions and should be sufficient to maintain the worker suffering temporary unemployment at a level bearing some relationship to his salary. I therefore do not agree with the proposed reduction in benefits recommended in this report, nor do I believe, especially in a period of economic distress such as we are now experiencing, that 26 weeks of benefits is always sufficient.

I have proposed the creation of the National Commission on Unemployment Insurance Laws to deal with the complicated questions of

benefit levels, duration of benefits and relationship to other programs, for example, social security and welfare. I would hope that before Congress enacts a sweeping welfare program which affects the unemployment insurance system, such a Commission would have the opportunity to study these interrelationships and issue a report and recommendations.

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