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WELFARE ALTERNATIVES

A REPORT

WITH RECOMMENDATIONS BASED UPON THE PUBLIC WELFARE STUDY

OF THE

SUBCOMMITTEE ON FISCAL POLICY

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

AND RELATED MATERIALS

By ROBERT TAFT, JR., *U.S. Senator*
Ranking Minority Member,
Subcommittee on Fiscal Policy

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LETTERS OF TRANSMITTAL

AUGUST 2, 1976.

To the Members of the Joint Economic Committee:

Transmitted herewith is a report by Senator Robert Taft, Jr., ranking minority member of the Subcommittee on Fiscal Policy, entitled "Welfare Alternatives: A Report With Recommendations, Based Upon the Public Welfare Study of the Subcommittee on Fiscal Policy of the Joint Economic Committee, Congress of the United States, and Related Materials." The views expressed in this report are those of its author and do not necessarily represent the views of other members of the Joint Economic Committee or the committee staff.

HUBERT H. HUMPHREY,
Chairman, Joint Economic Committee.

JULY 30, 1976.

Hon. HUBERT H. HUMPHREY,
Chairman, Joint Economic Committee,
U.S. Congress, Washington, D.C.

DEAR MR. CHAIRMAN: I am pleased to transmit herewith a report by Senator Robert Taft, Jr., ranking minority member of the Subcommittee on Fiscal Policy, entitled "Welfare Alternatives: A Report With Recommendations, Based Upon the Public Welfare Study of the Subcommittee on Fiscal Policy of the Joint Economic Committee, Congress of the United States, and Related Materials." As its title indicates, this report builds up on the Public Welfare Study conducted by the subcommittee over a 3-year period. On behalf of the subcommittee I would like to express my appreciation to Senator Taft for his further work on the crucial problems involved.

The views expressed in the report are those of its author and do not necessarily represent the views of other members of the Subcommittee on Fiscal Policy or the subcommittee staff.

RICHARD BOLLING,
Chairman, Subcommittee on Fiscal Policy.

JULY 27, 1976.

Hon. RICHARD BOLLING,
Chairman, Subcommittee on Fiscal Policy,
Joint Economic Committee,
U.S. Congress, Washington, D.C.

DEAR MR. CHAIRMAN: The past several years have been hard economic times for millions of Americans. During much of the post-Watergate period, the pocketbook issues of jobs, inflation and energy costs have dominated public discussion in a manner not equalled since the Great Depression.

At the same time, the debate concerning the financial condition of our poorest Americans has quieted. Since the fiery controversy over President Nixon's ill-fated family assistance plan in 1972, the subject of welfare reform has been granted a period of benign neglect.

Yet, to a large extent, our income support programs creep along as they have for years. There have been some major changes since 1972, most notably the large-scale broadening of the food stamp program and the initiation of the supplemental security income program for the aged, blind and disabled. But at the heart of this income support system remains the aid to families with dependent children program, which was reviled years ago by radicals, reactionaries and everyone in between. This program operates virtually the way it did in the latter days of the Johnson Administration.

Despite Congress dearth of legislative action of late in this field, one congressional subcommittee has worked very hard to expand our capacity to deal with the welfare reform problem. Under the direction of Chairwoman Martha Griffiths, the Joint Economic Committee's Fiscal Policy Subcommittee conducted a massive study of these problems during 1972–74.

At the beginning of this Congress, I was proud to assume the position of ranking member of this subcommittee. Since that time, my staff and I have endeavored to examine the 20-odd volumes of the subcommittee study and other materials related to the problem.

We undertook this review with the full realization that the chances for significant action by the 94th Congress on the great welfare reform issues ranged from slim to nonexistent. Nevertheless, it is my conviction that our present conglomeration of income support programs contains too many undesirable features to escape congressional attention for long. Thus, the following comments are made with the hope and belief that others will see the importance of building upon the work of the subcommittee and related work to bring about a fairer and more effective system of assisting those Americans in need.

Although my comments will be directed at the entire range of Government income transfer programs, they will focus particularly on need-based or "welfare" programs. The toughest issues involve programs designed to serve population groups who are working or who may be capable of working to a large extent. The largest programs of this type are aid to families with dependent children; food stamps; medicaid; and housing assistance programs. However, there are perhaps 100 other programs of this type involving various State and local programs such as general relief; school lunches; day care; job training; and a multitude of other services.

Of course, the need-based supplemental security income program, the unemployment compensation system and the largest Federal income transfer program of all, the social security system, also will have to be considered. However, since these programs either have purposes distinct from need-based income support or in the case of SSI, help a population subgroup whose participation in the labor force is not such a pressing issue, my comments about them generally will involve their coordination with the other programs rather than their basic structures.

I plan first to review the need for improvements in our present income support programs. This review will be divided into subparts concerning benefit adequacy, equity problems, the link between income support programs and work, other incentive problems, administrative problems and program coordination problems. It will be followed by a summary. Then I will discuss political considerations based largely upon the congressional debate several years ago over the family assistance plan. Finally, I will outline the basic dilemmas for welfare reform, explain alternative proposals for reform and assess their merits.

I wish to thank Rod Solomon of my staff, Vee Burke of the Library of Congress, Profs. Charles Haar and Lance Liebman of Harvard Law School, John Palmer of the Brookings Institution and Alair Townsend of the House Budget Committee staff for their assistance in the compilation of this report.

Sincerely,

ROBERT TAFT, Jr.,
Ranking Minority Member, Subcommittee on Fiscal Policy.

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Part 1. ADEQUACY OF OUR PRESENT INCOME SUPPORT PROGRAMS

Benefit Adequacy

A primary test of our present income support programs must be the extent to which they alleviate American poverty. To make that judgment, an income standard or "poverty line" is necessary. The most widely used measure is the Census Bureau's "poverty threshold". In 1975, the poverty threshold was $2,720 for a nonfarm, unrelated individual, $3,500 for nonfarm couple, $5,500 for a nonfarm family of four and $9,010 for a nonfarm family of seven or more.

The designation "poverty" implies a value judgment. However, these Census Department figures are based on the relatively firm but certainly culture-shaped concept of the minimum income necessary to keep a family decently fed. The amounts are based upon the Department of Agriculture's "economy food plan" for different family sizes, updated for inflation and tripled in accordance with a 15-year-old survey indicating that average food expenditures of families of three or more represented about one third of their money income after taxes.

This simple measure obviously does not take into consideration differing mixes of family expenditure patterns and differences in the cost of living, which may average 10 percent between metropolitan and nonmetropolitan areas. More seriously, it is doubtful that the level of food expenditures allowed actually can provide a nutritionally adequate diet, with the general mixture of meats and other foods to which Americans are accustomed. Although the economy food plan was devised to measure the dollars an average housewife would need to have an even chance at providing a fair or better diet for her family, Department of Agriculture studies have indicated that only about 10 percent of the persons spending so little were able to accomplish this goal.

Thus, my intuitive feeling that the Census Bureau's levels are stingy appears to be confirmed. On the other hand, the Census Bureau's levels do not take account of several income sources. Unreported income from public assistance and social security programs tends to be higher than unreported wage and salary income. The Census Bureau's surveys also make no attempt to value individuals' assets. Since they measure income before taxes, they do not reflect the tax-exempt nature of Government benefits or the poor's generally minimal tax burden. More importantly, they do not count in-kind Government benefits such as food stamps and housing subsidies as income. For the past several years, the total cost of these programs has exceeded by billions of dollars the total cost of national cash welfare programs. Food stamps alone are supplied to over half the poor and cost the Government almost $6 billion in fiscal 1976.

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Of course, nonpoor families also have considerable amounts of unreported and uncounted income. Nevertheless, assuming that our primary goal is to generate adequate levels of family incomes in absolute terms, these income omissions affecting the poor should make us feel somewhat easier about using the Census Bureau's poverty threshold. These considerations also indicate how carefully the figures have to be used.

Using this standard, 24.3 million persons remained poor in 1974. This group comprised about 12 percent of our country's population.

Very roughly, this group of Americans was comprised of persons as follows:

Demographic group	Number (millions)	Percent of the poor
Over 65	3.3	14
Children under 18 living with at least 1 parent	10.2	42
Female heads of household with children under 18	1.2	5
Male heads of household with children under 18	1.3	5
Nonaged couples without children	2.1	9
Other family members such as spouses and unrelated nonaged individuals living in families	3.4	13
Unrelated nonaged individuals living alone	2.8	12
Total	24.3	100

Perhaps the most striking aspect of these numbers is the fact that 56 percent of the poor are members of two subgroups—the aged and children—which society clearly does not expect to be self-supporting through working.

Relative to our entire population, the groups most likely to be poor were clearly the aged, children, families with female heads, singles and nonwhites. The percentage of persons below the poverty threshold was 15.7 percent of all persons 65 and over, 15.5 percent of all children under 18 years living with at least one parent, 25.5 percent of all unrelated individuals, 36.8 percent of all persons living in families with female heads and 29.5 percent of all persons of races other than Caucasian. Most strikingly, 51.5 percent of all related children under 18 living in families headed by females were poor, while only 8.7 percent of the related children living in male-headed families were poor. However, the sheer numbers were much less lopsided. About 5.4 million poor children lived in families with female heads, while about 4.8 million lived in families with male heads.

Of course, to glean any conception of the American poverty problem, one needs to know something about the income distribution of persons both immediately above and below the poverty thresholds. The Commerce Department publishes statistics covering persons with incomes below 125 percent of the thresholds. In 1974, a 25-percent increase in the poverty income cutoff would have increased the number of poor individuals by about 44 percent, to 34.6 million. From the limited data I have seen thus far on this group for 1974, it appears that their characteristics would not differ drastically from those with incomes below the poverty threshold. The larger group may contain a slightly higher percentage of aged persons and a slightly lower percentage of children.

It is more crucial to gauge the extent to which poor families' incomes fall short of the poverty threshold. The gap between a family's income and its poverty threshold is called its income deficit. In 1974, the average income deficit of the poor was $1,845 for impoverished families and $1,000 for unrelated individuals. While 36.6 percent of poor families had income deficits less than $1,000, 43.4 percent had deficits between $1,000 and $3,000 and 20.1 percent had income deficits of more than $3,000. About 34.9 percent of unrelated individuals had income deficits smaller than $500, 25.9 percent had income deficits between $500 and $1,500 and 24.9 percent had income deficits of $1,500 or greater.

Survey distortions undoubtedly account partially for the large number of those who supposedly have very low incomes. Since the survey is based on this year's family unit but last year's income, a woman whose husband made $8,000 last year but has now left her is listed as an unrelated individual with zero income. Such distortions, however, certainly cannot account for a great number of those listed in the poorest income groups.

More seriously, these figures overstate the poverty problem because of the omissions to counted income which I have already mentioned. It is impossible to estimate accurately the effects of all these omissions. However, we certainly should try to estimate the effect of food stamps, which are available almost universally to persons with low incomes, and medicaid benefits, which are available to all AFDC recipients and most SSI recipients.

It appears that for most types of poor families with the average income deficits in 1974, participation in the food stamp program would have reduced their income deficits by 60 to 70 percent if each food stamp bonus dollar is counted as $1 in income. Medicaid vendor payments in fiscal 1975 cost about $1,010 for each AFDC family and much more for some such families. This medicaid average varied considerably from State to State. Nevertheless, it is clear that the Census Bureau figures are very misleading concerning the extent of need for the millions of people who participate in these programs.

Potential reformers of the income support system must devote particular attention to the subgroup of the poverty population that appears to be left out of present programs. This subgroup largely coincides with the poor households that appear to have employable members.

Our aged, blind and disabled citizens are almost universally eligible, based on need, for the SSI program. For nonaged families, the Aid to Families with Dependent Children program generally covers mothers with children under 18, or under 21 if students, when no father is present. Twenty-six States, Guam and the District of Columbia have extended the program to families where the father is present but works 100 hours or less per month.

Thus, the major population groups not included in these basic programs are unrelated individuals, couples without children and two-parent families with a father working more than 100 hours per month. These groups are eligible for food stamps, but no other Federal assistance can be counted upon to come their way. However, some members of these groups do receive housing assistance, medicaid, State or local general relief, social security, unemployment insurance or other Government benefits.

The effects of this situation are well demonstrated by some Joint Economic Committee estimates of the overall effect of transfer payments on the poverty status of American families in 1971. In that year, 97 percent of the families with aged heads whose income before transfers fell short of the poverty threshold received some transfer payments. This percentge was 89 percent for families headed by disabled persons and 83 percent for families headed by nonaged, nondisabled females with children. However, the figure dropped to 49 percent for families headed by nonaged, nondisabled males with children and 43 percent for childless families with nonaged, nondisabled heads. The percentage of pre-transfer poor families made nonpoor by the receipt of transfers was 57 percent for families with an aged head, 39 percent for families headed by nonaged mothers with children and 36 percent for families with non-aged, disabled heads, but only 23 percent for nonaged, nondisabled childless units and 21 percent for units containing nonaged, nondisabled fathers with children.

While these figures demonstrate a relative neglect of the childless and families with nondisabled male heads, they also demonstrate the inadequacy in 1971 of the transfer programs even for the groups they are designed to favor. For the aged, the blind and disabled the enactment of the SSI program has improved this situation immensely. The basic SSI benefit level was 80 percent of the poverty line in 1974, but about half of the SSI recipients received social security, which raised their incomes nearly to the poverty line. In addition, about half the States supplemented the SSI payments.

The adequacy of AFDC benefits, however, still varies widely depending upon the State. In July 1974, about 23 percent of the AFDC caseload received maximum possible cash support equivalent to less than 40 percent of the poverty level, 37 percent of the caseload received maximum possible support of less than 60 percent of the poverty level and about 53 percent received maximum possible support above 70 percent of the poverty level. The combined maximum AFDC and food stamp bonus payments exceeded the poverty line in 19 States, while in 10 States this maximum was less than three-fourths of the poverty line.

It is important to determine whether the income deficits of the "neglected group" differ from the average income deficits of the poor. In 1973, poverty families with male full-time workers had mean incomes only about $200, or 7 percent, greater than the average for poor families. The data I have seen for nonaged, unrelated individuals and childless couples are not as good. However, it appears that nonaged, unrelated poor individuals may have income deficits as much as 1½ times as great in percentage terms as that of the average poor family. The data did not tell a clear story for nonaged couples without children.

It appears from these data that if the present 45 percent food stamp participation rate were raised to 100 percent and in-kind benefits were equated to cash, the average income deficit for most poverty families, at the lowest, would be a very small percentage of the poverty threshold amount. More than half the AFDC recipients would receive assistance above this amount. However, average incomes appear to be considerably lower for those nonaged, unrelated individuals, large male-headed families and AFDC families in the lowest benefit States who are classified as poor. Furthermore, these averages mask a great variation in the poor's incomes, which would leave some individuals and families destitute despite their receipt of food stamps.

It is crucial to emphasize in this discussion that work does not always provide an adequate income either, or even a higher income than welfare. In 1974, 19 percent of America's poor families remained in poverty despite the full-time, year-round work of a family member. The percentage was 28 percent for poor families headed by males.

It also is important to add the caution that the poor are not a static group of individuals. It is estimated that only 20 to 30 percent of the total poverty population remained poor from 1967 through 1971. A total of 50 million different people were below the poverty level for at least one of these years. About 13 percent of the families in or near poverty during this period had average incomes for the entire period of more than 1.5 times the poverty level.

One detailed study indicated that changes in family composition, translated into changes in family earnings, are the most important reason for these variations. The figures also illustrate the importance of temporary problems generally, such as illness, in the poverty picture. But most importantly, they mitigate against the concept of the intergenerational poor and emphasize the importance to the poor of varying levels of earnings.

Program Equity

Equity is a simple word for a loaded concept. Somebody somewhere has probably said that one person's equity is another person's discrimination.

Nevertheless, two criteria for equity seem widely accepted. The first, sometimes called horizontal equity, is that persons or families similarly situated should be treated similarly by their Government. The second, usually called vertical equity, is that persons should be better off to the extent that they make efforts to help themselves. This translates into a system which assures that work will be rewarded and that relative income positions resulting from work are not reversed by public policy. Some would extend this concept to say that those most in need should receive the most help.

Judged by either of these criteria, our present system of income support programs falls far short.

The last section already indicated indirectly some of the major inequities associated with the AFDC program. The wide variation in benefit levels for families with the same basic needs has been well publicized. In January 1975, payment levels ranged from $60 monthly per family of four in Mississippi to $478 in New York City. The Federal treasury paid almost $50 of the check in Mississippi, but $239 in New York.

These interstate disparities are magnified by the partial extension of the AFDC program to two-parent families with unemployed or underemployed fathers. Families in this situation can receive the full benefits of the AFDC program if their State is participating, but otherwise they are excluded totally.

AFDC families in similar situations are treated differently in a multitude of other ways, as a result of differing State rules and administrative practices. Some of these differences may be quite important. For example, some States apply arbitrary maximums to AFDC payments and allow recipients to add their earned income to the total grant until family income reaches the so-called standard of need. Most States, however, follow the Federal rules for deducting part of the earned income from benefits.

Further examples abound. It may be only a slight exaggeration to say that no two AFDC families are treated exactly alike, regardless of the similarity of their circumstances.

One of the serious AFDC equity problems is its incomplete coverage. I have just mentioned the inequities in the partial extension of the AFDC unemployed fathers program. A much more often-heard criticism is that by excluding two-parent families with fully employed fathers, AFDC discriminates against the "working poor".

This issue is not as easy at it may appear. These families certainly are treated inequitably relative to some families in the AFDC unemployed fathers program, where the mother is working. Relative to single-parent families, however, the situation is somewhat cloudier. It is true that a single mother or father with children can work full time and still receive AFDC. However, such a family would be likely to incur higher child care expenses relative to earnings than a two-parent family. Since this may not be the case and since AFDC families with children may be better off financially than two-parent families with children in spite of this situation, the exclusion from AFDC of two-parent families with working fathers is a major inequity. Nevertheless, the competing consideration should be remembered when this problem is discussed.

Nonaged, childless couples and unrelated individuals obviously are not in the exact situation of families with children. However, for reasons such as illness or few skills in a slack economy, many of these persons may be just as incapable of supporting themselves as those eligible for AFDC. While some of these families and individuals may be poor by choice, a glance at their age distribution should prevent us from assuming that this is almost universally the case. Half of these couples have heads between the ages of 55 and 64, while most of the remainder have heads either under age 25 or between ages 45 and 54. Half of the poor unrelated men were between the ages of 14 and 24. Among unrelated females, 35 percent were under age 25 and another 35 percent were between ages 55 and 64. With this situation in mind, it appears reasonable to conclude that the low relative level of benefits for this group of poor people is inequitable in a large number of cases.

The AFDC program requires States to permit working mothers to retain without financial penalty at least the first $30 per month in earnings, plus one third of their remaining earnings and a deduction for work expenses. However, in determining initial eligibility for AFDC, earnings net of work expenses are counted fully. This creates an anomolous situation in which a woman who obtains a job after enrolling in AFDC will continue to receive benefits, plus the automatic eligibility for food stamps and medicaid which comes with AFDC eligibility, while a woman with the same salary who never has been on AFDC may receive nothing. This inequity is important because it allows AFDC mothers in some States to continue receiving benefits when their salaries are in the $7,000 range or higher. It also means that a woman can profit by quitting work, enrolling in AFDC and going back to her job.

The limited numerical capacity and generous amount of benefits per person in some Federal programs, when coupled with the multiplicity of these programs, guarantees that similarly situated families will receive widely differing amounts of Government benefits. Our subsidized housing programs are an excellent illustration of this phenomenon. As of the end of 1972, only about 3 percent of American households with incomes under $10,000, and perhaps 6 percent with incomes under $4,000, were being served by one of the major housing subsidy programs. However, the average annual subsidy for those families served was estimated to be in excess of $1,000. The figure was considerably higher for some forms of subsidy such as public housing.

A Joint Economic Committee study of Government benefits provided in six low-income areas seems to indicate that this situation does cause all kinds of inequities. Of those who received benefits, about 60 to 75 percent at each site received benefits from two or more programs. Between 10 and 25 percent of the households who received benefits at each site were assisted by five or more Government programs. If noncash benefits were valued at cost, households in this latter group on average had incomes in excess of the Federal poverty standard at each site, and at two sites had average incomes higher than $6,500 per year. A few families were receiving benefits from 8, 9, 10, or 11 programs. The benefits came free of taxes or related work expenses.

At the same time, some of the families receiving benefits from five or more programs remained below the poverty level. Of course, many of those either ineligible for or not participating in this multitude of programs were provided much less support.

The pattern of multiple program participation is extremely varied. Almost two-thirds of AFDC families benefit from two additional public income transfer programs other than medicaid, while food stamp households participated in an average number of three major Federal income transfer programs. However, the small extent to which household units participate in the same particular mix of programs is remarkable. For example, of those AFDC families benefiting from two or more programs other than medicaid, only in the case of food stamps or food distribution and school lunch do more than 12 percent benefit from the same two programs.

Thus, it is clear that when all Federal program benefits are considered, benefits to household units in similar situations vary immensely. A multitude of quirks in the administration of all these programs may make the situation even less uniform than these numbers indicate.

The simplest vertical equity proposition is that persons who work ought to be better off than persons in the same circumstances who do not work. This obviously is not the case as applied to some families participating in a multitude of Federal programs. As the figures I cited in the last section imply, it is not even the case as applied to those receiving AFDC basic benefit levels and food stamps in high benefit States. In 1971, the wage at which work was a better financial proposition than AFDC equaled or exceeded the minimum wage in seven States. At that time, there were 5½ million full-time workers in the economy receiving less than the minimum wage. In 1974, year-round, full-time work at the minimum wage after taxes and work expenses was likely to provide a higher income than the maximum AFDC and food stamp bonus in only 13 States.

These facts are an indictment of inequitably high benefit levels for some recipients. However, to a large extent they are also an indictment of our failure to assist full-time workers who receive wages too low to escape poverty.

More subtly, vertical equity would seem to mean that a person's financial situation should improve as he expends more effort. Most of us would include in this concept some reward for savings and the rent, interest, and dividend income which may result, as well as a reward for earnings. The extent to which the present programs allow additional private income of various kinds to result in additional total income varies tremendously by program. This reflects the tough choices involved because of the high cost of allowing retention of program benefits as recipients' private incomes grow.

A very serious horizontal and vertical equity problem is created by the existence in present income support programs of so-called notches, or income levels at which an additional dollar earned results in the loss of considerably more than $1 in benefits. For example, medicaid worth hundreds of dollars or more may be lost when a person earns the dollar which causes him to exceed the eligibility ceiling for AFDC. Similar situations are created by other programs such as unemployment insurance. As a result, families with virtually the same nontransfer incomes receive considerably different Government benefit levels. Additional work is not only unprofitable, but penalized heavily.

The Work Issue

Income transfer programs can discourage work either by providing high absolute levels of benefits, or by "taxing" additional earnings through benefit reductions to such a degree that additional work effort is unprofitable. Of course, these two incentive effects are interrelated.

The magnitude of these effects is crucial because of their impact on the private labor market and income support program costs. To the extent that low-wage workers substitute Government support for earnings, the low-wage labor market contracts. Theoretically, this could lead to an increase in wages at the bottom of the scale and perhaps even absolute shortages of low-wage labor, although it is difficult to imagine that these effects would be important with unemployment at present levels. More seriously, a large-scale induced dependence on Government support would swell program costs greatly.

The extent to which these effects occur is without doubt the most emotionally charged welfare reform issue.

I have documented to some extent the incidence of high benefit levels. Because of the high percentage of poor families which have some earnings or other private income—63 percent with earnings and 83 percent with either earnings or other private income in 1972—the problem of income-related "tax rates" in transfer programs also is crucial.

A major aspect of this problem, which is often overlooked, is the cumulative nature of program work disincentives. For example, I have mentioned that for a broad range of income, the basic tax rate for additional earnings of AFDC recipients is 67 percent. However, if the AFDC family is among the 60 percent of recipients who also receive food stamps, the additional dollar of earnings also results in about an 8-cent reduction in its food stamp subsidy. If the family is among the 10 percent of AFDC recipients who live in public housing in addition to receiving food stamps, about another 8 cents may be lost to increased rent. Thus, rather than forfeiting 67 cents of the additional dollar, a family would forfeit about 83 cents. Its net gain from earning that additional dollar would be about 17 cents.

The family in question almost certainly would be enrolled in medicaid. Medicaid benefits generally are not reduced as earned income increases. However, as I have mentioned, at some level of earnings the additional dollar results in loss of all medicaid benefits.

This example of an 83-percent "tax rate" is far from the worst example which could be given. The problem generally worsens in proportion to the number of income-related programs used. Over higher ranges of beneficiary incomes, the Federal income tax also adds to the problem.

On the other hand, prohibitive benefit tax rates usually do not apply over the entire range of poverty-level earnings. For example, programs may allow different amounts of earnings before their tax rates apply, thus not subjecting earnings in a certain range to all program tax rates. Because these tax problems apply to limited income ranges, they may have more impact on decisions concerning the amount of hours to work than on the more absolute decision of whether to work full time or not at all.

It is important to recognize that the "tax"-related incentives work two ways. A lower tax rate on earnings increases the reward for working and thus encourages work. It also increases the penalty in terms of lost benefits for a given reduction in earnings. At the same time, a lower tax rate allows a person to achieve what may be considered an adequate income with less total earnings.

For example, $1 in earnings is 1⅔ times as valuable under program A, which reduces benefits by 25 cents with each dollar earned, than under program B, in which the tax rate is 50 cents. But if each program pays $1,000 to people with zero earnings and the earner wants to have $1,500, he must earn $667 under program A and $1,000 under program B. It is unclear which program will induce him to do more work.

Frustration with the work disincentives felt to be caused by income supplement programs' benefit tax rates has produced proposals to assist low-income workers with wage rate-related or earnings-related subsidies. If based on the wage rate, the subsidy usually would be some percentage of the difference between the worker's wage rate and the minimum wage or some other predetermined wage level. Both earnings subsidies and wage rate subsidies are designed to reward additional hours of work at low wages. The earnings subsidy phases out after earnings exceed a certain level. The wage rate subsidy phases out with increases in the rate, but not with increases in hours worked.

Because these subsidies increase the return from working in the ways just explained and because they are conditioned on participation in the labor force, they certainly are likely to impact upon work incentives less than the more traditional income transfer programs. But along the same lines as just illustrated for the traditional programs, the increase in adequacy of a person's income which results from the subsidy may discourage work. Furthermore, over the phase-out range of income for an earnings subsidy and for wage increases below a wage subsidy's target wage, these programs have the same types of benefit tax rates as the traditional income supplement programs. The empirical evidence indicates that because of these factors, wage subsidy plans actually may result in a slight decrease in hours worked.

The importance of all these incentives must be evaluated separately for present programs and likely reform proposals. I have mentioned that the only major Federal benefit program almost universally available to "employables" is food stamps. Since food stamp bonus amounts fall far short of total family needs and are decreased only by about 25 cents with each additional dollar of earned income, the food stamp program by itself is not likely to have a major impact on work. Furthermore, there is some evidence that the impact on work of cash benefits is far more important per dollar than the impact of benefits received in kind. However, if a food stamp recipient also receives several other forms of assistance, both total benefit levels and the amount of benefit reductions with increased earnings will increase. Thus, the impact on work may become greater. This is particularly true if one of the other programs reduces benefits dollar for dollar, which is presently the case in many States for unemployment insurance and for general relief over some ranges of income.

While the work issue is relevant for these people and some of those receiving other assistance such as SSI, under present law this issue primarily applies to AFDC recipients. Since only about 6 percent of 1973 AFDC homes contained able-bodied fathers and only a small percentage of these fathers were out of the labor force, the important issue is the extent to which AFDC mothers could work.

Most studies have found that between one-third and one-half of the approximately 3 million AFDC mothers are "employable", in terms of having much hope of holding a job which pays significantly more than AFDC. However, in January, 1973, only about 16 percent of AFDC mothers were employed, with over 6 percent employed only part time. Perhaps three times as many AFDC mothers work at some time during the year.

The same AFDC study indicated that about 47 percent of the mothers did not work because they were needed as full-time homemakers. Another 8 percent were incapacitated. These figures indicate that the percentage of AFDC mothers with any real hope of supporting themselves is far less than the studies based solely on potential earning power indicate.

Although a synthesis of these figures is difficult, a reasonable guess might be that 10 to 20 percent of the AFDC mothers at most are "employable" for full-time work but remain unemployed. This guess does not make any allowance for the extent to which we desire to have AFDC mothers work part time or at wages generally below the poverty line, which may be considerable. On the other hand, it does not take into account the extent to which employability is a meaningless concept in this slack economy because jobs simply are not available.

Nevertheless, between the 1967 enactment of a liberalized AFDC earnings disregard (and a work registration requirement) and January 1973, the labor force participation rate of AFDC mothers rose by 25 percent or more in 15 of 33 reporting States. The rate more than doubled in three States. These figures illustrate that the applicability of the work issue to the major beneficiaries of present income support programs is far from trivial. However, this review has indicated that it is rather limited.

The work issue looms more importantly in connection with most income support program reform proposals, virtually all of which would extend assistance to groups now generally considered employable. As discussed previously, the main groups in question are two-parent families with children headed by male workers and nonaged, nondisabled childless couples and unrelated individuals. This group may include about 8 million poor adults. Of course, inclusion of those with incomes just over the poverty line, who might either be covered by an extension of income support programs or be tempted to reduce work so that they would be covered, would enlarge this group considerably.

The likely effects of income transfers on the work habits of this group has been the subject of various experiments and quasitheoretical analyses. The evidence developed certainly is not conclusive, although many economists believe it is substantial. The most widely publicized experiment occurred largely in New Jersey, where 741 families with incomes below 150 percent of the poverty line in four cities received a "guaranteed income" for 3 years. Its sample was limited to families which included at least one work-eligible male aged 18 to 58, who was neither disabled nor a full-time student, and at least one other family member. Maximum benefits ranged from 50 to 125 percent of the poverty level and tax rates ranged from 30 to 70 percent.

There were several problems with the New Jersey experiment. Most seriously, the sample size was small, the participants knew that the income guarantees would last only 3 years, and the experiment took place in cities which already had very substantial local income support programs, However, to the extent the experiment could indicate anything under those circumstances, it appeared to indicate that a substantial income guarantee would not cause male heads of households to quit their jobs en masse. Male workers in families provided the guarantees worked about 2 hours less per week than male workers in other families, but earned slightly higher wages per hour. On the other hand, the very small sample size of working wives worked about 15 percent fewer hours than wives in families not supported by guarantees.

While there have been a few similar experiments and a few studies of the effects of specific programs, most other empirical evidence on the question has come from so-called cross-sectional studies. These studies attempt to measure a transfer program's effect on work effort by examining the labor force participation rates of persons with differing amounts of nonemployment income and differing wage rates. None of these efforts are free of theoretical problems and the cross-sectional studies in particular have produced a wide range of results. However, they tend to reaffirm the New Jersey experiment's findings that the types of extensions of income transfer programs generally under consideration would not drastically affect the work habits of male heads of households, but might affect to a much greater degree the work habits of their wives. Various studies also have indicated a greater sensitivity in work habits to income made available through transfer programs for the aged and for female heads of households. Study conclusions regarding the latter group, however, have varied widely.

From this fragmentary evidence it appears that nonaged poor male household heads may have even a stronger attachment to the labor force than economic incentives would dictate. For female heads of households the evidence reflects a higher alternative value on staying home to take care of children and the greater social acceptability of this decision than would be the case for male heads of households. Similarly, the greater sensitivity of the aged's work habits likely reflects the social acceptability of retirement and the greater difficulty of working relative to younger persons.

It also must be remembered that in all of these cases we most likely are talking about a small, although still very significant, percentage of the labor force.

My sense about this empirical data is that although we need to be concerned about the economic effects of possible work disincentives in the reform of income transfer programs, the economic problem is manageable and need not dominate all aspects of our thinking. We need to worry about these economic effects partly because we are not yet very certain what they will be. However, it appears that assuming benefit levels and tax rates are kept reasonable, the work disincentives issue may be more important in terms of equity than economics.

The AFDC, food stamp, and unemployment insurance programs attack the work disincentives problem partly by requiring able-bodied recipients to register for work and accept suitable training or employment if offered, or forfeit benefits. The low employment rates of AFDC mothers indicate that this approach has had less than a dramatic impact. However, 60 percent of the AFDC mothers have been excluded from this requirement because they have had children under age 6. The program also suffered from an almost miniscule number of job training slots, the AFDC mothers' employability problems and the limited number of suitable jobs for them.

As I have noted, the passage in 1967 of both the AFDC work registration requirement and the partial disregard of earned income for benefit determination purposes apparently did lead to increases in recipients' labor force participation in some States. However, these changes generally were greatest in States where the earnings disregard was liberalized most markedly from prior practice. There is no concrete evidence whether the work registration requirement itself made much of a contribution to these successes.

The same conclusion holds for the experience with work registration requirements under other programs.

Other Incentive Problems

The present welfare system's uneven coverage has been blamed widely for causing family breakups and encouraging additional childbirths. The programs are also charged with encouraging migration from the low-benefit South to the high-benefit urban North, and with encouraging dishonesty in the form of underreporting of income.

The financial incentive for family breakup in the AFDC program is obvious. A two-parent family with a fully employed male head is totally ineligible, but the family would become eligible if the husband left. Data collected by the subcommittee from 100 local areas indicated that this financial incentive for family breakup, assuming subsequent surreptitious support of the family through the father's earnings as well as public assistance, averaged $3,000 per year in 1972.

The concern about this problem was heightened greatly by the tremendous expansion of the AFDC rolls in the late 1960's. From 1967 to 1972, poor families headed by fathers decreased by 22 percent, but poor families headed by mothers increased by 36 percent. However, these figures seem to reflect a general population trend rather than a phenomenon related largely to AFDC. Between 1959 and 1972, the number of male-headed families in the nation edged up by only 8 percent, but the number of female-headed families increased by 70 percent.

It also appears that the increased number of female-headed families was only a minor factor in the rapid expansion of AFDC. Far more important were an increase in participation rates of eligible families and an increase in income eligibility levels. Between 1967 and 1970, participation rates for female-headed AFDC families increased from 63 to 91 percent of those eligible. Between 1967 and 1971, the median income eligibility level increased by 32 percent. Other factors contributing to the expansion included the liberalization of treatment for earned income, court cases which liberalized AFDC rules, an increase in AFDC error rates and general population increases particularly concentrated in groups most likely to be eligible for AFDC.

Thus, the conclusion that this family breakup incentive has not been a major determinant in the AFDC cost explosion seems solid. Some researchers have found it not to have any significant effects on family cohesiveness. However, one recent study using 1960 and 1970 data for 44 metropolitan areas found a strong positive relationship between increases in AFDC benefit levels and increases in the number of female-headed households, a negative relationship between increases in male wage rates and increases in female-headed households and a weaker positive relationship between high unemployment rates and the percentage of females heading families with children. It appears that this incentive effect cannot be discounted as purely theoretical, particularly in view of the evidence indicating the importance of changes in family composition to changes in poverty status.

A related issue is whether the AFDC program structure has encouraged illegitimacy. There is no evidence that the program has any substantial effect on illegitimacy rates. The proportion of illegitimate children on AFDC rolls did increase from 25 percent in 1961 to 32 percent in 1967 and has continued to be about one-third since then. However, most of this increase appears to be explained by increased program participation rates rather than by increased illegitimacy rates.

The extent to which child-bearing decisions may be influenced by Government benefits is not very determinable, although I always have been skeptical that the extent is very great. The subcommittee's studies indicated that the financial incentive to have the first child is considerably greater than the incentive to have additional children beyond the first. It appeared that a single woman, or a couple with the man unemployed, might experience a Government support gain in the $1,000 range from having the first child. In both cases, these increases are in the 50-percent magnitude over the level of Government benefits the couple might have been receiving before becoming parents and thus may be important incentives. Furthermore, such increases for both the first child and subsequent children vary greatly depending on the programs rendering aid.

The present status of the debate on migration incentives is similar to that concerning incentives for family breakups. While the incentives in the form of disparate program benefits are clear, the results of the empirical studies are clouded but in the expected direction.

The problem of incentives to underreport personal private income is present in any program which reduces total benefits as private income increases. This includes the income tax system, although the incentives are generally much weaker than for income transfer programs. The related incentive for family breakup would remain in any need-based income transfer program. Inclusion of two-parent families with working males in the program would reduce the incentive, but the incentive still would remain to the extent that the family's benefits were reduced based upon the male's earnings.

Administrative Problems

The subcommittee's study on this problem was subtitled "Welfare—An Administrative Nightmare." Even a partial listing of the program's administrative problems indicates the accuracy of this label:

Administrative costs in fiscal 1975 are estimated to have consumed 12 percent of AFDC funds, 8 percent of SSI funds, and 10½ percent of food stamp funds.

Local welfare agencies were beseiged by complicated regulations from vastly differing agencies—for example, from HEW for AFDC, the Agriculture Department for food stamps, and the State Civil Service Commission for personnel matters. The directives they are supposed to follow might fill a bookshelf 4 feet wide. To process 1 welfare applicant in Atlanta has required as many as 27 different forms. Detroit food stamp workers were responsible for using about 40 different forms.

Many of the rules are almost impossible to enforce, such as the denial of food stamps to households who have access to a nonmember's credit card. Others, such as the determination whether a person is suitable for employment, are extremely subjective. In the early days after the latter requirement was imposed, the percentage of AFDC recipients which States deemed "suitable" varied from 7 percent to 97 percent.

Recertifications of eligibility, although required every 6 months by AFDC regulations and necessary to determine changing income status, generally occur far less often and are often cursory.

In September 1973, HEW estimated that mostly as a result of administrative error, 10 percent of its AFDC caseload was ineligible for benefits, 8 percent was being underpaid, and almost 23 percent was being overpaid. These figures had dropped only moderately by June 1975, to 7.5 percent ineligible, 7.3 percent underpaid, and 17.5 percent overpaid, despite an extensive "quality control" campaign in which the States were threatened with fiscal sanctions. Agencies discover mistakes and fraud mainly by chance. Welfare fraud, perhaps partly because it appears relatively small in dollar amounts, has been virtually unchallenged by prosecution in more than half the States. Welfare agencies' ability to recover fraudulent payments through subsequent benefit reductions has been limited by lower courts.

Understaffing is chronic. Service workers in many offices have average caseloads more than 3 times as large as HEW's pre-1969 limit.

Welfare agency employees' efforts are diverted from regular eligibility and redetermination work to deal with problems such as lost or stolen checks, overdue rent payments of recipients, processing of minor legislative changes and involvement in litigation. Another drain on agency resources comes from the drastic increase in requests for hearings prior to terminations of benefits, which are required upon request by a 1970 Supreme Court decision. In some offices, the backlog for such hearings exceeds 1 year, during which time recipients must be paid despite the preliminary ruling against their eligibility .

Caseworker turnover is rapid. In 1969, HEW reported that in 11 cities studied, more than half of the caseworkers had been in their jobs less than 2 years.

Each additional income-related program exacerbates these problems greatly. It either adds a bureaucracy or a new set of rules with which the existing bureaucracy must cope. Rules such as the definitions of income-eligible filing units and accounting periods have been markedly unstandardized for different programs. When the same eligibility data can be used for more than one program, as is now done to some extent, errors made in the processing of the applications are compounded automatically.

This list of horrors does not even reach the effects of such a system on its intended beneficiaries. The inconvenience to them obviously increases with the complexity of obtaining benefits, particularly when it is necessary to deal with separate agencies. The objections against the AFDC program's intrusions on their privacy and its widespread arbitrariness in applying statutory rules to them have been well publicized. In addition, I believe that the stigmatization of this group, which has been reinforced heavily by the paternalistic nature of this administrative structure, has clouded income support-related issues to the considerable detriment of the Nation.

I fear that past proponents of welfare reform have underestimated the difficulties involved in improving this situation. The determination and verification of income and assets is intrinsically a complex and difficult matter. Furthermore, possible gains from integration of program administrative functions are limited greatly by differences basic to present program mandates, such as the different types of eligibility units covered by AFDC and food stamps. Nevertheless, it is obvious that greater program simplicity is extremely important and worth considerable sacrifice in terms of rules less adaptable to individual situations. Important gains would seem possible even if present income support programs are retained. I have introduced a bill, the Benefit Program Coordination Act of 1976 (S. 3160), which is designed to foster congressional action of this type.

The Multiplicity of Programs

I have dwelt at some length on the inequities, work disincentives, and administrative complications which relate directly to the multiple program structure of the Federal income support effort. In view of these problems, an evaluation of the extent to which the individual programs serve important and distinct functions seems crucial. I generally will confine these brief comments to the programs which are most important in terms of dollars and concepts: The social insurance programs and the major in-kind programs for food, housing and health. However, the kinds of arguments I will cite certainly are relevant to programs I do not mention.

The social security and unemployment insurance systems are crucial to the income support picture if for no other reason than their sheer size. The social security system alone almost dominates the income support picture, by paying out about twice as much money per year as all strictly need-based programs. Both social security and unemployment insurance were enacted as contributory earnings replacement plans. Social security was to be a means of forced savings so that a person's income would not drop below a certain proportion of his annual earnings upon retirement. Unemployment insurance, similarly, was designed to maintain for a temporary period a newly unemployed person's income at some proportion of its former level so that he could adjust to his new situation and look for another job without undue hardship.

These purposes are far different from those of a need-based income support program. While there has been increased debate about them recently, I believe that the vast majority of Americans still feel that these purposes are worthwhile.

However, partly in response to the gaps in our need-based programs, both of these programs have been diverted somewhat to serve general income support purposes. Elements of the social security program that perform welfare functions include the artificially high minimum social security benefit, a replacement rate for low earnings that is six times that for the highest earnings covered and to a lesser extent, the extension of dependents' benefits to persons not members of the immediate family. Aspects of the unemployment insurance program with similar functions are dependents' allowances, the coverage of seasonal workers, and the extension of benefits for periods longer than 1 year.

The trouble with these efforts is that they are extremely costly and inequitable ways of providing income support, because they relate very imperfectly to the needs of their recipients. For example, a beneficiary of the minimum social security benefit also may be receiving an $8,000 civil service pension which adjusts upward for cost-of-living increases. The unemployment insurance system pays a worker with a moderate-wage seasonal job, while it ignores a worker earning the same income from a year-round, low-wage job.

As we are becoming much more aware in view of the social security system's well-publicized financial problems, funding for these programs is not unlimited. To the extent that benefits are paid out in ways attempting to fulfill basic income support needs, there will be less benefit money for fulfilling the programs' basic functions.

These are arguments for a restructuring rather than elimination of the programs in question. However, it is difficult to insist on changes which would reduce aid as long as those who would be affected adversely are not consistently provided adequate help by need-based programs.

A major decision for welfare system reformers is the fate of the programs which provide assistance in kind rather than in cash. Because of the size of the program and the similarity of the benefits to cash, the food stamp program has been at the center of this debate. Despite the prevalence of the issue in the two-Congress debate over the family assistance plan and almost continuous attempts to resolve the problem since then, the question of whether to "cash out" food stamps remains unresolved even though it has been considered only for SSI recipients. While one of the two House-passed versions of the family assistance plan would have cashed out the food stamp program entirely, as of June 1976 the program had been cashed out only for SSI recipients in four States.

A dominant consideration in this debate has to be whether food stamps have effects different enough from cash to justify all the problems endemic to an additional support program, as well as the program's unique stigmatizing effect and low participation rates. When their effect is to replace income which would have been spent on food and thus free it up for other uses, their impact is the same as that of a cash program.

Department of Agriculture studies have found in both 1969 and 1974 that each dollar of food stamp bonus value appears to increase very low income families' food purchases by an average of at least 50 cents. These families normally would increase their food expenditures by roughly 20 to 30 cents when they receive an additional dollar of income. Thus, according to these studies, food stamps are about twice as effective as cash in increasing family food purchases over very low income ranges. Other studies, which HEW's income maintenance experts believe to be more accurate, indicate a much smaller but still significant gain in very low-income families' food consumption resulting from receipt of food stamps rather than cash.

All these studies indicate, however, that this effectiveness falls off rapidly as family incomes rise. In addition, to an extent which appears to be very significant, the additional food expenditures may reflect more TV dinners and soft drinks rather than a more nutritional diet. Furthermore, it is unclear at best whether the Government's dictation of poor families' consumption patterns generally serves a useful purpose even when successful. To take the most drastic but nevertheless real example, a penniless Mississippi AFDC family of four currently receives $60 per month in cash, but for $13 it can purchase $162 worth of food stamps. Thus, if the family is honest it must spend 78 percent of its total income on food, with $47 per month left for rent, clothing, and other needs. This type of situation makes it no small wonder that the black-market price of $1 in food stamps is only about 50 cents.

The cash-out debate also must take account of the phenomenal expansion of the food stamp program, from 400,000 recipients in fiscal 1965 to 4.3 million in fiscal 1970 and about 18.8 million in February 1976. This expansion has occurred despite, and partly because of, the program's coverage of all the groups to which Congress refused to extend Federal cash assistance when it rejected the family assistance plan. Even the hot debate this year over the program has been totally within the context of its present structure. The Congress obviously has been far more willing to provide food aid than cash aid to all of America's needy citizens.

Our subsidized housing programs are also partial substitutes for income transfers which alter consumption patterns. However, their status is much more complicated than that of food stamps because of additional goals such as increasing the supply of adequate low- and moderate-income housing, racial and economic integration and neighborhood conservation.

Although an improved cash income transfer program would move us somewhat in the direction of these housing goals, it certainly could not substitute totally for housing production and conservation programs. It does appear that these subsidies can be made much more selective. For example, in some situations the dollars spent to allow a poor family to live in expensive new housing, which a large proportion of our population cannot afford to do, would be spent far more equitably under a cash support program. But just as in the case of social insurance, the absence of a comprehensive, adequate income support system makes this "ideal" strategy virtually impossible to insist upon.

I believe that a subsidized health care program is likely to stay with us regardless of changes in other needs-based programs. In my judgment, Americans are more willing to provide benefits to the poor in the form of needed health care than in any other particular form.

It thus appears that for the foreseeable future, several transfer programs will serve Americans in need. In the last section, I indicated that our efforts thus far to coordinate programs through means such as standardization of various program components have been nil. The tremendous variations both in total benefits received by similarly situated families, and in high cumulative benefit tax rates, indicate a similar lack of coordination regarding these crucial program elements. Furthermore, I believe that many of the specific coordination arrangements which have been made, such as the SSI program's 100-percent tax on social security benefits exceeding a small disregard amount, need to be reconsidered.

Summary: How the System Has Failed

This review has indicated several ways in which the present need-based income transfer system is seriously deficient:

Across the Nation, about 12 percent of the population remains poor by the Census Bureau's definition.

In some States, benefits even for population groups favored by the system, such as single women with children, are not sufficient to provide a minimally adequate standard of living.

Poor family units consisting of two-parent families with children and nonaged individuals and couples without children benefit far less from the present programs than other families equally poor. A great many of these people are poor despite the full-time work of the household head.

The combined level of basic AFDC and food stamp benefits in most States, and of benefits from these and several more programs in more States, is substantially more than amounts earned by millions of full-time workers.

The multiple benefit system, as well as some individual programs, contain major disincentives to work. These include instances of high cumulative benefit levels for those who have no outside income "tax rates" on earnings which may become prohibitive once the tax rates from several programs are accumulated, and "notch" situations in which a dollar of earned income causes a drop in the recipient's actual income.

The lack of AFDC coverage for two-parent, male-headed families or those without children creates incentives for family breakups and for having a first child.

The system is full of administrative overlap and inefficiency, which eats up taxpayers' dollars and leads to a higher incidence of error and abuse.

The multiplicity of programs aggravates the administrative problem and even may have allowed the system to reach the level of uncontrollability. No systematic effort to coordinate these programs has been made.

Part 2. SOLUTIONS?

POLITICAL CLIMATE

The defeat of the Nixon family assistance plan may have been the most conspicuous legislative failure of the past decade. It behooves would-be reformers to consider carefully the lessons to be learned.

The family assistance plan basically would have provided a uniform minimum cash benefit, based upon family size and phased out as private income increased, to all American families with children. Families would have been categorized into those with "employable" adults and those with "unemployable" adults. "Employable" persons would have been required to register for work, with benefits reduced by several hundred dollars if they failed to do so. About one-third of the family assistance plan's funds would have been devoted to day care, job training, and public service employment programs to increase the number of employables who actually could work. Nevertheless, none of these programs would have provided anywhere near enough slots for the majority of employables.

The basic benefit tax rate in various versions of the family assistance plan was 50 or 67 percent. However, efforts to coordinate the plan with other assistance programs were insufficient to prevent either notches or exceedingly high cumulative tax rates for some beneficiaries of several programs.

The family assistance plan was passed by the House of Representatives, without debate upon any major alternative, in both 1970 and 1971. However, the plan never was considered favorably by the Senate Finance Committee. The legislative effort died there in 1970. In 1972, the committee reported its own version of "reform." This version, like the family assistance plan and the more generous alternatives patterned along its lines which were offered in the Senate, classified families into those with and without employables. Those with employables could receive assistance only by working in a guaranteed public service job program for which the wage would be three-fourths of the minimum wage, or by receiving benefits designed to supplement private earnings. These benefits included a subsidy of three-fourths the difference between the private wage—if it were at least $1.50 an hour—and $2 per hour; and a "work bonus" of 10 percent of earnings which would begin to phase out when earnings exceeded $4,000.

In the Senate Finance Committee's hearings on the family assistance plan, the Senators made much of the implicit notches which the proposal contained for recipients also receiving such aid as medicaid, food stamps, and public housing. The administration agreed to submit modifications which would eliminate notches entirely. Such a plan later was submitted. However, the cost of eliminating the notches was an increase in the combined tax rate for basic benefit programs to the 70-to-80-percent range and a decrease in medicaid and food stamps for those with the lowest private incomes. The committee continued to zero in on the program's disincentives to work and this was a major motivation for its alternative proposal.

Several points concerning this congressional action seem clear.

First, adequate treatment of the work issue was of paramount importance.

Second, the cost issue also was dominant but had a more complex effect. In line with the crisis theory of Government action, the cost explosion in AFDC was cited by many moderate supporters of the family assistance plan as the major reason that Congress needed to do something about welfare. It also was alleged that the plan would save money in the long run. On the other hand, conservatives argued strongly that the plan would put 10 million more people "on welfare" and increase welfare costs by $5 billion. The presence of a large initial cost was not disputed.

Third, the chances for the family assistance plan were hurt by some liberal dissatisfaction with the benefit levels. It appeared that the focus of the debate upon the guaranteed benefit levels for penniless families, even though most poor families would augment their total incomes with earnings and possibly other income or benefits from other programs, contributed importantly to this problem.

Fourth, there seemed to be solid support for helping poor persons who are working.

Among other coherent points were the great political attractiveness of fiscal relief for State and local governments, considerable support for the food stamp program and considerable interest in the job training and day care programs.

There have been several important changes in the situation since that time. In the programs themselves, food stamp coverage was universalized effective July 1, 1974, and the SSI program commenced on January 1, 1974. The skyrocketing in AFDC costs ceased at least until 1974 when they lurched forward once again. In the world surrounding the programs, the deep recession, the additional distance placed between the present and the ghetto uprisings of the 1960's and increased realization by politicians of the need for Government fiscal discipline appear to have been the most relevant changes.

The impact of the severe recession on the work issue is one of the most important and imponderable political questions. The extremely difficult job market for a wide range of Americans certainly should have dissipated popular associations of unemployment and laziness. I believe that this development also has made Congress more pessimistic about job training programs and probably less willing to provide day care programs so that young mothers can look for work. It certainly gave rise to clamor for Government-created jobs, not necessarily designed just for those with extremely low resources. The prolonged shortage of jobs does not seem to have weakened the public belief that people who can work ought to at least try to do so as a condition for receiving Government assistance.

The most important result of the other changes appears to be the lack of a "crisis atmosphere." We seem to be at the opposite end of the political pendulum. The lack of any situation comparable to riots or the AFDC cost explosion has been coupled with a situation in which middle-income Americans have had too many economic problems to worry very much about the plight of our poorest citizens.

Thus, the lack of welfare reform legislation proposed in this Congress is not surprising. Other than the Fiscal Policy Subcommittee proposal introduced in the 94th Congress by Congressman Cornell and Senator Javits, the only legislation of note deals with the AFDC or food stamp programs piecemeal. The present position of the Finance Committee is indicated by Senator Curtis' bill, which is cosponsored by committee Chairman Russell Long and seven other committee members. It simply tightens up various AFDC provisions in ways calculated to trim program costs by more than 15 percent.

It is clear that the 94th Congress will not consider comprehensive income support legislation.

The Basic Dilemmas for Reform Efforts

The task of improving drastically our income support system is so difficult because of the basic tradeoffs it must involve. The most obvious is the conflict between the need to provide adequate benefits and coverage and the need to minimize costs.

In particular, the provision of more adequate benefits and coverage for families headed by working males and childless households, with a sufficient reward for work retained, could cost billions of dollars. This money can come only from additions to net program costs or from savings effected by the alteration of present programs. In turn, those savings would have to come from either increased program administrative efficiency or decreased benefits for some groups of present recipients, most likely AFDC families in high-benefit States and multiple program participants. Billions of dollars' worth of savings from these sources may be possible, but a comprehensive program nevertheless would have a significant initial net cost.

More specifically, there is an inherent conflict between the goals of providing the most adequate benefits possible to those most in need, encouraging work and keeping costs reasonable. The goal of benefit adequacy for the poorest would dictate a high basic benefit level. However, the goal of encouraging work would dictate low benefit tax rates so that the financial incentive to work is not undermined. But given the basic benefit level, a lower tax rate means that eligibility for benefits will extend higher up the income scale. Since the American distribution of income is diamond-shaped, the expansion of program eligibility levels into moderate income ranges causes rapid increases in program costs. In addition to their cost, these work incentives divert an increased portion of program funds away from those more in need. For example, the food stamp program treats earned income generously, but largely as a result, between one-fourth and one-third of the program's benefits are received by the non-poor.

There is no way around these basic conflicts. Work incentives could be maintained and the level at which program eligibility ends, the "break-even level," could be kept low by lowering the basic benefit amount. However, that step conflicts with the goal of adequate benefits for those most in need.

Some proposals attempt to minimize this problem by continued categorization of recipients into families with employable and unemployable members. These groups then can be treated differently. However, that categorization has costs in itself, both in terms of administration and the human costs involved when errors in categorization occur. It also glosses over the fact that people may have considerable choice in whether they are "employable" or "unemployable." It is not crystal-clear why an unmarried woman who has a baby is more deserving than a young married couple who delay having a family until they can afford it, yet she would be given more favorable treatment by such proposals.

The Reform Alternatives

There are several basic alternatives for improving the income support program mess. These include: incremental reform centered upon the AFDC program; enactment of comprehensive income supplements; enactment of demogrants; reliance upon an enlarged group of non-cash or in-kind programs; and enactment of work-conditioned income supplements.

The most frequent proposals for incremental reform call for a national AFDC benefit floor, federalization and standardization of AFDC administration and the extension to the entire Nation of the unemployed fathers program. Other proposals frequently mentioned include the simplification of administration through means such as the substitution of flat grants for grants conditioned upon actual family expenses (already adopted by many States), a systematic effort to relate the program to other benefit programs and a restructuring to improve work incentives.

The comprehensive income supplement approach basically differs from AFDC by extending coverage to two-parent families with children and fathers working full time, as well as households without children in most proposals. Like AFDC, it is comprised of a basic cash benefit which phases out as outside income increases, with the phaseout at tax rates low enough so that work incentives will remain. Such proposals generally would attempt to replace some in-kind programs with cash. They also generally attempt to achieve much better coordination with the other income support programs which would remain.

The family assistance plan was this kind of grant program, although without universal coverage or adequate coordination with other programs. The Cornell-Griffiths-Javits Fiscal Policy Subcommittee proposal also is basically this type of program, although part of the benefits would be paid out in the form of a rebatable tax credit. The income supplement program, which was developed by the administration in 1974 but not submitted to Congress, was a purer example of this option because it was the only major proposal in which coverage was truly universal. It was also the only such proposal which relied solely upon the tax system for benefit determinations. Thus, it qualified as a classical variety of negative income tax.

The demogrant approach could be viewed as a variant of the comprehensive income supplement approach, under which basic benefit amounts are paid to all citizens regardless of income. The children's allowances paid universally in several European countries are an example of demogrants. The Joint Economic Committee's proposal to substitute a uniform rebatable tax credit per person for our present personal exemption and low-income allowance is another example. Senator McGovern's 1972 campaign proposal to provide $1,000 to every American citizen is an example of a proposal in which demogrants would be used as the major means of income support. The National Urban League recently has advocated a similar proposal, labeled a refundable credit income tax.

Although the demogrant benefits technically do not phase out with increased income, most responsible programs for large demogrants are accompanied by a proposed overhaul of the present income tax system. In addition to the elimination of many so-called tax loopholes, these proposals generally change the present progressive tax rate to a flat rate in the 35- to 50-percent magnitude. Of course, this rate effectively determines the income at which families begin to pay taxes because their tax liability exceeds the demogrant for which they qualify. Rates of taxes actually paid would be progressive.

Work-conditioned income supplement proposals generally treat families with employable members far differently from those without such members. Families without employable members would be provided income transfers, perhaps under the present AFDC program structure. The incomes of those working in full-time private employment generally would be supplemented by wage rate or earnings subsidies.

These plans usually have been accompanied by a guarantee of public employment at a very low wage level. Without such a guarantee, the proposal would help those who have jobs while leaving out millions in the generally more needy group of households with unemployed workers.

The Senate Finance Committee's 1972 proposal was the most-discussed example of the work-conditioned income supplement approach.

Two other major work-related strategies sometimes advocated are minimum wage increases and vastly expanded public service employment at the moderate-wage level we have known it, rather than at minimum or subminimum wages. However, even a cursory look at these approaches should convince us that neither can be the answer to our income support problems. Although Congress can mandate an increase in the minimum wage, it cannot mandate the multimillion job increase in the private sector which would be necessary so that work is available for those who need it. There is increasing evidence that raising the minimum wage instead reduces the number of jobs, particularly for teenagers. Furthermore, any benefits from a minimum wage increase would not be targeted very efficiently on poor families.

A universal public service employment program at the wage levels of such past programs would be too costly and disruptive of the private labor market to be a realistic option. For example, the average salary in the public employment program of the early 1970's exceeded $6,000 per year, but the number of regular public and private sector workers earning less than $6,000 exceeded 25 million. Of this number, 7.7 million were heads of families with dependent children. If public service jobs were available universally at today's considerably higher average salary level, millions of private sector workers could be expected to switch over.

In addition to its cost to the Federal Government, such an occurrence would inflate private sector wages considerably and constitute a grossly inefficient income transfer, because the Government would be paying the full worker's salary to increase the worker's income only by the difference between the public employment and private employment earnings. Past experience also indicates that it would take administrative ingenuity not previously with us to prevent use of a substantial portion of the funds simply to replace present jobs in State and local government. For these reasons, the type of public service employment programs we have had must be limited to a complementary role rather than a substitute role in any restructuring of income support programs.

Those who would rely upon the income in kind strategy generally assume that the poor's support needs would be met mostly by food stamps and a major new housing allowance program. To help ease benefit accumulation and program coordination problems, some would argue that expanded programs of this type should be a total replacement for AFDC.

Evaluation of Alternatives

Naturally, the least bold alternative is the easiest to evaluate. Specifically, I have little trouble advocating a nationwide benefit floor for AFDC. The role of assuring that the poorest eligibles receive minimum acceptable benefit levels would seem much more appropriate for the Federal Government than its present role of reinforcing State benefit decisions by matching program costs. This would be a step toward removing an extremely serious interstate inequity and toward mitigating the migration incentives which the program has created.

States would have to be given the option of supplementing such a benefit floor, but it appears that a reasonably minimum benefit level in terms of cost and adequacy can be set which still allows virtually all States to pay present benefit amounts without incurring additional expenditures. A possible means of improving the proposal's benefit adequacy would be to require minimum levels of State supplements.

As I have implied, I generally would be in favor of efforts to standardize program administration. It is clear, however, that discretionary programs to take care of emergency assistance needs will have to be continued.

The extension of the unemployed fathers program to all States certainly would include in the program one of the neediest groups now excluded. Another major benefit would be reduction in the program's family breakup incentives for this group of families. The proposal's cost, about $120 million per year, is relatively modest.

The present program's requirement that the father be unemployed at the time of application, and its notch at 100 hours of work per month, could create significant work disincentives. However, in view of the considerable income shortfall of some families where the father has neither a job nor sufficient unemployment compensation, the persistence of high unemployment rates and the evidence that income transfer programs might have only limited effects on the work habits of male household heads, I would vote for this proposal.

A standardization of the work expense deduction, so that the incentive for recipients to increase work expenses is removed, appears to have merit. Elimination of the double standard of eligibility for AFDC, which entitles mothers already on welfare to receive cash supplements that are denied to others with identical earnings and family structure but no history of using the program, seems important but may be very expensive.

Several of these proposals, such as the extension of the unemployed fathers program in particular, increase the need for improved coordination of AFDC with other support programs. One possibility worth examining is establishment of a variable AFDC tax rate which would depend upon the other programs in which the families participated (but not the amount of benefits received from each program). Such a tax rate could reduce both work disincentives and the undesirable incentives to participate in other programs which would be implicit in a simple tax ceiling plan for accomplishing the same purpose. A low tax rate for State supplements also could be mandated. Another possibility would be an absolute limitation on the number of programs in which an AFDC recipient could participate, with the choice of programs left to the family.

Despite any such efforts, it is clear in view of the factors I mentioned in the section on administrative problems that the incremental reform approach would be unlikely to result in drastic program coordination improvements. This conclusion is a simple byproduct of continued reliance upon a multiplicity of programs.

The incremental reform approach also would not solve the problem of inadequate coverage for families headed by working males and households without children. In fact, present inequities would be worsened by a large increase in AFDC benefit levels concentrated in low-wage areas.

In my judgment, this is an extremely serious shortcoming. The expansion of the food stamp program certainly has lessened the disparity between this group and AFDC eligibles, but obviously the disparity is still great. For the reasons I outlined in the section on equity, I feel strongly that the basic income support program should include both male-headed families with children and individuals and couples without children.

Once the decision that a comprehensive program is needed has been made, one of the toughest questions is the future of the only comprehensive Federal program we now have, food stamps. I feel that unfortunately, the strongest argument for retaining the program rather than replacing it with cash is its political success. A cash program would have to be designed very carefully to minimize the risk that it would become an inadequate replacement because of less political support. The clear evidence that food stamps do increase very low-income families' food consumption by perhaps 10 to 20 percent more than would a cash program with comparable benefit amounts also is a consideration, although it must be tempered by the significant extent to which this consumption appears either to be excess or not to improve family nutrition levels.

On the other hand, I feel that the administrative gains in terms of simplification and greater controllability of the income support system would be extremely important. These positive effects would show up not just in an immediate rationalization of the programs, but also by affecting long-run congressional consideration and treatment of other income support programs. Judging from the limited predictive value of the AFDC experience, it also appears likely that a cash program would have a substantially greater participation rate than food stamps. Since the incidence of food stamp participation certainly is not related systematically to need, this development would increase program equity. Of course, it also either would increase program costs or result in lower benefit levels.

In addition, the argument that the poor are made better off in their own terms by the receipt of a dollar of unrestricted cash than $1 of food stamps should not be ignored. As illustrated earlier, the improvement in well-being involved is crucial for some families.

I conclude from these arguments that the income support system would be improved if the food stamp program were replaced by cash. However, it certainly would be unsatisfactory to eliminate the food stamp program without an adequate cash assistance program to take its place.

Since many of the same considerations are involved, it is opportune at this point to discuss an "in-kind strategy" involving a new housing allowance program as well as food stamps. As in the case of the food stamp cash-out issue, the strongest argument for going this route is that it may be the political line of least resistance. However, the $10 to $15 billion cost of a universal housing allowance program with a 25-percent benefit tax rate, as well as the possibility that housing inspections would be required for all dwelling units of participating households, certainly would temper its political attractiveness.

To the extent to which such a program would be successful in directing more income to housing than an income supplement program, it also may spur some integration and improvements in the housing stock. The success in attaining these goals, rather than in inflating rents, would depend partly on the success of attempts to fine-tune the program to market variables such as vacancy rates. Because housing markets vary so widely, I am skeptical that a universal housing allowance program makes sense. But if the program were not universal, it could not be a total substitute for cash support.

The addition of a housing allowance program to the present program collection would worsen administrative and program coordination problems. As with food stamps, the argument for leaving consumer choices with the poor also is relevant.

These considerations convince me that the in-kind strategy is inferior to the comprehensive cash supplement strategy. One compromise which makes sense to me is to look harder at the possibility of incorporating cost-of-living differences in a cash program. I am convinced that the justification for such a differential by region is outweighed by the complexities and administrative complications involved. However, the case for an urban-rural differential seems stronger and would appear likely to have a disproportionately large impact on housing. Since the inequities and administrative problems inherent in establishing such a differential may outweigh its merits even in this case, the idea deserves more investigation.

Simplicity and low benefit tax rates are the most attractive parts of the universal demogrant alternative. Its universality also may be a political advantage, although the fate of Senator McGovern's $1,000 per person proposal argues otherwise for demogrants large enough to replace the current income support programs.

Along those lines, I must conclude that the cost of any such demogrant alternative makes the approach totally unrealistic at this time. The amount of tax increases required to finance the National Urban League's demogrant proposals in 1970, assuming the enactment of the tax reform which the League's plan also advocates, is estimated to have been in the $31 billion to $47 billion range. Furthermore, the National Urban League's tax reform goals are far more ambitious than Congress is likely to achieve in the foreseeable future; the more ambitious option would have increased taxable income by 72.1 percent in 1970, while the less ambitious option would have increased taxable income by 57.9 percent. The only way Congress could adopt the National Urban League's demogrant option if it falls considerably short of the tax reform proposals would be to increase tax rates for persons with moderate incomes far more drastically than I think is acceptable.

A comprehensive income supplement plan, such as a negative income tax, moves the system in the same direction as a demogrant approach but is a far more realistic option. A closer look is warranted at both of the detailed proposals of this type which have been developed in recent years, the Subcommittee on Fiscal Policy's proposal and HEW's income supplement program.

There are three basic components to the subcommittee proposal. First, the SSI program would remain the means of assuring minimum income support for our aged, blind, and disabled citizens. Second, the present $750 personal exemption and the low-income allowance, which sets a minimum under permanent law of $1,300 for the minimum standard deduction (an amount which has been raised temporarily and appears soon to be raised permanently), would be replaced by a rebatable tax credit of $225 per person. This tax credit would be worth more cash than the personal exemption to taxpayers with earnings lower than about $23,000. Third, eligible families would receive income supplements of, for example, $2,700 for a two-parent family of four with no outside income. Thus, the basic benefit for such a family in the original subcommittee proposal would have been $2,700 in income supplements plus $900 in tax credits, or $3,600. In the bill introduced this Congress, the proposed grant amount for such a family is $700 higher. The income supplement portion of the grant would be reduced by 50 cents for each dollar of earnings.

The proposal contains several other important tax relief components. It exempts from taxation all persons receiving grant benefits. To avoid socking the person who earns just too much to be eligible for a grant with his entire tax liability of several hundred dollars and thus creating a serious notch, the proposal also limits income taxes at that point to 50 cents of every additional dollar earned until the person's tax liability meshes with the regular income tax structure. This provision generally extends tax relief to families earning several thousand dollars more than any families receiving program grants, or to the $9,000 range for a family of four. In addition, a standard employment expense deduction for one-parent families and two-parent families with both parents working would replace the present and much less expensive child care deduction, in recognition of these families' disproportionately high employment costs in terms of both actual child care expenses and the alternative value of their time.

The HEW income supplement program would work through the tax code to determine all persons' eligibility for income support, including present SSI eligibles. The plan would increase both personal exemption levels and the minimum standard deduction in such a manner that their sum would equal the maximum earned income at which a person could receive the transfer payments, or breakeven level. A family then would be paid half the difference between its earned income and this level. So that most of the tax relief would be limited to persons who do not itemize tax deductions, the preponderance of the increase would be made in the minimum standard deduction rather than personal exemption levels. To cut program costs and the amount of tax relief further, the amount of the minimum standard deduction would be phased down over income levels which just exceed the breakeven levels.

For example, HEW considered an increase in personal exemption levels to $900 and an increase in the low-income allowance, which would determine the minimum standard deduction, to $3,600. For a family of four, this would have meant that the breakeven level, the sum of its personal exemptions and minimum standard deduction, would be $7,200. Its transfer payment then would be half the difference between $7,200 and its earnings, or $3,600 at the zero earnings level, $2,600 at the $2,000 earnings level, and zero at the $7,200 earnings level. Earnings over $7,200 would be considered the first dollars of taxable income, just as the first earnings exceeding the sum of the minimum standard deduction and personal exemptions are treated under present law. However, additional taxes on these first taxable dollars would be needed to phase down the minimum standard deduction. Such taxes would increase by 50 percent the family's marginal tax rate (from 14 percent to 21 percent in the lowest bracket), if 50 percent were the phase-down rate for the minimum standard deduction.

Some of the similarities of these independently derived proposals are striking. First, the original proposals have virtually identical basic benefit levels which, for a two-parent family of four, slightly exceed 70 percent of the poverty line. The remaining gap between the basic benefit level and the poverty line is left in recognition that more than four-fifths of these families will supplement program benefits with private income; that many of the poorest families still will receive additional Government benefits in the form of State supplements and other types of assistance; and that the trade-off between basic benefit levels, benefit tax rates, and program costs is severe. Both plans contain as an integral component a cashout of food stamps. They also share a 50-percent basic benefit tax rate, although the effective rate appears to be lower in the Joint Economic Committee proposal because of deductions allowed for payroll taxes and in some cases, employment expenses.

Because of its importance, the common decision concerning benefit tax rates deserves further comment. The subcommittee felt that a rate higher than 50 percent might be too great a work disincentive and would be unfair to workers. The subcommittee also recognized that receipt of other benefits such as State supplements would raise the cumulative tax rate, thus exacerbating these problems. On the other hand, given a $3,600 basic benefit, it appeared that reductions in the tax rate below 50 percent simply would be too costly to be acceptable. For example, one of the subcommittee's computer models produced estimates that a reduction to 40 percent would raise the gross cost of income supplements by 31 percent and increase the number of eligible recipients by 40 percent in 1976. HEW's calculations indicated a much smaller universe of recipients for its proposal, but nevertheless led to adoption of the same tax rate.

Although there obviously is no magic rate, this judgment appears reasonable to me. A less expensive way to reduce relevant tax rates than the subcommittee's various deductions, however, could be to impose a higher tax rate on earned income up to some amount considerably lower than the pay for any full-time job we are interested in encouraging people to take. The savings realized could be used to allow a lower tax rate for earned income exceeding this amount, which would improve work incentives in the most relevant income ranges.

The proposed 50-percent tax rates necessitate careful coordination efforts with the benefit programs which would remain. Although I do not know the details of the administration's efforts along these lines, I gather that their proposals were similar to those of the subcommitee.

The subcommittee did make an exhaustive coordination effort. Its main components are that most but not all—two-thirds—of social insurance benefit amounts would be counted as program income; State supplements would have to be designed so that their tax rate plus the program's tax rate would not exceed a ceiling of 60 percent for earned income; the tax rate for any health insurance program should not exceed 10 percent and various programs with the sole purpose of income support, such as veteran's pensions (as distinguished from veteran's compensation) would be counted wholly as income for program purposes.

Coordination efforts along these lines seem reasonable to me. Even with these efforts, however, cumulative tax rates would rise considerably above 50 percent for a sizeable group of participants who would not receive the work expense deduction, or who would lose some State supplement or health benefits as their earnings rise. For the group of recipients in public housing or who are receiving social security amounts in a certain range, the tax situation could be considerably worse. Furthermore, to all these losses must be added the losses associated with earnings-related increases in social security taxes.

These tax rates would not reach confiscatory ranges and thus might have only minor effects on the work of male households, but the proposal is far from ideal. Some further steps of a type I have discussed, such as a declining basic tax rate or a variable tax rate in the cash program, may be necessary.

The initial net cost of the subcommittee proposal is considerably greater than that of the HEW proposal. A large part of the difference between the cost of the two plans results from the subcommittee's tax credit. This provision gives billions of dollars more tax relief to those in the $10,000 to $25,000 income range than the HEW proposal. Of course, the 1975 tax cuts have provided some relief for this group and the 1976 tax bill is likely to extend that relief.

The HEW proposal may be slightly more advantageous to some taxpayers who do not itemize their deductions and can take full advantage of the increase in the minimum standard deduction. It certainly provides greater benefits to taxpayers with incomes exceeding the $25,000 range who can take greater advantage of the increases in the personal exemptions and are penalized by the subcommittee's tax credit proposal. However, such situations obviously do not offset the tax relief element of the credit.

A surprisingly large part of the increased cost due to the credit comes from payouts due to its rebatable nature, rather than reduced tax liabilities. These payouts would be made to a considerable number of people who would be excluded from income supplement program benefits based upon need, but who, nevertheless, have little or no tax liability. For example, persons now receiving considerable amounts of SSI and/or social security also would benefit from the rebatable tax credit, since their present income from these sources is not taxable. Moreover, since the tax credit is given to individuals, some individuals would receive rebates even though the income of their household unit would make it ineligible for ISP benefits.

The subcommittee's tax deduction for work expenses and deduction of social security tax payments from countable program income add considerably to the cost of its package. I already have acknowledged the contribution of these proposals to lower benefit tax rates. The employment expense deduction is also attractive because of its specific offset of increased work expenses for single-parent and two-worker families, its parallel to the business expense tax deduction and its parallel to the present AFDC work expense deduction. The subcommittee adds that two-worker married couples filing tax returns jointly presently are likely to pay more taxes than if they had remained single.

In view of these proposals' high expense and the fiscal constraints the Government faces, however, they are unlikely to be affordable in present form. The temporary rebatable 10 percent tax credit on the first $4,000 of earned income, which the Senate Finance Committee proposes to make permanent as part of the Tax Reform Act of 1976, addresses the social security tax program more generously for families who qualify than the subcommittee proposal.

Thus, the assistance under the subcommittee plan would be more generous but less targeted on the poor than ISP benefits. I believe it desirable to relate actual government payments very strictly to needs and to determine separately the amount of tax relief we can afford. This is more along the lines of ISP of the subcommittee proposal.

It appears that even the income supplement program would have a considerable initial net cost. I consider the increases in the fairness, adequacy, and efficiency of the income support system which will result, however, to be matters of top priority. Furthermore, for various reasons including reductions in administrative costs, a more strictly need-based program structure and the expectation that the existence of such a program would deter Congress from either adding new income support programs or expanding old ones, Secretary Weinberger predicted that within several years, ISP costs actually would be less than the costs of continuing present programs.

In any event, it is clear that such a program cannot be commenced prior to 1978. Even then, a phasing in process would reduce the fiscal impact. Several aspects of the program also can be varied to affect this impact greatly without undermining the program. For example, ISP can be made cheaper by well over $1 billion if social security payments are disregarded in the determination of income to a lesser degree than originally planned, but still a far greater degree than under present law (as they should be).

Both of these proposals suggest administration by the Internal Revenue Service. I feel that this is a goal well worth pursuing. The closest possible integration of the proposal with the tax system would seem to be in the interest of both administrative simplicity and a separation of income support from services programs, which could contribute to better future policymaking. Because of its greater integration with the tax system, the income supplement program would seem to have a better chance of enactment in this form.

On the other hand, ISP's total integration with the tax system renders its benefits levels far less flexible than those in the subcommittee plan. Within the proposed program structure, benefits could be raised only through increases in the personal exemption or the minimum standard deduction. Thus, tax relief for middle-income Americans necessarily would accompany benefit increases for our poorest citizens.

The two plans' authors came to different conclusions on the issue of a work registration requirement. HEW felt that such a requirement is necessary, basically for political reasons, while the subcommittee felt it undesirable. As discussed earlier, there is no conclusive evidence from past experience which indicates the worth or lack of worth of this requirement.

I believe that we should encourage private earnings rather than reliance on Government support in every reasonable way. This includes a requirement that persons able to work register to do so, and that any person who then refuses a job or job training without good cause lose program benefits. The debate on the family assistance plan indicated clearly that any comprehensive income maintenance program which becomes law will have such a requirement. In view of these plans' greatly expanded coverage for those capable of working, this requirement would be perceived as necessary to assure program integrity despite the concentrated efforts to build work incentives into the program structure.

The recession has made proposals for Government-created and guaranteed jobs far more popular than more traditional income transfer proposals. I am well aware of the applause received by the Democratic Governor at the Louisville "National Democratic Issues Convention" last year, who declared that his party should stop talking about negative income taxes and start talking about guaranteed jobs. This option has to be given the fullest examination in view of its strong political appeal.

As I already have explained, any program which ties benefits to actual work would have to be viewed as a complement to rather than a substitute for basic income support, unless jobs could be made available for all poor households of the group in question. In turn, if the job guarantees are to be made universally to families with employable members, it appears that the plan would have to be accompanied by subsidies to low-wage workers in private employment. Otherwise, public employment could be more attractive than private employment for large numbers of workers.

The strongest force behind the political strength of the guaranteed jobs approach is Americans' deeply ingrained work ethic. We Americans believe strongly that people generally should not be supported for doing nothing and that work confers great benefits in terms of dignity and experience. It is also argued strongly that there are plenty of needed tasks which millions of additional public employees could perform. A guaranteed jobs program is consistent with these arguments, while the inherent work disincentives of a simple income transfer program run counter to it.

While much of this report has minimized the work disincentive problem, the evidence certainly is not clear enough to settle the issue beyond doubt. Furthermore, although we have learned a considerable amount about program coordination since the debate on the family assistance plan, the results of the subcommittee's efforts illustrate that a solution for the problem of cumulative benefit tax rates still is elusive.

For all these reasons, the work incentive issue will continue to provoke difficult debate.

Nevertheless, the guaranteed job strategy has not been adopted or advocated by most experts. That approach also has several difficult inherent problems.

The administration of the work program would be an overwhelming problem. It appears that Government might have to create about 3 million jobs just to cover unemployed household heads in impoverished families. Regulating the time and place of such job projects so that a job could be guaranteed virtually everywhere, even though the Government would not know exactly how many people in the shifting poverty population would need jobs for very long or present themselves at a given location, would be an enormous if not impossible task. Other administrative problems, such as the question of how to discipline workers, have not been given enough thought. Administrative costs are likely to be enormous. Some of the experts have called an estimated 30-percent ratio of administrative costs to total program costs "conservative".

These problems would be likely to lower considerably the expected output from these public employees. Their productivity would be likely to be low to begin with because of a lack of skills, although they nevertheless may be capable of accomplishing a great deal. These jobs would provide general work experience, but usually not specific skills.

Some people cite the precedent of the Works Progress Administration as evidence that these problems are manageable. That experience does seem to indicate that Government can create millions of jobs quickly and that a work force comprised largely of unskilled workers can be productive. However, the composition of WPA work—about four-fifths construction work—might not be very suitable for an employee population comprised of women to a much greater extent. Much more fundamentally, WPA did not try to guarantee anyone a job. At its peak, it served only about one-third of America's unemployed persons. A guaranteed job program would be a different type of beast with considerably greater administrative problems. Furthermore, the depression-poor population served may have had fewer employability problems than the group a guaranteed jobs program would serve today.

Of course, the administrative problems would come on top of present program problems, rather than replace them. An AFDC-type program still would be needed for families with no employables. The basic income support structure thus would have three separate components: The AFDC, guaranteeed job, and wage or earnings subsidy components.

The guaranteed job approach is unlikely to be realistic in terms of cost or acceptable in terms of relating benefits to needs unless some provision is made for relating aid to family size. This could be done relatively inconspicuously through a tax surcharge, rather than through differences in wage rates. Nevertheless, to some extent the "equal pay for equal work" principle certainly would be perceived as compromised and some of the job dignity benefits perhaps lessened. Furthermore, it is unlikely that differences in need due to family size could be reflected fully in the effective wage rates. Attempts to do so either would be too expensive or would result in effective wage rates unacceptably low for single persons and perhaps couples without children. Thus, in a proposed program of this kind developed very carefully for the subcommittee, the effective wage rate difference between single persons and families with children is 25 percent. For the comprehensive income support proposals I have examined, the basic benefits for a family of four would be at least 3 times the basic benefits for a single person.

The program's effect on the private low-wage labor market is probably its greatest uncertainty. Of course, the effect depends crucially on the effective wage levels of the public employment. Lower effective wages would reduce the program's impact in the private labor market. However, this also would reduce the adequacy of program support. That is very important, because participants would not have the same time available to improve their income through private employment that they would have under a comprehensive income supplement approach.

It seems to me that a guaranteed jobs program would be likely to set the wage for a family of four at least around the minimum wage, since the minimum wage is likely to be the lowest politically acceptable level for a standard American family. The extent to which such a program would divert workers from private sector part-time and full-time jobs, thus swelling Government costs while improving recipients' incomes by only a portion of the wages paid, is very unclear. The large number of families who are poor despite the regular full-time work of the household head indicates, however, that this problem would be significant.

Of course, the number of diversions would be pushed upward by increases in the guaranteed wage relative to private wages. Almost certainly, interests with considerable political strength would push for a higher guaranteed wage.

Similarly, the likely response of private employers to such a program is unclear. These employers could bid up the wages of low-wage workers to compete with the program, reduce their low-wage work force, or as is likely in the long run, do both. The extent to which employers exercise each of these two opposing options is important to the well-being of low-wage workers, but the research on this question thus far has produced widely varying results.

It is also quite possible that many of the jobs created could replace rather than augment public sector jobs. Studies of the public employment program from the early 1970's indicated that proportions as high as 60 to 90 percent of program wage payrolls could be attributed to diverted rather than created jobs. Program rules against such job displacement would be difficult to enforce over time at local levels and might result in less useful work performed.

In view of the wage rates involved in the program, unions are likely to be extremely concerned about this possibility. But the low wage rates could increase the temptation for governments to replace rather than create jobs.

The uncertainty about the effects of the wage or earnings subsidy portion of such proposals, although not as overwhelming as the uncertainties concerning guaranteed public jobs, is very great. If employers were able to bid down wages as a result, these subsidies would be diverted to them. Subsidies in this event might encourage them to hire more low-wage workers, but would not provide much incentive for employed workers to stick with private employment rather than enter the public employment program. To a large extent, that may be a likely result of initiating the subsidy in today's slack labor market.

On the other hand, empirical work done for the subcommittee based upon older data indicated that the amount of hours worked by low-wage workers is not very responsive to wage rates. If this is the case, a subsidy would not enable employers to bid down wages to any great extent. The effective wages of low-wage workers would increase. The subsidy would not lead to much expansion in private employment, but it might induce significant numbers of workers to stay in the private sector rather than take a public employment job.

These wage or earnings subsidies are expensive and do not generally help those most in need. I explained earlier how the lowering of a benefit tax rate diverts program funds from that group. Wage or earnings subsidies could be considered to have negative benefit tax rates, because they increase rather than decrease benefits with additional hours worked. As a result, for example, studies using 1966 data indicated that under a program paying a per-hour wage subsidy of half the difference between $2.50 and the worker's wage, all but 14.2 percent of the benefits would have aided workers who were not poor. If only one subsidy per family were allowed and a 100 percent benefit tax rate were applied for unearned income, only somewhat more than one-third of the wage subsidy benefits would have been paid to those who were poor before the subsidy.

Some have argued for the desirability of these subsidies on the grounds that they increase the reward for work. However, I have explained how these subsidies can discourage work and mentioned that the evidence indicates a strong possibility of this net result.

While the incentives for personal dishonesty under the guaranteed job approach may be less than under the comprehensive income supplement approach, they certainly would not be eliminated. The incentives would remain for the AFDC-type program and for types of income increases to which positive benefit tax rates would apply under the wage or earnings subsidy plan. There also would be an incentive for employers and employees to collaborate in overreporting hours worked in a wage subsidy program and earnings over ranges where an earnings subsidy is being increased.

In summary, the strong advantages of the guaranteed low-wage job approach are its political attractiveness, its self-evident harmony with taxpayers' deeply ingrained work ethic, the increased Government output which would result, and some benefits in terms of dignity and job experience which could be bestowed upon the public employees. The main drawbacks are the tremendous administrative cost to be devoted largely to the attempted administration of the public jobs program, the serious lack of coordination between benefits and needs, the difficulty of assuring that the public employment results in job creation rather than job replacement and the uncertain effect upon the private low-wage labor market.

The reduced correlation between benefit payments and needs, relative to a comprehensive income supplement approach, results from the need to pay many recipients wages higher than their supplements would be (singles and couples without children in particular); the greater use of Government payments as replacements for private earnings rather than additions to them; and the diversion of funds to workers who are not poor through the wage or earnings subsidy mechanisms. It is impossible to quantify these factors very well. However, it does not appear unreasonable to estimate that the guaranteed public job and wage or earnings subsidy plans would expend one-third or more of their funds either on additional administrative costs relative to an income supplement plan covering the same number of people, or on payments which do not contribute to the elimination of poverty. Their departure from a strict need-based strategy is even greater.

It is obvious that the gains which this proposal offers, in terms of its relationship to work, demand an extremely heavy price. Are they worth it?

Almost 4 years ago, I voted against the Finance Committee's guaranteed jobs plan and for the administration's family assistance plan. I still believe that there are too many problems and uncertainties involved for the Government to commit itself to a guaranteed jobs plan. At this point, such an approach certainly cannot be considered a viable alternative to comprehensive income supplements.

Nevertheless, I cannot dismiss the idea of widespread use of low-wage Government jobs as easily as the subcommittee's analysts did. Particularly in view of what appears to be a persistently high unemployment rate, it would be desirable to gain some experience with this approach. The way to do that in the near future would be to amend the public service employment laws so that large-scale demonstrations involving low-wage "guaranteed" jobs could be tried.

I already have indicated clearly my conviction that a comprehensive income supplement or negative income tax approach would be a major step forward. We should move ahead on the negative income tax approach. However, the proposal is going to take a good deal of time both to enact and to phase in. That period would be a good time to gain some information concerning the low-wage public jobs approach.

The needed demonstrations should zero in on young childless households, perhaps with workers under 25 years old. Judging from past debates, this group is likely to receive the least favorable consideration as a comprehensive income supplement plan is enacted, partly because of the reasonable concern that too many of its members would abuse the program.

Since the wage rate paid the childless could be lower than for families with children because of lower needs, costs per job would be less. In addition, demonstrations not complicated by earnings or wage subsidies would be more legitimate for this limited group. The young workers might find the job experience and record of employment particularly valuable.

The most likely outcome of such demonstrations would be some indications whether a large, need-related low-wage public employment program would be a more desirable complement to the basic income support system than public service employment as we have known it. There is also a possibility that the information gained from such demonstrations and the initial workings of a comprehensive income supplement system would move us eventually toward the guaranteed jobs approach, at least for limited demographic groups. However, in addition to all the problems I have outlined, its partial imposition along these lines could provide new incentives for altering family structures.

Finally, a reminder is in order that despite the private economy's imperfections even in the best of times, measures to strengthen it are likely to be our most effective antipoverty efforts. Of course, programs which enable the poor to take better advantage of opportunities in the private economy, such as those job training and placement programs which already have proven sucessful, are crucial.

CONCLUSION

In this report I have supported the Subcommittee on Fiscal Policy's general thrust toward a comprehensive income supplement system, although not all of its recommendations. I rejected the incremental reform approach and the in-kind program approach as inadequate substitutes, the demogrant approach as unrealistic and the guaranteed jobs approach as fraught with too many problems and uncertainties to be relied upon.

I support HEW's efforts to develop a comprehensive income supplement system with considerably less initial cost than the subcommittee proposal. The subcommittee's tax relief could be cut as fiscal considerations dictate and its Government payments should be related more directly to needs.

I differ from both the subcommittee and HEW in my unwillingness to dismiss completely the possibility of a greater role for a low-wage, need-related public employment program. I back demonstration efforts along these lines, particularly for young, childless workers.

There presently is no congressional consensus on a future direction for income support programs. This review of the inherent dilemmas, problems, and uncertainties involved is a good indication why. Furthermore, our last attempt at reform indicated clearly that the road I am advocating will be tough politically. A major educational effort is still needed.

Nevertheless, the present system fulfills its income support role too inadequately, inequitably, and inefficiently to be left alone. Piecemeal efforts may help somewhat, but are not likely to be sufficient. It is clear that the Congress, armed with the knowledge gained by the subcommittee's study and similar efforts, must confront the problem comprehensively.

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