

WELFARE REFORM PROPOSALS

HEARINGS
BEFORE THE
SUBCOMMITTEE ON PUBLIC ASSISTANCE
OF THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
NINETY-FIFTH CONGRESS
SECOND SESSION

FEBRUARY 7 AND 9, APRIL 17, 18, 25, AND 26,
MAY 1, 2, AND 4, 1978

PART 3 OF 5 PARTS
ORAL TESTIMONY
APRIL 17, 18, AND 25, 1978



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WELFARE REFORM PROPOSALS

MONDAY, APRIL 17, 1978

U.S. SENATE,
SUBCOMMITTEE ON PUBLIC ASSISTANCE
OF THE COMMITTEE ON FINANCE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:04 a.m., in room 2221, Dirksen Senate Office Building, Senator Daniel Patrick Moynihan (chairman of the subcommittee) presiding.

Present: Senators Moynihan, Long, Danforth, Curtis, and Hansen.
[The committee press release announcing these hearings follows:]

FINANCE SUBCOMMITTEE ON PUBLIC ASSISTANCE ANNOUNCES HEARINGS ON
WELFARE REFORM PROPOSALS

Hon. Daniel Patrick Moynihan (D., N.Y.), Chairman of the Subcommittee on Public Assistance of the Finance Committee, announced that public hearings will be held on S. 2084 and other welfare reform proposals in late April and early May, 1978. Six days of hearings are now contemplated: April 17, 18, 25 and 26, and May 1 and 2. The hearings will begin at 10 a.m. each day and will be held in Room 2221, Dirksen Senate Office Building.

Senator Moynihan stated: "In early February, the Subcommittee held two informative days of hearings at which Secretary Califano, Secretary Marshall, Assistant Agriculture Secretary Foreman, and Census Director Plotkin explained the Administration's proposed 'Better Jobs and Income Program.'

"After a meeting Friday with President Carter and key Administration and Congressional leaders in the field of welfare reform, we have decided to proceed expeditiously to public hearings in the Senate. While the Senate's ability to move toward enactment of a comprehensive welfare reform plan in 1978 necessarily depends greatly on when we receive a bill from the House of Representatives, where such legislation must originate, it is nevertheless appropriate for us to proceed with such essential prior steps as public hearings. The six days of hearings announced today will afford an opportunity for public witnesses to share with us their views on S. 2084—the Administration bill—and other proposals that deserve consideration.

"My confidence in the Congress' determination to reform our irrational public assistance system is undiminished. I have discussed this with Senator Long, with Ways and Means Chairman Al Ullman, and with my good friend Representative James C. Corman, whose distinguished chairmanship of the House Special Subcommittee on Welfare Reform has provided inspiration, impetus and momentum to this important endeavor. My conversations with the President and other executive branch officials indicate clearly that their commitment also remains very high and their determination firm."

Witnesses who desire to testify at the hearing should submit a written request to Michael Stern, Staff Director, Committee on Finance, Room 2227 Dirksen Senate Office Building, Washington, D.C. 20510, by no later than the close of business on Wednesday, April 5, 1978.

Consolidated Testimony.—Senator Moynihan also stated that the Subcommittee urges all witnesses who have a common position or with the same general interest to consolidate their testimony and designate a single spokesman to present their common viewpoint orally to the Subcommittee. This procedure will enable

the Subcommittee to receive a wider expression of views than it might otherwise obtain. The Chairman urged very strongly that all witnesses exert a maximum effort to consolidate and coordinate their statements.

Legislative Reorganization Act.—Senator Moynihan stated that the Legislative Reorganization Act of 1946, as amended, requires all witnesses appearing before the Committees of Congress "to file in advance written statements of their proposed testimony, and to limit their oral presentations to brief summaries of their argument."

Witnesses scheduled to testify must comply with the following rules:

(1) A copy of the statement must be filed by the close of business two days before the day the witness is scheduled to testify.

(2) All witnesses must include with their written statement a summary of the principal points included in the statement.

(3) The written statements must be typed on letter-size paper (not legal size) and at least 75 copies must be submitted by the close of business the day before the witness is scheduled to testify.

(4) Witnesses are not to read their written statements to the Committee, but are to confine their ten-minute oral presentations to a summary of the points included in the statement.

(5) Not more than ten minutes will be allowed for oral presentation.

Written Testimony.—Senator Moynihan stated that the Subcommittee would be pleased to receive written testimony from those persons or organizations who wish to submit statements for the record. Statements submitted for inclusion in the record should be typewritten, not more than 25 double-spaced pages in length and mailed with 5 copies by May 12, 1978, to Michael Stern, Staff Director, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C.

Senator MOYNIHAN. A very pleasant good morning to our guests here and to our distinguished first witness. This is the second series of hearings which the Subcommittee on Public Assistance has held on the question of welfare reform. On February 7 and February 9, we held two very useful days of hearings on the administration's program, which has been called the better jobs and income program. We made very clear at the time that, of course, it was incumbent upon the Senate to wait for House action on that program, but that we felt it was useful to go ahead, to anticipate the questions that the House would raise, and to learn more about them.

Subsequently, Chairman Long and I had occasion to meet with the President, Chairman Ullman of the House Ways and Means Committee, and Congressman Corman to discuss the current state of welfare reform proposals. At that meeting it was agreed that the Senate would proceed with hearings, at the same time that the House was proceeding in order to facilitate action on welfare reform this year. We agreed to the 6 days of hearings which now begin.

In the interval two things have happened, one not entirely encouraging. We read in the press yesterday morning that a White House memorandum to the President concerning urban policy acknowledged the "dim prospects," as it was said, of the administration's welfare proposal. This seemed to me a little premature. This subject always has dim prospects, but somehow it moves forward.

One of the brighter aspects is the second of the two developments, which is that Senators Baker, Bellmon, Danforth, and Ribicoff have come forward with a major proposal of their own, by way of an alternative to the President's program. It is a thoroughly constructive, hopeful enterprise which reveals a great deal of careful thought. We are very happy to open these hearings in which we will pay particular attention to this new proposal.

Senator Bellmon, we welcome you here this morning. I wonder if before you speak, I might ask the chairman of our committee if he has any thoughts on this matter.

Senator LONG. Thank you, no, Mr. Chairman. I prefer to hear Senator Bellmon.

Senator MOYNIHAN. Mr. Danforth is the sponsor with Senator Bellmon of this bill, and I wonder if he would like to make an opening statement.

Senator DANFORTH. Thank you very much, Mr. Chairman.

Our welfare system needs to be reformed. Deficiencies in the present system are widely recognized. It discriminates against two-parent families. It provides no assurance of a minimal income that is adequate. It overly consumes the resources of State and local governments. It discourages and, in some instances, penalizes work.

We have not always recognized or been willing to correct these deficiencies. The chairman of this subcommittee, Senator Moynihan, can attest to that. He was instrumental in the development of the family assistance program in 1969. The concerns addressed by the family assistance program appeared to many to involve major, radical departures from the past, but Senator Moynihan was a pioneer, raising our collective consciousness and, as a result, a greater consensus now exists.

Today, two bills are pending before this subcommittee: S. 2084, the administration's Welfare Reform bill, and S. 2777, a bill of which I am a cosponsor, together with Senators Baker, Bellmon, Ribicoff, Mark Hatfield, Stevens, and Young. Both bills address many of the same concerns, concerns incidentally, which were also addressed by family assistance.

Both bills establish a nationwide minimum benefit so, for the first time, families can count on a basic level of grant, anywhere in the country. Both bills reduce the discrimination against intact families by mandating for the first time coverage of all families regardless of the presence of both parents. Both bills increase work incentives through an expanded earned income tax credit. And both bills provide substantial fiscal relief to State and local governments, enabling those governments to use their scarce resources to meet other pressing needs.

I applaud the President for introducing legislation aimed at correcting these problems. I support many of the objectives S. 2084 seeks to accomplish. However, there are very real economic, philosophical, and practical differences between the bill of which I am a cosponsor and the President's.

First, there is the question of cost. The administration's bill is estimated to cost \$18 billion in 1982. In contrast, our proposal costs less than half that amount.

Second, the administration's bill relies too heavily on the Federal Government for solutions, both in the jobs area, where it proposes to expand vastly the number of public service jobs, and in the administrative side, where it contemplates supplanting State administration with Federal administration.

Our strength as a Nation comes from our diversity and from the ingenuity of our private sector. We should retain the States as part-

ners in our welfare system, as our proposal does. We should enlist private employers in training and hiring our poor, as we propose.

Finally, the administration's bill is too comprehensive. It would lead us into new directions which are uncharted. Moreover, as a comprehensive whole, it discourages piece-by-piece enactment. By contrast, S. 2777 builds on the strengths of the present system. It corrects widely perceived problems without totally disrupting the way our welfare system operates. Each of its reforms is relatively discrete; thus, if a lack of consensus or the pressures of the legislative calendar prevent the enactment of the entire bill, parts of it may be added to other legislation.

For example, this year, we must consider new authorizations for CETA, a major tax bill, and H.R. 7200, which is on the Senate calendar. All of these bills are appropriate vehicles for parts of S. 2777, if the subcommittee and the full committee choose to proceed in this manner.

Senator Moynihan has said, in discussing welfare reform, that in politics a certain patience is demanded. I believe he is correct. Few were ready for the reforms proposed in 1969. I am hopeful that time has remedied that, that we are now able to proceed with a consensus and enact the changes which the welfare system needs.

Thank you, Mr. Chairman.

Senator MOYNIHAN. Thank you, Mr. Danforth. That was a remarkably good statement.

Senator Curtis has arrived. I wonder if you would like to say something, sir.

Senator CURTIS. Thank you, Mr. Chairman. Mine is very brief because I am anxious to hear our distinguished colleague this morning.

I am pleased to see by the scheduled witness list that we are about to embark upon a fairly wide-ranging examination of the President's welfare reform proposals. We have had testimony from the administration previously, and now it is time, I think, that we hear from many of the outside witnesses who are concerned about the details of this rather massive proposal.

In doing so, Mr. Chairman, I hope that we can focus our attention on at least three things:

(A) What does the taxpayer expect when he calls for welfare reform? In view, there are some rather serious departures from what, in my judgment, the taxpayer expects and all of the so-called reform proposals which have been made to date.

(B) What are the costs of each of the proposals? We have already seen, according to CBO, that the President's plan has been seriously underestimated in its total probable cost.

(C) What kind of new loopholes, new quality control problems will be created by any of the suggested new approaches? We have seen by HRW's own admission that they are misspending approximately \$7 billion of taxpayers' funds annually. We must be attentive to any new loopholes and quality control problems that would be posed by the new proposals. Often, in our wish to have a new solution to an old problem, we overlook the fact that new and more serious problems are being created.

And we should not overlook, as well, Mr. Chairman, the fact that what is being reviewed here today is one of the most massive proposals for additional Government expenditures that this administration has made to date. Irrespective of whether or not the President fulfills his earlier promise to have a balanced budget by 1981, we are considering here legislation which would cost tens of billions of additional dollars to Government expenditures for income transfer. We must scrutinize carefully both the goals and the details of such a proposal, to determine if it is in the best interests of the American people.

Thank you.

Senator MOYNIHAN. I thank Senator Curtis.

Senator LONG. Mr. Chairman, since we have had these two statements, let me just add a word.

Senator MOYNIHAN. Certainly.

Senator LONG. We are presently spending \$300 billion a year on social welfare programs. On the part that we call welfare itself, we are spending \$40 billion a year now. One of the statements I have heard here suggested it is a shame we didn't pass the family assistance plan back in 1969. If we had passed that, we would be spending at least another \$50 billion a year by now, and we would have about four times the number of people on the welfare rolls as we have today.

Now, just speaking as one Senator, it is my judgment that you don't need any more people of the welfare rolls. I think you have got plenty the way it is now, I think the American people feel that way. It is my impression that welfare reform to them would mean putting some of those people to work, and there are a lot more of them than you know about who, in fact, are working while they are drawing money on welfare. That would be number two for welfare reform—doing something about fraud and also, to recognize some of the facts that haven't been taken into account right now, that the official poverty figures include a lot of people who as a practical matter are not in poverty at all.

The American people as a whole are going to greatly appreciate whatever we do in those areas a lot more than they do the theory of paying somebody not to go to work. We are doing too much of that already. That is the direction which I think the great majority of people would think that welfare reform should go.

It might be the judgment of the Congress that we ought to pay a great deal more money for welfare, but I would hope that in terms of welfare reform, we should be thinking of putting more people to work, making more constructive use of the money we spend, rather than just adding more people to these rolls.

Senator MOYNIHAN. Thank you, Mr. Chairman.

Now, if Senator Bellmon would be patient for one more moment, I would like to read just a few lines from a letter that Senator Ribicoff has been kind enough to send, to emphasize the point that the proposal which Senator Bellmon and Senator Danforth support is a bipartisan one. There are few persons in this Nation as familiar with welfare reform as Senator Ribicoff.

In his letter—which will be available to the press and which I would like to make part of the record following my remarks—he writes in a closing paragraph:

I believe we can make progress this year. We can improve the administration of our programs and the lives of those who are dependent on them. I also believe, however, that progress requires the support of members from all wings of both political parties. Incremental reform can move us forward and can improve the plight of the poor. I hope we do not let the "perfect become the enemy of the good" in welfare reform.

[Senator Ribicoff's letter follows:]

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, D.C., April 17, 1978.

HON. D. PATRICK MOYNIHAN,
Chairman, Subcommittee on Public Assistance,
Committee on Finance,
U.S. Senate,
Washington, D.C.

DEAR PAT: I am sorry that I am out of Washington and cannot join you today at the hearing on various welfare reform proposals. As you know, I have long been concerned about the deficiencies in our current system of public assistance. I commend you for holding these hearings.

As you know, I have joined with Senators Baker, Bellmon, and Danforth in introducing S. 2777. Senators Baker and Bellmon will describe our proposal to you today. It is an incremental proposal. S. 2777 builds on existing programs and existing forms of administration. This legislation takes the AFDC program and expands it and sets some federal standards. I was Secretary of HEW when AFDC-UF was first tried on an experimental basis. I believe the time is now right for expansion nationwide. S. 2777 retains state administration of welfare programs and state decision-making as to benefit levels. However, it does standardize the range of benefit levels and resource limits and earned income disregards. Our legislation provides fiscal relief to hard-pressed states and an incentive for states to take over local welfare costs. We propose to expand the Earned Income Tax Credit and to use the private sector for much of the employment effort.

You and I both know how hard it is to make progress in this area. I believe we can make progress this year. We can improve the administration of our programs and the lives of those who are dependent on them. I also believe, however, that progress requires the support of members from all wings of both political parties. Incremental reform can move us forward and can improve the plight of our poor. I hope we do not let "the perfect be the enemy of the good" in welfare reform.

Sincerely,

ABE RIBICOFF.

Senator MOYNIHAN. That is a fine note on which to begin and, Senator Bellmon, as a Senator and as a former Governor, we are very pleased to have you here, sir.

**STATEMENT OF HON. HENRY BELLMON, A SENATOR FROM THE
STATE OF OKLAHOMA, ACCOMPANIED BY ROBERT FULTON**

Senator BELLMON. Thank you, Mr. Chairman.

I am very pleased to be here and I would like to begin by congratulating the committee for holding this series of hearings on what has to be one of the most important matters facing the Congress at this time.

As the chairman has indicated, my personal experience with and knowledge of welfare issues grew out of the experience I had as

Governor of Oklahoma back several years ago, but clearly, I can't match the members of the committee in this area. I am sure the committee will be able to greatly improve upon the bill which my colleagues and I are offering and I want to say we look forward to working with the committee in making these changes.

Mr. Chairman, before I begin my testimony, I would like to ask consent for Bob Fulton to be here at the table with me. He is a member of my staff and has done an enormous amount of work on this bill.

Senator MOYNIHAN. We welcome Mr. Fulton.

Senator BELLMON. Also working with Mr. Fulton has been Mr. Nicholas Norton, Mr. Rob Mosbacher of Senator Baker's staff, Susan Irving of Senator Ribicoff's staff, and Nancy Altman and Allen Moore of Senator Danforth's staff. We have had also the full cooperation of the CBO and the Congressional Research Service in providing the necessary analyses and cost estimates. This bill that is before you today is truly a joint effort by a great many people who have worked hard in getting it together.

There is no question that there are significant problems with the welfare system in our country. There are inequities in current welfare benefits. There is poor management in some aspects of the programs. On that point, I would like to congratulate the Finance Committee for the quality control and Child Support Enforcement amendments that you have passed in recent years. These have certainly helped to tighten up the welfare programs, and we are hoping to build on those in this bill.

Also—and I think this is the major problem—there is insufficient priority placed on work as an alternative to welfare, and this is one of the principal thrusts of this bill. I commend President Carter for giving welfare reform top priority for congressional consideration this year. It is my personal belief, however, that in presenting the administration's welfare proposals, President Carter and Secretary Califano have overstated the difficulty in dealing with the problems which exist. In many of our States, including my own State of Oklahoma, we have effective administration and humanitarian responsiveness to the problems of low-income people.

As you know, Mr. Chairman, administration of the AFDC program has improved dramatically since the initiation of the Federal-State quality control program back in 1973. In the first half of 1977, the dollar loss due to payments to ineligible people and overpayments averaged about 8.6 percent throughout the country. This represents an almost 50 percent reduction from the error rates back in 1973 and while it is still too high, I think we should take note of the fact that we have moved in the right direction.

Moreover, Mr. Chairman, in the first half of 1977, 12 States achieved a better quality control record in the administration of AFDC than did the Social Security Administration in administering the much simpler supplementary security income program.

I do not think we can assume better management will come faster if we federalize AFDC and food stamps, as compared to the progress that can be made through a continued Federal-State partnership effort.

I would also like to point out that welfare costs are no longer running away. Both AFDC and food stamp enrollments have been dropping in recent months, as the economy has improved and as State management improvements were installed. As a member of the Budget Committee, I have become acutely aware that growth pressures in AFDC, food stamps, and SSI, all of which the President proposes to consolidate, are far less today than they are in medicare, housing, and even in social security, which are all federally administered, or in medicaid, which is not dealt with by the President's proposal.

Having said this, I reiterate my personal conviction that welfare improvements are needed. I believe S. 2777 offers a workable, balanced plan for achieving the needed improvements. S. 2777, the welfare reform plan which was introduced on March 22 by Senators Baker, Ribicoff, Danforth, Mark Hatfield, Stevens, Young, and myself, provides Congress with the opportunity to pass significant legislation this year to remedy major problems in the Nation's welfare system.

S. 2777 builds on the strengths and corrects the weaknesses of the present welfare programs. It can be implemented at reasonable cost. It avoids the risks of untested social, economic, and administrative concepts in the Carter welfare reform plan. It strikes a balance between support for those in need and work opportunities for those who are able to work that is in tune with both the commonsense and the compassion of the American people.

The American people, Mr. Chairman, are compassionate. Poll after poll has shown that they want to help members of society who are unable to sustain themselves at a decent level of living. But at the same time, the public demands certain things of its elected officials and of the people who receive support under welfare-type programs. It demands that the programs be run well. It should demand that the public demands that cheaters not be permitted to receive benefits of public assistance programs that are intended for people with legitimate needs. The public is correct in demanding that fraud be eliminated and that there be administrative efficiency and effectiveness in our public assistance programs. The public is right in believing that those members of society who can work to support themselves and their families should do so.

In his new book on welfare, Martin Anderson of Stanford University states, and I quote:

Practical welfare reform demands that we build on what we have. The American people want welfare reform that ensures adequate help to those who need it, eliminates fraud, minimizes costs to the taxpayers, and requires people to support themselves if they can do so.

S. 2777 is aimed precisely at these objectives.

Let me now summarize the major provisions of S. 2777.

Mr. Chairman, I am skipping through my statement in the interest of time. I would ask unanimous consent that the whole statement be included in the record.

Senator MOYNIHAN. Certainly.

Senator BELLMON. I am going to focus primarily on the welfare changes, as Senator Baker, who is here with me at the witness table,

will cover the employment and tax provisions of our bill. I want to stress, however, that we see our proposals as an integrated set of changes.

Our support for improvements in the cash assistance and food stamp programs is tied directly to our conviction that work opportunities for welfare recipients can and must be enhanced.

Mr. Chairman, there are two things that this bill is not. This is not a guaranteed income plan. Also, it is not a guaranteed job plan. In my judgment, guaranteeing income would make welfare recipients out of millions of Americans who are now making their own way, and guaranteeing jobs would be exorbitantly expensive.

These are the fundamental differences between this bill and President Carter's proposal.

Our bill proposes the following major changes in existing programs.

First: The allocation of costs of AFDC.

Senator CURTIS. Pardon me, Mr. Chairman.

I wonder, Senator, when you skip, if you can tell us where you are reading.

Senator BELLMON. OK. I am at the top of page 6.

Senator CURTIS. I see. Thank you.

Senator BELLMON. S. 2777 would increase the Federal matching rate for AFDC program costs through a three-step sequence beginning in fiscal year 1980 and ending in fiscal year 1982, so that in fiscal year 1982 and thereafter, all States would have a Federal matching rate of between 80 and 90 percent, unless they elected to retain either local administration or local funding of part of their AFDC program and unless they failed to achieve dollar loss error rates of 4 percent or less. If they failed both tests, their Federal matching rate would still be at least 65 percent. This compares with present matching rates of between 50 percent and 78 percent.

This increase in matching rates would be achieved by starting with the present so-called medicaid matching rate, which is one of the two ways of calculating AFDC matching rates, and adjusting the Federal share upward in three equal steps in fiscal years 1980, 1981, and 1982.

This is probably a good point, Mr. Chairman, to mention an aspect of S. 2777 that relates both to the distribution of costs between the Federal Government and the States and the question of benefit levels which I will discuss a little later. I am referring to the fact that S. 2777 would restrict Federal matching of AFDC costs to that portion of the State's cash benefits which, when combined with food stamps, did not provide income greater than 100 percent of the official poverty line for a family with no other income.

States would be free to pay higher benefits if they choose, but if they do choose to do so, they would be fully responsible for the portion of benefits which exceeds 100 percent of the poverty line.

Mr. Chairman, I have appended to my testimony a table which shows the way the increased matching share would work for States in particular situations. This is attachment 1. I would be glad to discuss this table with you if you have any questions regarding it.

I have also appended to my testimony a State-by-State table showing projected AFDC costs in fiscal year 1982 and the effects of S. 2777 on the sharing of those costs between the States and the Federal Government. This is attachment 2.

I would like to point out, Mr. Chairman, that S. 2777 would shift from the State and local governments to the Federal Government about \$3 billion annually in AFDC costs by 1982. This represents a shift of costs; it is not an increase. Our bill provides only \$400 million less fiscal relief in fiscal year 1982 than the Carter welfare reform proposal and \$800 million more fiscal relief than the Corman subcommittee's revision of the Carter plan, according to estimates prepared by the Congressional Budget Office. This is despite the fact that our bill would cost \$10 billion less per year than the Carter plan.

Significantly, S. 2777 would require the States to provide AFDC support to two-parent families beginning in 1981. I think this is an absolute must. This is one of the major AFDC improvements States would be required to make in return for the higher Federal matching rate. This means that the 23 States whose AFDC programs do not now cover two-parent families, in which at least one of the parents is able-bodied, would be required to cover such families when their income and resources otherwise qualify them for assistance.

Senator CURTIS. Mr. Chairman, may I ask a question here.

What you mean is childless couples?

Senator BELLMON. No, couples with children. The present AFDC program in many States operates in such a way that if a working parent loses a job and the family is destitute, in order for that family to qualify for AFDC payments, the parent has to leave home, and this has broken up a lot of families. I think it is a national disgrace.

Senator CURTIS. What is your definition of a two-parent family?

Senator BELLMON. It is a family where both parents live in the home.

Now, skipping down to the bottom of page 8. The provisions of S. 2777 on coverage of two-parent families would provide equal treatment of single-parent and two-parent families in low-benefit States. In high-benefit States, there would still be differential treatment for the two-parent families, but the cutoff of eligibility for benefits would be at a more adequate income level and thus far more equitable than the present rules.

In order to keep the expansion of welfare rolls to a minimum, the increased coverage of two-parent families is coupled with strengthened work search requirements as a part of the WIN guidelines, eligibility for job vouchers and tax credits which Senator Baker will discuss, and finally, a last-resort, guaranteed job under the CETA public services job program.

A third major change to AFDC would be the establishment of minimum standards for payments. Under S. 2777, all States would be required in fiscal year 1981 to pay AFDC recipients high enough so that, when food stamps are taken into consideration, eligible families would receive an income of at least 55 percent of the poverty line. The minimum benefit would rise to 60 percent of the poverty line in fiscal year 1982 and to 65 percent in fiscal year 1985.

Tying the benefit standard to the poverty line would mean that in future years the minimum benefit would be indexed so that it moves up in proportion to the cost of living.

Now, skip over to the second paragraph on page 10. A table is attached to my statement—this is attachment 3—showing how AFDC and food stamp benefits would mesh in the various States in fiscal year 1982. This table assumes continued growth in benefit levels in accordance with historic patterns.

A fourth area in which S. 2777 would change AFDC has to do with the mix of funding and administrative responsibilities between State and local governments. The bill would create a very strong incentive for States to relieve local governments of funding and administrative responsibilities for AFDC programs.

Currently, 18 States have county-administered programs and in 11 States, counties and sometimes cities pay a substantial part of the cost of AFDC. The final one-third increment of increased Federal match, which would be available in fiscal year 1982 under S. 2777, would be denied to States which had not by then taken over full funding and administrative responsibilities from the local government level. To me, that is a very strong incentive to get the States to take over AFDC from the local governments.

We believe S. 2777 provides for sufficient additional Federal funding to enable all States to relieve local governments of these responsibilities without net additional cost to the State level. This would be a major step forward in reducing the complexity of the inter-governmental relations involved in welfare programs, and would remove from the local property tax the burden of financing AFDC. This would, of course, enable local governments to deal more effectively with many other needs.

Now, let's skip over to the second paragraph on page 12. S. 2777 provides for standardization of resource criteria for AFDC eligibility.

Skip the rest of that page, to the second paragraph on page 13. S. 2777 would continue the SSI program as a federally administered, State-supplemented arrangement. Two major changes would be made in the SSI program. First, the age level for SSI eligibility would be reduced from the present 65 years to 64 years in 1980, 63 years in 1981, and 62 years in 1982. This proposal recognizes the difficult financial problems many low-income people face in their sixties when their employability is reduced. Many of the people who would be helped by this change have neither families nor jobs. SSI eligibility would provide them the opportunity to survive with dignity.

A second SSI change deals with the interactions between SSI and food stamps. States would be given an option to cash out food stamps for elderly and disabled persons who are eligible for SSI. States would simply advise the Federal Government of their decision to have the program cashed out, and the Federal Government would add the benefit that would otherwise go through food stamps to SSI checks paid to individuals living in those States.

S. 2777 proposes expansion and scaling by family size of the earned income tax credit now in the law. Senator Baker will cover

this issue more fully, Mr. Chairman, and I suggest we skip over to the top of page 15.

S. 2777 adopts provisions included in Representative Ullman's welfare reform bill, H.R. 10711, providing for recoupment through the income tax system, of AFDC and food stamp benefits paid to families who have high earnings during part of the year.

Now, skip down to pilot tests on page 15. S. 2777 provides authorization for testing more far-reaching reforms of public assistance and social services programs. Specifically, the bill calls for pilot testing of a Federalized consolidated cash assistance program similar to that proposed by President Carter, a full State choice option advocated by various people and a full cash-out of food stamps. In addition, the bill would provide for demonstration programs that would involve one-stop shopping service centers responsible for serving people participating in various public benefit programs.

S. 2777 incorporates the very important provisions on subsidized adoptions and foster care included in H.R. 7200, now pending on the Senate floor for action.

Now, the second paragraph on page 16. S. 2777 would replace the present limited emergency assistance program associated with AFDC with a more flexible block-grant of \$150 million in Federal funds each year. This money would be divided among the States in proportion to the AFDC population, but it could be used to assist people who do not receive AFDC, as well as those who do.

Now, at the bottom of page 16. My associates and I believe we have presented the committee with a welfare reform plan that can be supported by liberals and by conservatives in the Congress, by the administration, and by the public. Our plan builds on the strengths of the present system, and I think that is the key point. The plan doesn't junk the present system; it builds on the strengths. It makes major improvements where the most serious problems exist in the present system. More importantly, it does not close the door to needed changes in the future.

This plan would involve initial added cost to all levels of Government of about \$5 billion more than costs of the present programs. Over a 5-year period, savings of about \$2.3 billion will be realized under this bill because of the movement of welfare recipients into jobs, and over a 10-year period, these savings are expected to exceed \$26 billion.

The \$5 billion initial cost compares without about an \$18 billion above present program costs for the Carter plan, as revised by the Corman subcommittee in the House. Under S. 2777, States and local governments will be relieved of \$3 billion in costs which they presently bear, while the fiscal relief provided by the Carter-Corman plan would total about \$2.2 billion.

Most of the added costs of S. 2777 will be for the employment and the earned income credit features of S. 2777. As I stated earlier, looking ahead 10 years, we estimate that S. 2777 will reduce cash assistance and food stamp costs by at least \$26 billion below what they would be if current programs were simply continued. The last attachments to my statement provides a table which projects future costs of these programs, assuming S. 2777 resulted in a total of 1.5

million people taking jobs over the next 10 years, instead of continuing to be dependent on welfare.

In addition to the monetary savings, great social gain will be realized by making this large number of Americans and their children self-supporting. This bill should produce a significant break in the troublesome welfare cycle which many Americans are caught up in.

S. 2777 takes a balanced, cost-effective approach to the work question. It assumes that we both should and can assure that persons receiving public assistance work in regular jobs whenever possible. As Senator Baker will explain, our plan provides vouchers and tax credits and WIN improvements to facilitate movement of AFDC recipients into regular jobs.

But we don't stop there. We also change CETA eligibility rules to assure that many of the existing subsidized public jobs go to AFDC recipients, rather than to people who can obtain other employment far more easily.

S. 2777 will improve the equity of AFDC benefits within and between States and the adequacy of benefits in States which currently pay very low benefits. Also, the serious inequities relating to two-parent families will be largely eradicated by the enactment of this bill.

Mr. Chairman, the Congressional Budget Office has done a real service in fully and fairly analyzing the effects of Governmental programs on the poverty problem of the country. You perhaps have seen the study they made which shows that whereas the Census Bureau doesn't count food stamps and the benefits of housing programs as income, the CBO has taken them into account. We are working up some material from that document, and I would like to ask unanimous consent to submit for the record at a later time material compiled by the CBO on the reduction in poverty as a result of present programs and various welfare proposals.

Senator MOYNIHAN. Most assuredly.

Senator BELLMON. We just couldn't get that ready for today.

[The following was subsequently supplied for the record:]

U.S. SENATE,
Washington, D.C., August 21, 1978.

HON. DANIEL PATRICK MOYNIHAN,
Committee on Finance, U.S. Senate,
Washington, D.C.

DEAR PAT: During the April 17, 1978 hearing on welfare reform held by your Subcommittee on Public Assistance, I promised to provide for the hearing record Congressional Budget Office estimates of the impact of current Federal programs in reducing poverty in this country. I further indicated that I would supply CBO projections of the poverty population as it would be affected by various reform proposals.

The following tables are enclosed:

(1) A table showing the numbers of poor in fiscal year 1978, before and after Federal income transfer programs. Note particularly that CBO shows separately the impact on the poverty numbers of social insurance, cash assistance and related in-kind transfers (food stamps, housing, etc.) and medical assistance programs.

(2) CBO's projection of the effects on the numbers of poor in fiscal year 1982 of various welfare reform proposals.

I want to stress again that the estimates on the effects of S. 2777, shown on the second table, do not reflect all components of the bill as it was actually introduced. We are confident the refined estimates on which CBO is now working will

show that S. 2777 would provide a significantly greater impact in reducing poverty that is shown by the enclosed table. I am also confident that the relative "efficiency" of the bill in terms of the ratio between money spent and poverty reduction will look much better when we get the revised estimates.

Best personal regards.

HENRY BELLMON.

Enclosure.

NUMBER AND PERCENT OF FAMILIES BELOW 100 PERCENT OF POVERTY UNDER ALTERNATIVE DEFINITIONS OF INCOME IN FISCAL YEAR 1978

(Families in thousands¹)

	Pre-tax, pre-transfer income	Pre-tax, post-social insurance income	Pre-tax post-welfare transfer income ²	Pre-tax post-medical benefits	Post-tax post-total transfer income ³	
					I	II
Number of families below 100 percent of poverty.....	21,035	12,048	8,659	5,752	8,906	5,983
Percent of all families...	25.3	14.5	10.4	6.9	10.7	7.2

¹ Families are defined to include unrelated individuals as 1 person families.

² Includes food stamps, housing assistance and other nonmedical in-kind assistance.

³ Column I excludes medicare and medical benefits received by families participating in these programs; column II includes medicare and medical benefits.

Source: Congressional Budget Office.

FAMILIES IN POST-TAX, POST-TRANSFER POVERTY BY REGION OF THE COUNTRY UNDER ALTERNATIVE WELFARE REFORM PROPOSALS: FISCAL YEAR 1982¹

Category/region	Post-tax, post-transfer income ²				
	Current policy	Administration (H.R. 9030) ³	Special welfare subcommittee (H.R. 10950) ⁴	Baker-Bellmon (S. 2777) ⁵	URman (H.R. 10711) ⁶
Total families.....	7,055	4,919	5,045	6,085	5,681
South.....	2,941	2,183	2,290	2,611	2,356
West.....	1,285	915	881	1,136	994
Northeast.....	1,379	845	827	1,101	1,091
North Central.....	1,449	976	1,045	1,237	1,240
Percent of all families.....	8.1	5.7	5.8	7.0	6.5
South.....	10.8	8.0	8.4	9.6	8.7
West.....	7.6	5.4	5.2	6.7	5.9
Northeast.....	7.0	4.3	4.2	5.6	5.5
North Central.....	6.3	4.3	4.6	5.4	5.4

¹ Figures may not add to totals because of rounding. All figures are for the noninstitutionalized population in the 50 States and District of Columbia.

² Poverty is defined on the basis of post-tax and post-transfer income excluding medicare and medical benefits.

³ Estimates assume that States will supplement the basic Federal benefit up to the cash assistance and food stamp benefit levels existing at the time of cash assistance implementation. Estimate assumes no grandfathering and assumes a 1-year accounting system.

⁴ Based on preliminary specifications of the proposal, estimates do not reflect the final bill as submitted to the Congress. Estimate assumes partial State supplementation, but does not include any State grandfathering expenditures. No provisions for Federal hold-harmless payments were included in the preliminary specifications.

⁵ Estimates assume no State supplementation of the basic Federal benefit and no grandfathering of current recipients. The proposal includes no provisions for Federal hold-harmless payments.

Source: Congressional Budget Office.

Senator BELLMON. Finally, S. 2777 will keep decentralized administration in the AFDC and food stamp programs, rather than launching a major expansion of the Federal Government. What we are saying is, we want the States to continue administering those programs.

Mr. Chairman, the hearings that you are holding during the next 3 weeks should help all of us to have a better perspective on the overall welfare reform picture, as we consider these individual pieces of legislation coming to the Senate floor.

S. 2777 offers Congress a constructive, workable welfare reform plan. It is a package of changes that builds upon experiences gained and avoids repeating the mistakes made in the past. I am confident this plan contains the needed ingredients of meaningful welfare reform, and I urge the committee to act as promptly as possible on this highly significant matter.

Senator MOYNIHAN. Senator Bellmon, this has been an extraordinarily stimulating opening statement, and I know each of us will have many questions to ask of you. Of course, you said at the outset that you would deal with the income maintenance and fiscal relief aspects of this rather comprehensive incremental program you have and that Senator Baker would speak in particular to the question of employment subjects.

Senator Baker, it is an honor to have the distinguished Minority Leader of the Senate before this heretofore obscure subcommittee. We welcome you, sir, and ask you to proceed.

STATEMENT OF HON. HOWARD BAKER, A SENATOR FROM THE STATE OF TENNESSEE

Senator BAKER. I am sure, Mr. Chairman, you will not think it a disparagement of the prestige and obvious importance of the subcommittee when I say I would rather be doing anything than talking about the Panama Canal. [General laughter.]

Senator CURTIS. We can arrange to have questions go on so you won't have to pay any attention to it, until about Wednesday, if you would prefer. [General laughter.]

Senator BAKER. It has taken us longer to debate it than it did to dig it.

Mr. Chairman and members of the committee, it is my distinct pleasure to join my friend and colleague, Senator Henry Bellmon, in testifying on S. 2777, the Job Opportunities and Family Security Act of 1978.

And may I express my special appreciation to the chairman of the subcommittee for this opportunity to testify and for his willingness to hold these hearings promptly on the several and various welfare reform alternatives, in an effort to fashion legislation which would have some opportunity of passage this legislative year.

As Senator Bellmon mentioned, we are fortunate to have as our prime cosponsors Senator Ribicoff, Senator Danforth, both of whom are members of this distinguished committee. Both were not only helpful, but their input was essential to the drafting and publication of this proposed legislation.

Before I describe the jobs and earned income tax credit portions of S. 2777, I would like to comment briefly on the matter of welfare reform in general. Few, if any, problems have so perplexed the country and the Congress as how to adequately and fairly provide for the genuinely needy among us without encouraging dependence and

discouraging work. The Job Opportunities and Family Security Act will not solve that problem once and for all, but it will move us a large step forward at a pace we should proceed at and at a cost we can afford.

Too often the Congress has sought to effect reform of the present welfare system but failed because the undertaking was too ambitious or the proposals too complex. Although the cosponsors of S. 2777 may differ as to what constitutes the ideal welfare system, we share the view that reform is essential and that it can be enacted this year if we proceed with caution. That is what we propose to do.

No attempt to reform welfare can be made without devoting particular attention to the question of jobs and how to minimize the period of dependence on cash assistance. It is like trying to make a sandwich without any bread. Work is inseparable from welfare when we are dealing with able-bodied individuals; therefore, substantial emphasis in our bill is given to putting people to work and using the tax system to make employment more profitable in collecting welfare. We would do so by proposing a combination of private and public sector jobs.

In terms of priorities, we set private sector employment as the primary and preferable objective. Public sector jobs clearly have their place, but they are Band-Aids for the wounded, not cures for the disease of structural unemployment. In other words, public sector employment should constitute an absolute last resort.

When we talk about unemployment statistics and the welfare syndrome, we sometimes hide behind the numbers. A rate declines or a curve expands, and we go from 7 million unemployed to 6,900,000. The trouble with statistics of that sort is that it is people we are talking about and not numbers and charts, individual human beings, and the fact that there are millions of people on welfare and unemployed does not for a solitary moment reduce the anguish of that plight for each of those individuals.

With few exceptions, they prefer jobs to any sort of welfare benefit, and they prefer meaningful jobs that will last. And that is why we must look to the private sector, in my view and judgment, as the only real and permanent solution to this continuing dilemma.

~~Last~~ Last year, over 4 million jobs were created in the private sector, as a result of the continuation of the present economic recovery. All of our best efforts here in Washington simply can't compare to the capacity of the private sector to generate new jobs in an expanding economy. However, even in an expanding economy, there are those whom businesses are reluctant to employ for a variety of reasons. In drafting the private sector jobs portion of our bill, we explored the obstacles to employment of low-scale and low-wage employees.

The most frequently cited obstacles include the minimum wage, social security taxes, poor work record or no work record, and the location of the jobs vis-a-vis the jobseeker. In S. 2777 we attempt to deal with many of those problems and provide a means to overcome them.

Our proposal would consist of two different private sector initiatives: a wage voucher system and an improved jobs creation tax credit. Both programs would be targeted at AFDC recipients, per-

sons unemployed more than 26 weeks, unemployed youth who have graduated from secondary school or are over 18 years old, and persons who have completed CETA public job assignments and have sought work for 30 days without success.

The first three categories of people must have undertaken an unsuccessful job search for 90 days in order to become eligible for either the voucher or the tax credit program.

The Governor of each State would be given the option of designating which State agency or agencies should administer the two programs. Presumably the choice would be between the State welfare agency and the State employment agency. There is also a question of what role the local work incentive or WIN office would play in the administration of the program.

Though we believe that it is important to leave the ultimate choice up to the respective Governors, we are not certain that Governors should be limited to designating a State agency or agencies. Rather, we believe consideration should be given to amending the bill to permit a Governor to contract with an outside organization, if he concludes that it would do a better job of administering the program than the established State line agencies.

That recommendation is made so as not to preclude the use of intermediary organizations which now exist in many cities in an effort to bridge the gap between the private and public sectors and to assist in the placement and training of the hard to employ.

In that regard, I commend to the committee's attention a publication by the Committee for Economic Development entitled "Jobs for the Hard-to-Employ." It is an excellent work on both the obstacles to private sector employment and some possible solutions.

The administering agency would be responsible first for certifying individual eligibility and providing the program applicant with proof of that certification.

The administering agency would maintain a permanent list of employers who had expressed a willingness to participate in either program. They cannot participate in both programs simultaneously because of the administrative and accounting difficulties that would result. Therefore, they must choose one program or the other. Assuming that an individual was certified, the voucher program would work this way:

Both private and nonprofit employers could participate in the voucher program. If the administering agency determined that an employer was legitimate, and that he was not substituting voucher eligibles for full-salary employees, the agency would send a voucher eligible to the employer.

The employer may hire the eligible person for a job of not less than 30 hours nor more than 40 hours per week. The individual must be hired at the prevailing wage paid other employees in the same firm performing the same functions.

At the end of each month, the employer would send a statement to the administering agency stating the number of hours worked by the employee. The agency would then send a voucher to the employer equal to \$1 times the number of hours worked during that month. The employer could cash the voucher at a regulated financial institu-

tion, and the voucher would be redeemed by the U.S. Treasury. The vouchers would continue for 1 year.

One of the most serious potential problems with a program like this is the likelihood that an employer will substitute or displace existing full salary employees in order to pick up voucher eligibles. We attempt to deal with that problem first by providing that no employer may hire a voucher employee if within the past 60 days a nonsubsidized salary employee paid a comparable wage was laid off from that employment. We would require the employer to sign a statement to that effect on the certification form.

However, if the employer rehires an equivalent number of non-subsidized salary employees, he may also then hire voucher eligibles. The difficulty exists in making the system as redtape free as possible without encouraging windfalls or fraud on the part of the employers. We encourage any suggestions on ways that might be accomplished, including the imposition of sanctions against employers who abuse the program.

The jobs creation tax credit program is similar in some respects to the voucher, but different in others. As mentioned earlier, it is targeted at precisely the same groups of people. Moreover, the employer could claim a credit equal to \$1 per hour of employment of an eligible person.

The differences exist with respect to the ability of the employer to participate. We would apply the same test as now exists in the jobs creation tax credit enacted last year, which only permits employers to claim a credit on wages paid to employees hired in excess of 102 percent of the firm's employment base for the previous year. Moreover, no firm could claim more than \$100,000 in employee tax credits in any one year. And, finally, the tax credit would be 1 year in duration.

Mr. Chairman, with your permission, I would omit reading the balance of my statement on page 7, page 8, page 9, and through the first paragraph on page 10. The material contained there is largely historical and forms the basis for the balance of the statement, and I ask unanimous consent that it may appear in the record as if delivered.

Senator MOYNIHAN. Exactly so.

Senator BAKER. I was encouraged to see the administration embrace a targeted tax credit for jobs as part of its comprehensive urban policy. Although I have not reviewed the details of their proposal closely, I would suggest that they bear the same considerations which I have listed before this committee: the necessity to minimize paperwork and the specter of government supervision or intrusion in the affairs of businesses inclined to participate; the importance of aggressive advertising at the local level so that the private sector is fully aware of the existence of the incentives; proper targeting so that the incentives encourage the hiring of the hard to employ but do not so restrict the eligibility of the program to those most stigmatized in the employment context; and the propagation of a positive attitude among the private sector not only about the efficacy of the program, but also the significance of their contribution to solving one of this Nation's most serious problems.

We chose to establish two private sector jobs programs rather than just one for several reasons. First, the job creation tax credit concept is already in law, even though its success apparently has been limited so far. We believe that by targeting it and advertising it effectively, it can have a substantial impact on unemployment. However, the tax credit alone is not enough because there are some businesses or organizations which are not eligible to participate. Those include firms which have not increased their employment over the previous year, as well as organizations which pay no taxes. For those reasons and others, we felt that the tax credit effort should be complemented by the creation of a wage voucher program.

As for the cost of the two private sector programs, the Congressional Budget Office estimates that by virtue of the people who would be eligible and employed, we would actually save a small amount of money overall. In other words, the savings that would result from removing people from the welfare rolls after 60 days of full-time employment would more than equal the loss to the Treasury from the cashing of vouchers or the claiming of tax credits.

That estimate is based upon certain assumptions given the Congressional Budget Office. Specifically, we asked the CBO to assume that 500,000 jobs were created under the wage voucher program, 300,000 of those jobs going to AFDC recipients. With that assumption, they estimated that it would cost \$1.04 billion in 1982. The administrative costs of the voucher program were estimated to be \$144 million.

Offsetting those increased costs would be a reduction in AFDC benefits of approximately \$1.22 billion. Therefore, the net cost to the Federal Government of the wage voucher program would be a savings of \$4 million. The same sort of offset would occur with respect to use of the tax credit. Unfortunately, the CBO is unable to estimate what the probably utilization of either program would be by the private sector.

Despite our heavy emphasis upon private sector employment, public sector employment is also necessary to help those not absorbed otherwise by the private sector. In that regard, our bill would work within the context of the existing Comprehensive Employment and Training Act, CETA. However, we would make certain changes in CETA which we consider necessary to improve its efficiency and better coordinate it with other public and private sector jobs programs.

Our bill only addresses a portion of CETA. It does not deal with the general countercyclical issue, but only with the existence of public service jobs for target recipients. The individuals targeted under S. 2777 for a title VI public service job fall into two categories. The first category and priority consists of an employable adult in any AFDC-unemployed parent household who has searched unsuccessfully for a regular job for 90 days. As Senator Bellmon has mentioned in his testimony just previous, it is essential to guarantee a job to an adult in an intact family if we are going to require all States to cover intact families under AFDC.

The second category of target recipients can be divided as follows: 50 percent to other AFDC recipients and 50 percent to other persons

unemployed for 26 weeks or more, regardless of whether they are receiving unemployment compensation.

Although our bill would maintain the present level of CETA public service jobs through fiscal year 1979, it would reduce those jobs to 500,000 for fiscal years 1980 and 1981. The bill would reduce them further to 375,000 for fiscal year 1982 and 250,000 for fiscal year 1983. However, no reduction would take place if the national average unemployment rate exceeded 6 percent the previous year.

Our bill would also make certain improvements in the work incentive program. We would begin by giving Governors more control over that program, including authority to designate the agency or agencies to administer the program. We would add \$200 million to present WIN funding and convert it to an appropriated entitlement to assure that the funds were not eliminated in the appropriation process.

Now, Mr. Chairman, with your permission, I will skip the balance of page 13 and through all except the last paragraph 14, with the same unanimous consent request.

Senator MOYNIHAN. Of course.

Senator BAKER. Another major element of any attempt to reform welfare is aid to the working poor. If we want to encourage work and encourage dependence, we must make work more profitable in all instances. The earned income tax credit is the best means of accomplishing that goal.

Under present law, the head of a family with children may claim a credit on earned income of 100 percent up to \$4,000 of income. After earnings pass \$4,000, the credit phases out at a 10-percent rate, which means that for every additional \$10 earned, \$1 of the credit is lost.

Our bill would vastly enhance that credit by increasing it from 10 to 15 percent of earned income and permitting one to claim a full 15-percent credit up to the poverty line. In other words, a family of four with earned income of \$6,000 per year could claim a 15-percent credit before the credit began to phase out.

The point at which the credit begins to phase out will vary by family size and will increase as the various poverty lines increase. However, we would phase out the EITC in this bill at a 20-percent rate or \$2 for every additional \$10 of earned income.

One of the unique features of our approach to the earned income tax credit is that we would pay the credit to the employee on an as earned basis, through reverse withholding. In other words, if an employee is entitled to a 15-percent credit on his earned income and he is paid \$500 per month, his paycheck would consist of \$500 plus \$75 or 15 percent of \$500.

It is not necessary for an employee to have funds withheld by his employer in order to receive the credit. Rather, the employer simply subtracts the credit from the total amount he owes the Treasury Department. The advantages of returning the credit to the employee in each paycheck rather than all at once appear obvious to me.

Other earned income tax credit provisions of S. 2777 include the elimination of the 50-percent self-support test, the denial of the credit for subsidized public service employment earnings, both WIN and CETA, and the total disregard of EITC income for purposes of AFDC.

In conclusion, Mr. Chairman and members of the committee, we propose incremental reform of the present welfare system. Our bill would increase family stability, reduce the inconsistencies in the eligibility criteria among the respective States, simplify and streamline the administration of welfare, provide necessary fiscal relief to State and local governments, establish new incentives for the private sector to hire the hard to employ, and make work more profitable than welfare.

Most of these changes would build upon and improve the present system. To the extent that we plow new ground, it is with respect to private sector job creation, and I submit that trying new approaches is long overdue in that area.

As I mentioned before, people may differ as to what constitutes the ideal welfare system in America, but they cannot dispute the fact that the present system cries for reform. The question is: How much reform is necessary and how much reform is possible? In my judgment, a consensus in the Senate exists for the type of reform proposed by my colleagues, Senators Bellmon, Ribicoff, Danforth, and me. We must not let the opportunity that exists this year to effect meaningful reform pass because we once again attempted too much.

Thank you.

Senator MOYNIHAN. Senator Baker, that is extraordinarily stimulating testimony. I am reminded of what must have been the occasion when Thomas Jefferson explained to a group of congressional visitors that the Louisiana Purchase was an incremental change in the territory of the United States. It is marvelous, and it is so well stated. I know that everyone wants to ask questions of you. Because that is the case and because there are so many Senators here, I wonder if we might keep ourselves as close to 5 minutes as we can the first time around. And of course, we have questions for Senator Bellmon.

Under the rules of the committee, the first question will be asked by the first to arrive, who is, of course, the chairman of the committee who, more than any single person in this country, is responsible for the earned income tax credit that you have described as so fundamental to the condition of the working force.

Senator Long.

Senator LONG. Thank you very much, Mr. Chairman.

Let me congratulate both of you for adding some very constructive thinking to what I believe will be, in the end, a long stride for the better. My thought is that we should not try to decide these things based on who is right but based on what is right. You have enough suggestions here that we ought to be able to buy some of them, if not all of them.

I, for one, am very pleased to see you recommending this reverse withholding procedure for the earned income credit because that will greatly simplify it and also assure the benefits to a lot of people who presently should be getting it but are not getting it, and I find a lot of appeal in that.

I would be curious to know what the two of you think about the approach where you are able to provide somebody with not just one job but a choice of two or three jobs where they could work. Do you

think the person should be privileged to decline to take any one of those jobs and still draw the welfare money?

Senator BAKER. Mr. Chairman, speaking only for myself—because I frankly haven't discussed that possibility with my colleague, Senator Bellmon, or with the other cosponsors of this bill—I guess the real question would be whether or not someone would take a vouchers eligible job, for instance, in preference to a noneligible job, if he had more than one choice. Offhand, I would say no. The certification would have to be that no noneligible job was available to him before he could claim the job vouchers eligible.

That is a matter that ought to be examined carefully, though, because as we begin putting that sort of restriction on the job vouchers program, we start building in the redtape and bureaucracy that can stultify a program of this sort in pretty short order.

Senator BELLMON. Mr. Chairman, we don't change the requirement that is presently in the law that the welfare recipient take a job if it is offered. More than that, we require that they go actively seek a job.

Senator LONG. It seems to me that where there is no father available to help support a family and a mother has three or more children, maybe we ought to give the mother the option of just sitting there and living on that welfare check, rather than doing anything to improve the family income. But even in those cases, you could find some things that people could do where they would make a modest contribution to improving their own condition or the condition of the neighborhood, if it was nothing more than just keeping the area clean in front of their own home, where society would be a little better off because they made a contribution rather than did absolutely nothing.

Do you feel that your program should be limited to the needy only, or that we ought to have some guaranteed income for people who prefer not to work, to bring them up to a certain level?

Senator BELLMON. As I said in my statement, this is not a guaranteed income program.

Senator LONG. I was pleased to notice that you referred to a book by Mr. Martin Anderson. This copy I am holding is not my book; this is Chairman Moynihan's copy. I recommended this book to him, and he is looking at it.

It seems to me that the points that this man makes in that book should all be carefully considered in connection with everyone's statement. I think what you have had to say in your statement should be carefully considered looking at all this; so should the points that he makes.

This gentleman was down in the White House with Mr. Nixon, and he was with Arthur Burns when they tried to work out the family assistance plan and, as I think you know, Mr. Bellmon—apparently you have read this book—he and Arthur Burns pointed out what the fatal defects were with the family assistance plan. Their advice was not heeded, and so the family assistance plan was defeated in two different Congresses, for failure to heed certain essential points, basically that it is better to pay somebody to do something useful than to pay them to do absolutely nothing.

If I had to pick out the biggest fault with what the administration is recommending to us in its plan it is this: They would start out where a mother has merely one child and take the view that she need not take a job even though you are able to offer her something that she could do and you are willing to find somebody to look after the child for her and offer her some little thing that is well within her capabilities. I am not talking about backbreaking work. I am just talking about any little kind of thing she is able to do, if it is nothing more than just patrolling the area around her own home to keep the area tidy and to keep her own house in good order and help report any mischief that occurs in the neighborhood.

The idea of saying you are going to put the family on welfare when you can offer them a job that would let them hold their head high, and make a decent contribution in return for what society is doing for them, to me finds practically no appeal, and I would be curious to know what your attitude is about that.

Senator BELLMON. Mr. Chairman, I agree entirely with what you have just said. Along the line you are discussing, we have in Oklahoma now a program which provides jobs for low-income people, many of them on AFDC, to help older people stay in their own homes and keep them out of nursing homes. This has a double-barreled advantage. It gives the welfare recipient something meaningful to do and, by keeping older people out of nursing homes, it greater reduces the cost of that program to the Federal Treasury.

So I am entirely in accord with the policy that you have outlined, and I believe our bill deals with it in that light.

Senator BAKER. Mr. Chairman, if I could add to that, I am in total agreement with Senator Bellmon and, I think, with you. I think the most explosive social issue in the United States is the simmering resentment that the working population has against abuses of the welfare system, so not only from the human standpoint—that is, our requirement that we take care of those who cannot or at the moment are not able to take care of themselves—not only in response to that humane requirement, but also to promote the general social acceptance of that humane requirement, we need to have some sort of institutional effort to earn the right to those benefits.

As you say, in many cases, it simply is not possible for people to work. In those cases, there should be special exceptions. But as I said in my remarks, I don't think there is a chance on earth of ever taking care of the job needs and requirements in this country permanently with public jobs. It has to be in reliance on the private sector.

So the combination of requiring some effort and with dependence on the Federal jobs, reduction in public jobs as the program takes hold, recognizing our need and responsibility to be helpful with public jobs only when the private sector has not is the general rationale for this program.

Senator LONG [presiding]. Senator Danforth.

Senator DANFORTH. In the short time I have been in the Senate, I have found that one of the reasons for offering alternative legislative proposals is to simply offer alternative legislative proposals. Such proposals furnish endless material for speeches, good things for

editorial writers to consider and the like. But I wonder if you would agree with me that the people who put together this proposal, and the cosponsors of this proposal, are not talking about simply surfacing an alternative for the sake of speeches or for the sake of editorial writers.

What we are doing here is to present serious proposals which we think should become law and which we believe can become law.

Senator BAKER. Senator Danforth, I couldn't agree with you more. You, as cosponsor of this bill, I am sure, share my view that we could have saved ourselves a lot of grief in some quarters by simply ignoring the question. I can recall certain editorial comments recently to the effect that by introducing this bill, we unnecessarily stirred up the whole issue which otherwise might not have gone anyplace. But the point of the matter is, it needs to go someplace. There needs to be welfare reform.

We need to relieve our dependence on the Central Government and increase our reliance on the private sector. So it is not a question of defeating an administration bill by inaction. Our legislative responsibility, in my view, is to propose something that will provide grist for the debate mill and hopefully will produce a legislative result this year.

I referred in my statement to the need for legislation this year, and I really mean that. I am not of the President's party, and I don't agree with much of his proposal, but I also do not agree with those who say that we should smother it with inactivity. I think this is an area that required attention during the Nixon administration, the Ford administration, and it does during the Carter administration.

It is our responsibility to propose, to urge, and to promote welfare reform in an appropriate way and not to try to avoid action in that respect. I have the bruises and scars to prove that; I mean that.

Senator BELLMON. Mr. Chairman, I would like to call attention to a scar I got over this legislation, to show that we are entirely serious about it. During the debate on the farm bill, Senator Dole pointed to me and the fact that I was a sponsor of this bill which he said was going to cost \$8 billion and yet I was opposing the effort to help what he thought was needed to deal with an essential farm problem. So we are serious about it. A lot of work has gone into it, and I believe it should have and does have a good opportunity to become law.

Senator DANFORTH. Is it fair to say that from our standpoint, the ideas in this bill are not carved in stone and that we would welcome communications, meetings with the administration, with people who favored the administration's proposal, with a view toward working out a welfare bill which could gain a broad consensus in the Congress?

Senator BELLMON. Senator, that is entirely the way I look at the legislation. As a matter of fact, next week—and I think it is at the initiative of the Secretary of HEW. there will be a meeting of the sponsors of the legislation and the Secretary, to see where we can blend our ideas with his.

Senator BAKER. If I could add to that, I noticed with great interest a statement by Secretary Califano, I believe at the Senate

Human Resources Committee, noting the introduction of this bill and identifying certain similarities. Joe Califano omitted to point out the differences, but he did point out the similarities. But I take that to be a conciliatory gesture and that it underscores the idea, as you put it, that we may cut, fit, and try until we find something that has a high level of acceptance.

Senator DANFORTH. And further, that we are not looking for credit; we are looking for results. Is that a fair statement?

Senator BAKER. Not only a fair statement, but I think it has been definitively proven already, since we have not received credit, and all we can expect is results.

Senator DANFORTH. Could I follow this, Mr. Chairman, with just one other question?

Senator MOYNIHAN. Yes.

Senator DANFORTH. And if this package were enacted piecemeal—and that could happen, and part of it could be enacted with H.R. 7200, part of it could be enacted in connection with any tax bill that comes before us, the CETA authorization. If it were enacted piecemeal, rather than in block, it might not be so sensational, as far as pointing with pride at some future date, but it would accomplish the same results. Again, it is the results that we are after.

Senator BAKER. I think that is almost an inevitable inference to draw from the fact that we described this as an incremental approach; that is, we are considering changes by increments to the several parts of the existing law. Personally, I for one would be perfectly happy to see us approach these improvements—as I think they are—by separate and different legislative paths. I have no particular illusions about this passing as a package, but I do think the parts can be considered appropriately.

Senator BELLMON. It has been my experience in Government that when we get good results, we get credits, and when the results are bad, no matter how much excusing or explaining we do, we get nothing but lumps. So I would rather have results and not worry about the credits.

Senator LONG. Senator Curtis?

Senator CURTIS. Senator Bellmon, you have stated that this is not a guaranteed income. I know that is your intention, and you are to be commended for it. However, we have to view these social welfare programs on the basis of what they are likely to develop into and not just the purity of our intentions.

I am directing my question now to intact families. What categories of intact families, if any, will not be guaranteed income up to the poverty level?

Senator BELLMON. Let me begin by pointing out that this bill does not extend welfare benefits to families that are headed by working parents who have never been on welfare. That is one area. It would not cover single individuals—

Senator CURTIS. No, no, that isn't my question. My question is, intact families, what ones of them will not be guaranteed an income up to the poverty level?

Senator BELLMON. If they have never been on welfare, they won't be guaranteed an income.

Senator CURTIS. You are not going to take on any new customers?

Senator BELLMON. The bill deals primarily with families that are on welfare now that we are trying to get over onto jobs.

Senator CURTIS. You mean if circumstances develop 6 months, 1 year, or 2 years after the enactment of this bill, nobody could get on?

Senator BELLMON. I am sorry, Senator. Would you state the question again.

Senator CURTIS. Do you mean that if circumstances would be adverse for some individual 1 year or 2 years from now, they couldn't get on the program?

Senator BELLMON. They could get on the program if they were out of a job and could not find another job. They would be eligible for this. But as long as they are working and have not been on welfare, they would not.

Senator CURTIS. All right, it won't take care of people that work. But I mean those others. What categories of intact families will not be guaranteed an income up to the poverty level?

Senator BAKER. Henry, if I could interrupt just for a second, the category that stands out most vividly that would not be entitled to these benefits is a case where the head of the family doesn't look for a job or refuses to accept a job. The dynamics of the whole benefit system is based on the notion that you have to search for a job, or you have to accept it if it is offered, and it makes acceptance far more desirable by the employer, by reason on the job vouchers program and the improved and enhanced Earned Income Tax Credit.

Senator CURTIS. I am not critical of your good intentions here, but this committee and the Congress generally have struggled a long time over this question of accepting a job that is offered and so on, and it is such an intangible thing. If someone says, well, this is too far away or I have never done anything like that, or my back hurts, or that he is just not very capable and he reports for work a couple of days and his performance isn't very good and he doesn't adapt at all and they let him go, you get into a whole area of things you can't prove.

So I want to know, if this bill is enacted, if it doesn't one way or another say to everybody, you will be guaranteed an income up to the poverty level?

Senator BAKER. I would add to what I have already said, Senator Curtis, that this isn't perfect, but it is better than what we have got. There is a requirement that you go out and hunt work, or that you take it, and there is also an added inducement for the employer to give work, with the job vouchers or the tax credit.

So the answer to your question is, no, we are not providing a guaranteed annual income for everyone, any more than the present law does. We require that they go out and look for work, and we make their successful prospect greater by this bill than it is under the present law.

Senator CURTIS. I am not quarreling with your intent at all. I am quarreling with the very difficult problem of supporting people by a far-removed Federal Government, and what it leads to.

Mr. Baker. I want to commend you very much on your commitment to the work program. It is very important. What I would like

to see this committee do is eliminate any further revenue sharing efforts in this bill, not try to relieve the States right now. Financially, they are in much better condition than the Federal Government. Just postpone it and don't put it in this bill.

I think expansion of welfare to new areas ought to not be included in this bill. I don't think we should have any provisions in it to increase the Federal obligation. Let's reform first and prove our worthiness. Let's deal with the work program. Let's deal with a program that would deal with ineligibles, let's deal with administration.

Now, I want to commend you further, Senator Baker. When we had the minimum wage bill, you supported the amendment by Senator Stevenson that would have provided a differential for students, and it is these young people where we have a great deal of it. You supported the Weicker amendment and the Domenici amendment. They all failed. I think that is very important.

Individuals who have never worked and have no experience, have never punched a time clock, are not used to taking orders and directions, if they could get a job where they could earn something while they learn, they would be happy to go up the ladder. That really should be a part of our welfare reform, if we really want to put people to work.

Another thought I would like to throw out. We give a tax deduction for interest payment not alone for business purposes, but for anything. We do not look back of the tax return and say, was this then wise or was it provident. If they paid interest, it is a deduction. Admittedly, there are some abuses in it, but overall, it is a good thing. It has helped many people buy houses. It has done a lot of things.

I have often felt that if we wanted to create jobs in this country, if we would give a tax deduction—not a credit but a tax deduction—for all wages paid, regardless of purpose. I think there are people of middle class income that really need some work done around their house they can't afford. I think there are older people who would like to hire someone to drive their car now and then. I think that there are many people that would hire work done around their places to improve property, and people would sell paint and a lot of other things. I believe that ought to be considered.

Now, I know the other argument. It will be said by those who oppose it that you are subsidizing the wealthy, to give them a servant or a chauffeur or something, or that they can cut down some dead trees with the taxpayers' subsidy. Well, that is not true any more than in the interest deduction we are subsidizing every high pressure salesman.

I really think that that would fit in with your idea. I don't ask anyone to embrace it quickly, but I think it is worth consideration. I have run over my time.

Senator BAKER. Senator Curtis, I think it is worth considering too. I frankly must say, I have never considered that, but I am happy to consider it, and I am happy that this proposal has stimulated other proposals of that sort that can be considered.

Mr. Chairman?

Senator MOYNIHAN [presiding]. Senator Baker?

Senator BAKER. I was about to say that with leave of the committee, I have another commitment that I need to keep. I wondered if I could be excused.

Senator MOYNIHAN. Of course you may. Could I suggest that when Thomas Jefferson proposed his incremental approach to westward expansion, he went as far as Wyoming, and we would not want the distinguished Senator from Wyoming not to have one opportunity to ask you questions.

Senator BAKER. I attempted to withdraw my request when I noticed that I hadn't awaited the questions of the Senator from Wyoming.

Senator HANSEN. Thank you, Mr. Chairman.

Thank you, Senators Bellmon and Baker, for your appearance here and even more importantly, for your interest in this very vexacious and continuing problem.

When Senator John Williams represented the first State here for many years. I know he oftentimes suggested that when a new program was proposed, it would be worthwhile to try it out in an area before it was painted over the whole country. In that respect, let me ask each of you if you would favor trying some of these ideas out in certain parts of the country that were typical of the entire welfare program, and see how it worked there, to see if indeed the ideas that you project so forcefully might prove to be as effective as you believe they would be.

Senator BELLMON. Mr. Chairman, as I said in my statement, we would like to see the provision for pilot projects in areas that do truly break new ground. A lot of what we are proposing here, though, builds on the experiences of the past.

Senator MOYNIHAN. That is your section 11 in your testimony?

Senator BELLMON. Right.

Senator HANSEN. In some respects, there are characteristics about this plan which may be likened to a guaranteed annual income. I won't debate that. But several years ago, New Jersey, Seattle, and Denver tried a guaranteed annual income plan. One of the startling effects was that in the cities of Seattle and Denver, there was a 430 percent increase in marriage breakups in the first 6 months. For the full 2-year period that the plan was in operation, family breakups increased 244 percent for whites, 169 percent for blacks, and 194 percent for Chicanos.

Now, I don't know what your response to that might be, but it would seem as though in light of the experience that Seattle and Denver had, that maybe it wouldn't be a bad idea to try out this idea you have. I am not now contending that it is precisely identical, by any means, to the guaranteed family income plan that at least early on was recommended by President Nixon. It was turned down, as you know, by the Finance Committee.

Would you think that there might be some merit in a pilot program to test these ideas out, Senator Bellmon?

Senator BELLMON. I would again say that I think a pilot program would be good in areas where the ideas are truly a departure from what has been done in the past, or where it is something that is new

and untried, but a great deal of what we are proposing here could be enacted immediately based on the experience we have already had.

I assume you are referring primarily to the job voucher approach, and it might be well to try that on a pilot program.

Senator HANSEN. You have two plans, of course. One is the job and the other is the—

Senator BELLMON. Making a two-parent family available for AFDC.

Senator HANSEN. Yes.

Senator BELLMON. I would think that approach should not have to be tested. It would correct the problem, for instance, that the Senator raises in Denver and Seattle. It would keep families together rather than forcing them to break up, and I really would sort of resist the idea that that would have to be tested because it seems abundantly clear that the present practice is not working.

Senator HANSEN. I yield to Senator Curtis.

Senator CURTIS. The Federal law has no defect in it, so far as this point made about the two-parent family. The Federal law permits any State—and most of them do—to make eligible for AFDC if the parent is unemployed. It was done years ago to take care of this situation of a temptation for the father to leave home in order to get his children cared for.

Senator LONG. If I might just interject at that point—

Senator HANSEN. Yes, indeed.

Senator LONG. It seems to me that there is the old bleeding heart approach from down here in the Department of HEW, which is not really a problem at all except in the Department of HEW. It is this thing of saying that under the existing law a man is made to go leave his family so the family can become eligible for welfare. If you look at how it works out in the 50 States, that is not really the problem.

The problem is what happens when the man has the job. He is not leaving them because he hasn't got the job; he leaves so that mama can go on welfare and increase the family income and after that, he stays in touch. Oftentimes, he stays close enough to touch mama every night. So he is around.

[General laughter.]

Senator LONG. They are drawing the money, and if he makes it a point not to marry mama, which seems to be becoming more and more the way of doing business nowadays according to the latest news reports, so long as they haven't married, one can say he doesn't have any legal responsibility to support those children. Under those circumstances, you have got a papa who has plenty of income to support that family, but the family is drawing the welfare money at the same time. There is your big problem.

Senator BELLMON. The Senator is right, but there is also the problem of some father who is, say, working at a filling station and the filling station closes. He has been able to bring home enough pay to keep the rent paid and keep food on the table and suddenly, he has no income. If he will leave the family, the family is immediately eligible for AFDC, but as long as he stays there, they can't get on.

Senator LONG. Senator, we are talking about reform, and the first reform you ought to make is to say if you are going to have any government-created job at all, any make-work job under CETA—and right now, most of them are make-work—you ought to give a preference to the man who has got the family to support rather than the person that doesn't.

Senator BELLMON. That is right.

Senator LONG. Rather than going to all these families and providing them with a second job, when they are not in poverty anyhow, you ought to provide the job so that that father who has let's say 4 mouths to feed, himself, his wife, and two children. He ought to be permitted to have one of the jobs first.

Back in Louisiana, a long time ago, we used to do that on a somewhat different basis. The idea was, politically, we only had so many jobs and therefore, we would go on the basis of one to a customer. If you had people who had supported you and helped you get elected back in those hard times, only one person in the family could have a job because we had to spread those jobs around just as far as we could make them reach.

Senator HANSEN. We call that realism in politics in Wyoming, Mr. Chairman.

Senator LONG. But for a much better reason, you could say, if you have got these CETA jobs, the first order of business ought to go to the people that have the families to support. Now, doesn't that make sense?

Senator BELLMON. It sure does, and I believe you will find our bill aims in that direction.

Senator LONG. Thank you.

Senator HANSEN. The States of Tennessee, Oklahoma, and Wyoming do not now elect to provide welfare to intact families. Do you find any problem with the proposal you make, insofar as your State is concerned, Senator Bellmon?

Senator BELLMON. At one time we had it, and it happened to be during the time I was Governor, so maybe I ought to go back and run again.

Senator HANSEN. What about you, Senator Baker? I know we are all responsive to our constituent concerns, but I just wondered about welfare.

Senator BAKER. I think, Senator Hansen, that if the principle is sound, it doesn't matter whether it changes it or not. In my own particular case, I am told that under this bill, the State of Tennessee would save \$25 million because of the difference in the amount of money that they receive under the match versus the cost of including intact families under AFDC.

But that should not be the argument. The argument ought to be, is it in the best social interests of the United States to cover intact families. I think the answer clearly is yes. Even if only 24 States do not provide that, then I think that is 24 too many because I think there is a positive disincentive to the continuation of the family unit.

Let me say a word about the testing theorem. You and I served with John Williams for a long time, and I still regret that he retired from the Senate. He was a great asset. But I recall—and I have used

the analogy often—that not only was he careful with the Government's money; he also remarked to me the other day when he was visiting in Washington and we were talking about a particular bill—not this one. He said, Howard, you ought to watch out about how much that project is going to cost because the U.S. Treasury has \$500 billion less than no money at all.

[General laughter.]

Senator HANSEN. Thank you, Senator Baker. I appreciate that and I am sure he will.

You spoke about the continuing resentment over welfare costs among workers, and I can attest to that too, but this bill would increase the burden upon taxpayers by \$9 billion, is that right?

Senator BELLMON. No, wait a minute now. The bill has a price tag of \$8 billion to begin with, \$3 billion of which is relief to the States and local governments. So the actual additional cost to the Government, to the taxpayers, is \$5 billion. But as I stated in my statement, assuming the success of getting people off welfare rolls and onto payrolls at the rate of 500,000 a year, we actually save \$26 billion over a 10-year period. Initially, you have to spend some money—it is an investment—in getting people on payrolls, and then we have a very substantial savings.

Senator HANSEN. What do you figure that savings over a 5- or 10-year period would be?

Senator BELLMON. The first 5 years, it is \$2.3 billion.

Senator HANSEN. Savings?

Senator BELLMON. Savings. And over the 10-year period, it is \$26 billion, according to the CBO estimate.

Senator HANSEN. Now, you and the CBO don't agree. Isn't that right?

Senator BELLMON. That is CBO's estimate.

Senator HANSEN. Is it \$9 billion or \$8 billion?

Senator BELLMON. The initial cost is \$8 billion.

Senator HANSEN. Is that what CBO says?

Senator BELLMON. Yes.

Senator HANSEN. I understood they said \$9 billion.

Mr. FULTON. If I can just comment on that, the CBO analysis of the 1982 costs of this proposal did say a little over \$9 billion, but at the end of the CBO report, they list a whole bunch of features of the bill that they did not analyze, and when the bill was introduced, Senator Bellmon inserted a staff comment in the record that we are confident the bill would, in 1982, actually cost about \$8 billion.

Senator HANSEN. Would you believe that these net savings could be demonstrated on a pilot basis rather than an actual basis, if we were to select an area where it could be tried?

Senator BELLMON. I think the obvious answer is yes, a pilot project could demonstrate the potential savings. But on the other hand, it seems to me that many of these ideas have such obvious merit that there is no point in delaying them.

Senator BAKER. Mr. Chairman, I agree with them. I think, Senator Hansen, that any aspect of the program that is in fact a new program, an innovation, is a prime candidate for field testing on a pilot basis. The jobs voucher program is one of them. I wouldn't have

strong objections to that. I would like to see it done promptly and with appropriate sampling, but I wouldn't object to a pilot project.

I do agree with Senator Bellmon, though, that in the very nature of incremental change, most of the proposals we made here are changes in the existing law. I guess you could argue that some of them ought to be field-tested, but many of them, I think could be put in.

Senator CURTIS. Would you yield for a brief question?

Senator HANSEN. Yes.

Senator CURTIS. In this cost thing, did you allocate an amount to the increased cost on medicaid, in your \$9 billion? As I understand it, anyone who is drawing AFDC now is eligible for medicaid. This will enlarge the number eligible. And if so, what was the figure you used for the increased cost of medicaid?

Senator MOYNIHAN. I wonder if Senator Bellmon would suspend for just a second and let me, as chairman of this subcommittee, say to the two of you—as I know you must go, sir—that this has been an exceptional morning. We heard yesterday in the press that the White House fears welfare reform is dead. I think the record is that welfare reform is alive and well in the U.S. Senate, and that is thanks in no small part to Senators Baker, Bellmon, Danforth, Ribicoff, Mark Hatfield, Young, and Stevens. We just want to thank you, sirs.

Senator BAKER. Mr. Chairman, thank you, and I apologize to you and the committee for leaving, but the Senate convenes at 12:00.

Senator MOYNIHAN. You are minority leader, and there is something up today.

Senator BAKER. There is the great danger that the majority will unscrew my desk from the floor and carry it away.

[General laughter.]

Senator BELLMON. To answer Senator Curtis' question as best I can, as I understand it, the CBO report does not make a full analysis of the effect on medicaid. But I also would like to add that the CBO analysis does not take any credit at all for the increase in income tax which we would be likely to realize.

We tried to get, frankly, a conservative estimate as to what the benefits of this bill would be.

Senator CURTIS. On the income tax, your increasing by 50 percent of the earned income wage will cut down the income tax receipts, will it not?

Senator BELLMON. That has not been computed, but the fact of it is, a lot of these people who are now welfare recipients will become wage earners and ultimately taxpayers.

Senator CURTIS. Above and beyond the exemptions and deductions and the earned income credit?

Senator BELLMON. Yes, I would think so because for one thing, they will definitely pay social security taxes. In addition to that, one of the great problems has been to get people under that first rung of the job's ladder and once they get a minimum wage job, then a lot of them will move into much higher incomes.

Senator CURTIS. The poverty level is now how much?

Senator BELLMON. It is about \$6,200 for a family of four.

Senator CURTIS. So they would get \$900 return in taxes while making \$6,000, and then it would take quite a little phaseout after that. This is quite a jump for nontaxpayers who are on welfare now.

Senator BELLMON. It is certainly an initial jump, but to me it is inconceivable that all the people who are now on welfare are going to always stay at the minimum wage. A lot of them, I would think, once they can get started in meaningful jobs, will quickly advance.

Senator CURTIS. I think that is true under any law.

Senator MOYNIHAN. Senator Bellmon, we have kept you here this whole morning, and it has been an extraordinary morning for this committee.

I would like to make just two remarks if I can. First, to say that with respect to the AFDC program, Senator Ribicoff observed in the letter which he submitted to the committee today, "I was Secretary of HEW when AFDC-UF was tried on an experimental basis." There is a good example of an experimental mode. More than half the States have now accepted AFDC-UF, and I think it is a record of which Senator Ribicoff should be proud.

Senator Bellmon, I would just offer this thought to you that you might want to comment on. First of all, sir, we have a long list of questions we would like to submit in the record if you, Mr. Fulton, would associate yourself with getting some answers for us.

[The following was subsequently supplied for the record:]

RESPONSES BY SENATORS HOWARD BAKER AND HENRY BELLMON TO SENATE FINANCE COMMITTEE QUESTIONS ON S. 2777

(Follow-On to Welfare Reform hearing held April 18, 1978)

Question 1-A. Why do you regard a benefit-level that will be set at 65 percent of the poverty threshold in fiscal year 1984 and thereafter as adequate for a family with no other income?

Answer. To our knowledge, no single measure of need has even been universally accepted as either adequate, accurate or appropriate. Our proposal permits states to continue determining payment levels, but they may not provide combined AFDC-Food Stamps benefits of less than 65 percent of the poverty line beginning in 1985 (for families with no other income), with a 60 percent minimum taking effect in fiscal year 1982. The 65 percent minimum was also proposed in the other major welfare reform bills introduced in the House and Senate this year. Only the timing for effecting the minimum payment and the mix between Food Stamps and cash differed in these bills.

We do not suggest that 65 percent is adequate in all areas of the country. Indeed, states would be able under our proposal to pay higher benefits and receive the Federal matching percentage so long as the combination of Food Stamps and AFDC did not exceed 100 percent of the poverty line. The most important point is that our proposal and others would, for the first time, set a Federally-mandated minimum benefit which would rise in future years in proportion to the cost-of-living.

Question 1-B. Why have you chosen to continue the Food Stamp program instead of cashing it out, as the Carter Administration has proposed to do? Won't its retention simply create an unnecessary layer of administrative complexity?

Answer. The Food Stamp program has proven to be an effective vehicle for (1) supplementing AFDC in lower benefit states; and (2) assisting the working poor, often when their income is reduced for brief periods, without their having to enter the cash welfare system. In addition, at least some experienced observers believe that a combination of Food Stamps and cash assistance provides better protection to children than would a cash-only program. Thirdly, Congress only last year enacted major reforms of the Food Stamp program, including elimination of the purchase requirement. At least some experience should be gained with the revised program before it is replaced with a "cash-only" approach. Finally, S. 2777 would give states an option to direct the cash-out of Food Stamps for the elderly, blind and disabled population, and would authorize pilot-testing of full cash out.

Question 1-C. Do you have any estimates of the cumulative benefit reduction rate that would prevail—at different levels of earnings and different states—

under your proposal? Do you regard these as adequate to preserve work incentives?

Answer. In a state which set its AFDC and Food Stamp benefit level at 60 percent of poverty (\$4,600 in 1982) the cumulative (average) benefit reduction and tax rate for a single-parent family of four with \$5,000 earnings would be, under our proposal; 40 percent. Under current law, it would be 58 percent. At earnings of \$9,000 the rate under our proposal would be 58 percent and under current law 67 percent.

If the state's benefit level was at 100 percent of poverty (\$7,067 in 1982), the rate at \$5,000 earnings would be 56 percent under our proposal and 58 percent under current law. At \$9,000 earnings the rate would be 82 percent and 83 percent respectively.

Under our proposal the marginal benefit reduction rate is very high (90 percent) at the poverty line, where the earned income tax credit begins to phase out. We are continuing to study this and are receptive to modifications which would provide a more acceptable benefit reduction rate.

In the case of two-parent families (AFDC-U), under current law in 1982, AFDC would cut off at earnings of \$4,140 whereas under our proposal it would cut off at \$5,382.

Thus, work incentives under our bill are generally stronger than under present law, while total family benefits and disposable income would, in many cases, be considerably higher—especially for people in low-benefit states. We also believe that our 15 percent earned income credit, rising to the poverty line, rather than 10 percent, starting to phase down at \$4,000 as in current law, will be a strong work incentive.

Question 1-D. Is there a work requirement in your plan? What is the penalty if a recipient refuses to comply? How do these compare with the current requirements and penalties?

Answer. S. 2777 would add an affirmative work-search obligation to the present requirements applicable to WIN registrants. In addition, the bill would add an exemption for recipients engaged in employment and educational activities totaling at least 30 hours per week to the present list of WIN exemptions in Subsection 402(a)(19) of the Social Security Act. Penalty for refusal to participate would continue to be removal of the employable adult from the AFDC grant.

Question 2-A. Do you have any evidence that AFDC-U has had the [effect of keeping families together]—in the 26 states that have implemented the program?

Answer. No. To our knowledge, no adequately correlated statistics have been gathered, nor have any authoritative studies been completed on this point. Since, in most cases, the states which have implemented AFDC-U are also the higher benefit states and the states which contain most of the nation's large cities, comparing divorce and separation rates in states which have AFDC-U and those which do not would not be meaningful.

Question 2-B. Am I correct that neither Tennessee nor Oklahoma has chosen to implement the AFDC-U program? Could my distinguished colleagues explain why?

Answer. State welfare programs have served single-parent families since the beginning of the AFDC program in the 1930's. Although Federal funding has been available for AFDC-U since 1961, the concern about expansion of welfare rolls, as well as the fact that AFDC-U families are considered to have a relatively high potential for self-support, has led Tennessee, Oklahoma and other states to hold down their welfare expenditures by focusing on single-parent families. Oklahoma did have AFDC-U from the early 1960's to 1975 when it was terminated, primarily for fiscal reasons.

Question 2-C. Under your proposal, two-parent families, regardless of size, become eligible for assistance only if their earnings are below those from a job paying $\frac{3}{4}$ of the minimum wage (\$4,524 annually in October, 1979). Isn't this unfair to larger families, since the minimum wage does not vary with family size? If the family does manage to qualify, won't its benefits depend on its size, thereby creating a situation where going on welfare is more profitable than staying at work? Is the one-parent family also subject to an eligibility rule that is based on the minimum wage?

Answer. S. 2777 would replace the arbitrary "100 hours" rule which now limits participation in the AFDC-U program with a still arbitrary, but more generous, earnings test tied to the minimum wage. As the question indicates, S. 2777 would not apply this limitation to single-parent families. We thus propose to reduce, but not totally eliminate, the differential treatment of two-parent families.

It is noteworthy that all of the major welfare reform proposals filed this year provided some type of differential treatment of two-parent families. Our objective, and we assume that of the authors of other plans, was to provide better coverage of two-parent families, while protecting against the possibility of large growth in cash assistance program enrollments and costs.

Question 2-D. Would families newly eligible for AFDC-U also be eligible for Medicaid? Have your cost figures taken Medicaid eligibility into account?

Answer. AFDC-U families would be eligible for Medicaid. Our cost figures do not take impact on Medicaid costs into account, but CBO estimates that our proposal would result in a slight decrease in the overall number of families participating in AFDC and AFDC-U combined. This would result from the interactions between various components of our proposals. The employment provisions, in particular, would take people off AFDC. Thus, we believe the impact on national Medicaid costs would be small, although we acknowledge that there could be variable impacts among the states.

Question 3-A. To what extent will your program reduce the differences in welfare benefits among the states? Are your estimates based on benefit-levels currently paid or on projected ones?

Answer. Our proposal will result in a change in the present range between states in AFDC/Food Stamp combined benefits of \$234/month (Mississippi) to \$615/month (Suffolk County, N.Y.), to a range for Federally-matched benefits of \$383/month to \$640/month in 1982. This is based on our projections of how states will respond to the minimum and maximum AFDC benefits levels we propose.

Question 3-B. As I understand, in determining AFDC benefits, your program would allow a family to disregard up to \$120 per month in work expenses, plus one-third of additional earnings. Is it correct that these earnings disregards will not be applied in calculating initial eligibility? Doesn't this create a situation like the one we have now where persons in families receiving assistance can be working right next to persons in families not receiving assistance while they both make the same pay? Why aren't disregards used to calculate both eligibility and benefits?

Answer. It was not our intent to disadvantage people who would be eligible under the current AFDC program because of work expenses being taken into account in calculating eligibility. We are amenable to having at least part—perhaps half—of the initial \$120 taken into account in calculating eligibility.

We believe it is not desirable to apply earnings disregards to applicants because:

(1) It adds to welfare rolls families whose incomes exceed the established need level, and it may thus increase rather than reduce welfare dependency.

(2) We believe the Congressional intent in allowing earnings disregards was to encourage AFDC families to work their way off welfare, and not to add families in which a parent is presently working to the rolls. We believe this distinction continues to be appropriate.

(3) Extending the benefit of the disregard to applicants would provide cash benefits, that would become nearly permanent, to large numbers of families who have never received welfare before, and whose breadwinners are employed full time. This would have fundamental social and economic implications and should be done only after the most careful consideration. We do not believe the people of the country would accept this type of shift in public policy.

(4) Extending the earnings disregard to applicants would be expensive. We do not have an estimate on how this would affect the cost of our proposal, but in response to our questions regarding the Carter proposal, HEW stated the following regarding the cost and case-load impact of extending eligibility to the "break-even point" as proposed in the Administration's bill (S. 2084, H.R. 9030).

"We have estimated that the earned income exclusion increases the number of household units eligible for Federal cash benefits under H.R. 9030 by 1.4 million and the number of people by 2.4 million. The Federal cost of benefits is increased under this provision by \$1.98 billion. In addition, state costs of benefits to recipients newly eligible for Federal cash assistance under this provision are approximately \$300 million. This assumes that all families earnings above the basic benefit level would be excluded from benefits." (Letter dated February 6, 1978 from Assistant Secretary Henry Aaron, HEW, to Senator Henry Bellmon).

(5) We believe expansion of the earned income credit and continuation of Food Stamps are far better ways than is cash welfare to provide supplemental income to the working poor.

Question 4-A. Why have you chosen to provide substantially fewer public service jobs (725,000 phasing down to 375,000 in fiscal year 1983) than were proposed

in the Program for Better Jobs and Income (1.4 million)? Since the number of such jobs your program will provide will depend upon the national unemployment rate, are there likely to be sufficient slots for central cities or isolated rural areas, where many public assistance recipients reside and whose unemployment rates may differ significantly from the national one?

Answer. Although the sponsors of S. 2777 believe that jobs are a crucial element of any significant attempt to reform the welfare system, we do not believe that total reliance upon public-sector jobs is either appropriate or necessary. Rather, our bill would provide for a combination of private and public-sector jobs.

In terms of priorities, we regard private-sector employment as the primary and preferable objective, with public-sector employment as a last resort. We believe that, through the provision of targeted tax credits and wage vouchers as proposed in S. 2777, private-sector employers would be encouraged to hire thousands of employable AFDC recipients.

It is impossible to estimate precisely how many AFDC recipients will be hired through either the voucher or tax credit program. However, we were encouraged by the Administration's estimate that approximately one million jobs would be created by the employment tax credit which they have proposed to target on youth and handicapped individuals.

The availability of these new private-sector incentives for employment diminishes the need for reliance upon subsidized public-sector jobs. However, for people who were unable to find either a non-subsidized or partially-subsidized private-sector job, a considerable number of public-sector jobs would exist under our proposal—approximately 375,000 in fiscal year-1980.

Using the framework of the Comprehensive Employment and Training Act, we would target CETA jobs based upon the following priorities: we would guarantee a CETA job to one employable adult from an intact (two parent) AFDC family; we would target 50 percent of the remaining CETA slots for AFDC employables and 50 percent for other long-term unemployed persons.

We believe that, by targeting CETA jobs in the way our bill indicates, the PSE job opportunities will be in the areas where they are needed most. No reduction in the number of authorized CETA slots would take place if the national unemployment rate exceeded 6 percent for the previous year.

Question 4-B. Assistant Secretary of the Treasury for Domestic Finance, Mr. Roger Altman, stated that preliminary results from a new Census Bureau survey found that less than 3 percent of employers made "any conscious effort" to increase hiring due to the employment tax credit enacted last year. In light of such testimony, what makes you think that the expanded employer tax credit contained in your bill will be more effective?

Answer. As was mentioned in Senator Baker's testimony, there are several reasons why the present employment tax credit may not have been effective.

First, in order for such programs to have a chance of success, they must be aggressively advertised at the local level. It is clear that the present tax credit was not well advertised.

Second, the present tax credit is only available to firms that hire more than 102 percent of the previous year's employment base. Therefore, the credit was not available to firms that had little or no expansion of their employment base. Although the intent of that provision was to protect on-board employees from displacement, it has the effect of disqualifying most businesses in economically distressed areas.

Finally, the existing tax credit is not targeted on the hard-to-employ. Consequently, it was available for any employee hired over the 102 percent base and does very little for the hard-to-employ.

S. 2777 would attempt to address the deficiencies inherent in the present tax credit by targeting it, aggressively advertising it, and augmenting it, with a job voucher program in which there is no requirement for expansion of the employment base.

Question 4-C. Your proposal's Job Voucher Program provides a sizeable \$1.00 per hour wage subsidy for employers to hire AFDC recipients, persons unemployed longer than 26 weeks, unemployed youth and persons who had been employed in CETA jobs. Isn't this likely to become an expensive provision over time? What safeguards are included in the bill during the initial stages to check this program's growth and impact? What evidence have you that this subsidy will actually work and not simply displace workers who already have jobs?

Answer. It is very difficult, if not impossible, to estimate how many employers would take advantage of either the job voucher or the tax credit or how many

people they would hire because of the credit and the voucher. However, by virtue of the groups which would be eligible for these programs, one can argue that a substantial portion of the beneficiaries of these efforts will be public assistance recipients. A large percentage of the recipients placed in jobs as a result of the voucher and credit would leave welfare entirely, while welfare and Food Stamp benefits would be substantially reduced for the others.

Therefore, despite the cost of the voucher and tax credit, the AFDC and Food Stamps savings realized would be substantial. Indeed, as was mentioned in Senator Baker's testimony, when the CBO assumed that 500,000 jobs were created under the voucher program, 300,000 of which went to AFDC recipients, they estimated that the net cost to the Federal Government would be a savings of \$4 million.

The voucher and tax credits can only be claimed for one year of employment. Moreover, if it appeared that the voucher was becoming too costly, due to its popularity with employers, the Congress could simply put a cap on it.

Although wage subsidies have been used extensively in Europe, there is very little empirical data on their use in this country. The history of private-sector employment incentives was reviewed in Senator Baker's testimony. The conclusion one reaches from an examination of the evidence is that there is no definite proof that a job voucher program will succeed. However, there is reason to believe that a program which addresses the primary recurring problems of the past can succeed.

Those problems include: the necessity to minimize paperwork and the specter of government supervision or intrusion in the affairs of businesses inclined to participate; the importance of aggressive advertising at the local level so that the private-sector is fully aware of the existence of the incentives; proper targeting so that the incentives encourage the hiring of the hard-to-employ but do not restrict eligibility for the program to those most stigmatized in the employment context; and the propagation of a positive attitude among the private sector, not only about the efficacy of the program, but also the significance of the private sector's contributions to solving one of this nation's most serious problems.

We have nothing to add to the discussion in Senator Baker's testimony on the protections against displacement.

Senator MOYNIHAN. I would like to make the point that there are in a sense two purposes, something contrasting, which the kind of comprehensive-incremental program you have proposed deals with and that is, that one-half the States have not even gone so far as to adopt the unemployed parent option in welfare, which Senator Ribicoff began some years ago. Senator Hansen was candid enough to observe that his State hasn't, your State hasn't, Senator Bellmon, and Senator Baker's State hasn't.

But half the States—they break down 24-26—have done so much in this area. You might say those States which have done too little have not been fair to their poor. There are other States which have done so much that they have not been fair to their taxpayers, and fiscal relief is truly a necessity.

Nothing commends your bill more to me than the proposal to get on with the Federal Government accepting up to 80 percent of the cost of the national program. We went to 100 percent in SSI. I think no one should underestimate the importance of your phasing SSI down to 62 years of age; that is a very important measure which puts it in synchronization with our social security measures, as well.

But you do see, Senator Bellmon, that fiscal relief is one-half of welfare reform at this time.

Senator BELLMON. Yes, I do because of the fact that I think we here in Congress had just as well face the fact that welfare is a national problem; it is not just a local problem, not just a State problem; it is a national problem. This bill embraces that concept and tries to deal with it.

Senator MOYNIHAN. It has that particular quality about things that should be national which is that we don't want States to compete with one another in the treatment of their poor people. We don't want them to say, come to New York. It is a good place to do business because we let the widows starve here. That is an exaggeration, but such things have been known to happen, and that is why national standards are important.

I think you have given us much work to do and as you know, it can be done in this session—maybe not everything, but you have come forward with a bipartisan proposal of great importance.

I wonder if Senator Long has some further thoughts?

Senator DANFORTH? It is your bill.

Senator DANFORTH. No, I think it has been very well covered by Senators Baker and Bellmon.

Senator MOYNIHAN. Senator Curtis?

Senator CURTIS. Mr. Chairman, thank you, but we have some other witnesses.

I wonder if Senator Bellmon, as the principal sponsor, would mind if I submitted some questions in writing some time in the next 2 or 3 days. Our record is going to be open here for a little while, and I know the Senator is busy and we have other witnesses.

Senator BELLMON. We would like to have the questions.

[The following was subsequently supplied for the record:]

RESPONSES TO QUESTIONS OF SENATOR CARL T. CURTIS

Question 1. Senator Bellmon, in your statement on page 6, you recommend an increase in the Federal matching rate for the AFDC program through a three-step sequence, will you tell us what the increased Federal costs of this will be in each of the three years?

Answer. We estimate that the increased Federal matching of AFDC costs provided for in S. 2777 will cost approximately \$1 billion in added Federal costs in fiscal year 1980, \$2 billion in fiscal year 1981 and \$3 billion in fiscal year 1980.

Question 2. What will be the costs of the above mentioned program over a period of the next ten years?

Answer. As is the case with other major welfare proposals, we do not have carefully developed cost estimates looking ten years into the future. However, we believe the employment features of S. 2777 would result in substantially lower welfare costs over the next ten years, as compared to costs that would be experienced if current programs were simply continued. Indeed, success during the first few years in putting AFDC recipients into private sector jobs and in assuring that a high percentage of subsidized public service jobs—that are likely to exist anyway—go to welfare recipients, could reduce Federal, state and local welfare costs substantially, compared to what they would be if present programs were simply continued.

Question 3. In general, how does the financial situation of the majority of states compare to the financial situation of the Federal Government?

Answer. Many states are in better financial positions than is the Federal Government. However, the Federal Government has already taken on a leadership role in fighting poverty, and is now supplying well over half of the funding for welfare programs. By moderately increasing its investment in the short-run, we believe the Federal Government can build a more effective welfare system, assure that a greater number of people go on payrolls as opposed to welfare rolls, and reduce the expenditure of public funds over the long-run.

Question 4. Senator, on page 9 of your statement, you recommend the establishment of minimum standards for payments in the AFDC program. Will you list the states whose payments would be increased by such a requirement?

Answer. The following table shows current combined AFDC and Food Stamp benefit levels for single-parent families of four with no other income in states which might be affected by the minimum benefit standards in S. 2777:

	AFDC maximum July 1977 or later	Food stamp bonus (Food Stamp Act of 1977) [†]	Combined maximum potential benefits	Percent 1977 poverty line [‡]
Alabama.....	\$1,776	\$2,030	\$3,806	61
Arizona.....	2,376	1,850	4,226	68
Arkansas.....	2,268	1,882	4,150	67
Florida.....	2,292	1,875	4,167	67
Georgia.....	1,692	2,055	3,747	61
Louisiana.....	1,968	1,972	3,940	64
Mississippi (July 1978).....	1,212	2,184	3,396	55
North Carolina.....	2,400	1,842	4,242	69
South Carolina.....	1,404	2,141	3,545	57
Tennessee.....	1,668	2,062	3,730	60
Texas.....	1,680	2,058	3,738	60

¹ July 1978 allotment for 4 = \$182 per month (\$2,184 per year).

² Not actually implemented in August 1978. Assumes standard deduction of \$601 per month plus \$45 in dependent care and/or excess shelter costs (\$1,260 yearly deduction).

³ 1977 poverty line for family of 4 (nonfarm) = \$6,190

If all these states raise their AFDC benefits in proportion to increases in living costs, it appears that the states listed below would be required by S. 2777 to pay higher AFDC benefits than they would otherwise pay, in the years indicated:

Fiscal year 1981 (55 percent of poverty minimum): No states affected.

Fiscal year 1982 (60 percent of poverty minimum): Mississippi and South Carolina.

Fiscal year 1985 (65 percent of poverty minimum): Georgia, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, and Texas.

It is likely of course, that some states will not raise benefits in proportion to increases in the poverty line. For example, if states raised benefits about half as fast as the poverty line increases between now and fiscal year 1982, the following states would be affected by the 60 percent of poverty line minimum proposed for fiscal year 1982 by S. 2777: Alabama, Georgia, Louisiana, Mississippi, South Carolina, Tennessee, and Texas.

Question 5. What would be the costs of this proposal in each of the next five years?

Answer. The preliminary CBO estimates on the costs of S. 2777 did not isolate the cost attributable to particular elements in the proposal. However, based on review of various estimates that have been made on other proposals, it is clear that the minimum benefit requirement included in S. 2777 would cost well under \$1 billion a year when the 65 percent minimum benefit became fully effective.

Question 6. What do you estimate as the cost of indexing that proposal over the same five years?

Answer. Again, we do not have a precise estimate of the effects of indexing the minimum benefits to the poverty line. However, the indexing feature would cost very little between now and fiscal year 1983, given the few states that would be affected by the minimum benefit standards which would take effect in fiscal year 1981 and fiscal year 1982.

Question 7. Senator Bellmon, on page 10 of your statement, you recommend lessening the responsibility for local units of government, such as counties and cities. Do you have any data indicating that the best administration comes from state administration programs rather than those programs where the local government has a participation?

Answer. The quality control record of states which have state versus local administration is not conclusive regarding effectiveness of administration. The 32 states which have state-administered programs had an average dollar loss error rate during the July to December 1977 period of 7.4 percent, while the 18 states with local administration under the state supervision had error rates averaging 6.7 percent during that same period. On the other hand, in the child support enforcement program in fiscal year 1977, the states with local administration of AFDC had collections amounting to 3.8 percent of AFDC costs, while the states with AFDC administration at the state level had child support collections amounting to 4.3 percent of total AFDC costs.

Our proposal included strong incentives for states to take full responsibility for funding and administration of AFDC because that would shorten communications lines, reduce to two the levels of government involved in writing regula-

tions, wrestling with welfare budgets, etc., and provide greater consistency in the treatment of recipients.

Question 8. Will the funding of administrative responsibilities at the state level result in placing more individuals on the welfare rolls?

Answer. We see no reason why this would occur. Indeed, through tighter administration and more rapid movement of recipients into jobs, we would expect welfare rolls to be smaller than they would be if local administration were continued.

Question 9. On page 12, you recommend the standardization of resource criteria for AFDC eligibility. Will this increase the Federal cost, and, if so, by how much?

Answer. CBO has told us that it is almost impossible to determine how many people who are now eligible for AFDC might qualify because of the change we propose in asset limitations. Asset limits are generally a less significant factor keeping people off the assistance rolls than are benefit levels and the related limits on other income. Our proposal to standardize the asset limitations is intended to simplify administration and reduce the differences among states in AFDC eligibility standards.

Question 10. On page 13 of your statement, you recommend the lowering of the age eligibility for the SSI program in three steps down to 62 years of age. What will be the increased costs each year for the first five years after the age of 62 is reached?

Answer. Estimates we have seen of the added cost of reducing the SSI eligibility age limit from 65 to 62 have ranged from \$300 million per year to \$900 million per year. Right now, the Congressional Budget Office is re-estimating all components of S. 2777. CBO's earlier estimates of the cost of S. 2777 was based on our preliminary specifications and did not reflect everything that was in the final bill, including both elements that would add to the cost and other elements that would substantially reduce costs.

Question 11. Senator, on page 16, you recommend a change in the AFDC emergency assistance program. What kinds of needs would be met by the change recommended by you which are not now being met? Is the \$150 million cost an additional cost over the present programs?

Answer. Our proposal for a block grant to the states totaling \$150 million per year for emergency assistance was offered for three reasons: First, the current emergency assistance program is considered unduly rigid by many states. It can only be used to provide assistance to a given family once in any twelve month period. Also, it is only available for assistance to families with children, and the matching Federal share (50 percent) is less favorable than the normal AFDC matching rate in many states. Second, it seems to us that the states need to have available a flexible pool of emergency assistance money which could enable them to simplify their AFDC program (through flat grants, etc.) and also to respond to needs of people who do not have children, such as elderly people who suffer disastrous fires, or single individuals who are essentially disabled and are now provided help under general assistance in many states. Third, more adequate funding of an emergency assistance program of the type we propose would help reduce pressures for special kinds of emergency assistance, such as the recently enacted program to help low-income people pay unusually high fuel bills.

The proposed \$150 million level of funding is an arbitrary figure. It is roughly twice what the states which now participate in the current emergency assistance program spend in Federal and state/local funds. The added money would provide a limited amount of fiscal relief to states which already have emergency assistance programs and would enable those which do not have them to initiate them.

Approximately \$115 million of the \$150 million we propose would be an added cost over the cost of current emergency assistance programs funded under the Social Security Act. Assuming, however, that the emergency assistance program for utility costs could be eliminated if our proposal was adopted, there would be no net added Federal cost.

Question 12. On page 17 of your statement, you discuss the costs and you state that S. 2777 will reduce cash assistance and Food Stamps costs by at least \$26 billion below what they would be if current programs were simply continued. Will you give us a breakdown concerning these savings and cite the authority for the estimates?

Answer. The way in which this staff estimate was calculated was set out in Attachment 5 to my April 17, 1978 testimony. The \$26 billion projected reduction in cost was calculated by assuming that 200,000 AFDC recipients would

be moved into jobs during each of the first five years all the components of S. 2777 were in effect, over and above the number of recipients who would obtain jobs if current law were not changed. It was assumed that 100,000 additional AFDC recipients would obtain jobs during each year in the second five year period after S. 2777 took effect. Using these assumptions, my staff then projected savings, assuming that half the people who took jobs left the welfare rolls entirely and the other half received, on the average, a 50 percent reduction in AFDC benefits. Rough estimates of Food Stamps savings were then added to the estimates of AFDC savings. No Medicaid savings were calculated.

Question 13. What does your proposal contain that makes the work requirements more effective than the present law?

Answer. Our proposal includes a number of components that we believe would substantially increase the movement of welfare recipients on payrolls, including:

(1) An explicit work-search requirement as an addition to the current work incentive rules.

(2) An increase in the maximum period of work experience under WIN from the current 13 weeks to 26 weeks.

(3) Targeted jobs voucher and tax credit proposals to encourage private employers to hire welfare recipients.

(4) Targeting on welfare recipients of public service jobs under CETA.

(5) Funding the WIN program on an entitlement basis and an increase of \$200 million in the budget for WIN.

(6) An increase in the earned income tax credit, thus providing added work incentives to AFDC recipients and other low-income families with children.

Question 14. Senator, you proposed last year that we federalize the unemployed-parent component of AFDC. How much would that have cost? Was it not in the neighborhood of \$450 million? How much will this much broader, more comprehensive proposal cost? Do you think the American taxpayer wants additional expenditures of this magnitude for welfare?

Answer. We estimated that the cost of providing full Federal funding for the current AFDC-unemployed parent program would be between \$400 and \$500 million. We assume your reference to a "much broader, more comprehensive proposal" is to S. 2777. It is quite true that the cost of S. 2777 in its early years of implementation will substantially exceed what my original proposal on AFDC-U coverage (S. 1891, introduced July 19, 1977) would have cost. However, that proposal did not purport to be a reform proposal touching the many elements of the welfare problem dealt with by S. 2777.

I believe the American people will support welfare changes which cost some added money initially if they can be given some credible expectation that over the longer-term the welfare system will be fairer, better run, and used as a temporary resource for people who have no other means of support, while assuring that the people helped move as quickly as possible into jobs.

Question 15. Does your bill add to or reduce, the number of Americans on welfare?

Answer. As I have already indicated, I believe the jobs components of S. 2777 would significantly reduce the number of people on welfare, more than offsetting the added numbers that would be made eligible for assistance due to features of our proposal such as the minimum benefit and coverage of two-parent families.

Question 16. You stated that the current single-parent component elected by almost half of the states "has broken up many families and is a national disgrace." How many families have broken up because their state does not provide two-parent eligibility? Is the rate of family break-up any greater in those states which do not have two-parent eligibility than in those which do?

Answer. As indicated in our response to one of Senator Moynihan's questions, it would not be meaningful to compare divorce or separation rates in states that currently have the unemployed parent program with those rates in states which do not have the program. This type of comparison would tell us nothing about either the effects on family break-up of the current unemployed parent program or of possible changes to that program such as are reflected in S. 2777. Unfortunately, social scientists have not given us data on which to prove one way or another the effects on family break up of current welfare policies or proposed changes to them.

In my view, we must approach this as a matter of simple equity and common sense. The reality is that in states which do not have unemployed parent coverage at the present time, the only way a destitute intact family can get cash welfare assistance which the Federal Government helps pay is for the father to leave his family. Even in those states which have the current, poorly designed unem-

ployed father component in their AFDC programs, the "100-hour rule" and the prior work experience requirements result in two-parent families being treated in a discriminatory fashion compared to single parent families. It seems obvious to me that this is poor public policy.

Senator MOYNIHAN. You have been most generous with your time, sir, and we thank you for starting these hearings with a marvelous presentation.

Senator BELLMON. I thank you, Mr. Chairman, and I thank the subcommittee.

[The prepared statements of Senator Baker and Bellmon and a paper by James R. Storey submitted by Senator Bellmon follow:]

TESTIMONY OF SENATOR HOWARD BAKER

Mr. Chairman and distinguished members of the Committee, it is indeed a pleasure and privilege to join my good friend and able colleague, Senator Henry Bellmon, in testifying on S. 2777, the Job Opportunities and Family Security Act of 1978. I wish to express special appreciation to the Chairman of the Subcommittee for the opportunity to testify and for his willingness to hold hearings on various welfare reform alternatives in an effort to fashion legislation which might be passed this year.

As Senator Bellmon mentioned, we are fortunate to have as prime cosponsors of our bill Senators Ribicoff and Danforth, who sit on the Finance Committee. Both were not only helpful, but essential, to the drafting and promotion of this legislation.

Before I describe the jobs and earned income tax credit portions of S. 2777, I should like to comment briefly on the matter of welfare reform in general. Few, if any, problems have so perplexed the country or the Congress as how to adequately and fairly provide for the genuinely needy among us without encouraging dependence and discouraging work. The Job Opportunities and Family Security Act will not solve that problem once and for all. But it will move us a large step forward at a pace we should proceed and at a cost we can afford.

Too often the Congress has sought to effect reform of the present welfare system, but failed because the undertaking was too ambitious and the proposals too complex. Although the cosponsors of S. 2777 may differ as to what constitutes the ideal welfare system, we share the view that reform is essential and that it can be enacted this year if we proceed with caution. That is what we propose to do.

No attempt to reform welfare can be made without devoting particular attention to the question of jobs and how to minimize the period of dependence on cash assistance. It is like trying to make a sandwich without any bread. Work is inseparable from welfare when we are dealing with able-bodied individuals. Therefore, substantial emphasis in our bill is given to putting people to work and using the tax system to make employment more profitable than collecting welfare. We would do so by proposing a combination of private and public sector jobs.

In terms of priorities, we set private sector employment as the primary and preferable objective. Public sector jobs clearly have their place, but they are band-aids for the wounded, not cures for the disease of structural unemployment. In other words, public sectors employment should constitute an absolute last resort.

When we talk about unemployment statistics and the welfare syndrome, we sometimes hide behind the numbers. A rate declines, or a curve expands, and we go from seven million unemployed to six million nine hundred thousand. The trouble with statistics of that sort is that it is people we are talking about, not numbers and charts, but individual human beings. The fact that there are millions of people on welfare and unemployed does not for a solitary minute reduce the anguish of that plight for each individual. With few exceptions, they prefer jobs to any sort of welfare benefit, and they prefer meaningful jobs that will last. That is why we look to the private sector for the only real solution.

Last year, over 4 million jobs were created in the private sector as a result of the continuation of our economic recovery. All of our best efforts here in Washington cannot compare to the capacity of the private sector to generate

jobs in an expanding economy. However, even in an expanding economy, there are those whom businesses are reluctant to employ for a variety of reasons. In drafting the private sector jobs portion of our bill, we explored the obstacles to employment of low-skill and low-wage employees.

The most frequently cited obstacles include the minimum wage, social security taxes, a poor work record or no work record at all, and the location of the jobs vis-a-vis the jobseeker. In S. 2777, we attempt to deal with many of those problems and provide a means to overcome them.

Our proposal would consist of two different private sector initiatives: a wage voucher system and an improved jobs creation tax credit. Both programs would be targeted at AFDC recipients, persons unemployed more than 26 weeks, unemployed youth who have graduated from secondary school or are over 18 years old and persons who have completed CETA public service job assignments and have sought work for 30 days without success. The first three categories of people must have undertaken an unsuccessful job search for 90 days in order to become eligible for either the voucher or tax credit program.

The governor of each state would be given the option of designating which agency or agencies should administer the two programs. Presumably, the choice would be between the state welfare agency and the state employment agency. There is also a question of what role the local Work Incentive or WIN office would play in the administration of the program.

Though we believe that it is important to leave the ultimate choice up to the respective governors, we are not certain that the governors should be limited to designating a state agency or agencies. Rather, we believe consideration should be given to amending a bill to permit a governor to contract with an outside organization if he concludes that it would do a better job of administering the programs.

That recommendation is made so as not to preclude the use of intermediary organizations which now exist in many cities in an effort to bridge the gap between the private and public sectors and to assist in the placement and training of the hard to employ.

In that regard, I commend to the Committee's attention a publication by the Committee for Economic Development entitled "Jobs for the Hard-to-Employ." It is an excellent work on both the obstacles to private sector employment and some possible solutions.

The administering agency would be responsible first for certifying individual eligibility and providing the program applicant with proof of that certification.

The administering agency would maintain a permanent list of employers who had expressed a willingness to participate in either program. They cannot participate in both programs simultaneously because of the administrative and accounting difficulties that would result. Therefore, they must choose one program or the other. Assuming that an individual was certified, the voucher program would work this way:

Both private and non-profit employers could participate in the voucher program. If the administering agency determined that an employer was legitimate, and that he was not substituting voucher eligibles for full salary employees, the agency would send a voucher eligible to the employer.

The employer may hire the eligible person for a job of not less than 30 hours nor more than 40 hours per week. The individual must be hired at the prevailing wage paid other employees in the same firm performing the same functions.

At the end of each month, the employer would send a statement to the administering agency stating the number of hours worked by that employee. The agency would then send a voucher to the employer equal to \$1 times the number of hours worked during that month. The employer could cash the voucher at a regulated financial institution, and the voucher would be redeemed by the U. S. Treasury. The vouchers would continue for one year.

One of the most serious potential problems with a program like this is the likelihood that an employer will substitute or displace existing full salary employees in order to pick up voucher eligibles. We attempt to deal with that problem first by providing that no employer may hire a voucher employee if within the past 60 days, a non-subsidized salary employee paid a comparable wage was laid off from that employment. We would require the employer to sign a statement to that effect on the certification form.

However, if the employer rehires an equivalent number of non-subsidized salary employees, he may also then hire voucher eligibles. The difficulty exists in making the system as red tape free as possible without encouraging wind-

falls or fraud on the part of employers. We encourage any suggestions on ways that might be accomplished, including the imposition of sanctions against employers who abuse the program.

The jobs creation tax credit program is similar in some respects to the voucher, but different in others. As mentioned earlier, it is targeted at precisely the same groups of people. Moreover, the employer could claim a credit equal to \$1 per hour of employment of an eligible person.

The differences exist with respect to the ability of the employer to participate. We would apply to same test as now exists in the jobs creation tax credit enacted last year, which only permits employers to claim a credit on wages paid to employees hired in excess of 102 percent of the firm's employment base for the previous year. Moreover, no firm could claim more than \$100,000 in employee tax credits in any one year. And, finally the tax credit would be one year in duration.

Having described the private sector portion of our proposal, a number of questions must be answered. First, what is the history or record of wage subsidies and job tax credits in this country. Second, why create two private sector program instead of one. And, finally, how much will the private sector program cost.

The history or record of wage subsidies and job tax credits is very limited and largely inconclusive. To the extent that one can derive an opinion of success or failure of the concepts based upon our experience, it would not be particularly good. However, I reemphasize that the data are inadequate, and our proposals would seek to address the most serious problems.

There actually have been only three such programs enacted in this country: the jobs creation tax credit, which was established last year and which I have already described; the WIN tax credit passed in 1971; and the JOBS program started in 1968.

The jobs creation tax credit included in the Tax Reduction and Simplification Act of 1977 will expire in the next few months. Labor Department studies of the impact of that credit will show it to be deficient, but there are several reasons for that conclusion. First, it is not targeted at the hard to employ, or anyone else. Rather, it permits an employer who exceeds 102 percent of his previous year's employment to claim a credit on the wages of any new employee. Thus, a tax credit can be claimed on a recently-acquired nuclear physicist as easily as it can be for a low-skill worker.

Another problem, and a common one among all three efforts in this area, is the lack of adequate awareness on the part of the private sector of the availability of the credit. If such a program is to have any chance of success, it must be aggressively advertised by the administering agency or agencies. Though I have not seen final data on the use of the present tax credit, I fully expect that it will be discouraging partly due to the lack of effective advertising.

The Work Incentive (WIN) tax credit, which is a subsidy on the wages of WIN registrants, was enacted in 1971. It was altered and made permanent in 1976. It permits employers of WIN registrants and AFDC recipients to claim a credit of 20 percent of the wages paid for the first 12 months of employment up to a total credit of \$50,000 plus one-half of the tax liability above \$50,000. The problem with the WIN tax credit originally was that the amount may have been too low to justify the paperwork involved, and the employer was required to retain the employee for one year beyond the year for which the credit could be claimed. The later modifications of the program apparently did not come until employers had already given up on the program. As a result of these problems, two surveys of employers using the credit found that less than 10 percent attributed their hiring of the WIN registrant to the credit.

Finally, the JOBS program begun in 1968 was a government effort to work with the National Alliance of Businessmen in placing disadvantaged unemployed persons in private sector jobs. Once the NAB found the individual a job, the federal government offered to issue contracts which would subsidize their employment by reimbursing part of their employment costs if they were retained for six months in the firm. However, the employers of less than one-third of the people actually placed saw fit to enter into the contractual arrangement, which indicates that the subsidy was largely meaningless. The problems were twofold: there was too much red tape involved and there was too much of a stigma attached to the hiring of these disadvantaged people.

As you can see, the record is not particularly encouraging. However, there are certain common threads which run throughout each of these efforts and which indicate, in my judgment, that our proposals could work. The most common thread is the perception by employers that hiring a tax credit or wage-subsidized individual would entail massive amounts of paperwork and red tape—and in the past, that has been the case. But under our program, the red tape or paperwork would be relatively little.

Another frequently cited problem was the lack of widespread awareness in the private sector of the existence of the incentive programs. Under our proposal, we would suggest an aggressive advertising campaign by the administering agency and appropriate the funds necessary for that purpose.

The other difficulty with past private sector job creation efforts involves the targets of the various programs. It seems that either the program was not targeted at all or it was aimed at such a narrow, stigmatized group that employers were discouraged from taking advantage of the incentive. We think we will avoid that problem by targeting our program at the long-term unemployed, AFDC recipients, and unemployed youth.

I was encouraged to see the Administration embrace a targeted tax credit for jobs as part of its comprehensive urban policy. Although I have not reviewed the details of their proposal closely, I would suggest that they bear in mind the same considerations which I have listed before this committee: the necessity to minimize paperwork and the specter of government supervision or intrusion in the affairs of businesses inclined to participate; the importance of aggressive advertising at the local level so that the private sector is fully aware of the existence of the incentives; proper targeting so that the incentives encourage the hiring of the hard to employ but do not so restrict the eligibility of the program to those most stigmatized in the employment context; and the propagation of a positive attitude among the private sector not only about the efficacy of the program, but also the significance of their contribution to solving one of this nation's most serious problems.

We chose to establish two private sector jobs programs rather than just one for several reasons. First, the job creation tax credit concept is already in law, even though its success apparently has been limited. We believe that by targeting it and advertising it effectively, it can have a substantial impact on unemployment. However, the tax credit alone is not enough because there are some businesses or organizations which are not eligible to participate. Those include firms which have not increased their employment over the previous years, as well as organizations which pay no taxes. For those reasons and others, we felt that the tax credit effort should be complemented by the existence of a wage voucher program.

As for the cost of the two private sector programs, the Congressional Budget Office estimates that by virtue of the people who would be eligible and employed, we would actually save a small amount of money overall. In other words, the savings that would result from removing people from the welfare rolls after 60 days of full-time employment would more than equal the loss to the Treasury from the cashing of vouchers or the claiming of tax credits.

That estimate is based upon certain assumptions given the Congressional Budget Office. Specifically, we asked the CBO to assume that 500,000 jobs were created under the wage voucher program, 300,000 of those jobs going to AFDC recipients. With that assumption, they estimated that it would cost \$1.04 billion in 1982. The administrative costs of the voucher program were estimated to be \$144 million.

Offsetting those increased costs would be a reduction in AFDC benefits of approximately \$1.22 billion. Therefore, the net cost to the federal government of the wage voucher program would be a savings of \$4 million. The same sort of offset would occur with respect to use of the tax credit. Unfortunately, the CBO is unable to estimate what the probable utilization of either program would be by the private sector.

Despite our heavy emphasis upon private sector employment, public sector employment is also necessary to help those not absorbed by the private sector. In that regard, our bill would work within the context of the existing Comprehensive Employment and Training Act (CETA). However, we would make certain changes in CETA which we consider necessary to improve its efficiency and better coordinate it with other public and private sectors jobs programs.

Our bill only addresses a portion of CETA. It does not deal with the general counter-cyclical issue, but only with the existence of public service jobs

for target recipients. The individuals targeted under S. 2777 for a Title VI public service job fall into two categories. The first category and priority consists of an employable adult in any AFDC-Unemployment Parent household who has searched unsuccessfully for a regular job for 90 days. As Senator Bellmon has mentioned, it is essential to guarantee a job to an adult in an intact family if we are going to require all states to cover intact families under AFDC.

The second category of target recipients can be divided as follows: 50 percent to other AFDC recipients and 50 percent to other persons unemployed for 26 weeks or more, regardless of whether they are receiving unemployment compensation.

Although our bill would maintain the present level of CETA public service jobs through FY 1979, it would reduce those jobs to 500,000 for FY 1980 and 1981. The bill would reduce them further to 375,000 for FY 1982 and 250,000 for FY 1983. However, no reduction would take place if the national average unemployment rate exceeded 6 percent the previous year.

Our bill would also make certain improvements in the Work Incentive or WIN program. We would begin by giving governors more control over WIN, including authority to designate the agency or agencies to administer the program. We would add \$200 million to present WIN funding and convert it to an appropriated entitlement to assure that the funds were not eliminated in the appropriation process.

With respect to the Work Incentive program, our bill also would:

(1) Require AFDC recipients defined as employable to engage in work search activities. This requirement is also included in the Senate Finance Committee's version of H. R. 7200.

(2) Exempt from WIN participation AFDC recipients who are:

(a) working for not less than 30 hours a week; (b) engaged in a college-level undergraduate educational program for not less than 30 hours a week; or (c) employed in a CETA public service job.

(3) Clarify treatment, for purposes of the AFDC income disregard, of wages and training stipends paid under the WIN program. Public service employment and on-the-job training stipends are to be treated as earned income, while work experience and classroom training stipends will not.

(4) Revise the authority of the Secretary of Labor to issue regulations for certain aspects of the WIN program by requiring that all such regulations be jointly issued by the Secretaries of HEW and Labor.

(5) Eliminate the requirement for 60-day counseling before terminating assistance to an AFDC recipient who refuses a job offer or participation in WIN activities.

(6) Authorize social and supportive services during work search and after employment is accepted.

(7) Authorize counting of in-kind state and local contributions toward required 10% state-local share of WIN funding.

(8) Exempt from the Fair Labor Standards Act work experience assignments of up to 26 weeks under the WIN program.

We believe that these changes will make necessary improvements in the WIN program and move in the direction indicated by members of this committee in recent deliberations.

Another major element of any attempt to reform welfare is aid to the working poor. If we want to encourage work and discourage dependence, we must make work more profitable in all instances. The earned income tax credit is the best means of accomplishing that goal. Under present law, the head of a family with children may claim a credit on earned income of 10 percent up to \$4,000 of income. After earnings pass \$4,000; the credit phases out at a 10 percent rate, which means that for every additional \$10 earned, \$1 of the credit is lost.

Our bill would vastly enhance that credit by increasing it from 10 to 15 percent of earned income and permitting one to claim a full 15 percent credit up to the poverty line. In other words, a family of four with earned income of \$8,000 per year could claim a 15 percent credit before the credit began to phase out. The point at which the credit begins to phase out will vary by family size and will increase as the various poverty lines increase. However, we would phase out the EITC in this bill at a 20 percent rate or \$2 for every additional \$10 of earned income.

One of the unique features of our approach to the EITC is that we would pay the credit to the employee on an "as earned" basis, through reverse withholding. In other words, if an employee is entitled to a 15 percent credit on his earned income and he is paid \$500 per month, his pay check would consist of \$500 plus \$75 or 15 percent of \$500. It is not necessary for an employee to have funds withheld by his employer in order to receive the credit. Rather, the employer simply subtracts the credit from the total amount he owes the Treasury Department. The advantages of returning the credit to the employee in each pay check rather than all at once are obvious.

Other earned income tax credit provisions of S. 2777 include the elimination of the 50 percent "self-support" test, the denial of the credit for subsidized public service employment earnings (both WIN and CETA), and the total disregard of EITC income for purposes of AFDC.

In conclusion, Mr. Chairman, we propose "incremental" reform of the present welfare system. Our bill would increase family stability, reduce the inconsistencies in the eligibility criteria among the respective states, simplify and streamline the administration of welfare, provide necessary fiscal relief to state and local governments, establish new incentives for the private sector to hire the hard-to-employ, and make work more profitable than welfare. Most of these changes would build upon and improve the present system. To the extent that we plow new ground, it is with respect to private sector job creation and I submit that trying new approaches is long overdue in that area.

As I mentioned before, people may differ as to what constitutes the ideal welfare system in America, but they cannot dispute the fact that the present system cries for reform. The question is how much reform is necessary and possible. In my judgment, a consensus in the Senate exists for the type of reform proposed by Senators Bellmon, Ribicoff, Danforth, and me. We must not let the opportunity that exists this year to effect meaningful reform pass because we once again attempted too much.

Thank you.

TESTIMONY BY SENATOR HENRY BELLMON

Mr. Chairman, I want first to thank you for the opportunity to testify here today and to commend you for holding this series of hearings.

I also want to say that I am personally most pleased that our distinguished Minority Leader, Senator Howard Baker, and two of our esteemed colleagues who serve on the Senate Finance Committee—Senators Abraham Ribicoff and John Danforth—are all co-authors of S. 2777, the welfare reform proposal which most of my comments will address.

Mr. Chairman, my personal experience with, and knowledge of, welfare issues do not match yours or those of other members of the Finance Committee. We are sure you can and will improve the bill we have offered. We look forward to working with you in this effort.

There can be no doubt, Mr. Chairman, that there are significant problems in the public welfare system in this country. There are indeed inequities in current welfare benefits; there is poor management in some aspects of the programs; and insufficient priority is placed on work as an alternative to welfare. I commend President Carter for putting welfare reform on the front burner for Congressional consideration. It is my personal belief, however, that in presenting the Administration's welfare proposals, President Carter and Secretary Callfano have overstated the difficulty of dealing with the problems which exist. In many of our states, including my state of Oklahoma, we have effective administration and humanitarian responsiveness to the problems of low-income people.

As you know, Mr. Chairman, administration of the AFDC program has improved dramatically since the initiation of the Federal-State quality control program in 1973. In the first half of 1977, the dollar loss due to payments to ineligible people and overpayments averaged 8.6 percent throughout the country. This represented almost a 50 percent reduction from the error rates which existed in 1973. Moreover, Mr. Chairman, in the first half of 1977, twelve states achieved a better quality control record in the administration of AFDC than did the Social Security Administration in administering the much simpler Supplemental Security Income Program. I do not think we can assume that better management will come faster if we "federalize" AFDC and Food Stamps, as

compared to the progress than can be made through a continued Federal-State partnership effort.

I would also like to point out, Mr. Chairman, that welfare costs are no longer running away. Both AFDC and Food Stamp enrollments have been dropping in recent months as the economy has improved and state management improvements were installed. As a member of the Budget Committee, I have become acutely aware that growth pressures in AFDC, Food Stamps, and SSI, all of which the President proposes to consolidate, are far less today than they are in Medicaid, Medicare, housing or even Social Security.

Having said this, however, I reiterate my personal conviction that welfare improvements are needed. I believe S.2777 offers a workable, balanced plan for achieving the needed improvements.

S. 2777—the welfare reform plan which was introduced on March 22nd by Senators Baker, Ribicoff, Danforth, Mark Hatfield Stevens, Young and I, provides Congress with the opportunity to pass significant legislation this year to remedy major problems in the Nation's welfare system. S. 2777 builds on the strengths and corrects weaknesses in the present welfare programs. It can be implemented at reasonable costs. It avoids the risks of untested social, economic and administrative concepts entailed in the Carter welfare reform plan. It strikes a balance—between support for those in need, and work opportunities for those who are able to work—that is in tune with both the common sense and the compassion of the American people.

The American people are compassionate. Poll after poll has shown that they want to help the members of society who are unable to sustain themselves at a decent level of living. But at the same time, the public demands certain things of its elected officials and of the people who receive support under welfare-type programs. It demands that the programs be run well. It should demand that. It demands that cheaters not be permitted to receive benefits of public assistance programs that are intended for people with legitimate needs. The public is correct in demanding that fraud be eliminated and that there be administrative efficiency and effectiveness in our public assistance programs. The public is right in believing that those members of society who can work to support themselves and their families should do so.

In his new book on "Welfare," Martin Anderson of Stanford University states:¹

"Practical welfare reform demands that we build on what we have. The American people want welfare reform that ensures adequate help to those who need it, eliminates fraud, minimizes costs to the taxpayers, and requires people to support themselves if they can do so."

S. 2777 is aimed precisely at these objectives.

My staff and I have been asked many times why we introduced S. 2777, a so-called "Incremental reform" bill. Our answer is a very simple one: we accept the view that there are serious deficiencies in the present welfare system: we reject the view that the way to work on those deficiencies is to replace the present programs with a greatly expanded, Federalized, and computerized cash benefits program, accompanied by a massive public jobs program, as the Carter Administration has proposed. Rather, we see an opportunity for the Congress to change existing programs so as to make significant progress in correcting problems and inequities that now exist. By doing so, Congress can achieve reform at lower cost, and with much less disruption, and less relearning of the lessons of the past, than the President's plan would entail.

Let me now summarize the major provisions of S. 2777. I am focusing particularly on the welfare changes, as Senator Baker will cover the employment and tax provisions of our bill. I want to stress, however, that we see our proposals as an integrated set of changes. Our support for improvements in the cash assistance and food stamp programs is tied directly to our conviction that work opportunities for welfare recipients can and must be enhanced.

Our bill proposes the following major changes in existing programs:

(1) ALLOCATION OF COSTS (AFDC)

S. 2777 would increase the Federal matching rate for AFDC program costs through a three-step sequence, beginning in fiscal year 1980 and ending in fiscal year 1982, so that in fiscal year 1982 and thereafter, all states would have a Federal matching rate of between 80 and 90 percent, unless they elected to re-

¹ Anderson, Martin. *Welfare—The Political Economy of Welfare Reform in the United States*; Hoover Institution Press, 1978 (Page 153).

tain either local administration or local funding part of their AFDC programs, and unless they failed to achieve dollar loss error rates of 4 percent or less. If they failed both tests, their Federal matching rate would still be at least 65 percent. This compares with present matching rates of between 50 percent and 78 percent.

This increase in matching rates would be achieved by starting with the present so-called Medicaid matching rate, which is one of two ways of calculating AFDC matching rates, and adjusting the Federal share upward in three equal steps in fiscal year 1980, fiscal year 1981, and fiscal year 1982.

This is probably a good point, Mr. Chairman, to mention an aspect of S. 2777 that relates both to the distribution of costs between the Federal Government and the state, and the question of benefit levels which I will discuss a little later. I am referring to the fact that S. 2777 would restrict Federal matching of AFDC costs to that portion of the state's cash benefits which, when combined with Food Stamps, did not provide income greater than 100 percent of the official poverty line to a family with no other income. States would be free to pay higher benefits, but if they chose to do so, they would be fully responsible for the portion of benefits which exceeded 100 percent of the poverty line.

I recognize, Mr. Chairman, that this gets a little involved, and I have appended to my testimony a table which shows the way the increased matching share would work for states in particular situations (Attachment 1). I would be glad to discuss this table with you if you have questions regarding it.

I have also appended to my testimony a state-by-state table showing projected AFDC costs in fiscal year 1982 and the effects of S. 2777 on the sharing of those costs between the state and Federal Governments (Attachment 2).

I want to point out, Mr. Chairman, that S. 2777 would shift from the state and local governments to the Federal Government over \$3 billion annually in AFDC costs by fiscal year 1982. Our bill provides only \$400 million less fiscal relief in fiscal year 1982 than the Carter welfare reform proposal, and \$800 million more fiscal relief than the Corman Subcommittee's revision of the Carter plan, according to estimates prepared by the Congressional Budget Office. That is despite the fact that our bill would cost over \$10 billion less per year than those plans.

(2) COVERAGE OF TWO-PARENT FAMILIES (AFDC)

S. 2777 would require the states to provide AFDC support to two-parent families, beginning in fiscal year 1981. This is one of the major AFDC improvements states would be required to make in return for the higher Federal matching rate. This means that the 23 states whose AFDC programs do not now cover two-parent families in which at least one of the parents is able-bodied, will be required to cover such families when their income and resources otherwise qualify them for assistance.

Even in those states which now have the unemployed parent component in their AFDC programs, there is serious discrimination against two-parent families because of the "work place connection" requirements of the current law and the HEW regulation which terminates eligibility for AFDC benefits whenever the father works more than 100 hours in any month. Both of these discriminatory provisions would be repealed by S. 2777. In place of the 100-hour rule, our bill would substitute an eligibility criterion based on earnings. Two-parent families would become ineligible for assistance when their earnings exceeded three quarters of the full-time Federal minimum wage. In those states in which that level of earnings would be above the point where single-parent families would lose eligibility for AFDC, the lower cut-off point would apply.

The provisions of S. 2777 on coverage of two-parent families would provide equal treatment of single-parent and two-parent families in low-benefit states. In high-benefit states, there would still be differential treatment for two-parent families, but the cut-off of eligibility for benefits would be at a more adequate income level and thus far more equitable than the present rules.

In order to keep the expansion of the welfare rolls to a minimum, the increased coverage of two-parent families is coupled with strengthened work-search requirements as part of the WIN guidelines, eligibility for the job vouchers and tax credits which Senator Baker will discuss, and finally a "last resort" guaranteed job under the CETA public service jobs program.

(3) MINIMUM PAYMENT STANDARDS (AFDC)

A third major change to AFDC would be the establishment of minimum standards for payments. Under S. 2777, all states would be required in fiscal year

1981 to pay AFDC benefits high enough so that, when Food Stamps are taken into consideration, eligible families would receive an income of at least 55 percent of the poverty line. The minimum benefit would rise to 60 percent of the poverty line in fiscal year 1982 and to 65 percent in fiscal year 1985. Tying the benefit standard to the poverty line would mean that in future years the minimum benefit would be indexed so that it moved up in proportion to the cost of living.

The Carter welfare reform plan proposed a benefit floor of 65 percent of the poverty line, effective in fiscal year 1981, but it did not index the minimum benefit for the future. Moreover, the combination of cash and Food Stamps proposed in S. 2777 would, in the opinion of many informed observers, provide better protection to the children whom the welfare system is primarily intended to protect than would the Carter all-cash plan.

A table is attached to my statement (Attachment 3) showing how AFDC and Food Stamp benefits would mesh in the various states in fiscal year 1982. This table assumes continued growth in benefit levels in accordance with historic patterns.

(4) RELIEF FOR LOCAL GOVERNMENTS (AFDC)

A fourth area in which S. 2777 would change AFDC has to do with the mix of funding and administrative responsibilities between state and local governments. The bill would create a very strong incentive for states to relieve local governments of funding and administrative responsibilities for AFDC programs. Currently, 18 states have county-administered programs and in 11 states, counties and sometimes cities, pay a substantial part of the cost of AFDC. The final one-third increment of increased Federal match which would be available in fiscal year 1982 under S. 2777, would be denied to states which had not by then taken over full funding and administrative responsibilities from the local government level.

We believe S. 2777 provides for sufficient additional Federal funding to enable all states to relieve local government of these responsibilities without net additional costs at the state level. This would be a major step forward in reducing the complexity of the intergovernmental relationships involved in the welfare programs and would remove from the local property tax the burden of financing AFDC. This would, of course, enable local governments to deal more effectively with many other needs.

(5) WORK EXPENSES AND EARNED INCOME DISREGARDS (AFDC)

S. 2777 proposes replacement of the "\$30 plus one-third earned income" disregard provision, and the individualized calculation of work expenses and child-care deductions now in the law, with the following new provisions.

1. AFDC recipients who work would retain the first \$60 per month of earnings, without any reduction in their AFDC grant. This allowance would rise to \$65 in fiscal year 1983 and to \$70 in fiscal year 1985.

2. Any recipient who could document work expenses exceeding \$60 in a month, would be allowed up to another \$60 deduction without reduction of the AFDC grant. This maximum deduction would rise to \$65 in fiscal year 1983 and to \$70 in fiscal year 1985.

3. After deductions 1 and 2, where applicable, the recipient family's grant would be reduced by \$2 for every \$3 earned, except that where necessary to permit employment of a parent, child-care expenses of up to a \$100 for one child and a maximum of \$300 per family would offset the AFDC grant reduction that would otherwise occur. These maximum child-care deductions would rise to \$110 and \$330 in fiscal year 1983 and \$120 and \$360 in fiscal year 1985.

These proposed changes in the work expense and disregard provisions differ somewhat from the proposals that have been considered thus far by the Finance Committee. We believe this design provides appropriate work incentives, while simplifying administration.

(6) RESOURCE LIMITATIONS (AFDC)

S. 2777 provides for standardization of resource criteria for AFDC eligibility. As you know, the states now vary widely on the amount of assets families may have and still qualify for AFDC. Federal law, on the other hand, establishes for the SSI program a nationwide set of resource limitations, which have worked well and which seem appropriate for the AFDC program. Our bill, therefore, proposes that the asset limitations already established for SSI be

applied to the AFDC program. This means that families of two or more could have up to \$2250 in liquid assets, without being denied AFDC benefits.

(7) ACCOUNTING PERIOD AND REPORTING (AFDC)

In designing our proposal, we were very sensitive to the concerns that have been raised about the Administration's proposal for a six-month accounting period in determining eligibility and the amount of payment. S. 2777 reflects our conclusion that states ought to be left with considerable flexibility in this area. The bill, therefore, provides that states may choose to adopt either the one-month prospective approach now used by most of them or a one-month retrospective accounting period. It is our belief that more and more states will switch to the retrospective approach as a way of reducing their quality control error rates, but we do not believe the Federal Government should mandate this for all states. Likewise we propose that states continue to have an option on requiring monthly or other periodic reporting of income and other data affecting eligibility or amount of payment.

(8) SUPPLEMENTAL SECURITY INCOME (SSI)

S. 2777 would continue the SSI program as a Federally-administered, state supplemented arrangement. Two major changes would be made in the SSI program: First, the age level for SSI eligibility would be reduced from the present 65 years to 64 years in 1980, 63 years in 1981, and 62 years in 1982. This proposal recognizes the difficult financial problems many low-income people face in their sixties when their employability is reduced; many of the people who would be helped by this change have neither families nor jobs. SSI eligibility would provide them the opportunity to survive with dignity.

A second SSI change deals with the interactions between SSI and Food Stamps. States would be given an option to "cash out" Food Stamps for elderly and disabled persons who are eligible for SSI. States would simply advise the Federal Government of their decision to have the program cashed out and the Federal Government would add the benefit that would otherwise go through Food Stamps to SSI checks paid to individuals living in those states.

(9) EARNED INCOME TAX CREDIT

S. 2777 proposes expansion and scaling by family size of the earned income tax credit now in the law. The present credit provides a 10 percent refundable tax credit for persons earning \$4,000 or less, with the credit scaled down as income rises above \$4,000 at the rate of \$1 loss for each \$10 of income earned. S. 2777 increases the earned income credit to 15 percent of earnings up to the poverty line (approximately \$6,200 for a family of four in 1978). After reaching its peak, the new earned income tax credit would phase down at a 20 percent rate—\$2 lost for every \$10 of income—until it was phased out. If these changes were in effect in 1979, the EITC would phase out at \$10,850 for a family of four.

A major innovation which S. 2777 adopts from the Carter welfare reform plan involves the way the credit is paid. It would be paid through reverse withholding. In other words, persons working at very low wages would receive the credit as an addition to their pay checks. Their employer would, in turn, offset the amounts so paid against the taxes the employer owed to the Federal Government for income tax withholdings. The Federal income tax return would still be used to reconcile and recover from any individual whose overall income did not justify the credit.

The earned income credit, together with Food Stamps, would provide significant support for those non-AFDC families in which members are working at low incomes, or working intermittently.

(10) RECOUPMENT (AFDC AND FOOD STAMPS)

S. 2777 adopt provisions included in Representative Ullman's welfare reform bill (H.R. 10711) providing for recoupment through the income tax system of AFDC and Food Stamps benefits paid to families having relatively high earnings during part of a year, but eligible for benefits in other months. Recoupment is an important, innovative concept which can help greatly in reducing the inequities associated with welfare programs as well as holding down unnecessary costs.

(11) PILOT TESTS

S. 2777 provides authorization for testing more far-reaching reforms of public assistance and social services program. Specifically, the bill calls for pilot testing of a federalized, consolidated cash assistance program similar to that proposed by President Carter, a "full-state-choice" option advocated by various people, and the full cash-out of Food Stamps. In addition, the bill would provide for demonstration programs that would involve "one-stop shopping" service centers responsible for serving people participating in various public benefit programs.

(12) SUBSIDIZED ADOPTIONS/FOSTER CARE

S. 2777 incorporates the very important provisions on subsidized adoptions and foster care included in H.R. 7200 now pending Senate Floor action, with one major exception. We propose that the Federal funding for AFDC foster care costs remain open-ended, rather than placing a ceiling on Federal payments as proposed in H.R. 7200.

(13) EMERGENCY ASSISTANCE

S. 2777 would replace the present limited emergency assistance program associated with AFDC with a more flexible, block-grant of \$150 million in Federal funds each year. This money would be divided among the states in proportion to the AFDC population, but it could be used to assist people who do not receive AFDC support as well as those who do."

(14) ADMINISTRATIVE IMPROVEMENTS

S. 2777 incorporates a number of provisions to improve AFDC administration. Several of these were adopted from the Senate Finance Committee version of H.R. 7200. These are summarized in the sectional summary appended to my statement (Attachment 4).

ADVANTAGES OF S. 2777

Mr. Chairman, my associates and I believe we have presented to you a welfare reform plan that can be supported by liberals and by conservatives in the Congress, by the Administration, and by the public. Our plan builds on the strengths of the present system and makes major improvements in the most serious problems in the present system. Most importantly, it does not close the door for the future.

(1) *Costs*

This plan would involve added annual costs to all levels of government of about \$5 billion more than would present programs.

This compares with about \$18 billion above present programs for the Carter plan as revised by the Corman Subcommittee in the House. Under S. 2777, states and local governments will be relieved of \$3 billion in costs, while the fiscal relief provided by the Carter/Corman plan would total only \$2.2 billion.

Most of the added costs of S. 2777 will be for the employment and the Earned Income Credit features of S. 2777. Indeed, looking ahead 10 years, we estimate that S. 2777 will reduce cash assistance and Food Stamps costs by at least \$26 billion below what they would be if current programs were simply continued. The last page of the attachments to my statement provides a table which projects future costs of these programs, assuming S.2777 resulted in a total of 1.5 million people over the next ten years taking jobs instead of being dependent on welfare (Attachment 5).

(2) *Welfare and Work*

S. 2777 takes a balanced, cost-effective approach to the work question. It assumes that we both should and can assure that persons receiving public assistance work in regular jobs wherever possible. As Senator Baker will explain, our plan provides vouchers and tax credits and WIN improvements to facilitate movement of AFDC recipients into regular jobs. But we don't stop there. We also change CETA eligibility rules to assure that many of the existing subsidized public jobs go to AFDC recipients rather than to people who can obtain other employment far more easily.

(3) Benefit improvements

S. 2777 will improve the equity of AFDC benefits within and between states, and the adequacy of benefits in states which currently pay very low benefits. Also, the serious inequities relating to two-parent families will be largely eradicated by enactment of this bill.

(4) Administration

Finally, S. 2777 will keep decentralized administration in the AFDC and Food Stamp programs, rather than launching a major expansion of the Federal Government.

CONCLUSION

The hearings you are holding during the next three weeks should help all of us to have a better perspective on the over-all welfare reform picture as we consider individual pieces of legislation coming to the Senate Floor.

S. 2777 offers Congress a constructive, workable welfare reform plan. It is a package of changes that builds upon experiences gained, and avoids the mistakes made in the past. I am confident this plan contains the key ingredients of welfare reform as it will ultimately be enacted.

ATTACHMENT 1**BAKER-BELLMON-RIBICOFF-DANFORTH WELFARE PROPOSAL (S. 2777)—EXAMPLES OF EFFECT ON S. 2777 ON AFDC FEDERAL MATCH**

{Including effect of local administration and quality control rules}

{In millions of dollars}

	Medicaid match in fiscal year 1980	Increased Federal match		
		Fiscal year 1980	Fiscal year 1981	Fiscal year 1982
States with full State funding and administration, and less than 4 pct. dollar error rate by 1982:				
State A.....	50	60	70	80.0
State B.....	55	65	75	85.0
State C.....	63	72	81	90.0
State D.....	69	76	83	90.0
States with local administration and/or funding, and with less than 4 pct. dollar error rate by fiscal year 1982:				
State E.....	50	60	70	70.0
State F.....	55	65	75	75.0
State G.....	63	72	81	81.0
State H.....	69	76	83	83.0
States with full State administration and funding but with greater than 4 pct. dollar error rate by fiscal year 1982:				
State I ¹	50	60	70	79.0
State J ¹	69	76	83	89.3
State K ²	50	60	70	78.0
State L ²	69	76	83	88.6
State M ³	50	60	70	79.0
State N ³	69	76	83	87.9
State O ⁴	50	60	70	76.0
State P ⁴	69	76	83	87.2
State Q ⁵	50	60	70	75.0
State Q ⁵	69	76	83	86.5
States with both local funding and/or administration and greater than 4 pct. dollar error rate by fiscal year 1982:				
State R ¹	50	60	70	69.0
State S ¹	69	76	83	82.3
State T ¹	50	60	70	68.0
State U ¹	69	76	83	81.6
State V ²	50	60	70	67.0
State W ²	69	76	83	80.9
State X ³	50	60	70	66.0
State Y ³	69	76	83	80.2
State Z ⁴	50	60	70	65.0
State AA ⁵	69	76	83	79.5

¹ Dollar error rate of 4.5 pct.

² Dollar error rate of 5.5 pct.

³ Dollar error rate of 6.5 pct.

⁴ Dollar error rate of 7.5 pct.

⁵ Dollar error rate over 8 pct.

ATTACHMENT 2

BAKER-BELLMON-RIBICOFF-DANFORTH WELFARE PROPOSAL (S. 2777)—PROJECTED STATE AFDC COSTS AND SAVINGS—FISCAL YEAR 1982

State	1976 total cost (millions)	1976 State share (millions)	1978 Federal (percent)	1982 estimated total cost (millions) ¹	1982 State share using 1978 Federal (percent)	1982 Federal (percent)	1982 adjusted Federal (percent) ²	1982 State share using 1982 adjusted (percent)	State savings (millions) ³
Alabama.....	61.9	14.9	72.58	92.1	25.3	90.00	88.84	10.3	15.0
Alaska.....	13.5	6.7	50.00	20.1	10.0	80.00	75.00	5.0	5.0
Arizona.....	34.0	15.1	60.81	50.5	19.8	90.00	86.11	7.0	12.8
Arkansas.....	50.2	12.7	72.06	74.7	21.4	90.00	87.61	9.3	12.1
California.....	1,424.7	712.4	50.00	2,118.4	1,059.2	80.00	80.00	423.7	635.5
Colorado.....	83.2	37.7	53.71	123.8	57.3	85.94	85.94	17.4	39.9
Connecticut.....	131.8	65.9	50.00	195.9	97.9	80.00	78.00	43.1	54.8
Delaware.....	23.6	11.8	50.00	35.1	17.5	80.00	76.00	8.4	9.1
District of Columbia.....	91.1	45.9	50.00	136.7	68.3	80.00	75.00	34.2	34.1
Florida.....	120.4	52.1	56.55	179.0	77.8	87.77	87.77	21.9	55.9
Georgia.....	122.7	32.6	65.82	182.5	62.4	86.78	86.78	24.1	38.3
Hawaii.....	64.6	32.3	50.00	96.1	48.0	80.00	76.00	23.1	24.9
Idaho.....	19.8	6.3	63.58	29.4	10.7	90.00	90.00	2.9	7.8
Illinois.....	720.1	360.1	50.00	1,070.7	535.3	80.00	75.00	267.6	267.6
Indiana.....	115.6	49.2	57.85	171.9	72.4	90.00	90.00	17.2	55.2
Iowa.....	98.8	42.3	51.96	146.9	70.6	83.14	79.93	29.5	41.1
Kansas.....	67.6	31.1	52.35	100.5	47.9	83.76	80.62	19.5	28.4
Kentucky.....	132.7	38.0	69.71	197.3	59.8	90.00	88.65	22.4	37.4
Louisiana.....	98.4	27.2	70.45	146.3	43.2	90.00	88.04	17.5	25.7
Maine.....	46.7	13.7	69.74	69.4	21.0	90.00	87.30	8.8	12.2
Maryland.....	154.4	77.2	50.00	229.6	114.8	80.00	75.00	57.4	57.4
Massachusetts.....	415.1	207.6	51.62	617.2	298.6	82.59	77.43	139.3	159.3
Michigan.....	746.7	373.4	50.00	1,110.2	555.1	80.00	76.00	266.4	288.7
Minnesota.....	156.1	67.4	55.28	232.1	103.8	88.42	86.21	32.0	71.8
Mississippi.....	32.0	5.5	78.09	47.6	10.4	90.00	88.81	5.3	5.1
Missouri.....	140.0	54.2	60.66	208.2	81.9	90.00	87.07	26.9	55.0
Montana.....	12.8	4.7	61.10	19.0	7.4	90.00	85.19	2.8	4.6

Nebraska	28.8	12.8	53.46	42.8	19.9	85.54	85.54	6.2	13.7
Nevada	10.3	5.2	50.00	15.3	7.6	80.00	80.00	3.1	4.5
New Hampshire	23.7	9.4	62.85	35.0	13.0	90.00	88.19	4.1	8.9
New Jersey	426.8	213.4	50.00	634.5	317.2	80.00	76.00	152.3	164.9
New Mexico	32.1	8.6	71.84	47.8	13.5	90.00	90.00	4.8	9.8
New York	1,563.2	781.6	60.00	2,324.4	1,162.1	80.00	75.00	581.1	581.0
North Carolina	123.9	39.6	67.81	184.2	59.3	90.00	88.52	21.1	38.2
North Dakota	13.1	5.6	50.71	19.5	9.6	80.00	81.14	3.7	5.9
Ohio	446.3	203.6	55.46	663.6	295.6	90.00	84.30	104.2	191.4
Oklahoma	65.5	21.3	65.42	97.4	33.7	81.14	90.00	9.7	24.0
Oregon	113.5	46.5	57.29	168.8	72.1	88.74	87.82	20.6	51.5
Pennsylvania	650.9	290.4	55.11	967.8	434.4	90.00	83.77	157.1	277.3
Rhode Island	51.3	22.3	57.00	76.3	32.8	90.00	87.80	9.3	23.5
South Carolina	46.4	10.7	71.93	69.0	19.4	88.18	88.19	8.1	11.3
South Dakota	20.1	6.6	63.80	29.8	10.8	90.00	90.00	3.0	7.8
Tennessee	85.8	23.0	68.88	127.6	39.7	90.00	88.59	14.6	25.1
Texas	137.7	39.5	60.66	204.8	80.6	90.00	88.04	24.5	56.1
Utah	35.2	10.6	68.98	52.4	16.3	90.00	90.00	5.2	11.1
Vermont	26.5	8.0	68.02	39.4	12.6	90.00	87.80	4.8	7.8
Virginia	138.7	57.8	57.01	206.2	88.6	90.00	86.70	27.4	61.2
Washington	160.5	74.3	51.64	238.7	115.4	82.62	80.55	46.4	69.0
West Virginia	52.5	14.8	70.16	78.1	23.3	90.00	90.00	7.8	15.5
Wisconsin	210.9	84.5	58.53	313.6	130.0	90.00	90.00	31.4	98.6
Wyoming	4.9	1.9	53.44	7.3	3.4	85.50	82.89	1.2	2.2
C Guam	1.5	8	50.00	2.2	1.1	80.00	77.00	5	6
Puerto Rico	24.2	12.1	50.00	36.0	18.0	80.00	76.00	6.6	9.4
Virgin Islands	1.8	.9	50.00	2.6	1.3	80.00	77.00	.6	.7
Total	9,675.0	3,589.0	14,390.0	6,629.0	2,804	3,825.0			

¹ Estimates of total AFDC cost in 1982 are equivalent to 1976 costs adjusted to approximately 150 percent. The adjustment is intended to take into account caseload and benefit level growth from 1976 to 1982—both normal growth and the results of S. 2777 changes in AFDC. The national total reflects the cost of S. 2777 as reported in the CBO analysis of March 17, 1978. It has not been possible to reflect possible variations among States in the impact of particular design features, such as the earned-income disregard and the unemployed parent component. (Because of the job guarantee for unemployed parents, it is felt that the impact on AFDC costs will be small.) Staff work is continuing with CBO to determine what, if any, variations will occur among States.

² Fiscal year 1982 matching percentages assume: (1) All States will relieve local governments of funding and administrative responsibilities; and (2) that States whose 1977 quality control payment error rate was 6 percent or less will meet the 4 percent goal by 1982 and thus suffer no loss of Federal match, while States whose 1977 error rates were over 6 percent will move halfway to 4 percent by 1982.

³ State savings is the difference between State share using the present (1978) Federal percentage and State share using the improved S. 2777 Federal percentage. These estimates do not include estimates of 100 percent State costs for the relatively small proportion of total costs which exceed 100 percent of the poverty line.

ATTACHMENT 3

BAKER-BELLMON-RIBICOFF-DANFORTH WELFARE PROPOSAL (S. 2777)—ESTIMATED 1982 MAXIMUM POTENTIAL ANNUAL BENEFITS UNDER ALTERNATIVE ASSUMPTIONS, SINGLE-PARENT FAMILIES OF FOUR

	AFDC maximum July 1977 (or later in 1977)	1974-77 changes *	Fiscal year 1982 benefits—assuming 15 percent increase in AFDC benefits over 1977				Fiscal year 1982 benefits—assuming 25 percent increase in AFDC benefits over 1977			
			AFDC maximum	Food stamps	Total potential benefits		AFDC maximum	Food stamps	Total potential benefits	
					Dollars	Percent poverty			Dollars	Percent poverty ⁷
Alabama.....	1,776	+19.0	2,042	2,328	4,370	57	2,220	2,274	4,494	59
Alaska ¹	4,800	0	5,520	2,256	7,776	81	6,000	2,112	8,112	85
Arizona.....	2,376	+7.6	2,732	2,121	4,853	63	2,970	2,049	5,019	65
Arkansas.....	2,268	+51.2	2,608	2,158	4,766	63	2,835	2,090	4,925	64
California ⁴	5,076	+36.0	5,837	1,189	7,026	92	6,345	1,037	7,382	96
Colorado ²	3,570	+10.6	4,106	1,709	5,815	76	4,463	1,602	6,065	79
Connecticut.....	5,352	+34.3	6,155	1,094	7,249	95	6,690	933	7,623	99
(Plurality of cases).....	(4,608)	-----	(5,299)	(1,351)	(6,650)	(87)	(5,760)	(1,212)	(6,972)	(91)
Delaware.....	3,444	+24.7	3,961	1,752	5,713	75	4,305	1,649	5,954	78
District of Columbia.....	3,768	+12.5	4,333	1,641	5,974	78	4,710	1,527	6,237	81
Florida.....	2,292	+26.4	2,636	2,150	4,786	62	2,865	2,081	4,946	65
Georgia.....	1,692	-12.0	1,946	2,357	4,303	56	2,115	2,306	4,421	58
Hawaii ³	6,396	+33.5	7,355	1,563	8,918	101	7,995	1,371	9,366	106
Idaho.....	4,128	+15.4	4,747	1,516	6,263	82	5,160	1,392	6,552	85
Illinois.....	3,804	+10.0	4,375	1,628	6,003	78	4,755	1,514	6,269	82
Indiana.....	3,300	+10.0	3,795	1,802	5,597	73	4,125	1,703	5,828	76
Iowa.....	4,428	+24.6	5,092	1,413	6,505	85	5,535	1,280	6,815	89
Kansas.....	4,368	+9.6	5,023	1,434	6,457	84	5,460	1,302	6,762	88
(Plurality of cases).....	(3,672)	-----	(4,223)	(1,674)	(5,897)	(77)	(4,590)	(1,563)	(6,153)	(80)
Kentucky.....	2,820	+37.4	3,243	1,968	5,211	68	3,525	1,883	5,408	71
Louisiana.....	1,968	+34.4	2,263	2,262	4,525	59	2,460	2,202	4,662	61
Maine ⁵	3,768	+86.9	4,333	1,641	5,974	78	4,710	1,527	6,237	81
Maryland.....	3,048	+12.3	3,505	1,889	5,394	70	3,810	1,797	5,607	73
Massachusetts.....	4,620	+7.5	5,313	1,347	6,660	87	5,775	1,208	6,983	91
Michigan.....	5,856	+22.0	6,734	920	6,654	99.8	7,320	744	8,064	105
(Wayne County).....	(5,436)	-----	(6,251)	(1,065)	(7,316)	95	(6,795)	(904)	(7,697)	(100)
Minnesota.....	4,848	+9.1	5,575	1,268	6,843	89	6,060	1,122	7,182	94

Mississippi	720	0	82	828	3,318	43	900	2,490	3,390	44
As of 1978	(1,212)	(+68.0)								
Missouri	2,844	+29.5	3,271	1,959	5,230	68	3,555	1,874	5,429	71
Montana	3,408	+3.6	3,919	1,765	5,684	71	4,260	1,662	5,222	77
Nebraska ¹	4,440	+32.1	5,106	1,409	6,515	85	5,550	1,275	6,825	89
Nevada	3,156	+30.8	3,629	1,852	5,481	71	3,945	1,757	5,702	74
New Hampshire	4,152	0	4,775	1,008	6,283	82	5,190	1,383	6,573	86
New Jersey	4,272	0	4,912	1,617	6,379	83	5,340	1,338	6,678	87
New Mexico	2,640	+6.7	3,036	1,030	5,066	66	3,300	1,950	5,250	68
New York	6,756	0	7,769	610	8,379	109	8,445	407	8,852	115
New York City	(5,712)		(6,569)	(970)	(7,539)	(98)	(7,140)	(798)	(7,938)	(104)
North Carolina	2,400	+8.6	2,760	2,112	4,872	64	3,000	2,040	5,040	66
North Dakota	4,440	+17.4	5,106	1,409	6,515	85	5,550	1,275	6,825	89
Ohio	3,204	+32.8	3,685	1,835	5,520	72	4,005	1,739	5,744	75
Oklahoma	3,468	+22.4	3,988	1,744	5,732	75	4,335	1,640	5,975	78
Oregon	5,280	+30.1	6,072	1,119	7,191	94	6,600	960	7,560	99
Plurality of cases	(4,860)		(5,589)	(1,264)	(6,853)	(89)	(6,075)	(1,118)	(7,193)	(94)
Pennsylvania	4,476	+6.8	5,147	1,396	6,543	85	5,595	1,228	6,823	89
Plurality of cases ²	(4,320)		(4,968)	(1,450)	(6,418)	84	(5,400)	1,320	6,720	88
Rhode Island	4,544	+15.4	5,226	1,373	6,599	86	5,680	1,236	6,916	90
South Carolina	1,404	0	1,615	2,456	4,071	53	1,755	2,414	4,169	54
South Dakota	3,996	+1.5	4,595	1,562	6,157	80	4,995	1,442	6,437	84
Tennessee	1,668	+5.3	1,918	2,365	4,283	56	2,085	2,315	4,400	57
Texas	1,680	+28.4	1,932	2,361	4,293	56	2,100	2,310	4,410	58
Utah	4,224	+12.5	4,858	1,483	6,341	83	5,280	1,356	6,636	87
Vermont	4,860	0	5,589	1,264	6,853	89	6,075	1,118	7,193	94
Plurality of cases	(4,668)		(5,368)	(1,330)	6,698	87	(5,835)	(1,190)	(7,025)	(92)
Virginia	3,732	0	4,292	1,653	5,945	78	4,665	1,541	6,206	81
Plurality of cases	(3,168)		(3,643)	(1,848)	(5,491)	(72)	(3,960)	(1,752)	(5,712)	(75)
Washington	4,992	+23.8	5,741	1,218	6,959	91	6,240	1,068	7,308	95
West Virginia	2,988	+14.7	3,436	1,910	5,346	70	3,735	1,820	5,555	72
Wisconsin	5,304	+9.6	6,100	1,110	7,210	94	6,630	951	7,581	99
Wyoming	3,240	+18.9	3,726	1,823	5,549	72	4,050	1,725	5,775	75

¹ Chart assumes that the U.S. nonfarm poverty guideline for a family of 4 in 1982 will be \$7,667, except Alaska \$9,584 and Hawaii \$8,817.

² AFDC benefit values between winter and summer.

³ 1977 AFDC benefit is as of September 1977.

⁴ 1977 AFDC benefit is as of October 1977.

⁵ Mississippi maximum did not change 1973-77, but will rise to \$1,212 in July 1978, an increase of 68 pct.

⁶ For all 51 jurisdictions the average increase was 17 pct; for the 42 which actually had increases; the average rise was 21 pct.

⁷ Those States which do not reach 60 pct of poverty with a 25 pct increase (Alabama, Georgia, Mississippi, South Carolina, Tennessee, Texas) would have to increase to at least 60 pct of poverty.

Note.—Chart assumes that food stamps deductions total \$125 per month (\$70 standard deduction plus estimated \$55 average child care and/or excess shelter). Food stamps allotment for family of 4 in 1982 is assumed to be \$2,490, except Alaska \$3,462 and Hawaii \$3,319. If two AFDC maximums are shown for a State, the first is the maximum for the highest county or region, the second is the maximum for the plurality of AFDC families in the State.

ATTACHMENT 4—SECTION-BY-SECTION DESCRIPTION

JOB OPPORTUNITIES AND FAMILY SECURITY ACT OF 1978

Section 1.—The title of the proposed legislation—"Job Opportunities and Family Security Act of 1978"—reflects the two major thrusts of the bill: (1) to provide increased job opportunities, especially in the private sector, for employable recipients of public assistance; and (2) to improve programs which provide support to those citizens who cannot work and those who can and do work but who earn too little to meet their basic needs and those of their families in today's economy.

Title I—Family Security Program.—Passage of this bill would begin the process of making much needed changes of terminology in the public welfare field. Both the current Aid to Families With Dependent Children Program and the Work Incentive Program would become components of a renamed program to be known as The "Family Security Program".

Section 101—Aid to dependent children of unemployed parents

This section eliminates the option states now have to exclude from coverage in their AFDC programs two-parent families in which at least one of the parents is employable. 27 states and the District of Columbia currently provide support to such families while the remaining states do not.

In addition, section 101 repeals section 407 of the Social Security Act, thereby eliminating the so-called "work force connection" requirement under which a two-parent family is excluded from assistance unless the father has been in the work force during six of the preceding 13 calendar quarters.

Section 101 replaces the "100-hour rule" established by HEW regulations. Those regulations define "unemployment" as work for less than 100 hours in any given month. This provision creates a distinct work disincentive by causing abrupt termination of assistance to two-parent families whenever the 100-hour line is crossed. Section 101 provides a new definition of unemployment based on earnings. Specifically, a family will be eligible for assistance if its income from earnings, averaged over a period of two successive months, does not exceed the equivalent of 30 hours per week (130 hours per month) times the Federal minimum wage. When the maximum cash assistance grant under the state program would be lower than the minimum wage equivalent just described, the lower figure will apply.

Section 101 adds to law a requirement that AFDC recipients who are eligible for Public Service Employment under the Comprehensive Employment and Training Act (CETA) register for and accept such employment.

The provisions of section 101 would take effect October 1, 1980.

Section 102—Variations in need standards within States

This section allows states to establish up to three different payment standards for AFDC cash assistance, based on differences in living costs among regions of the state. None of these variations would fall below the minimum benefit amounts as defined in section 110. This section would become effective October 1, 1978.

Section 103—Assistance unit defined; earned income disregard

This section revises the definition of AFDC "assistance unit" to make clear that individuals receiving SSI benefits may not be included, and also to exclude persons absent from the home for more than 90 days, unless it can be established that the absence was for the purpose of seeking employment.

Section 103 also revises the allowable work expense deductions and earned income disregards for AFDC recipients who work. Under the new provisions, the first \$60 per month of earnings, plus documented work expenses exceeding \$60 per month up to an additional \$60, plus one-third of earnings above that amount, plus an allowance for child care where necessary shall be deducted from income before offsetting earnings against the AFDC grant. The amounts to be deducted for child care are limited to \$100 per month per child and \$300 per family, and may not exceed 50 percent of the recipient's earnings. The two \$60 limitations will be increased to \$85 in fiscal year 1983 and \$70 in fiscal year 1985 to take account of rising costs. Likewise, the \$100/\$300 child care limitations will increase to \$110/\$330 in fiscal year 1983 and \$120/\$360 in fiscal year 1985.

Finally, section 103 would preclude disregard of earned income for any family member who fails to make a timely report to the state agency on earnings re-

ceived. A similar provision is included in H.R. 7200 as reported by the Senate Finance Committee. However, the H.R. 7200 would preclude disregard of the earnings of all family members—not just the income of the person for whom no report, or an inaccurate report, was made to the state agency.

Section 103 would become effective October 1, 1978.

Section 104—Determination of benefits in certain cases where child lives with individual not legally responsible for his support

This section permits states to make pro-rata reductions in AFDC grants to take into account the presence in the household of individuals who are not eligible for assistance and who have other means of support. This provision is included in the Senate Finance version of H.R. 7200. It would take effect October 1, 1978.

Section 105—Additional Federal funding for certain mechanized claims processing and information retrieval systems

This section adds to the AFDC program provisions similar to ones already in Title XIX for the Medicaid program (section 1903 (a) (3)), providing financial incentives and technical support to the states for installation of modern computerized claims processing and management information systems. States which submit plans approved by HEW for development and operation of such systems will receive 90 percent Federal matching funds for the initial development costs and 75 percent for system operations.

This section is similar to provisions in the Senate Finance Committee's version of H.R. 7200.

Section 105 would become effective October 1, 1978.

Section 106—Miscellaneous State plan requirements

This section makes a conforming change (repeal of section 402 (a) (23)) and adds a requirement that members of AFDC assistance units apply for any private or public retirement, disability, unemployment compensation and similar benefits to which they may be entitled.

This section will become effective October 1, 1978.

Section 107—Federal payments to States; maximum State payments subject to Federal matching

This section establishes a ceiling for Federal matching of state-local welfare costs. States would receive Federal matching as described below for AFDC benefits which, when combined with the value of food stamps, would provide a family (with no other income) total support equal to 100 percent of the Federal non-farm poverty line, as established by the Office of Management and Budget. States would be free to pay benefits which would exceed the poverty line (when combined with food stamps), but would themselves be required to pay 100 percent of the costs of going above the poverty line. The maximum benefit for Federal matching, as well as the minimum benefit provided for by section 109, would rise in future years in proportion to the cost of living.

This section also shifts from state and local governments to the Federal Government a substantial part of the current state local/share of AFDC costs. The increased Federal matching will be phased in over a period of three years beginning in fiscal year 1980. The percentage increase each state receives each year will be determined as follows:

Fiscal year 1980.—States which under current law (prior to these amendments) would have been entitled to receive 60 percent Federal AFDC matching funds or less under the alternative Medicaid formula will, in fiscal year 1980, receive 10 percent higher Federal match than the Medicaid formula would have entitled them to receive. States which would otherwise be entitled to receive Federal matching funds at higher than a 60 percent rate in fiscal year 1980 will receive Federal funds at the percentage to which the Medicaid formula would have provided, plus one-third of the difference between that state's Federal matching percentage under the Medicaid formula and 90 percent.

Fiscal year 1981.—All states will receive another increase in the Federal AFDC matching funds percentage identical to the one received in fiscal year 1980.

Fiscal year 1982.—Those states which meet the two conditions described below will receive a third increase in the Federal matching percentage equal to the increases provided in fiscal 1980 and fiscal 1981. Those states receiving the full increment in fiscal year 1982 would those receive Federal matching funds at no less than 80 percent and no more than 90 percent in fiscal year 1982. Under the

provisions of section 107, states which failed to meet either of the following conditions would receive reduced Federal matching funds as indicated:

(1) *State Funding and Administration.*—Any state which, by fiscal year 1982, still required local governments to either provide funding for, or administer the AFDC program, will not receive the increased Federal matching scheduled for fiscal year 1982.

(2) *Quality Control.*—Any state, which in the first half of fiscal year 1981, had a dollar error rate in excess of four percent (from payments to ineligible, overpayment, underpayments), as determined by the Federal-State quality control program, would receive in fiscal year 1982 a reduction in Federal funding as follows: If a dollar error rate of less than five percent but more than four percent were achieved, the Federal matching rate would be reduced by ten percent of the last full increment of increased Federal match to which the state was entitled. For each rise of one percent in its dollar error rate, the state's Federal matching rate would go down by 10 percent of one of the three increments to which it would otherwise be entitled, up to a maximum loss of up to 50 percent of that increment.

The following table¹ shows how these provisions would apply to a range of states.

Section 108—Determination of eligibility for, and amount of, AFDC payment

This section authorizes states to base eligibility for, and amount of, AFDC payments on a one-month retrospective accounting period or a one-month prospective period. It also authorizes, but does not require, states to establish monthly reporting requirements.

These provisions will become effective on October 1, 1978.

Section 109—Minimum benefit amount

This section requires that beginning with fiscal year 1981, the combined food stamp and AFDC benefits provided to eligible families with no other income shall be not less than 55 percent of the official non-farm poverty level. The minimum benefit will increase to 60 percent of the non-farm poverty level in fiscal year 1982 and to 65 percent in fiscal year 1985. Based on anticipated increases in living costs between now and fiscal year 1982, the minimum combined food stamps AFDC benefit under this provision for a family of four with no other income in fiscal year 1982 will probably be about \$4,600.

Section 109 provides deviations from the poverty line in two situations: (1) the minimum benefit standard for a single-member AFDC unit shall be one-fourth of the standard for a family of four; and (2) states will satisfy the minimum benefit requirements for family units larger than seven members as long as their combinations of food stamps and AFDC payments equal at least 60 percent of the poverty line for a family of seven.

Section 110—Resource limitation

This section would standardize resource limitations affecting AFDC eligibility by adopting on a national basis the resource limitations used in the Supplemental Security Income (SSI) program. For example, single-member AFDC units would be ineligible if they had liquid assets exceeding \$1,500 in value. The limit on liquid assets for a family of two or more would be \$2,250, the same as the limit for a married couple in the SSI program.

Section 110 would take effect at the beginning of fiscal year 1981.

Section 111—Change of title of "Aid to Families With Dependent Children" to "Family Security Program"

This section would change all references to the AFDC program throughout the Social Security Act to "Family Security Program" or "Aid for Family Security" as appropriate. This change in terminology would take effect at the start of fiscal year 1981.

Section 121—Implementation of work and training requirements

This section makes the following changes to the Work Incentive Program:

(1) Requires AFDC recipients defined as employable to engage in work search activities. This requirement is also included in the Senate Finance Committee's version of H.R. 7200.

¹ See Attachment 1, p. 610.

(2) Exempts from WIN participation AFDC recipients who are: (a) working for not less than 30 hours a week; (b) engaged in a college-level undergraduate educational program for not less than 30 hours a week; or (c) employed in a CETA public service job.

(3) Clarifies the treatment, for purposes of the AFDC income disregard, of wages and training stipends paid under the WIN program. Public service employment and on-the-job training stipends are to be treated as earned income, while work experience and classroom training stipends will not.

(4) Revises the authority of the Secretary of Labor to issue regulations for certain aspects of the WIN program by requiring that all such regulations be jointly issued by the Secretaries of HEW and Labor.

(5) Eliminates the requirement for 60-day counselling before terminating assistance to an AFDC recipient who refuses a job offer or participation in WIN activities.

(6) Authorizes social and supportive services during work search and after employment is accepted.

(7) Authorizes counting of in-kind state and local contributions toward required 10 percent state-local share of WIN funding.

(8) Exempts from the Fair Labor Standards Act work experience assignments of up to 26 weeks under the WIN program.

Section 121 will take effect October 1, 1978.

Section 122—Placement of responsibility for WIN programs with States

This section makes a number of changes to Part C, Title IV of the Social Security Act to make clear that the primary responsibility for operating the WIN program rests with the states. The Secretaries of Labor and HEW are to issue joint regulations for the WIN program, and the Secretary of Labor is to handle Federal-level administrative functions and oversight.

Section 122 also enables Governors to determine what agency will serve as the WIN agency for their states.

Section 122 will take effect October 1, 1978.

Section 123—Limitations on amount of annual authorization for programs; quarterly payments to States; allotments to States

This section provides for WIN funding of \$565,000,000 annually (as compared to \$365,000,000 appropriated for FY 1978) and makes WIN an appropriated entitlement program as opposed to merely authorizing appropriations under current law. This will assure that the full \$565,000,000 is actually made available to the states. The procedures for allocating WIN funds among the states are also clarified.

Section 123 will take effect October 1, 1978.

Section 131—Federal payments for adoption assistance and foster care

This section adds a new Part E to Title IV of the Social Security Act, providing revised authority for Federal funding of state foster care programs, and a new program of Federal support for subsidized adoptions.

This section includes much of the bill language developed by the Senate Finance Committee and included in H.R. 7200 as reported by the Committee (now awaiting Senate Floor action). The states will be able to receive Federal matching for adoption subsidies paid to adoptive parents of hard-to-place children, provided the adoptive parents have incomes under 115 percent of the state median for a family of four. (In special circumstances, states may pay subsidies to higher income families). The adoption subsidy may not exceed the amounts which could have been payable if the child were in a foster care home. A child with a medical disability existing at the time of adoption will continue to have Medicaid coverage for treatment of that condition, even though the adoptive family is ineligible for Medicaid. States will also have the option to extend full Medicaid coverage to such children.

The subsidized adoption program will become effective October 1, 1978, and will terminate September 30, 1982, unless extended by Congress.

Section 131 will also enable states to utilize Federal funding for the first time for foster care provided by public institutions serving no more than 25 resident children. This funding will only be available for children placed in such institutions after the effective date of the Act.

Section 201—Amendment to title VI of the Comprehensive Employment and Training Act of 1973

This section extends Title VI of CETA for five years, and provides that no less than 375,000 subsidized public service jobs shall be provided under it each year.

Section 202—Employment of long-term unemployment and certain recipients of aid to families with dependent children

This section targets CETA Title VI Public Service Jobs, as follows:

First priority: a guaranteed job for one adult in any AFDC-Unemployed Parent household who has searched unsuccessfully for a regular job for 90 days.

Remaining jobs: 50 percent to other AFDC recipients; 50 percent to other persons unemployed for 26 weeks or more, whether or not receiving unemployment compensation.

Section 211—Private Sector Voucher Program for Jobs

This section adds a new Title IX to the Comprehensive Employment and Training Act, providing for a job voucher program to encourage employment in the private sector of AFDC recipients, persons unemployed for more than 26 weeks, unemployed youth (all of whom have searched for work for at least 90 days) and persons terminated from CETA public service jobs (who have searched for work for at least 30 days).

The vouchers will provide a subsidy of \$1 an hour for 1 year to for-profit and non-profit private organizations who employ persons who qualify for the vouchers. Eligibility will be certified by a state agency designated by the Governor. Vouchers will be redeemed through the banking system by the Treasury Department.

Employers will be precluded from using voucher-eligible employees to replace or reduce the hours of other employees. Employers will be required to pay prevailing wages, and will be required to choose between participation in the voucher program and claiming the job creation credit (see section 302).

Section 211 will become effective on October 1, 1978.

Section 301—Earned income credit

This section enlarges the refundable Earned Income Credit now provided for in section 43 of the Internal Revenue Code, and authorizes distribution of the credit, as earned, through a "reverse withholding" process. The credit will continue to be available only to families with dependent children. The maximum credit would be increased from 10 percent of the first \$4000 of earnings, to 15 percent of earnings up to the poverty line. The credit will vary by family size, up to a maximum of seven family members. For a family of four, the maximum credit will be approximately \$975 in 1979, the first year in which the revised credit will be in effect (based on poverty line of approximately \$6,500).

Once the credit reaches its maximum, it phases out as income rises at a rate of 20 percent of earnings. This would result in the credit phasing out for a family of four at slightly over \$11,000 in 1979, using the above assumptions about the poverty line.

Section 301 provides for special withholding certifications to be filed and periodically updated by employees. It also requires employees to report to their employers promptly any changes in earnings or other circumstances which could make them ineligible for the credit or reduce its size. Employers will off-set the credits distributed to employees against Federal income taxes withheld for employees. In order to provide stronger incentives for searching for and taking regular jobs, the credit will not be available for subsidized public service jobs under either CETA or WIN.

Section 302—Job creation credit

This section would revise the existing temporary jobs credit and make it permanent. The credit would be targeted on the same groups who are eligible for job vouchers under section 211. The credit, like the vouchers, would be for one dollar an hour for one year for each eligible employee. Employers could not receive the tax credit if they participated in the Job Voucher Program.

The credit would be available only after employers increased their employment by more than 2 percent over the prior year's average. To keep employers from having an incentive to hire part-time rather than full-time workers, the em-

ployers would be entitled to the credit only if hours worked exceeded the prior year's by more than 5 percent.

The credit would not be refundable; but it would be an off-set against any tax liability the employer owed, up to a maximum of \$100,000 per year.

The revised credit would become effective on January 1, 1979.

Section 303—Recoupment of excess welfare and food stamp payments

This section provides for recoupment through the Federal income tax system of amounts paid in AFDC and food stamp benefits to taxpayers who, on an annual basis, have incomes above the point where they would normally be entitled to public benefits. To illustrate: The way the program would work can be seen in the example of a head of a family of four who worked for part of a year during which he received \$11,000 in earnings. He was unemployed for the balance of the year during which he received food stamps and/or AFDC worth \$1,000. Under this section, he would owe the Treasury \$240 over and above any positive tax liability he may have.

The premise behind this section is that people who work intermittently, at relatively high salaries, should not be put in better positions because of the AFDC and food stamp programs than a family with steady employment but similar overall income.

Section 303 would become effective January 1, 1979.

Section 401—Cash assistance in lieu of food stamps for Supplemental Security Income recipients

This section authorizes states to elect to have the Federal Government cash-out food stamps for recipients of Supplemental Security Income (SSI). In those states which elect cash-out, SSI recipients will receive benefit checks increased by the average value of food stamps received by all SSI recipients in that state.

Section 401 will become effective October 1, 1978.

Section 402—Reduction in age limit for SSI

This section would lower the age limit for eligibility for Supplemental Security Income (SSI) on the basis of age from 65 to 64 in 1980, 63 in 1981, and 62 in 1982 and thereafter. Benefits for the elderly under SSI would then have the same age limits as retirement eligibility under Social Security. Persons newly eligible for SSI on the basis of age would be required to meet the same income and resource limitations as other SSI recipients. States would have an option on whether to provide Medicaid coverage for the newly-eligible SSI recipients.

Section 501—Demonstration projects

This section authorizes demonstration projects involving cash-out of food stamps for public assistance and non-public assistance households.

Section 502—Repeal of section 410 of Social Security Act

This section repeals an out-of-date provision relating to the food stamp program.

Section 601—Assistance to meet emergency needs

This section establishes a Federal block grant program of \$150 million per year to assist states in responding to temporary, emergency needs of vulnerable people. The money will be divided in proportion to the AFDC population.

The states will have wide latitude in use of the funds. This program would replace the existing much smaller (\$35 million per year Federal costs; \$35 million state/local), and more restrictive emergency assistance program.

The Secretary of HEW would be required to hold back up to 10 percent of the funds and use them to respond to special needs as they arose.

Section 701—Demonstration projects

This section directs HEW to work with USDA, Labor, HUD and states and localities in running demonstration projects to evaluate the feasibility of consolidated public assistance centers, and of various approaches to making more fundamental changes in the public welfare system. The welfare reform concepts which could be tested under this authority include a Federally-operated, consolidated program approach of the type reflected in the Carter welfare proposals, and an approach under which states would be freed from Federal regulations entirely in the design and operation of their welfare programs.

Section 702—Review of act

This section requires HEW in cooperation with Labor, Agriculture, and Treasury to conduct a thorough review of the effects of this act and report to the Congress in the fourth year after the bill is enacted, including recommendations for legislative changes.

Section 703—National Commission on Public Assistance

This section creates a National Commission on Public Assistance, directed to study current welfare programs, including the modifications made by this bill, and to submit recommendations for further improving these programs (or replacing them with new programs) to the President and the Congress within three years. The Commission would consist of 11 members, with seven appointed by the President and two each by the Speaker of the House and President Pro Tem of the Senate. At least two of the members would be senior officials of state and local governments. The membership would also include recipients and potential recipients of public assistance, as well as experts in program design and operation.

Section 704—Uniform definitions

This section requires the Secretary of HEW to work with other cabinet departments in developing uniform definitions of household units and other concepts used in needs tested programs. Appropriate legislative recommendations will be submitted to the Congress as one of the results of this work.

ATTACHMENT 5

PROJECTED 10-YEAR FEDERAL AND STATE COSTS (FISCAL YEAR 1979-88) FOOD STAMPS AND AFDC

(In billions of dollars)

	Fiscal year 1979-83 costs	Fiscal year 1983-88 costs	10-year costs
A. Continuation of current policy:			
Food Stamps.....	1 31.5	1 34.9	70.9
AFDC.....	2 52.6	2 65.8	118.4
Total.....	84.1	105.2	189.3
B. Effects of S. 2777³:			
Food stamps.....	30.6	35.2	65.8
AFDC.....	51.2	46.2	97.4
Total.....	81.8	81.4	163.2
Savings under S. 2777.....	2.3	23.8	26.1

¹ CBO estimates.² Federal costs estimated by CBO; adjusted to add projected State/local costs.³ Staff estimates, based on 25 pct growth over fiscal year 1979-83 period.

⁴ Assumptions: (1) AFDC costs under S. 2777 would rise by about 10 pct over current policy before taking into account employment programs under S. 2777. (2) S. 2777 would provide permanent jobs for 200,000 more AFDC recipients per year between fiscal year 1979 and 1983 than would current policy; from fiscal year 1983-88, it would produce an extra 100,000 jobs per year for AFDC recipients. Half of the people receiving jobs would leave AFDC entirely and the other half would have a 50 pct reduction in their families' AFDC grants. (3) Food stamp benefits for AFDC recipients taking jobs under S. 2777 would be reduced by one-third below the benefit otherwise provided.

WELFARE REFORM PROPOSALS IN THE 95TH CONGRESS

(By James R. Storey)¹

THE NEED FOR WELFARE REFORM

Programs that supplement income based on financial need account for \$40.5 billion in the fiscal 1979 federal budget under current law—\$12.6 billion in general cash aid; \$9.4 billion in food subsidies; \$4.4 billion in housing subsidies; \$1.0 billion in student aid; and \$12.2 billion in payments to physicians and hospitals for medical care. These programs, which are legislated by five House and four Senate Committees, have been the repeated target of reform. President Johnson

¹ Senior Research Associate, The Urban Institute. This paper was presented before the Conference on Federal Affairs of the Tax Foundation, April 17, 1978. The views expressed are solely those of the author and do not represent the views of the Urban Institute or its sponsors.

launched a major welfare reform study by a Commission, President Nixon twice proposed reform bills that met with partial success, HEW Secretary Weinberger unsuccessfully urged an even broader reform proposal on the Ford White House, and now President Carter has delivered on a major campaign promise by proposing his Better Jobs and Income Plan.

While progress has been made both legislatively and administratively in the welfare area in the 10 years since President Johnson appointed his Commission on Income Maintenance Programs, structural reform of these programs has persisted near the top of the legislative agenda. There are many reasons why calls for major reforms continue:

First, there is a continuing poverty problem. In 1976, about one out of twelve Americans had income below the poverty level, even counting federal food assistance as income. The dollar value of this income gap amounted to \$9.8 billion. These 18 billion poor people are a much smaller group than the 39 million of two decades ago, but the sluggishness of the economy in the 1970's and the lack of assistance for some low-income people has slowed the reduction of the poverty population.

Between 1970 and 1976, the size of the poverty population was influenced by two opposing forces. The severe economic downturn that put millions out of work, coupled with a rapid price inflation reflected in a swiftly increasing poverty standard, would have increased substantially the number of poor people. However, growth in benefit payments and enactment of the new supplemental security income (SSI) for the indigent aged, blind and disabled largely offset the potential rise in poverty. Thus, the war declared on poverty in the 1960's has become a holding action in the 1970's.

About one-fifth of the poor live in households headed by someone who is over age 65 or disabled. Another one-third are in families headed by an able-bodied, working-age female. The remaining poverty population lives in households headed by able-bodied, working-age males. About one-third of this latter group worked year-round, and over half worked at least half the year, but were still poor. Among able-bodied, working-age poor female heads, about a tenth worked year-round, while nearly 40 percent worked at least some time during the year. Thus, many of the poor who can work do work. Moreover, it is reasonable to expect that, if aggregate demand were higher, work effort would be higher and the poverty count lower.

But poverty will not go away with full employment, since low wage rates, the needs of larger families, the ineffectiveness of benefit programs, and individual infirmities cannot be expected to melt away in the warm light of economic recovery. In 1969, when the unemployment rate was 3.5 percent, a booming economy by historical standards, 24 million people were still poor, including many full-time workers. This fact has led many analysts to conclude that a program of general income supplementation is needed.

A second reason for reform are the remaining gaps in coverage. Virtually all poor people are eligible for food stamps, but nearly half are eligible for nothing more; 46 percent of the poverty population lives in households ineligible for cash assistance under either AFDC or SSI. Most of those poor but ineligible live in two-parent households with able-bodied heads. A second group left out are single individuals and childless couples who are neither aged nor disabled. A two-parent family with children headed by an able-bodied male may be eligible for cash assistance under the unemployed father (UF) provisions of AFDC, but only in about half the states. And in those states, the program contains a number of eligibility restrictions which, among other things, preclude a family from receiving assistance no matter how low the family's income if the father is working more than 100 hours per month. Since almost half the poor are in families headed by able-bodied males, the limitations of AFDC-UF coverage deny cash assistance to a significant proportion of poor families.

A third reason for reform is that benefits are often inadequate and unfair. Not only are many poor households ineligible for cash assistance, but some who are eligible receive aid at very low levels. Today, 26 states pay AFDC benefits at rates less than two-thirds of the poverty standard. The wide disparity in benefit amounts among the states (from \$256 monthly for AFDC and food stamps in Mississippi to \$560 in New York, to \$673 in Hawaii) results in greater federal support for some poor people than for others based solely on place of residence.

Fourth, work efforts are not consistently encouraged. Most welfare programs attempt to encourage work either through financial work incentives or adminis-

trative work requirements. However, as currently practiced, both methods have serious shortcomings. Programs like food stamps, AFDC, and public housing all provide financial incentives based on the same principle—if a person's earnings increase by a dollar, program benefits should decline by less than a dollar, thereby leaving the person better off for having worked. However, a problem arises because the typical recipient benefits from two or more programs. In such situations, individual program benefit reductions are at least partially additive and can offset almost totally any additional dollars earned, thereby leaving no monetary incentive for the person to work. For example, although actual rates vary among states depending on how work expenses are deducted and how payments are related to need, AFDC alone can reduce benefits by as much as 67 cents for an added dollar of wages. For the more than two million families receiving both AFDC and food stamps, this reduction rate can be as high as 77 percent, or 85 percent for the roughly 300,000 of these families who also have their rents publicly subsidized. While the rates are not this high for everyone, rates approaching these upper limits can apply to discourage work. In some instances where eligibility is denied to persons who work full-time (e.g., in the AFDC-UF program), additional earnings can leave a family worse off financially.

A major difficulty with present work requirements is administrative. In a labor market with high unemployment rates, it is hard for an administrator to determine if a person has made a good faith effort to find a job. There is no easy way to distinguish lazy recipients from those who honestly cannot find work. Also, work requirements are ineffective in dealing with reductions in work effort when the reductions are in overtime work, second jobs, or secondary workers' jobs.

Finally, gaps in coverage and disparities in benefit amounts make a travesty of self-help efforts, since people on welfare in high-payment states often have total incomes greater than comparable families with heads working full-time. For instance, a four-person family in Oregon can receive \$549 a month tax free from AFDC and food stamps, \$90 more than a person not on welfare would gross in a full-time job at the minimum wage.

Administrative weakness.—Current programs have gained a reputation as error-ridden and prone to fraudulent manipulation, a situation that is improving to some extent. In 1974, HEW audits found that 44 percent of all AFDC cases involved some type of benefit or eligibility error. Today, that error rate has been reduced to 22 percent, and some states have welfare administrations which are first-rate. Nonetheless, two problems remain. First, some states have been slow to adopt the best administrative practices. For example, case errors are substantially reduced by adequate staff education, frequent case reviews, and other simple procedures. Yet, many states have neglected to institute such improvements. Second, the wide variety of complex aid programs imposed on the states through federal legislation and regulations makes good management difficult. Each program requires separate forms and administrative structures, and the multiple bureaucracies invite confusion and mistakes.

Fiscal burden on state and local governments.—In 1979, the combined expenses of AFDC, SSI, food stamps, Medicaid and other welfare programs will cost state and local treasuries about \$18 billion. This burden falls heavily on states with large welfare costs and fiscal difficulties, and on counties and cities as well in a few states, particularly New York. State and local organizations have increasingly advocated a greater federal assumption of program costs. There is also a general awareness of the national nature of the poverty problem and the inability of state and local governments to adjust their fixed budgets quickly to sharp changes in costs prompted by such factors as national changes in unemployment, inflation, interregional migration, and local layoffs resulting from national or trade or energy policies.

Poor instrument for implementation of national policy.—As already mentioned, current assistance programs vary widely in coverage and benefit levels. Administrative control is vested in a large number of different agencies at all levels of government, and legislation is subject to the jurisdiction of numerous committees in both House and Senate as well as the 50 state legislatures. And the courts are frequently called upon to correct defects in these laws or the regulations drawn up to implement them.

This chaotic lack of control leaves the federal government with no system it can use to alter the incomes of poor families in a timely manner in conjunction with major national policy initiatives. This situation can inhibit the bold action

that may be required to change energy pricing policy or to revamp transportation systems.

For example, a tax on gasoline to reduce consumption might be opposed because it raises transportation costs to prohibitive levels for the poor. Lack of an integrated assistance system to offset this effect makes consideration of such an option futile. Another example is the use of tax cuts to stimulate the economy. To avoid inequitable treatment of people with no tax liability, the 1975 tax cut was accompanied by special \$50 payments to social security beneficiaries. However, a majority of poor people do not benefit from that system, and many social security beneficiaries are well-to-do. Thus, in the absence of a direct systematic way to deal with the equity problem, this attempt at equity targeted public funds inefficiently and precipitated needless administrative intricacies and a lack of public understanding.

THE ALTERNATIVE APPROACHES TO REFORM

*The Better Jobs and Income Plan.*²—The President's proposal addresses many of the problems with the current welfare system, providing income support to the needy in a fairer way with fewer programs, and assuring strong work incentives through financial rewards for work, a strong work requirement, and direct creation of jobs. The basic federal plan would work as follows:

A new program of public service employment would provide up to 1.4 million jobs for poor adults in families with children. HEW and Labor estimate that a program of this size should provide for one job per family for all low-income families in which an adult is expected to work to contribute to family support. This jobs program would replace the work incentive (WIN) program and the CETA Title VI jobs program.

A simplified, fairer cash assistance program would provide aid to all Americans with inadequate family income, either as a basic support payment or as a supplement to low earnings. This new program would replace AFDC, SSI, and food stamps with an integrated cash assistance plan that would reduce the great benefit disparities across the country and among different groups of the poor.

An expanded earned income tax credit would provide additional supplementation to low-income workers in regular employment. This would be an integral component of the new system, along with the jobs and the cash assistance programs.

The three components of the plan working together are intended to provide both incentives to seek work and financial reward from work. The cash benefit system serves a nationally uniform "safety net" under all incomes for those who cannot attain an adequate wage and need such support.

A work requirement would be imposed on all recipients expected to work, with greatly reduced benefits paid for an initial eight-week period during which job search is expected. Public service jobs could be offered to those who cannot find private employment within five weeks. Refusal to accept a job without good cause would result in loss of benefits for the person expected to work. Only if a private job could not be found during the waiting period and a public job were not available would maximum benefits be paid to someone expected to work. There would be a monetary incentive for individuals to continue to seek permanent jobs even while in special public jobs, as the earned income tax credit would further increase earnings in regular employment.

In general, federal cash benefits would be reduced by no more than 50 percent of earnings, providing a substantial financial gain from work. This feature meets two important objectives—to provide incentives for individuals to seek and take jobs, and to improve equity for working people, who would have more total income than non-workers.

*House Subcommittee Action.*³—The Subcommittee on Welfare Reform established by the House of Representatives to hold hearings on President Carter's bill has developed a modified version for consideration by the three permanent

² A detailed review of the background and details of the President's welfare reform proposal may be found in James R. Storey, Robert Harris, Frank Levy, Alan Fechter and Richard C. Michel, "The Better Jobs and Income Plan: A Guide To President Carter's Welfare Reform Proposal and Major Issues," Urban Institute Paper 819-3-2, Washington (January 1978).

³ A comparison of the cash assistance provisions of the President's bill and the Subcommittee's revisions may be found in James R. Storey, "Implications of the Tentative Decisions of the House Welfare Reform Subcommittee," Urban Institute Working Paper 819-03-05, Washington (Jan. 23, 1978).

House committees with jurisdiction. The Subcommittee's bill supports the President's position that a national system to provide a floor of cash support and public wages under the incomes of all Americans is preferable to today's mix of separate programs with widely varying coverage and benefits.

However, the Subcommittee bill would result in an assistance system different from that proposed by the President in four important respects: (1) state and local governments would ultimately spend less and the federal government more; (2) states would have the option for greater control over program design and more administrative responsibility, with the authority to offer recipients less work incentive than the original plan required; (3) rules and procedures now applicable to aged, blind and disabled recipients under SSI would remain largely unchanged, complicating the administration of a new system; and (4) wages in public service jobs would be varied according to wage levels in specific labor markets rather than set at the federal minimum wage.

*Incremental versus Comprehensive Reform.*⁴—At least three other welfare reform bills may be considered by Congress this year. Two bills have been introduced, one by Chairman Ullman (this bill was defeated in the House Welfare Reform Subcommittee by a 16-13 vote), and another by Senators Baker, Bellmon, Ribicoff, Danforth and others. The third proposal is the so-called "triple-track" proposal supported by the AFL-CIO.

Advocates of these bills, in urging their adoption in lieu of the President's plan or the Subcommittee bill, use some or all of the following arguments:

Building "incrementally" on existing programs increases the feasibility of enacting reforms.

"Incremental" changes in existing programs will minimize administrative problems for government agencies and transitional difficulties for recipients.

"Incremental" changes cost less in federal dollars.

These "incremental versus comprehensive reform" arguments miss the point as far as changing welfare policy is concerned, since any significant reforms will be controversial, costly, and impose major administrative upheavals. Rather, these arguments are mainly camouflage for concerns that present federal and state agency responsibilities, Committee jurisdictions, and interest group ties might be realigned under the Carter proposal that consolidates separate programs and greatly increases federal control. No bill, including Carter's, is truly comprehensive—for example, his bill fails to rationalize the medical and housing assistance programs with the proposed cash assistance and jobs. On the other hand, any bill that truly deals with the major issues of benefit adequacy, equity, and work incentives will have to raise some benefits, broaden program coverage, better coordinate programs, and modify federal-state relationships. And, of course, a more grandiose "comprehensive" reform plan could be accomplished in several smaller "incremental" steps should a slower implementation be desired.

The Ullman bill has the following major provisions:

The sum of a family's AFDC and food stamp benefits in each state would have to meet a federal minimum standard, but only the food benefits would vary by family size.

All states would have to cover families headed by unemployed fathers under AFDC, with federal payments limited to 17 weeks in a year plus periods when unemployed parents are in WIN or CETA training programs.

Food stamps would be cashed out for SSI recipients.

The amount and coverage of the earned income tax credit would be increased.

All unemployment compensation, and any AFDC and food stamp benefits that cause gross income to exceed specified annual totals, would be subject to the income tax.

The jobs tax credit for employing WIN and vocational rehabilitation referrals would be increased.

The Baker-Bellmon proposal includes the following key features:

An earnings subsidy of \$1/hour would be established for AFDC recipients, the long-term unemployed, and CETA job holders.

A tax credit would be established for employers who meet criteria for creating jobs during the year.

CETA public service jobs would be phased down to 375,000 after fiscal 1982, and the jobs would go first to AFDC-UF families, then to other AFDC heads and the long-term unemployed.

⁴ A forthcoming Urban Institute Paper by Frank Levy will provide a detailed comparison of comprehensive and incremental welfare reform proposals.

All states would have to operate the AFDC-UF program.

The sum of a family's AFDC plus food stamp benefits would have to meet a federal minimum standard.

Increased federal matching for states would be designed to encourage states' taking over local sharing in welfare costs.

"Excess" welfare benefits would be subject to the income tax.

The earned income tax credit would be increased.

States could cash out food stamps for SSI recipients, and cash-out demonstrations for AFDC recipients would be authorized as well as demonstrations of alternative welfare systems.

SSI eligibility due to old age would be revised from a minimum age of 65 down to age 62.

The "triple-track" proposal, though not yet introduced, would likely be structured as follows:

Coverage and amounts under the earned income tax credit would be expanded.

Federal benefit standards would be set for AFDC, with the program restricted to "unemployables."

Public service jobs programs would be expanded for "employables," plus special unemployment benefits would be established for low-income "employables" who are out of work and do not have coverage under the regular unemployment compensation program (e.g., new entrants or re-entrants to the labor force).

Elements Common to Different Proposals.—The four reform bills now introduced would all increase net benefit payments for the nation as a whole and would have several features in common: a federal benefit floor; cash assistance coverage in all states for intact families with unemployed heads; more use of cash aid instead of aid in kind; more reliance on the tax system to help the working poor; greater annual equity in benefit payments; greater efforts to move welfare recipients on to payrolls; and fiscal relief for state and local governments. However, there are three key areas where the basic directions the bills take are different: (1) the President proposed a system with fewer programs, better coordination of programs, and a great deal of control at the federal level, characteristics that were weakened by the Subcommittee and largely abandoned by the other bills; (2) the President, the Subcommittee, and the triple-track proposal advocate direct job creation, placing on the government the responsibility to make the work requirement function properly, but the other bills would use direct job creation in much more limited ways, relying principally on tax incentives and on-the-job training to augment the smaller direct employment efforts; and (3) the Carter bill provides more assurance that payment rules would be structured so that financial work incentives are not eroded.

A COMPARISON OF THE INTRODUCED BILLS

An appendix to this paper presents, mainly in chart form, a comparison of main features of the four introduced bills. Using these comparisons, I would like to draw some conclusions about the different effects the bills would have.

Costs (see appendix, exhibit, exhibit 1).—Each bill seeks to assure state and local governments of several billion dollars in fiscal relief, but the other costs vary considerably. The estimated net federal cost in fiscal 1982 ranges from \$7 to \$9 billion for the Ullman and Baker-Bellmon bills up to \$17 billion for the Carter bill and \$20 billion for the House Subcommittee bill. Thus, the two "incremental" reform bills represent a substantially more modest attempt to restructure the welfare system, so an overriding question is what the broader proposals would accomplish for a 100+ percent net federal cost.

Benefit levels (see appendix, exhibit 2).—Generally, the Carter and Subcommittee bills provide more adequate benefit levels:

They would provide \$180 more a year to an aged, blind or disabled person in federal benefits than would the Ullman plan, and more than the Baker-Bellmon bill for most such cases.

The federal cash benefit of \$1,100 for single individuals with no income would be nearly twice the food stamp benefits otherwise available.

The minimum benefit level for a one-parent family of four of \$4,200 would start out the same under the Ullman bill, but the Baker-Bellmon level would be 15 to 20 percent lower initially, a gap that would be closed by 1985. Over time, the Subcommittee and Baker-Bellmon minimum payment levels would rise with inflation, but the Ullman level would follow a different trend in each state,

approaching 30 percent of a state's median income for a family of four. The Carter payment floor would not change automatically after program startup.

For two-parent jobless families, federally mandated benefit levels⁵ are the same as for one-parent families except for the Ullman bill, where federal benefits are generally payable for only 17 weeks.

The Ullman bill provides smaller benefit increments for large families, and the Carter bill limits such increments to families with seven or fewer members.

Work incentives (see appendix, exhibits 3 and 4).—The Carter bill is the strongest overall in assuring adequate financial work incentives for assistance recipients, and the Subcommittee bill rectifies more work incentive problems than do the two "incremental" bills:

The Carter and Subcommittee bills eliminate the current income "notch" situations in AFDC whereby earning too much results in lower total cash income, but the other bills do not completely eliminate them (no bill eliminates the effect of the "notch" caused by loss of medicaid benefits when AFDC eligibility is lost).

Marginal benefit-loss rates of 70 percent or more for adults expected to work could still occur under all the bills except the Carter bill, which would hold loss rates to 52 percent.

All the bills expand the earned income tax credit⁶ to help offset high benefit-loss rates, ranging from a 20-percent offset under the Ullman bill to 10 percent in the Carter plan, but these credits only aid families with children, and their phaseout adds to effective tax rates over certain income ranges (adding 6 percentage points to the tax rate under the Subcommittee bill, up to 20 points under Baker-Bellmon).

Jobs (see appendix, exhibit 5).—The Carter and Subcommittee bills would attempt to provide a public service job for all adult family heads expected to work who could not find private jobs. The Ullman and Baker-Bellmon bills, while creating less than half the number of public service jobs, would fund enough jobs to cover most, if not all, AFDC-UF family heads. Only the Ullman bill relies on the states' WIN programs for job creation, the others using the CETA local prime sponsor network. The Baker-Bellmon bill also would make a major effort to facilitate employment of recipients and would-be recipients through employer tax subsidies.

Administration (see appendix, exhibit 6).—The Carter bill would merge these welfare programs into a new federally administered assistance system. While the Subcommittee bill would consolidate the three programs, all the bills except Carter's rely on state administration. Thus, the uniformity and efficiency of a centralized payments system would be foregone.

The Carter proposal to account for income over six months in determining benefits was replaced in the other three bills by tax recoupment of benefits for people with relatively high annual income. Recoupment of benefits would be at a 100-percent rate under Ullman and Baker-Bellmon when benefits plus adjusted gross income exceed certain levels (e.g., \$10,760 for a family of four). The Subcommittee bill simply subjects assistance payments to the normal income tax rates that would apply at different income levels.

All the bills except Baker-Bellmon require retrospective income accounting in determining benefit amounts to improve administrative accuracy. The Baker-Bellmon bill would give the states the option of retrospective vs. prospective accounting.

National policy implementation.—The Carter proposal would permit federal action to be translated directly into changes in income distribution or levels, economic incentives, and administrative practices for the low-income population. None of the other bills would facilitate national policy implementation to the same degree.

The House Subcommittee bill would likely result in state administrative control in most states, some states would have more control over the program parameters that determine recipients' work incentives, and more state supplementation of benefits would be likely. The Ullman and Baker-Bellmon bills require that states have administrative control and also give them a good deal of discretion

⁵ Benefit levels could be lower temporarily for several weeks of job search under the Carter and the Subcommittee bills until either a job is obtained or it is determined that no jobs are available.

⁶ A forthcoming Urban Institute study by Wayne Hoffman will analyze these and other options for modification of the EITC.

over program design, and local general assistance programs would remain completely outside federal influence under those two bills.

These factors would attenuate the thrust of federal policy changes. For instance, an increase in aid levels to boost spending or offset inflation might not be passed through in some states absent federal compulsion, such benefit changes might take longer to put in place with 50 state agencies responsible for them, and there would be no single program through which all low-income people could be reached under Ullman or Baker-Bellmon.

SUMMARY

Taking all the key factors into account—the adequacy of benefit levels, the assurance of adequate financial work incentives, administrative control at the level of government that bears most of the costs—my judgment is that President Carter's proposal is a good one that certainly merits serious consideration by the 95th Congress.

However, the welfare reform debate, despite its roots in the emotion of the 1960's, has now taken on the tones of a "good government" issue, a struggle to straighten out a bureaucratic maze of uncoordinated programs. The debate is no longer carried along by a "war on poverty" or a national movement toward greater social justice. Given this atmosphere and the continuing large federal budget deficits and great economic uncertainty, it is hard to sell a \$17 billion program reform, already raised to \$20 billion in the House, on the strength of bettering governmental performance, especially when other "good government" initiatives such as departmental reorganizations are perceived as nearly costless.

Since there are probably less than six months left for the 95th Congress, it seems likely that only the less controversial and less expensive bills (Ullman or Baker-Bellmon) have a chance of passage this year. Either could move quickly—Ullman immediately following Ways and Means action on tax legislation, Baker-Bellmon as an amendment to H.R. 7200, a bill that could be taken up in the Senate soon after the Panama Canal Treaty debate ends.

This view of political reality dictates only two choices for welfare reform advocates: (1) Work for passage of some version of Ullman or Baker-Bellmon this year; or (2) hold out for a fresh start with a more comprehensive bill next year. To me, the first option is the most promising. The 96th Congress should not be expected to view welfare issues in a different light than the 95th, and the 96th will end with a Presidential election campaign, during which welfare reform will not likely be a popular subject to debate. Reform next year would probably not be any more comprehensive and could get into greater political jeopardy. And any further delay will postpone implementation of better benefits and needed administrative improvements.

While there are provisions in the Baker-Bellmon bill I would like to see changed, particularly with respect to work incentives and the balance between benefit improvements vs. fiscal relief, the bill seems to offer a nucleus of good ideas around which a compromise could be built for welfare reform action this year. This approach moves toward several important reform goals and promises long-term improvements, but it moves cautiously in a way that should hold immediate controversy to a minimum. Broad political support for the Baker-Bellmon bill has already been demonstrated in the Senate. I hope the bill will help build momentum toward a compromise of sound reforms that can be passed this year.

APPENDIX: COMPARISON OF KEY FEATURES OF WELFARE REFORM BILLS

EXHIBIT 1—COST ESTIMATES

Comparable cost estimates have not yet been prepared for all four bills. The best information available is as follows:

Bill	Net costs, fiscal year 1982 (billions of dollars)			Source of estimates
	Total	Federal	State/local	
Carter	+13.9	+17.4	-3.5	CBO.
House subcommittee	+18	+20.2	-2.2	CBO.
Ullman	+5 to +8	+7 to +9	-1 to -2	Ways and Means staff.
Baker-Bellmon	+6.3	+9.3	-3	CBC.

¹ The version of the Baker-Bellmon proposal analyzed by CBO was somewhat different from the bill as introduced. The Senators' staff contend that the net Federal cost of the introduced bill would be closer to \$8,000,000,000.

All the bills would reduce state and local welfare costs by several billion dollars and increase net federal costs substantially, ranging from \$7 to \$9 billion for the Ullman and Baker-Bellmon bills up to \$17 billion for the Carter proposal and \$20 billion for the House Subcommittee bill.

EXHIBIT 2—BENEFIT LEVELS

The following examples compare federal benefit levels under the four bills:

ANNUAL FEDERAL BENEFIT FLOOR FOR RECIPIENTS WITH NO INCOME¹

Bill	Individual		Family of 4	
	Aged	Nonaged	1 adult	2 adults ²
Carter.....	\$2,500	\$1,100	\$4,200	\$4,200
House subcommittee.....	2,500	1,100	4,200	4,200
Ullman.....	2,314	624	4,200	4,080
Baker-Bellmon.....	2,334-2,614	624	3,404	3,404

¹ In 1978 dollars. Represents first stage of each plan. Total benefits would be higher in most States.

² If an adult is expected to work, level is \$2,300, but public service job at minimum wage (\$5,512) should be available if private job cannot be found.

³ Must be age 25 or older.

⁴ Food stamps only.

⁵ Federal floor is \$2,400 in cash plus \$1,680 in food stamps. The cash payment lasts only 17 weeks. This example assumes the State pays the remaining 35 weeks if the family head remains unemployed. If the State did not continue the payment, annual federal benefits would total \$2,739. AFDC-UF family heads would have top priority for available WIN public service jobs.

⁶ 55 percent of the 1977 nonfarm poverty line of \$5,815. The benefit floor would rise to 60 percent of the poverty line in 1982 and to 65 percent by 1985.

Benefit levels would be adjusted over time as follows:

Carter bill.—Benefits in 1978 dollars would rise with the Consumer Price Index (CPI) to the year the new system is implemented.

House Subcommittee bill.—Benefits in 1978 dollars would rise with the CPI each year indefinitely.

Baker-Bellmon bill.—The federal minimum required for the sum of AFDC and food stamps is 55 percent of the non-farm poverty line in 1981, 60 percent in 1982, rising to 65 percent in 1985 (the poverty line is adjusted each year for inflation). Food stamps and SSI would remain indexed as under current law.

Ullman bill.—AFDC plus food stamp benefits start at the minimum of \$4,200 (for a family of four) or current levels and, in addition to CPI adjustments, would move toward a target level for each state equal to 30 percent of a state's median income for a family of four. Food stamps and SSI would remain indexed as under current law.

Benefits would be restricted by family size as follows:

Carter bill.—No additional federal benefits would be available for family members beyond the seventh.

House Subcommittee bill.—No federal restrictions.

Baker-Bellmon bill.—No federal restrictions.

Ullman bill.—The AFDC portion of the federally required minimum benefit would not vary by family size, but the food stamp portion would vary as under current law.

Federal sharing in state payments or state supplements would be limited as follows:¹

Carter bill.—Federal matching of state supplements is limited to amounts up to 51.2 percent of the corresponding federal benefit level (limit is 12.32 percent for two-parent families).

House Subcommittee bill.—Federal matching of state supplements available up to the higher of current state payment levels or the poverty level.

¹ An important factor in state incentives to supplement federal benefits or increase matched payments is the promise of federal protection against certain future costs. These provisions are not addressed in this paper as they will be covered by another presentation to the Tax Foundation's April 17 conference.

Baker-Bellmon bill.—No upper limits on state AFDC payment levels or SSI state supplements, but federal matching for AFDC limited to levels up to the poverty line.

Ullman bill.—No federal sharing in state supplementation above required federal floor for AFDC payment levels.

EXHIBIT 3—IMPACT ON WORK INCENTIVE PROBLEMS

A careful analysis of the complex interaction of benefit reductions and taxes for all the bills in all circumstances is beyond the scope of this paper. Instead, the ways in which the different bills address the most crucial concerns about work incentives under current law are compared:

Work incentive problems under current law	Change to current law problems under reform plans			
	Carter	House subcommittee	Ullman	Baker-Bellmon
Income notches:				
AFDC eligibility.....	Eliminated.....	Eliminated.....	Eliminated.....	Unchanged.
AFDC-UF.....	do.....	do.....	Unchanged.....	Reduced.
Medicaid.....	Unchanged.....	Unchanged.....	do.....	Unchanged.
High marginal benefit-loss rates ¹ :				
AFDC and food stamps (77 percent).....	≤52 percent ²	≥70 percent.....	≥74 percent.....	Do.
General assistance (100 percent).....	≤52 percent ²	≥70 percent.....	Unchanged.....	Do.
Working poor worse off than welfare recipients.....	Corrected.....	Corrected.....	Reduced.....	Reduced.

¹ An income notch refers to a situation in which a person who earns an additional dollar becomes worse off financially than before (or becomes better off by more than a dollar upon losing a dollar of earnings) due to loss of benefits and tax increases. This occurs in AFDC generally due to income deductions available to recipients that are not allowed for applicants, in AFDC-UF (unemployed fathers program) due to the imposition of a limit on hours worked in determining continued eligibility, and in Medicaid due to the abrupt loss of all or a substantial portion of benefits when income exceeds a certain level.

² The combination of AFDC and food stamps results in a 77-cent benefit loss when earnings rise by \$1. Most, but not all local general assistance programs offset earnings increases dollar for dollar. What is shown here is the upper bound on loss rates for assistance benefits. In all cases, including current law, the earned income tax credit serves to reduce these loss rates over certain income ranges but increase them over others. Other tax provisions will serve to increase these rates under certain circumstances. This exhibit does not indicate how marginal benefit-loss rates other than the maximum amounts would change, nor does it indicate how average loss rates would change.

³ The 52-percent limit on benefit-loss rates applies to families with heads expected to work. A 70-percent rate could apply to other families in some States.

EXHIBIT 4—EARNED INCOME TAX CREDIT (EITC) PROVISIONS

Each bill would expand the role of the EITC, which presently is awarded when taxes are filed to filers with low earnings who have dependent children. The present credit is 10 percent of the first \$4,000 of earnings; it phases down from \$400 to zero at \$8,000 of earnings (or AGI) at a 10-percent rate.

The welfare reform bills would change the EITC as follows:

EITC FEATURES¹

Bill	Size of credit	Credit phaseout rate	Adjustments to credit amount
Carter.....	10 percent up to earnings of \$4,000, 5 percent up to maximum (\$9,100 for family of 4).	10 percent (phases out at \$15,650 for family of 4).	Maximum credit varies by family size up to size 7; indexed to CPI.
House subcommittee.....	12 percent up to earnings of \$4,200 for family of 4.	6 percent (phases out at \$12,600 for family of 4).	Maximum credit varies by family size up to size 7; indexed to CPI.
Ullman.....	20 percent up to earnings of \$5,000.	13.3 percent between \$7,500 and \$15,000.	None.
Baker-Bellmon.....	15 percent of earnings up to poverty line (\$6,200 for 1978 for family of 4).	20 percent (phases out at \$10,850 for family of 4 in 1978).	Maximum credit varies by family size up to 7 as poverty index varies; adjusted for inflation as poverty index is adjusted.

¹ All the bills would continue to restrict coverage to tax filers with dependent children. They would all make the EITC a part of income tax withholding to pay benefits on a more current basis.

EXHIBIT 5—JOB CREATION

Each bill includes provisions aimed at creating or stimulating employment opportunities for people who otherwise would be assistance recipients. The major provisions are compared below :

WELFARE REFORM BILLS

Jobs provisions	Carter	House subcommittee	Ullman	Baker-Bellmon
Number of public service jobs (millions), fiscal year 1982.	1.4	1.2	0.5	0.5
Program	CETA	CETA	WIN	CETA
Wage rates in public service jobs.	Up to 110 percent of minimum wage.	Indexed nationally by area; average <\$4.62 in 1981.	Minimum wage.	Prevailing wage in each area; average <\$3.75.
Target groups for jobs.	Primary earner in family with children except parent families with children under age 6.	Same as Carter bill, but must be eligible for cash assistance as well.	AFDC recipients.	(1) AFDC-UF heads; (2) other AFDC heads and long-term unemployed.
Employment tax subsidies.	None	None	Expands current WIN tax credit.	Employer tax credit of \$1/hour for new employees hired from AFDC, CETA, long-term unemployed. Wage subsidy of \$1/hour for 1 year for low-income people hired from AFDC, CETA, long-term unemployed.

EXHIBIT 6—KEY ADMINISTRATIVE FEATURES

The four bills include many different provisions regarding program administration. The following comparison highlights the most essential provisions :

Administrative provisions	BIB			
	Carter	House subcommittee	Ullman	Baker-Bellmon
Program consolidation	Merges AIDC, food stamps, SSI.	Same as Carter bill, but separate rules for SSI retained; residual food stamp program would continue.	Food stamps cashed out for SSI recipients.	States have option to cash out food stamps for SSI recipients, test cashout for others.
Level of administration for assistance programs.	Federal; States have option to administer client-intake process.	Federal or State at State option.	State	State; States encouraged to pick up local costs.
Income accounting	1-month retrospective, 6-month carry-over of "excess" income.	1-month retrospective.	1-month retrospective	State option for 1-month retrospective or prospective.
Taxation of benefits	None. (A separate proposal would make unemployment benefits taxable for persons above certain income levels).	Assistance payments counted in AGI for income tax.	If AGI plus AFDC plus food stamps exceeds a certain annual amount, AFDC plus food stamps are recouped in full (unless that would push the income total below the allowable amount). Unemployment benefits would be taxable income.	Recoupment of AFDC plus food stamps same as in Ullman bill.

Senator MOYNIHAN. The next witnesses before the committee will continue on the subject of fiscal relief and the local administration of the welfare program. We are fortunate to have a panel appearing on behalf of the National Association of Counties. There is not

a national group that has been more supportive and helpful in this field.

Now, Mr. Frank Jungas, who is the chairman of NACO's Welfare and Social Services Steering Committee and who is the commissioner of Cottonwood County in Mountain Lake, Minn.; Mr. Forrest Campbell, who is vice chairman for income maintenance and who is commissioner in Guilford County, N.C.; and Mr. Keith Comrie, who is director of the Department of Public Social Services of Los Angeles County. We welcome each of you, gentlemen. I am afraid, in the interest of time, we are going to have to ask you to keep your general statement to 20 minutes, if you could do that. Of course, your full statement will be in the record.

We are very happy to have you here.

STATEMENTS ON BEHALF OF THE NATIONAL ASSOCIATION OF COUNTIES BY FRANK JUNGAS, CHAIRMAN, NACO'S WELFARE AND SOCIAL SERVICES STEERING COMMITTEE, AND COMMISSIONER, COTTONWOOD COUNTY, MOUNTAIN LAKE, MINN.; FORREST CAMPBELL, VICE CHAIRMAN FOR INCOME MAINTENANCE AND COMMISSIONER, GUILFORD COUNTY, GREENSBORO, N.C.; AND KEITH COMRIE, DIRECTOR, DEPARTMENT OF PUBLIC SOCIAL SERVICES, LOS ANGELES, CALIF.

Mr. JUNGAS. Thank you, Mr. Chairman.

I am Frank Jungas, chairman of NACO's steering committee, and I applaud Senator Moynihan and Senators Baker and Bellmon for their initiative and foresight to keep welfare on the front burner and alive and well, so to speak. I also applaud Senator Long. We have had some discussions on welfare and where it should go and how the local should be involved.

I am just going to summarize my material and the gentlemen will do likewise, and then we will throw it open for questions and see if we can answer some of these questions as a local aspect to welfare reform.

Sometimes it worries me that we might just get interim changes and not any really major comprehensive changes, and that is one of my concerns. Some of the strategy, or what we are hearing right now is almost do nothing and wait and see. The counties cannot afford that kind of input any longer from Congress or from anybody in our association.

The counties' involvement in welfare has been now for many years and we have looked at the problem at the local level, and I want to guarantee the Senators here today that the counties are involved in welfare. We are well, alive, and kicking, even if our name isn't mentioned many times. It is cities and States, and they are forgetting that the county has a tremendous input. We have over 40 percent of the administrative welfare programs in this country that are done by the county level. Eighteen States have county-State partnerships. Fifty percent of the welfare recipients in these partnerships are under county-State, even if we are only 18 States; they are some of your larger, populous States where the county administers the program.

We are spending at the present \$7 billion of our local taxpayers' money to beef up these programs and comply with some of the demands and requests that we get from Washington or from our State capitals.

I will give you an instance of my own county. We are a small, rural, agricultural county. I have the problems just like New York, California, or anybody else, only on a very much smaller scale, of course, but we still have our problems. We had to increase our welfare budget last year 34 percent.

Senator MOYNIHAN. Thirty-four percent?

Mr. JUNGAS. Thirty-four percent, to keep up with the programs as mandated to us, on which we have hardly any input on the program. This is a 25-percent budget item of our overall budget for the county. We used to have under 10 percent a few years back to take care of our welfare needs.

I am not including health. If we would talk about health, that would put us up to the 50-percent bracket now that we are spending of county money for welfare or health. And remember again, all this money that we levy for this comes from the property tax of our constituents. I would say our property tax at this time, I know in my county and in the State of Minnesota, it is at the saturation point, and I am sure it is in other counties and cities in the State.

We want to make clear that today we are not only asking for fiscal relief for counties—sure, that is very, very important and we applaud you and thank you for everything that you have done thus far for us—but there have to be some very, very major revisions in the system in order to take care of our poor and our jobless.

Over the past 2 years, we have worked with HEW or DOL in the development of some kind of a program, and we are constantly working with them, and we offer our input to this committee and also to any other departments where we can furnish them information from the grassroots firing line, so to speak.

In concluding, I will emphasize again that we have to have a strong working partnership, I should say, between the Federal, State, and county governments, if we are going to solve the Nation's problems in welfare reform.

Now, I will turn it over to Keith Comrie on my left, director from Los Angeles County.

Senator MOYNIHAN. Mr. Comrie, good morning, sir.

Mr. COMRIE. Thank you very much. Good morning to you. It is a distinct pleasure to testify before you, Mr. Moynihan, and the other members of the committee.

You have a number of proposals that have been submitted. However, I think you have two extraordinary proposals before the Congress. We believe H.R. 10950 is exceptional, and we also believe the material you heard this morning is a parallel to that in many respects and has many fine features.

I would like to just comment briefly on what I consider the five key elements that any major proposal will have.

Senator MOYNIHAN. Mr. Comrie, may I just say, be succinct if you want, but don't be brief. You have come all the way from Los Angeles, and we want to hear you.

Mr. COMRIE. Thank you.

I will summarize the five key areas, and then I am going to concentrate on an area we all tend to overlook in what the real welfare problem is, and that is that 90 percent of the AFDC families are headed by women, and I have some pretty hard statistics for you in just a few minutes and a pretty tough article.

First, we think any major reform should have a series of "work incentives", so that it always pays to work, and it should have a mandatory work acceptance requirement as part of it. Now, we have all heard the terms that the current system is antifamily, antiwork in some respects. The antifamily element is clear, and you mentioned that this morning, Mr. Moynihan. You mentioned it very clearly, that when a father is told, if you lose your job and you have no other means of support, you must abandon your family. That can happen, and we don't think our welfare system should have that in it.

Second, in the antiwork element of it, every U program in the country has limits so that, in effect, a father, if he takes a 100-hour-a-month job at minimum wage may end up with less money than he would end up with just sitting on welfare. That is why we have to emphasize that work incentive and second, we have to emphasize a U-type program that keeps the families together. We cannot have a system that drives the families apart and then second, drives them apart by providing an incentive just to accept the welfare grant instead of work. In other words, supplement that work, if it is necessary, in the future.

Third, we think the system should have universal coverage and of course we would see that more strongly than any other level of government. We have the programs known as general assistance, general relief. We don't understand a system that aids people on the specific categories that now exist. For example, a single woman is not eligible for assistance. A single pregnant woman is eligible for assistance. We cannot justify that as being consistent in anyone's mind, as rational.

We think the general assistance category must be included. We think people should be aided based on need and not a family condition of some type. And when I say aided, I don't mean a guaranteed income; I am talking about the ability to get a job and support yourself.

The new system, we think, should be simple, and that is No. 4. You might have noticed in some of the early hearings on the House side a roll of forms that we pasted together. They were 70 feet long when we pasted the AFDC forms together. That is 100 pages of information.

When we say simple—one of the reasons they are that long is the duplication. I know it is a controversial issue, but part of that duplication is paying cash first and then food stamps second and taking separate applications in that process.

Senator MOYNIHAN. May I just say that the National Association of Counties had a welfare meeting here in Washington about 6 months ago, and they festooned a hotel ballroom with 70-foot lengths of the Los Angeles County welfare forms. The forms were used as banners which made it none too cheerful but rather dramatic.

Mr. COMRIE. By the way, that is not unique to Los Angeles or California; we found other counties doing the same thing, question-

ing what they have been complaining about and just pasting the forms together and they literally run from that end of the room to the other end just for a \$300 a month grant.

Senator LONG. Didn't your people suggest a simple little four-page pamphlet should be used together with a sheet where a person could add some additional information if he wanted to?

Mr. COMRIE. Yes, sir. We have submitted that to the President's staff. We found we could eliminate about 80 percent of the paper with a comprehensive reform like this to simplify it. You could simplify it dramatically.

Senator LONG. But even with the law you have got, couldn't you get by with about four pages plus about one sheet to add some additional information that might be relevant?

Mr. COMRIE. It would take an extensive pilot to do it. You would have to eliminate some of the duplicate benefits in the process, such as food stamps, to really make a big dent in it.

Last—and this is the one I need to emphasize, and this is where I think we are bringing some new information to the committee—we need to make an extensive effort to bring welfare mothers into productive America. We cannot continue the current system where they, effectively, are written off.

Now, let me concentrate on that. There are 10 million AFDC women and children who are now consigned to a life of poverty and isolation from the mainstream. In my county, 90 percent of the 600,000 AFDC recipients involve female-headed households. Typically, they are young to middle-aged women, abandoned by their husbands and in the current systems, are offered very little in finding work so they can support themselves and their children. I am sure that almost all urban areas have similar statistics.

To have, therefore, truly meaningful reform, we must target a significant portion of our efforts on this group.

Our current system and recent general improvement in the economy and job market have simply not significantly impacted the welfare mothers. For example, in the past 5 years, our national workforce has increased from 83 million people to 93 million people. We have created 700,000 CETA jobs. And finally, the number of jobs in our country has increased to the point that the average American family now has two or more wage earners. Fifty-three percent of the American families now have two or more wage earners; yet, on the other hand, we have substantially the same number of female-headed welfare families today as we did 5 years ago. Our system is simply not working for these people.

Many of these women have lost hope. In addition, this attitude is being transferred to their children and is causing a steady rise in what might be called transgenerational welfare.

Many of you may have seen the article that is attached to my testimony by Jimmy Breslin, dated March 1978, entitled "I Will Get Welfare, Have a Baby, Get a Pad." In essence, these young women were saying, I don't look forward to a future with a husband or a working partnership to better ourselves and our children. I only look forward to immediately getting pregnant so I can have my own welfare case.

I really don't believe this should surprise anyone, in that this is the only lifestyle many of them have ever been exposed to.

Now, let me add the cold, hard statistics to this article. Many people will say that that is just one article. Our most recent survey shows in my county that 37,000 of our 176,000 AFDC cases—and these are the female-headed cases, the FG's—are second-generation welfare families. This particular statistic should be very shocking when you view this in light of the fact that this last generation, the last 18 years—just 18 years ago, we had only 22,000 families on AFDC. We now have 37,000 second-generation.

These are typically young women, 15, 16, 17, starting their own family and going on welfare, not with a view toward work.

I therefore firmly believe that all of the five previously discussed elements are critical to a welfare reform package, but the most critical element is the fact that we must make a significant investment in our female-headed welfare families. Meaningful welfare reform must focus on these women, on bringing them into the mainstream by providing jobs and supportive services so they can get out and work and support their families. This is why I strongly support both the Carter-Corman package and the material we heard this morning was particularly impressive also.

I would like to just also emphasize the elements included in the Baker-Bellmon proposal, of vouchers, tax credit, earned income tax credits, are all extremely impressive and I think deserve very formal consideration by the committee.

I thank you for this opportunity and I will of course answer any questions after Mr. Campbell makes his comments.

Senator MOYNIHAN. Thank you, Mr. Comrie.

Mr. Campbell, good morning, sir, and would you continue.

Mr. CAMPBELL. Thank you, sir.

I have been a county commissioner for about 18 months, Mr. Chairman. I come from a county in the center of the State of North Carolina. At the present time, we have population of a little over 300,000. We have an AFDC caseload of 4,500 cases, which is fairly constant on each month basis, representing about 12,000 people.

I come here today to echo my colleagues' support of the welfare reform, and we applaud the approach that is being made in this area and the interest that this committee has taken to move this particular matter along.

In my statement, which I will summarize for you in the interest of time, there are two areas in which we are of great concern and that is, first, that we have a basic delivery system for jobs within the welfare reform program and second, that we have adequate relief for the fiscal requirements which are placed on us in that particular area.

I have included in the statement certain statistics to show that the counties or consortiums of counties are the main delivery and prime sponsors for the work program under the CETA program. I would like to refer at this time to some of the remarks that have been made with regard to the WIN program as compared with the CETA program.

In North Carolina, we were recognized last year by the Department of Labor as having the best WIN program in the Nation between the period of October of 1976 and July of 1977. I think that is somewhat a dubious honor in view of the fact that WIN was credited with producing welfare payments of about \$5.5 million in the State of North Carolina; but that represented only 45 of the 100 counties that had WIN programs in the State of North Carolina.

We have found great difficulty working under WIN because of this highly structured, detailed and complex program which allows for limited flexibility in working with the clients. The paper work is tremendous. Some examples of problems that we have are trying to get the clients approved for work is a most difficult and time-consuming process.

The objectives between the Department of Social Service and the WIN program and the Employment Security Commission are at odds. Employment Security is primarily interested in being successful and in providing the statistics to show that it is successful. Our objective is to try to motivate the client into getting into a job situation in which they can be productive. Trying to coordinate between the two is greatly difficult.

We often have clients over a period of months making between 10 and 15 trips between the two agencies, because they are not administered under one program.

We have hard-core unemployed people on our AFDC rolls. We do not have the AFDCU in the State of North Carolina. It was found to be too expensive when it was considered at the urging of many counties during the 1975 session of the General Assembly. It would have cost approximately \$3 million for the State of North Carolina, whereas the county, in that year alone, wound up spending something over \$1 million for additional assistance to families under the general relief provision of our welfare program in our county, simply to provide for those families who were still intact but were unemployed because of the recession.

Now, we have found that the CETA program, although not perfect, is by far a superior program to the WIN to administer and carry out. Our board of county commissioners recently authorized the Department of Social Services to utilize CETA employees as a tool for hiring low-income unemployed and AFDC recipients to assist in what we call a chore services program to keep elderly in their homes and to provide services to them. Within a matter of days, 27 of the 28 positions were filled by AFDC recipients. The remaining position was filled by a food stamp recipient. The redtape was at a minimum and we had one agency doing the hiring and developing the program and carrying out the eligibility of those interested employees. We have several more on the waiting list as more jobs become available.

We are also concerned with the impact of social services on these particular programs as more people are required to be placed in work. This is a great concern to us because of the additional cost, the dwindling of funds under title XX, and increased costs that we anticipate for serving the welfare clients who are then looking for or being placed in work. The increased demands on child care are great in our State and in our county, we have had to reduce the overall

services program because of lack of title XX funds and the unavailability of local funds to carry on this particular program at the level at which it had been funded.

We suggest that the respective roles of the employment system and the social services system be carefully defined so that the services related to eligibility and employment can be within the job system.

I think I would be remiss in my responsibility to the citizens of Guilford County if I didn't take the time now to ask you for some immediate fiscal relief. People in my county have reached an end to the point where they cannot afford to put the welfare costs on the local tax base any further. Inflation has outstripped our growth. We have had to call on our department to restrict its budget and to cut back, and this has been a hardship on services being provided to many citizens of our county.

We appreciate the opportunity to appear here and testify before you today. Thank you for this opportunity.

Senator MOYNIHAN. Mr. Campbell, may I just note that you have got some fiscal relief this year from this committee, and we hope to get you the other half of that this year and then, of course, next year. The portion for fiscal year 1977 was knocked out of the budget resolution, but we hope to get it back in. We will talk about that in a minute, but first, Senator Long.

Senator LONG. No questions at this point. Thank you, Mr. Chairman.

Senator MOYNIHAN. I would like to say, before asking Senator Hansen to speak, that Senator Hansen, you mentioned the negative income tax experiments in Seattle-Denver. On May 1, we will have persons from the Stanford Research Institute who conducted the study here testifying, so you will hear more about that.

Senator HANSEN. You have testified that you want the Federal Government to take over welfare, essentially, and you support the Carter-Corman bill, which will raise welfare costs by at least \$20 billion. Would you tell me how county government discharges its responsibility and maintains its vital role in the intergovernmental system by simply asking that it be stripped of responsibility in this area?

And a follow-on question. Who pays the \$20 billion? Are these not county-based taxpayers, as well?

Mr. COMRIE. Let me speak to that. We would like to look at the cost whether Baker-Bellmon costs or Carter costs as up-front costs to help people into the mainstream that aren't there, and there will be initial costs for that, but as Mr. Bellmon pointed out this morning, if the work initiatives work and people move and start in the productive mainstream with employment, they become taxpayers and their wages do move up; they do not stay at \$2.65 an hour. The wage rates in this country are moving rapidly. Then we would see the cost savings in the long run.

I know it is difficult when we propose something that has figures tied to it of \$8 billion, \$20 billion, and figures like that, although many proposals have been given here that could be phased in. You could target in a given area a certain number of jobs to begin with, for the AFDC mothers to help them out. You don't need to try to employ 176,000 the first year. You might try it with 25,000 or so.

Senator LONG. Could I just interject at that point?

Senator HANSEN. Yes.

Senator LONG. I guess you are aware of the fact that the Carter-Corman bill means another \$2 billion a year in taxes on the people of California.

Mr. COMRIE. Yes, we are aware of that.

Senator LONG. Whether you pay it to the Federal Government or the State government, it still comes out of their hide.

Mr. COMRIE. We would still like to look at some of those costs, no matter which bill it is, as up-front, that bring people into the mainstream that can't get in, and in the long run, the costs would go down.

We went, in the figures that I mentioned in my testimony, from 22,000 families sitting there on welfare to 176,000 in 18 years. That is a burden on this society, but it is a bigger burden on those families who are now giving up and not looking to a life of work but looking to a life of welfare. That is a mistake on our part. We need to correct that.

Senator LONG. Let me just ask one more question, if I might. If anybody came to you—and suppose you had the money. You were a private citizen, and you had enough money where you could help people if you wanted to. Some person came to you in distress and had a child and needed some help for that child and you gave her some help temporarily to get herself straightened away. If that person was capable of finding a job somewhere, if she was capable of getting a job, would you just propose to pay that person out of your pocket forever—that is, to pay her for doing nothing forever?

Now, if not, then why would you want to pay the taxpayers' moneys out to pay that person for doing nothing indefinitely?

Mr. COMRIE. We wouldn't propose that at all. In fact, we would propose a system so simple that they would be offered a job at the front door and they wouldn't need the welfare. They would be offered employment so they could support themselves.

Senator LONG. Now, I guess you know that the Carter-Corman bill says that up until the child is 6 years of age, she is not expected to work, and that she is privileged to turn down the job and live comfortably up until the child is 6 years old. Now, do you favor taxing the people of California \$2 billion a year to bring that result about?

Mr. COMRIE. I do not personally agree with that segment of the Carter bill. I believe some of the most employable women are the young women at 18, 19, and 20, when they have their first child, that they can be trained readily right then and they should not be exempt from work registration and a work requirement, but that was a compromise in the Carter package that set it at age 6. I would agree with a much lower age, personally.

Senator LONG. My thought is that you ought to try to provide good day care help, but once you have got somebody to look after the child, if she has got a job available to her, she ought to take it and ought to do something to help.

Mr. COMRIE. I would agree with you totally, and I think that is a very employable group that the Carter package overlooks and that when a woman just has one child, she can move out and become productive quite rapidly.

Senator LONG. Let me say to you that that is the point at which I parted company on the Carter-Corman proposal; that for starters, if you can find something for the lady to do, she ought to take that opportunity, and we ought to work with her to have somebody look after the child.

Now, one place you could put her to work with that child would be to create a position right there in a day care center, where she can take the child to a day care center, give her a half-day's work in that day care center. Instead of hiring one person for \$12,000 a year, presumably a displaced schoolteacher, hire that mother herself and hire another mother, each of them for a half day, at \$6,000 a year. Take both these two families off welfare, and they are doing something useful. They are not only looking after their children; they are helping other people look after theirs.

Now, that is the type of approach it seems to me we ought to use to get people out of dependency, not put more on it.

Mr. COMRIE. We would agree with you and I think sometimes in our debate, we become too close to the situation. That is what these people want. They want real mainstream jobs; they want to support themselves. They don't want to be paid to sit idle. They don't want to be locked out of the mainstream.

Mr. CAMPBELL. Senator, the 28 that I mentioned a while ago suddenly went from an average of \$200 per month for a family of 4 to a little over \$400 a month, so at that point, they became ineligible for additional assistance from our department. So we were able immediately, through the jobs program, to relieve these people of AFDC assistance.

Senator LONG. Furthermore, in every State of this Union, in every small city as well as every big city, you have old people who don't want to go to a nursing home or where there is not a nursing home reasonably available to them, where you need to find somebody to come in and help those old people around the place a little bit, do a little housework and kind of help. A lot of it in some cases is just to find somebody to come spend some time with them, do a little housework and help prepare some food, something those people are thoroughly capable of doing.

When you go out trying to find somebody to help those old people, you would almost think you need to hire a private detective agency to go find somebody to help, even though you have got plenty of people on those rolls. I see you all smiling; you know what the problem is. Now, it is hard to do.

But those old people who have worked awfully hard during their day get to where they are old, a little feeble, and to try to get somebody to stay with them, just spend a few hours a day with them, is hard to do. I think you are all aware of that, aren't you?

Mr. COMRIE. Yes, sir.

Mr. JUNGAS. Yes, sir.

Senator, I wanted to reemphasize that, we might say, that we agree with the Carter-Corman bill at the present time, but like I said before, NACO is well, alive, and kicking, and we are going to be in there with many amendments to try and change it so it is more applicable to our situation.

And for goodness sake, I am pleading with you, when we say put a mother to work in a day care center, I agree 100 percent with you, but don't put so damn many regulations on there that she has to have a college education and that she has to have a room so many square feet, and that she has to have a stainless steel sink with three compartments with different temperatures of water, and she has to have a door that is 42 inches wide; otherwise she can't do it. [General laughter.]

That is what we are facing on county government, and we are saying, simplify it. Give us back some of our authority, and we will get the job done. I grant you that.

Senator HANSEN. I would like to add amen.

Senator MOYNIHAN. Senator Hansen.

Senator HANSEN. I thank you, Mr. Chairman, for your very relevant observations in the questions you asked. I know we are all trying desperately to find better answers than we have come up with so far. I remember there was a promise of savings made when the unemployed parent component came into being in 1962, but I think the record discloses that no savings resulted.

I would ask if you favor trying a pilot project to prove the efficacy of an idea that is presented and is lauded as being surefire, guaranteed to reduce costs and put people to work?

Mr. COMRIE. There are many elements of both of these bills, particularly the employment elements, that could be started in a single place or even not just on a pilot, even nationwide, I think, with very little risk, and particularly the private employer, the voucher system there is very interesting to us, if you wanted to try that in one regional area.

Mr. CAMPBELL. I think the authority is already available for doing that, Senator, under the CETA bill, but has not been used to any extent during the period of time that that has been in existence.

Senator HANSEN. You, too, would support trying some of these programs out on a pilot basis?

Mr. CAMPBELL. I think to a large extent, we are trying them on that basis.

Senator HANSEN. Are these ideas that are in these bills being tried out now on a pilot basis?

Mr. COMRIE. Some in limited extent; like the earned income tax credit is there to a small extent, the voucher system is possible through CETA for the unproductive period, but it is not as simple a thing. Paralleling what Frank said, let's keep it simple. I talk to a lot of private employers, and they talk about certain incentives and how to hire welfare recipients, but they end up with so many forms, it looks like our welfare forms. It has to be simple and straightforward, and that is what is so impressive about Mr. Bellmon's and Mr. Baker's discussion of the voucher, of just subsidizing a dollar per hour for the first year.

Senator HANSEN. I gathered from what Senators Bellmon and Baker said that the concepts in their bill are not presently being tried out nor are they in effect anyplace in the United States. Isn't that right?

Mr. COMRIE. Not that straightforward approach, where they just tell an employer, if you hire an AFDC recipient, you get a dollar-

an hour for the rest of the year for that person. They are not that simple. They are only partially there.

Senator HANSEN. I have one final question, Mr. Chairman. I was a county commissioner for 8 years. We had the rather unique distinction of being in a county that was about 97 percent federally owned, and I can empathize with you and your concerns about getting some of the burdens off of county government.

But with the Federal deficit being what it is, is it your feeling that we will move forward simply to relieve the counties of some of the fiscal burdens and add these burdens to the Federal Government? Is that what you are saying?

Mr. CAMPBELL. We feel like this is a national problem, and it ought to be addressed that way. The capability of the Federal Government to keep aggressive in its tax collection is far greater than it is on the local level, where we are relying almost totally on the property tax as our base.

If you haven't been out in some of the areas of the country where the tax revolt is going on, it is something to behold, and it is becoming that way in North Carolina, which I had not anticipated we would be in that shape but we are.

Senator HANSEN. If the Jervis plan should be adopted by California voters, would you be willing to assume a proportionate share, insofar as Federal tax contributions go, to help make up what may be the shortfall in California, in the State of North Carolina?

Mr. CAMPBELL. I don't think we would probably have any choice.

Senator HANSEN. I have no further questions.

Senator MOYNIHAN. I have just two questions. First of all, gentlemen, who makes it complicated for you? You speak as persons close to your work. Who makes it complicated?

Mr. JUNGAS. We come to Congress or we come to our State legislators, and we help lobby for a bill that looks good. The concept is great, it is workable. But then it gets into a department's hands, and from there on, God knows who. They never ask us any further what kind of an input we would have with this kind of legislation, or they haven't been—I should say that. That is where it goes awry.

I know some of you Senators and some of the Senators I have spoken to in my own State legislature have said, well, we never even dreamed that bill was like that, you know, when you tell them how it is finally working out. I think we have to get back to the department heads and get some good commonsense thinking. We have to have input from the local grassroots level where this program is going to be workable because we are right down on the firing line out there; we know what is going on. We are right there at the telephone, and if something goes wrong, bingo, my phone practically rings off the wall every day. I told my wife I was going to try to put a button on there, when I came in the house, to shut it off for a while, so I could have a little privacy.

But I have asked for the job and I am in there fighting. That is why I say the counties are in there fighting and we aim to get some kind of welfare reform through, if not this year—we are not giving up on this year, but don't get me wrong. We are fighting, but in the future, the long-range form has to have some kind of a good welfare reform if this country is going to get back on its feet.

Senator MOYNIHAN. I couldn't agree more, sir. Let me say in this subcommittee, we have taken to referring to HEW as the "thing". It is over there, and it has been said that it is out to get us all. We must be reminded that simple and seemingly workable arrangements have been adopted before, only to be turned into three compartments with different temperatures of water and a 48-inch wide entrance, et cetera. Ours could be, too.

Somehow, we have to realize—it is no longer excusable to be surprised—that the bureaucracy messed it up; we must anticipate and maybe even raise their level of consciousness. If we were to pass this bill, we should probably put a restriction on the amount of money that can be spent to administer it. We should really seriously think about it, because overspending is a tendency that no Secretary of HEW or President, for that matter, has ever been able to resist.

I would like, first of all, to say to Mr. Comrie, those were extraordinarily vivid statistics you gave us about Los Angeles County. One of the things that is so troubling is that as this situation has become more pronounced, it has become more difficult to speak about it. You are the first person, sir, in what is now almost a year of hearings even to raise this central, most conspicuous subject of all.

I wrote a book with Leslie Lenkowsky about 5 years ago about welfare, and I had a passage in it in which I said, "A case could be made that the welfare system institutionalizes the exploitation of women." This would be my view. And yet, how little interest there seems to be in this possibility, that welfare institutionalizes the exploitation of women. But no one seems to know how to talk about it.

Do you really suggest by your data that there is a transgenerational effect in this program, and the age of childbearing becomes younger, and the expectation of dependency is in fact there?

Mr. COMRIE. Very simply, we have neighborhoods that have up to 50 percent of the neighborhood on welfare. They have never seen their mother work, they have never seen their father work. They drop out of school because they see no need for the school. They can get a limited amount of independence by applying to the welfare grant that was referred to there. They have no role model and what has been interesting, in recent years, the academicians are starting to look at it—that role model is critically important. They have to see a mother and a father working and supporting themselves, and it doesn't exist. It just doesn't exist.

Senator MOYNIHAN. What they do is what they have seen done, which is the way most children learn. If they have only seen welfare, they come to think of welfare as what you do.

Mr. COMRIE. Exactly. If they have never seen what the job environment is, they have no role model. They have nothing to pattern themselves after, and in many of these neighborhoods, they have no idea what a job is, and they have been beaten down like their mothers have in some cases; they have no hopes that they will ever have a job, so they give up. That is why we have to have a system that emphasizes not welfare reform, jobs reform and that opportunity.

Senator MOYNIHAN. This committee, long before I was on it, was saying this, and it began saying this in the fact of really not very

attractive opposition from a certain element in the profession. It is only very recently that one has even dared to talk this way. Fifteen years ago, to talk jobs was to talk repression, or to think of being punitive.

One thing I daresay the women's movement has done has been to make unemployment not just something you can talk about but something you can demand. Just 10 years ago to say, now, we ought to have jobs, was immediately stigmatized as a punitive action. I thought your statement that the persons most able to get work are perhaps those with the youngest children, was impressive. I don't want to speak with any real competence on that, but I know I remember when our first child was born, my wife worked for a little bit and paid for the crib, as it were. Anecdotal information is not much help here, and yet the notion that there should be a prolonged period of dependency on welfare may not be a very good idea.

Mr. COMRIE. I can't agree more and I think you hit it right on the head; I think it is the women's movement that has made it more acceptable to talk this way, and that you would have been considered punitive if you mentioned this before. And yet, if you go to the front line, if you go to my community meetings, the reaction in those meetings from the young women and the middle-aged women is, get me a job. That is the primary source of our discussions continually, and it has been for years.

But certain advocates in a certain field in the profession would turn on you and say, oh, no, you are being punitive, you shouldn't talk that way.

Senator MOYNIHAN. It is very interesting. Those people who tell us that you mustn't get jobs for these other people, they all have jobs themselves, don't they? And rather good jobs? They have a job that says to others, don't get jobs.

Well, we do thank you very much. I would like personally to testify that in the more than 10 years, or almost 15 years that I have been involved in this matter, there has been one level of government and one level of organization that has never failed to be there, competent and concerned and careful, and that is the National Association of Counties. I just want to say that I hope you are proud of what you have done. I wish more people knew it.

I particularly thank you, Mr. Chairman.

Mr. JUNGAS. Thank you.

[The prepared statements of the preceding panel follow:]

TESTIMONY OF FRANK JUNGAS, COMMISSIONER OF COTTONWOOD COUNTY, MINN., ON BEHALF OF THE NATIONAL ASSOCIATION OF COUNTIES¹

Mr. Chairman, members of the subcommittee, I am Frank Jungas, Commissioner of Cottonwood County, Minnesota, and chairman of the welfare and social services steering committee of the National Association of Counties (NACo). I am accompanied by Forrest Campbell, Commissioner, Guilford

¹ The National Association of Counties is the only national organization representing county government in the United States. Through its membership, urban, suburban, and rural counties join together to build effective, responsive county government. The goals of the organization are: to improve county governments; to serve as the national spokesman for county governments; to act as a liaison between the nation's counties and other levels of government; and to achieve public understanding of the role of counties in the federal system.

County, North Carolina and vice chairman for income maintenance and Keith Comrie, Director of the Los Angeles County Department of Public Social Services.

We appreciate this opportunity to testify, because NACo has worked long and hard to get comprehensive welfare reform enacted. Welfare reform is the number one legislative priority of NACo.

We also applaud the efforts of Senators Moynihan, Baker, and Bellmon to do something about welfare reform in this Congress, while the House seems to be in a holding pattern. Due to these delays and the high cost of true reform, the debate has inevitably shifted to an incremental-changes-or-nothing-strategy. NACo continues to support comprehensive reform for reasons I will explain in a few moments. First, however, let me review some facts concerning counties and welfare programs.

County governments in the United States have greater involvement in welfare programs than is generally understood. Forty percent of all counties in the nation directly administer welfare programs and must tax the local property taxpayers for the county's share of required federal matching. Eighteen states still have county administered programs, including my own state, Minnesota. Since the most populous states like New York, California, and Ohio are among this group, over 65 percent of all the federal welfare costs and approximately 50 percent of the welfare recipients are in states where counties run the programs. In those states counties bear a share of the cost of AFDC ranging from .5 percent to 50 percent. Many county governments across the nation are in trouble due to the rising costs of federal medical and welfare costs over which the counties have no control or policy making power whatsoever. In my own county we have had to increase the budget 34 percent to cover program costs. The health and welfare costs are now 25 percent of the total budget; and it is worse in other Minnesota counties.

Besides funding and running welfare programs that we have no say in, our county welfare departments have to cope increasingly with the problems of unemployment. People on welfare who can work and want to, can't get off because there are no jobs or training. People who did work and support their families find that in extended periods of unemployment, the only place to turn is welfare—an already complex and overburdened system which can't help them effectively.

So NACo proposed two basic reforms that are incorporated in the Carter-Corman bill: (1) A work security and job creation program for persons who can work, with wage supplements for those whose earnings fall below a federally established minimum; and (2) A simplified, consolidated income assistance program with uniform federal benefits for persons not expected to or not able to work. In each program, eligibility would be based on need and income, so that single persons and childless couples would be included.

From this two-pronged program we hope to achieve a more fair and rational program of jobs and support for the needy; and a more fair and rational distribution of the dollars that fund it. Without going into which level of government should administer the programs, the counties propose that a greater federal share of costs is essential in order to achieve a rational jobs and welfare system that would be fair to all the states and that will lift some of the burden off local governments.

The annual cost to county government for welfare programs including general assistance exceeds \$7 billion, which is funded entirely from property taxes.

As you can see from these figures the current cost of welfare programs and their impact on county government is staggering. This along with a desire to see a more humane and efficient system for the delivery of welfare services is why welfare reform is NACo's number one legislative priority.

But I want to make it very clear to this subcommittee that welfare reform is not just a fiscal matter to us. We want major revisions in the systems that serve our poor and jobless constituents. We want a jobs and welfare system that better serves the needs of recipients.

Over the past two years we have worked closely with DHEW and DOL in the development of the Administration's proposal and with the House Subcommittee on Welfare Reform. Of the several welfare bills now before us, we support HR 10050 as the most responsive solution to our problems.

In a legislative conference last month, NACo's welfare policy makers reaffirmed our stand for comprehensive welfare reform. These are elected county

officials and welfare directors who can fully appreciate the political difficulties and the widespread skepticism about the possibility of comprehensive reform in this Congress.

Yet we have had fifteen years of scotch tape and band-aids without significant progress toward getting people into the mainstream and off welfare. We are not ready to settle for half a loaf.

However, NACo's approach to comprehensive reform recognizes the need to phase in key elements of the overall policy. I want to mention a few elements which can and must be enacted now, without jeopardizing comprehensive overhaul of the cash assistance system:

1. *Jobs*.—Making jobs available to persons able to work and requiring them to work instead of receiving welfare, is an essential first step in either comprehensive or incremental reform. All of the bills now before Congress increase the number of job slots and emphasize targeting jobs to welfare recipients.

2. *Expanding the earned income tax credit*.—Each of the bills before you would utilize the Earned Income Tax Credit (EITC) to a greater degree.

We support use of expanded EITC to supplement the wages of families that would otherwise be eligible for welfare. The EITC proposed in Congressman Ullman's bill appears to be the best choice but it would have to be amended to provide adjustment for family size and cost of living increases, as in the Baker/Bellmon bill.

3. *Job Credits*.—The job credit/job voucher approach contained in Baker/Bellmon could help to secure jobs for welfare recipients and ought to be enacted as a beginning step for jobs creation in the private sector. Job credit plans in the various bills favor either small businesses or larger industry. A combination plan should be worked out so that both large and small private employers will utilize job credits to hire welfare recipients.

4. *Fiscal relief*.—Immediate fiscal relief is basic to any welfare reform legislation. NACo supports the \$400 million in the House Budget Committee recommendation for fiscal year 1979 and urges similar action from the Senate.

NACo has been very insistent that welfare reform must include immediate fiscal relief. We can not wait until fiscal 1981. The viability—indeed the existence—of county governments is deeply threatened by the increasing costs of federal welfare and health programs which the citizens and elected officials of those governments are powerless to control. We need federal intervention and greater federal cost sharing to put these costs into proper perspective.

We believe that the fiscal provisions for welfare reform should include a simple straightforward formula for federal-state sharing of costs, and for fiscal relief, distributed on some reasonable basis such as the revenue sharing formula or percentage of welfare caseload; and, a clear and continuing hold harmless provision so that states are not left with passing on greater costs to local taxpayers after the program is in place.

I look forward to answering questions after you hear from Mr. Comrie and Mr. Campbell.

STATEMENT OF KEITH COMRIE, DIRECTOR, LOS ANGELES COUNTY DEPARTMENT OF PUBLIC SOCIAL SERVICES ON BEHALF OF THE NATIONAL ASSOCIATION OF COUNTIES¹

Mr. Chairman and members of the subcommittee: I am Keith Comrie, Director of the Los Angeles County Department of Public Social Services. I very much appreciate this opportunity to present to you my views on welfare reform legislation.

As you know, several major welfare reform proposals have been introduced during the past nine months. There are many favorable provisions in each of the major measures. However, I believe to be truly effective such legislation must include all of the following five key program elements. I believe the Carter-Corman legislation comes substantially closer to meeting all of these needs than any of the other proposals, and I therefore continue to strongly support it. The

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primary difference between the Carter-Corman legislation and the other major proposals is a significantly stronger effort to help current female-headed welfare families into the mainstream through employment. I will speak in detail on this issue later in my presentation. Now, briefly, here are what I believe are the five key program elements needed in welfare reform:

(1) A series of work incentives so that it always pays to work. Currently, in most states when a father takes a job, no matter what the pay, he and his family are taken off aid. The system is, therefore, decidedly antiwork in that in many cases it pays more to stay on welfare than to take a job.

(2) Intact families must be eligible for assistance. Presently, in some states an unemployed father must desert his family before they can receive assistance. The current system can therefore rightfully be called anti-family.

(3) The system must have universal coverage so that persons are aided based on need rather than family or other situation. The current system has serious voids because some citizens do not fit into the various federal categories. For example, a single woman is not eligible for help; however a pregnant single woman is eligible.

(4) The new system must be simple, with benefits paid in cash without the expensive and administratively complex in-kind supplements such as food stamps. In-kind programs which categorize people as welfare recipients tend to contribute to feelings of isolation from mainstream America. In addition, I believe that welfare recipients spend their money just as wisely as non-welfare families.

(5) Extensive efforts must be made to bring welfare mothers into productive mainstream America. We cannot continue to tolerate the current system where they are effectively written off.

Let me now concentrate, as I mentioned earlier, on what I believe is the key element needed in a truly comprehensive welfare reform package. We must focus on the plight of our primary caseload—the 10 million AFDC women and children who are now consigned to a life of poverty and isolation from the mainstream.

In my county, approximately 90% of the almost 600,000 AFDC recipients involve female headed households. Typically, they are young and middle aged women, abandoned by their husbands, and in the current system are offered very little help in finding work so they can support themselves and their children. I am sure most urban areas have similar statistics. To have, therefore, truly meaningful reform we must target a significant portion of our efforts to these women.

Our current systems and recent general improvement in the economy and job market have simply not significantly impacted our welfare mothers. For example, in the past five years our national workforce has increased from 83 million to 93 million persons. Also, 700,000 CETA jobs have been created. And finally, the numbers of jobs in our country has increased to the point that the average American family now has two or more wage earners (53% of our American families have two or more wage earners). Yet on the other hand we have substantially the same number of female headed welfare families today as we did five years ago. Our system is simply not working for these people.

Many of these women have lost hope. In addition, the attitude is being transferred to their children and is causing a steady rise in trans-generational welfare. Many of you may have seen the Jimmy Breslin syndicated (March, 1978) article entitled "I Will Get Welfare, Have a Baby, Get a Pad." In essence, these young women were saying, "I don't look forward to a future with a husband or a working partnership to better ourselves and our children" . . . "I only look forward to immediately getting pregnant so I can have my own welfare case." I don't believe this should surprise anyone in that this is the only lifestyle many of them have ever been exposed to. Let me now add cold, hard statistics to this article. Our most recent survey shows that in my county 37,000 of our 176,000 AFDC-FG cases are second generation welfare families! This particular statistic is particularly shocking when viewed in light of the fact that 18 years ago our AFDC caseload totaled only 22,000 families.

I therefore firmly believe that although all of the five previously discussed elements are critical to a welfare reform package, the most critical element is the fact that we must make a significant investment in our female headed welfare families. Meaningful welfare reform must focus on moving these women into the mainstream by providing jobs and supportive services. This is why I strongly support the Carter-Corman package in that it forthrightly takes on this issue.

Thank you very much for this opportunity to testify. I will, of course, answer any questions you might have.

THE TEEN SCENE IN NEW YORK

'I'll Get Welfare, Have a Baby, Get a Pad'

BY JIMMY BRESLIN

NEW YORK—She was working in the kitchen, but she was making as little noise as possible because she wanted to hear the conversation coming from the living room, where her 14-year-old daughter sat with one of her girlfriends.

"School's dragging me down," one of the girls said.

"I told my mother. This is the last time I'm going to school," another girl said.

"What are you going to do next year when you're not in school?" one of them asked.

"Guess I'll have a baby."

"Me, too."

"Hey, we can have the babies at the same time. Be pregnant together."

In the kitchen, the mother was shaken. It was the housing project, she told her self, there is no way to bring up a daughter if a parent. The mother is divorced and works as a secretary in a small law office, but the building in which she lives is 24 stories and has many residents on welfare. And the pressure from police is one on the bottom of life is constant.

One of the daughter's girlfriends, age 11, was pregnant already. The pregnant girl's mother said it was all right for the daughter to have the baby this time. There had been an abortion at 13. But now, at 14, it was fine if the girl wanted a baby. And the girl certainly did want it, the woman said.

That night, the mother who was listening from the kitchen told her daughter to pack her clothes. She was taking the daughter to live with relatives in Detroit. The family had come out of Mississippi, in shocks that had no lights or water. But never, while growing up, had the mother heard of illegitimate births being desirable.

When she arrived with her daughter in Detroit, she found her sister-in-law's daughter, who was 14, holding a baby. A niece also was pregnant. She brought her daughter back to New York with her.

She instructed her daughter to stay away from these young girls in the project who kept talking about brooming around. But there is a way to cheer children in a housing project. Her daughter went to school with all the other girls. If the mother, arriving home from town work, chased away the children, it was a meaningless gesture.

And the real estate listings for her apartment had been moving in and out. The fact would be different. When she was coming home from work, the girl would sit with one of the girlfriends

girlfriends, who was barely 15. The girl was wearing a maternity top.

"I'm going to have a baby and get a pad of my own," the girl said proudly.

Then her daughter began to talk about it openly. "I want to have a baby," she said one night.

"Why?" the mother asked.

"I want something of my own," the daughter said.

"Well, who's going to pay for this? I'm a working woman. You don't get a coat from me."

"I'll get on welfare when I have the baby, and get my own pad," her daughter said.

In New York, illegitimate births rose from 29,200 in 1974 to 33,715 in 1976, the last figures available. In cities around the country, the rate of illegitimacy runs from a low of 36.5% in Detroit to 44.5% in Washington, and those statistics are two years old.

As the mother found in her New York housing project, these figures do not stand for accidents or ignorance. In many places today, the daughters of the poor received pregnancy as

Jimmy Breslin writes a syndicated column, and is the author of "Hiss the Good Guys Please, by Way."

the way to welfare, and welfare as the way to lives of their own. There is no other dream where they live. And in Washington, of course, ideas of welfare reform, job training and jobs have been put aside. Men in power prefer to argue about the use of federal funds for abortions.

Meanwhile, young fathers walk about junior-high and high-school hallways with a particular swagger.

The mother heard a group of the young boys talking one day.

"I have one baby," one of them said.

"I have two babies," another said.

One of the boys called for her daughter occasionally. The mother chased him away, but he kept coming back.

The mother asked a neighbor, "What does that boy do?"

"He wears clothes," the neighbor said.

The mother checked on her daughter's movements, and kept questioning her. "Do you have your period?" the mother would ask. And the daughter would answer, "Yes."

Two weeks ago, she asked her daughter the question, and the daughter stood in the middle of the kitchen and smiled.

"No, and I don't think I'm going to have it."

"Are you pregnant?" the mother asked.

"I guess I am," the daughter said. She said it proudly.

"It doesn't matter, because you're going to have an abortion," the mother said.

The daughter ran out of the house. She took her girlfriends, who took her to a city hospital. The daughter reported that the mother had assaulted her, and that she was pregnant and wanted to have the baby. The daughter told the social worker at the hospital that she wanted to find a home to stay in while she completed her pregnancy.

When the social worker contacted the mother and found the story to be a lie, the daughter was sent home. The daughter did not arrive. The mother found her two days later in the apartment of another 15-year-old.

"We're both pregnant," the daughter said, crying as she went to the hospital.

The mother took her daughter by the hair and pulled her out of the apartment. When the daughter started to shriek, the mother clapped a hand over her mouth so that her cries wouldn't attract the city's juvenile police.

Two days later, she took her daughter to an abortion clinic on 41st Avenue in Long Island City. Her daughter was crying. She said she wanted to have the baby and go on welfare and get an apartment of her own. The mother held her by the arm all the way to the clinic.

On the sidewalk outside the clinic, two middle-aged white men in business suits and good overcoats were distributing tracts. When they saw the mother and daughter, they came over to them.

"Are you this girl's mother?" one of them said.

"Please leave us alone," the mother said.

"Are you simply going to allow this girl's baby to be murdered in there?" the man said.

"Leave us alone," the mother said.

The other man said to her daughter, "Do you realize that they're going to murder your baby?"

The mother pushed her weeping daughter into the clinic. She heard one of the men yelling at her. "You're murdering your own grandchild."

The abortion clinic was crowded with young white girls and their boyfriends. Her daughter was the only black, and the only one crying about having an abortion. The mother paid \$150 of her own money for the clinic.

When the abortion was over, her daughter, full of tears from a nightmare, said to the doctor, "I won't have any more children like this."

LOS ANGELES TIMES -- MARCH 1, 1978

STATEMENT OF FOREST CAMPBELL, COMMISSIONER, GUILFORD COUNTY, N.C., ON BEHALF OF THE NATIONAL ASSOCIATION OF COUNTIES¹

Mr. Chairman, members of the subcommittee, my name is Forrest Campbell, County Commissioner of Guilford County, North Carolina. I am Vice Chairman of the Committee on Income Maintenance of the Welfare and Social Services Steering Committee of the National Association of Counties.

I am here today to echo my colleagues' support for action on welfare reform. We applaud the approach to make work always more profitable than welfare and to insure that a private or non-subsidized public job will always be more profitable than a special federally funded public service job.

¹ The National Association of Counties is the only national organization representing young county government in the United States. Through its membership, urban, suburban and rural counties join together to build effective, responsive county government. The goals of the organization are: to improve county governments; to serve as the national spokesman for county governments; to act as a liaison between the nation's counties and other levels of government; and, to achieve public understanding of the role of counties in the federal system.

BEST AVAILABLE COPY

We support the reliance on CETA as opposed to win as the basic delivery system for the jobs side of welfare reform.

As you know, Mr. Chairman, counties are the primary deliverers of employment and training programs in this country. Data for fiscal 1977 clearly demonstrates that fact:

FISCAL 1977 DOLLAR DISTRIBUTION BY TYPE OF PRIME SPONSOR

Type of prime ¹	Number	Percent of total prime sponsor	Total dollars (titles I, II, VI and summer) (million)	Percent of total dollars
Single county.....	181	40.6	2,119	19.8
Consortium.....	141	31.6	2,994	28.0
City.....	65	14.6	2,053	19.2
Rural CEPS.....	4	.9	48	.4
Statewide consortia.....	11	2.4	382	3.5
Balance of State.....	44	9.9	2,951	27.6
Indians ²			158	1.5
Total.....	446	100.0	10,705	100.0

¹ Prime sponsors are only those designated under title I.

² One Indian prime sponsor is designated under titles II and VI and is eligible for II and VI funds.

We have enclosed two charts which provide this subcommittee with a review of CETA success in fiscal 1976 and for the first nine months of fiscal 1977 when compared with client characteristics of the unemployed labor force and previous MDTA and EOA programs. We would be happy to review this data with you.

While NACO considers H.R. 10950 as a positive step which can and should be built upon, we would like to discuss our reservations about title II of the bill. These reservations include:

Lack of clarity as to what initiatives will occur to create jobs in the private sector for welfare clients;

A lack of a guaranteed job for all eligibles expected to work similar to the guarantee for cash assistance; and

Lack of definition of impact on social service programs.

While realizing that this bill would not take effect until fiscal 1981, we would still like to see some definition of how private sector jobs will be expanded to meet the demands of the welfare population in the design of the bill. We question the over-reliance on public sector jobs, when only lip service is paid to private sector job creation.

NACO's platform states "... that all adult Americans who are able, willing and seeking work should be given opportunities for useful paid employment at fair wages." We would like to see that principle incorporated so that each welfare client expected to work will have a job and/or training.

We are concerned with the implied presumptive role of the employment service (ES) in section 913 of H.R. 10950 given the ineffectiveness of ES in referring and placing welfare clients. NACO staff has compiled the enclosed tables (see attachments) which clearly demonstrate CETA's comparative effectiveness over ES in serving both minorities and the economically disadvantaged. Recent DOL data shows 24.5 percent of CETA title I clients being placed in jobs as compared with the ES record of 7 percent in placing food stamp work registrants. Overall ES data shows a job placement rate of 22.2 percent when working with a client population that is 26.8 economically disadvantaged while CETA title I places 24.5 of a client population that is 78.1 percent economically disadvantaged. Many other examples can be drawn from these tables. We maintain that clients are best served in the CETA system when the employment service has to prove its capability locally and compete for funds.

Section 922(2) of H.R. 10950 provides funding from section 941(c) to States to develop a technical assistance capacity. We feel that this task is misplaced and should be the responsibility of the Secretary who could more effectively use the experience of prime sponsors in 50 States to develop a technical assistance capacity, to this end, we proposed earmarking a small percentage of funds available to the Secretary for technical assistance to prime sponsors.

NACO is also concerned with impact on existing social service programs when welfare clients start assuming jobs in large numbers. Certainly, some of the service needs will be assumed by the jobs created by this program. However, the title XX social services program will be strained to provide assistance for many newly eligible persons, especially if the jobs program is effective in creating jobs for welfare clients. There will be increased demands for child care, transportation, and other job-related supportive services for the job-ready, clearly the existing social services funding cannot handle an increased load if other necessary social services are to be maintained. We suggest that the respective roles of the employment system and the social services system be carefully defined so that services related to employability can be provided within the jobs system. At a minimum, higher social services costs to States and counties resulting from welfare reform should be held harmless.

I would be remiss in my responsibility to the citizens of Guilford County if I didn't take the time to speak to the need for immediate fiscal relief. A high percentage of our county general property tax goes for welfare. These costs increase every year while our property tax has long ago reached the limit that the public can bear. We need fiscal relief now, not in 1981!

We appreciate this opportunity for NACO to testify. We look forward to answering your questions.

CHARACTERISTICS OF PARTICIPANTS IN CETA AND OTHER PROGRAMS AND OF THE UNEMPLOYED POPULATION (1976)¹

[In percent]

Characteristic	Categorical MDTA classification training programs	Categorical MDTA OJT programs	Categorical EOA programs	PEP	Title I	Title II	Title VI	Total U.S. unemployed population	U.S. unemployed, 15 weeks plus	U.S. unemployed, 27 weeks plus
Total.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Sex:										
Men.....	66.4	78.2	51.9	72	54.0	62.4	64.9	54.4	60.5	61.5
Women.....	33.6	21.8	48.1	28	46.0	37.6	35.1	45.6	39.5	38.5
Age:										
Under 22 years ²	38.8	35.4	75.0	19	57.1	20.8	22.4	46.2	33.9	28.7
22 to 44 years ²	55.7	48.5	18.5	66	36.3	64.2	63.8	34.4	38.1	39.3
45 years and over.....	5.5	16.1	6.5	14	6.6	15.0	13.8	19.3	28.1	32.0
Education:										
8 years and under.....	6.4	8.8	18.7	26	11.8	8.0	8.0	12.9	14.8	14.3
9 to 11 years.....	28.4	26.6	62.1	74	42.8	16.9	17.6	28.6	24.3	24.2
12 years and over.....	65.2	64.7	19.2	38	45.4	75.1	74.4	58.4	60.9	61.6
Economically disadvantaged.....	62.8	38.2	99.1	38	77.6	44.1	43.8	(?)	(?)	(?)
Race:										
White ³	65.2	72.1	49.0	60	55.6	65.6	69.0	80.3	80.2	79.5
Black.....	28.6 6.2}	22.0 5.9}	42.0 9.0}	40	37.0 1.4}	24.3 1.5}	22.7 1.5}	19.7	19.8	20.5
American Indian ⁴	6.2}	27.9}	51.0}		6.0}	34.4}	31.0}			
Other ⁵										
Spanish American.....	10.6	11.2	17.6		14.2	11.2	9.9	6.6	6.0	6.1
Limited English-speaking ability ⁶	(?)	(?)	(?)	(?)	5.0	3.6	3.2	(?)	(?)	(?)
Veterans:										
Special Vietnam era ⁷	24.8	25.8	7.7	29	3.4	8.4	8.3	6.9	7.9	(?)
Other.....				14	7.5	16.3	17.7	3.5	13.0	(?)

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¹ Data on categorical programs are for fiscal 1974, the final year of their operation. Data for PEP are for fiscal years 1972 and 1973. For CETA programs data are for fiscal 1976. U.S. unemployed population data are for calendar 1976.

² Not available.

³ Includes Spanish-speaking Americans.

⁴ Special programs for Indians and those with limited English-speaking ability are also part of title III of CETA.

⁵ A large portion in this group reflect the nonclassification in Puerto Rico by ethnic categories on CETA report forms.

⁶ From Indo-China or Korean theatre of operations from August 1964 to May 1975.

⁷ Unemployment data by age groups are not comparable to CETA data. Thus for the unemployed, read "under 24 yr" and "25 to 44 yr."

CHARACTERISTICS OF PARTICIPANTS IN CETA AND OTHER PROGRAMS AND OF THE UNEMPLOYED POPULATION (1977)

[In percent]

Characteristic	Categorical MDTA classification training programs	Categorical MDTA OJT programs	Categorical EOA programs	PEP	Title I	Title II	Title VI	Total U.S. unemployed population	U.S. unemployed, 15 weeks plus	U.S. unemployed 27 weeks plus
Total.....	100.0	100.0	100.0	100	100.0	100.0	100.0	100.0	100.0	100.0
Sex:										
Men.....	66.4	78.2	51.9	72	51.6	60.8	63.2	54.8	61.2	62.9
Women.....	33.6	21.8	48.1	28	48.4	39.2	36.8	45.2	38.8	37.1
Age:										
Under 22 years.....	38.8	35.4	75.0	19	50.5	20.0	19.2	33.7	22.8	20.2
22 to 44 years.....	55.7	48.5	18.5	66	41.8	64.4	64.8	47.1	50.5	49.1
45 years and over.....	5.5	16.1	6.5	14	7.7	15.6	16.0	19.2	26.7	30.9
Education:										
8 years and under.....	6.4	8.8	18.7	26	9.9	8.7	8.7	7 10.1	(?)	(?)
9 to 11 years.....	28.4	26.6	62.1	74	39.5	15.6	17.7	7 15.8	(?)	(?)
12 years and over.....	65.2	64.7	19.2	-----	50.6	75.7	73.7	7 50.8	(?)	(?)
Economically disadvantaged	62.8	38.2	99.1	38	78.1	49.8	56.5	-----	-----	-----
Race:										
White ¹	65.2	72.1	49.0	60	56.7	67.1	65.0	80.0	79.4	78.6
Black.....	78.6	22.0	42.0	40	34.5	21.3	22.9	20.0	20.6	21.4
American Indian ⁴	6.2	5.9	9.0	-----	1.4	1.2	3.2	-----	-----	-----
Other ⁴	-----	-----	-----	-----	7.3	10.4	8.9	-----	-----	-----
Spanish American.....	10.6	11.2	17.6	-----	13.2	13.7	11.7	6.3	5.9	(?)
Limited English-speaking ability ⁴	(?)	(?)	(?)	(?)	5.2	5.7	5.0	(?)	(?)	(?)
Veterans:										
Special Vietnam era ⁴	24.8	25.8	7.7	29	3.1	7.4	7.0	7.4	9.0	(?)
Other.....	-----	-----	-----	14	7.4	14.7	15.0	9.7	14.1	(?)

¹ Data on categorical programs are for fiscal 1974, the final year of their operation. Data for PEP are for fiscal years 1972 and 1973. For CETA programs data are for October 1976 to June 1977. U.S. unemployed population data are for January 1977 to June 1977.

² Not Available.

³ Includes Spanish-speaking Americans.

⁴ Special programs for Indians and those with limited English.

⁵ A large portion in this group reflect the nonclassification in Puerto Rico by ethnic categories on CETA report forms.

⁶ From Indo-China or Korean theater of operations from August 1964 to May 1975.

⁷ BLS projections do not add to 100 percent because statistics on education for persons 20 years and older.

CHARACTERISTICS OF FOOD STAMP WORK REGISTRANTS

	APPS available	Referrals as per cent of total APPS	Placements as per cent of total APPS
Total.....	100.0 (2,559,899)	15.0 (384,817)	7.0 (179,437)
Sex:			
Male.....	61.4	10.3	4.9
Female.....	38.6	4.7	2.1
Age:			
Under 22 yrs.....	21.0	3.5	1.8
22 to 44 yrs.....	60.9	9.8	4.4
45 yrs and over.....	18.1	1.8	.8
Education:			
8 yrs and under.....	12.9	1.1	.6
9 to 11 yrs.....	41.6	6.1	3.0
12 yrs and over.....	45.5	7.8	4.4
Economically disadvantaged.....	100.0	100.0	100.0
Race:			
White.....	69.7	10.9	5.0
Black.....	23.5	3.4	1.6
American Indian.....	1.0	.2	.1
Other.....	5.8	.6	.3
Spanish American.....	10.6	1.7	.9
Limited English.....	NA	NA	NA
Veterans:			
Special Vietnam.....	9.8	2.5	1.2
Other.....	7.7	1.4	.6

¹ Data from "ESARS National Report No. MA5-70, for period ending June 30, 1977, tables 23 and 24.

² Figure assumed based upon eligibility requirements for program.

NA--Not available.

CHARACTERISTICS AND PLACEMENT COMPARISON OF EMPLOYMENT SERVICE AND CETA TITLE I WORK REGISTRANTS

	APPS available	Employment service		CETA Title I (June 30, 1977)	
		Referrals as percent of APPS	Placement as percent of APPS	Clients	Placements as percent of clients
Total.....	100.0 (12,178,341)	45.6	22.2 (2,709,377)	100.0 (1,109,434)	24.5 (271,811)
Sex:					
Male.....	56.3	26.7	13.1	51.6	13.6
Female.....	43.7	18.9	9.1	48.4	10.9
Age:					
Under 22 yr.....	30.9	15.4	8.6	50.5	9.4
22 to 44 yr.....	54.7	25.2	11.4	41.8	12.9
45 yr and over.....	14.4	5.0	2.2	7.7	2.2
Education:					
8 yr and under.....	5.8	1.9	1.2	9.9	1.8
9 to 11 yr.....	33.0	14.7	8.0	39.5	6.9
12 yr and over.....	61.2	29.0	13.0	50.6	15.8
Economically disadvantaged.....	26.8	12.5	6.8	78.1	17.3
Race:					
White.....	75.9	34.7	16.5	56.7	15.6
Black.....	19.5	8.9	4.5	34.5	6.9
American Indian.....	.8	.4	.2	1.4	.3
Other.....	3.8	1.6	1.0	5.9	1.5
Spanish American.....	7.0	3.3	1.8	13.2	3.9
Limited English.....	NA	NA	NA	5.2	1.2
Veterans:					
Special Vietnam.....	10.3	6.2	2.9	3.1	1.0
Other.....	6.6	3.1	1.3	7.4	.2

¹ Data from "ESARS National Report No. 5-48," for period ending June 30, 1977, tables 6 and 3.

NA--Not available.

CHARACTERISTICS OF CETA, ES, AND FOOD STAMP PLACEMENTS (UNIVERSE)

	CETA ¹	ES ²	Food stamps ³
Total.....	100.0 (271,811)	100.0 (2,709,377)	100.0 (179,437)
Sex:			
Men.....	55.6	58.9	69.8
Women.....	44.4	41.1	30.2
Age:			
Under 22 yr.....	38.2	38.6	25.1
22 to 44 yr.....	52.6	51.2	63.2
45 yr and over.....	9.2	10.2	11.7
Education:			
8 yr and under.....	7.5	5.2	8.6
9 to 11 yr.....	28.1	36.4	42.6
12 yr and over.....	64.3	58.4	48.8
Economically disadvantaged.....	70.5	30.7	100.0
Race:			
White.....	63.7	74.5	71.7
Black.....	28.2	20.5	22.8
American Indian.....	1.2	1.0	1.3
Other.....	6.9	4.0	4.2
Spanish American.....	15.8	7.9	12.2
Limited English.....	5.0	NA	NA
Veterans:			
Special Vietnam.....	4.1	12.9	16.8
Other.....	5.3	6.0	9.2

¹ Data from "USDOL ETA Quarterly Summary of Client Characteristics, Report No. 54," for period ending June 30, 1977, tables 6 and 3.

² Data from "ESARS National Report No. 5-48," for period ending June 30, 1977, tables 6 and 3.

³ Data from "ESARS National Report No. MA5-70," for period ending June 30, 1977, tables 23 and 24.

NA—Not available.

Senator MOYNIHAN. Now we have a particular pleasure. Mr. Robert Carleson, who was formerly Commissioner of Welfare in the State of California, and is now in private practice, is going to speak to us. You are testifying on behalf of the chamber of commerce. Well, you appear before us like some Hindu god with about 15 personas, but we welcome you, of course, and I see that you have brought an associate to the table.

STATEMENT OF ROBERT B. CARLESON, ON BEHALF OF THE CHAMBER OF COMMERCE OF THE UNITED STATES (ACCOMPANIED BY MS. LINDA S. McMAHON, ASSOCIATE DIRECTOR OF SOCIAL INSURANCE AND WELFARE FOR THE NATIONAL CHAMBER AND STAFF EXECUTIVE OF THE CHAMBER'S WELFARE PANEL)

Mr. CARLESON. Yes. With me today is Linda McMahon, who is the associate director of social insurance and welfare for the national chamber. She is also the staff executive of the chamber's Welfare Panel.

I might add, before I get into that, I couldn't help, after hearing the county's people who were here before me—that I have a lot in common with them and I have through my career, and I think the philosophies that I want to bring you today are very similar to theirs. I also, having been a maverick in HEW for 2½ years, when I was U.S. Commissioner of Welfare—and I think you can ask anybody in HEW and they will agree that I was a maverick. That is probably the nicest thing they will say about me.

When you were talking about how you get a department like HEW to quit fooling around with your statutes and everything, there is really no way you can do it. Many people have tried, and it is almost like the young child who has been given a gun or a rifle for target practice and misuses it. He does that two or three times and the only cure is just to take the rifle away from him. I think that when it comes to HEW, the only solution you are going to have—we can talk about this and everybody can be shocked and surprised, but the only solution is going to be to take these programs away from HEW, give them back to the States and to these counties, all of whom are doing a much more effective job now than they have been in the past, and I think it will solve all of our problems.

My name, I might say, is Robert Carleson, president of Robert B. Carleson and Associates, consultants in management and public policy. I am a consultant now to Federal, State and local officials on welfare policy and management and have had experience in this field as former U.S. Commissioner of Welfare in 1973-75, former director of the California State Department of Social Welfare, 1971-73, but actually, I consider myself a career city manager.

I appear before this subcommittee as a witness for the Chamber of Commerce of the United States and as a member of its panel on welfare reform proposals. We appear on behalf of the more than 73,000 members of the Chamber of Commerce of the United States to present our views on welfare reform.

The national chamber is concerned about public assistance programs, their ability to help those in need through no fault of their own, their costs, and the burden they inflict on taxpayers and State and local government budgets.

We have many questions about our Nation's welfare programs. For example, just how well do they serve those in need and to what extent do they serve those who might be considered not needy? We are concerned about welfare costs, which have quadrupled in the last 10 years, and the burden that future welfare costs will impose on taxpayers.

Senator LONG. Could you talk a little more slowly.

Mr. CARLESON. Yes, sir. I just wanted to get through in time.

We are also concerned about the future directions of our welfare programs and their impact upon other social insurance programs and policies.

The national chamber is particularly concerned that efforts to turn over to the Federal Government the bulk of the responsibility of designing, controlling and administering these programs will eventually result in the complete federalization of the welfare system. By the way, whether we do it incrementally or as Senator Moynihan says, comprehensive incrementally, or comprehensively, it is all the same thing.

As our statement will show, federalization of welfare programs will not solve the problems facing the current system, but will add to the already enormous cost of public assistance and increase the number of people dependent on welfare.

We do recognize the need to make changes in our existing welfare system, and we support comprehensive reform of that system, but

our approach is to decentralize rather than federalize the programs. The States should have maximum freedom to create—the key word there is create—and tailor their own welfare programs, because the closer the implementation of the programs to the people they are designed to serve, the more likely the programs will meet the needs of those individuals who cannot help themselves.

President Carter's better jobs and income program is an example of comprehensive federalization under which existing programs are completely overhauled and major decisionmaking authority over the programs is given to the Federal Government. The Ullman Welfare Reform Act and the Baker-Bellmon job opportunities and family security program, which you heard this morning, are examples of incremental federalization in which changes are made in existing programs without dismantling them and more authority is given to the Federal Government to determine how the programs should be run. I might add, when I am talking about the Baker-Bellmon plan, I am thinking primarily of the cash part of the program, not the job voucher or the job side of the program.

On the other hand, the Michel Welfare Improvement and Cost Reduction Act is an example of incremental decentralization under which current programs remain intact while fiscal incentives are made available to the States to make certain administrative changes to reduce error and abuses and consequently costs. The approach endorsed by the national chamber is comprehensive decentralization under which Federal programs are dismantled, and complete design and control of welfare programs is given to the States.

The point at issue in the divergent approaches taken by the national chamber and the legislative proposals before this subcommittee is decentralization versus federalization. The purpose of our statement is to explain why decentralization is the best method of welfare reform.

In the debate over which approach to welfare reform will be the best, it is necessary to specify the goals we hope to achieve, namely lower caseloads, lower cost, elimination of errors, increase in benefits to the truly needy, equitable treatment of recipients, and workable programs. Also, we have to identify both the problems to be solved and the best type of system to provide solutions.

Why is our welfare system called the welfare mess? A number of reasons have been advanced. In examining these reasons, we hope to demonstrate that federalization is not the best approach to welfare reform.

1: "Caseloads are too high." In January 1977, an estimated 26 million persons, 12 percent of the U.S. population, received aid from just five programs: Aid to families with dependent children, AFDC, supplemental security income, SSI, food stamps, medicaid or general assistance. Since there are many more means-tested welfare programs, the total number of people receiving aid is likely to be somewhat higher, but because some individuals participate in more than one program, this figure is hard to determine.

In any event, there are too many people dependent on public assistance today, and the current system perpetuates that problem. Welfare is more profitable than employment in many cases, and

such work incentives as the deduction of \$30 and one-third, under which the first \$30 plus one-third of the recipient's income is not counted in determining eligibility for AFDC, plus work-related expenses enables recipients to continue to receive welfare payments although they are earning enough money to support themselves and their families.

Federal policies have been the greatest contributor to expanded welfare rolls. Federal programs, such as food stamps and SSI, have resulted in many more persons drawing welfare than would have been eligible under State eligibility rules. Federal regulations, such as the \$30 and one-third earning deduction, have also bypassed State eligibility considerations and resulted in many more applications for assistance.

Despite these handicaps, State agencies in many instances have been able to bring AFDC caseloads under control during the last several years with increases falling in line with increases in the cost of living. I think this is the big story about the welfare debate between now, in 1978, and back in 1971 and 1972, when things were out of control.

On the other hand, Federal programs such as SSI and food stamps have continued to grow. The SSI caseloads increased from 3.6 million in 1975 to 4.3 million in 1976. Food stamp recipients increased from 442,000-plus in 1965 to over 18 million in 1976.

2: "Costs are too high." In fiscal year 1976, the expenditures for the five programs just mentioned above totalled almost \$40 billion.

Federal expenditures for AFDC have increased tenfold in the last 25 years. Medicaid costs have more than doubled since 1971, and food stamp costs have gone up from \$35.6 million in 1965, when the program was initiated, to \$5.9 billion in 1977.

In 1971, prior to the enactment of SSI, when the States had responsibility for programs to assist the aged, blind, and disabled, this cost amounted to \$3.9 billion. Five years later, in 1976, after SSI was in place, the cost was \$6.3 billion.

Just a quick aside. When we talk about the aged, blind, and disabled, we envision the aged, blind, disabled people, the people we really want to help in our welfare system. Two of the effects of the federalization of the system have been to loosen eligibility in these programs in two directions; one in the definition of disability, which has become so loose that many of the people who are on those rolls are not really in fact disabled.

Senator MOYNIHAN. Who is responsible for that problem?

Mr. CARLESON. Part of it was the initial statutory language; the second part was HEW's adopting regulations; and the third part, Senator—and this I have to say in favor of HEW—it is very difficult to administer effectively a welfare program at the Federal level. So what they did, in order to make it possible to administer, to keep it from being so complicated that it is going to sink the Social Security Administration, they ended up with relatively soft definitions of eligibility.

The other example, for instance, is the assets test. Originally, Congress wrote into the law that there was a limitation on the value

of the home. Later on, HEW expanded the assets test until today, it is practically impossible not to be eligible for the SSI program based on your assets.

In spite of the fact that State and local governments have a \$30 billion surplus this year, they are still crying for fiscal relief from welfare costs, and taxpayers are constantly complaining about the proliferation of welfare programs. Yet a comparison of State and Federal programs shows that the States have demonstrated an ability to control costs while the Federal Government has not.

3: "The error rates are too high." The national average of AFDC case error rates was 42.6 percent in 1973 and the payment error rate was 16.5 percent. Errors include ineligible, as well as overpayments and underpayments. But the error rates have considerably improved through quality control, and in 1976, the national average for case error rates was 23.2 percent, while the average for payment error was down to 8.5%, and while these are still too high, they are continuing down.

The States continue to do an excellent job of controlling errors and at this level of government, only the District of Columbia has had a problem. Its error rate is increasing.

Although the Federal Government has an error rate in the SSI program which is comparable to the State AFDC rate, the case error rate for food stamps during 1976 was 42.9 percent and the payment error rate was a whopping 28.5 percent. The Federal Government has not been any more successful than the States in controlling errors, and in some cases, it is much less successful.

4: "Benefits are too low in some States." I think this is very important, particularly when we start talking about minimums, as we find in the Baker-Bellmon, and minimums, as we find in the Ullman bill. In 12 of the 50 States, benefit levels are below \$4,200 a year for a family of four. In Mississippi, the benefit is only \$720 a year. Even in rural areas of States with a comparatively low cost of living, that is not enough money for a family to live on at subsistence level.

It is often alleged that welfare clients migrate from low to high benefit States and create an unfair burden on the taxpayers in the high benefit States. Actually, there is evidence that low benefit States are improving their record. I think this is the second most significant bit of news between 1971 and 1978. For instance, the Mississippi benefit will increase to \$1,056 a year for a family of four in July 1978. I think we computed they are going to have almost a 50-percent increase in benefits in Mississippi starting in July.

Senator MOYNIHAN. That sounds positively luxurious.

Mr. CARLESON. I think, Mr. Chairman, the significance of this is the rapid percentage increase. The one-man, one-vote decision of the Supreme Court has increased representation for urban areas and the Voting Rights Act and Civil Rights Act are enfranchising the poor. As a result, benefits are increasing in previously low benefit States.

Benjamin L. Hooks, executive director of the NAACP, recognized this phenomenon in a statement before the National Gover-

nors Association in February of this year. He said that "recently we have come to the conclusion there has been a change and there has been a new sense of responsiveness" on the part of State governments to the needs of the black community.

Will Federal standards reduce the disparity in benefits between the States? Not if Federal standards fail to recognize differences in the cost of living in the various States. Failure to recognize such differences would create two new problems: too high benefits in some cases and too low benefits in others. If Federal standards do recognize these States-by-State differences, a benefit array will develop that will roughly parallel the existing benefit levels.

As for the migration factor, there is little evidence to back up the allegation that migration between low- and high-benefit States occurs due to the difference in welfare benefit levels.

5: "The system is unfair." Under existing welfare programs, families with similar circumstances and problems are not always treated in the same manner. I think others have covered this subject, so I will skip over this one and get into the next item.

6: "The system undermines family stability." It has been argued that because low-income families with working fathers are not eligible for cash assistance, whereas the same family with an absent father is eligible for welfare benefits which add up to more than the working father can provide, there is an incentive built into the system for fathers to leave home. That is the charge. We have heard it this morning again.

There is no evidence to show that current programs cause family breakups. In fact, as was mentioned by Senator Hansen, the income maintenance experiments in Denver and Seattle could indicate that the contrary is true and that it is the guaranteed income approach which causes family instability. I, by the way, am not charging that it does, but I think as Chairman Moynihan pointed out at your recent hearing with Mr. Califano, there is just no real evidence in to show that aid to single-parent families causes the breakup of families.

In any event, if the States are unencumbered by Federal regulations and competing Federal programs, they will have a better opportunity to work out programs which will keep families together.

7: "The multiplicity of programs is undesirable." There are more than 55 means-tested programs in effect now providing aid in the form of cash, medical care, et cetera, et cetera. These programs are often duplicative and overlapping and because they are so numerous, the bureaucracy required to administer them continues to grow.

However, a diversity of welfare programs is not necessarily undesirable. People are on welfare for a variety of reasons, family breakup, need for education, disability, lack of motivation, infinite number, and therefore, they need different approaches to help them solve those problems. Yet multiple programs can be a problem when duplication and overlapping of programs, particularly at the Federal level, brings about a waste of money and an increase in redtape.

Much of this waste is attributable to the policy judgments being made by both State and Federal levels of government.

If Federal guidelines and controls are eliminated and each State is left to develop comprehensive programs of its own, that kind of duplication and waste can be eliminated.

Therefore, according to the proponents of federalization, the way to untangle the welfare mess is to give more responsibility for welfare programs to the Federal Government. However, experience with Federal aspects of current welfare programs discounts this easy assumption.

As we have pointed out in the examples that we have given, the best way to get help to the people who need it is to decentralize the programs and move the creation and administration of welfare activities closer to the people they serve and to the people who pay for them. Decentralization will bring about better control of the programs, thereby reducing error rates, cutting costs, limiting eligibility to those truly in need, making it possible to enforce an effective work requirement and increasing benefits to the truly needy.

Now, some people feel that State and local governments cannot handle the welfare problem. In fact, they feel it is the fault of the States that there is such a welfare mess. However, this is not the case. State and local governments have been able to reduce caseloads, costs and error rates in the programs over which they have control while increasing welfare benefits. In California, with the welfare plan we adopted in 1971 under Governor Reagan, within 3½ years the rolls, which had been increasing at the rate of 40,000 a month, dropped by more than 350,000 persons.

On the other side of the coin, since the program's inception, those in need through no fault of their own have been given an increase of over 50 percent in benefits. And as Governor Jerry Brown has said, the program has worked amazingly well.

According to Governor Michael Dukakis of Massachusetts, that State has been improving its system tremendously. Governor Bob Straub of Oregon before the Corman committee pointed up very proudly, and deservedly so, the really effective operations they are making in welfare in the State of Oregon. Governor Hugh Carey reported that the State of New York has reduced its ineligibility rate in the aid to families with dependent children program from 12.7 to 6.2 percent just since January of 1975, and last year, it held the line on medicaid costs. I think this is big news from New York.

Last year, the city of San Francisco, through verification and cross-checking, was able to reduce its caseload from 18,000 to 15,600 and reduce its error rate from 47 to 11 percent and save \$10 million in that one city alone.

A spokesman for the National Conference of State Legislators pointed out during hearings before the special House subcommittee last year that the States have developed outstanding training programs, methods of reducing errors, and other administrative capacities. Michigan, for example, has an excellent child support enforcement program and a first-rate quality control program, and its computer capacity is constantly being improved.

Richard P. Nathan of the Brookings Institution has stated

Leaving out New York City and the District of Columbia, there has been striking improvement in reducing AFDC error rates over the last three years. These error rates on a national basis have been cut in half.

As John Dempsey, National Council of State Public Welfare Administrators and also the Welfare Director of Michigan, states—

Senator LONG. Mr. Chairman, may I just interrupt for a moment?
Senator MOYNIHAN. Surely.

Senator LONG. I have to go to the floor to offer an amendment. I will study this statement and I want to thank Mr. Carleson for his statement here.

Senator MOYNIHAN. You are very kind, Mr. Chairman. I know the Panama Canal debate is taking place.

Senator LONG. I have to offer an important amendment over there. I thank the chairman and I am sorry I have got to leave.

Mr. CARLESON. I will skip from my prepared statement the quotes of the various other people who have said this. One of the reasons I am quoting these people is because, strangely enough, many of them have said what a great job is being done at the State and local level and the county level and then strangely have opted for some kind of federalization. I am afraid that the real reason that many of them want federalization is because they have been told that the only way they are going to get fiscal relief is through federalization of the programs, and I think there is another way.

That other way would be some form of a block grant. In order to reconcile the goal of fiscal relief to the States and localities with the goals of effectiveness and cost control in welfare programs, the substantive share of the costs of these programs should be covered by Federal financing in the form of block grants. The States should have a meaningful share in the financing of the programs through a matching formula, in order to give them an incentive for effective and efficient utilization of welfare funds. They should not be hampered by Federal standards which create the facade of State administration but which actually reduce the States to the status of clerks.

Although the national chamber supports the block grant approach with full State responsibility for welfare programs, we recognize the danger inherent in rushing into major public policy changes without adequate testing of those changes. Therefore, we support pilot testing of the block grant approach. It would be well to choose several States to test various methods of welfare reform. Some should be given complete freedom to establish and run their own programs without interference from the Federal Government, while others might utilize the approaches suggested in proposals such as the administration's Better Jobs and Income Act.

We can try also in some States various elements of the Baker-Bellmon plan, particularly the voucher plans. I think we can try some of the elements of the Ullman plan.

After a reasonable period of time, the success of each State's program could be evaluated, and we would have a much better understanding of what works and what does not work.

The Chamber of Commerce of the United States recognizes the need for basic changes in our current welfare system in order to bring

down costs, curtail dependency and give adequate aid to the truly needy. We support a decentralization of welfare programs, with maximum control of those programs exercised by the states.

We support substantial Federal financing through block grants, with the States required to match those funds to some extent in order to insure an incentive for fiscal integrity.

Finally, we support pilot testing of any and all proposed welfare reform measures before any major changes are instituted.

Thank you, Mr. Chairman.

Senator MOYNIHAN. Thank you, sir. Most especially, we thank you. That was a very carefully prepared and important testimony for this committee.

Senator HANSEN?

Senator HANSEN. Thank you, Mr. Chairman.

Mr. Carleson, let me thank you. I am impressed by your testimony and even more impressed by your previous experience in the State of California and your presence at the national level in helping reconstruction, or at least making recommendations for the restructuring of a number of these programs.

I am impressed with your emphasis that we should not further federalize programs, that there is real merit in diversity, and that different ideas can be tested. I think that has real merit.

It seems to me that one of the roles that State universities and State governments have played over the years—and I could expand that to include the handling of energy problems—where different States can try out different ideas has real merit.

I thank you for your testimony and I am certain that it will be well worth our time to give serious consideration to it. Thank you, Mr. Chairman.

Senator MOYNIHAN. Mr. Carleson, we are running a bit late, and I wanted to hear your testimony, so I have five questions which I would like to give you. We will send them to you, and perhaps you would help us with some answers from your incomparable experience in this field. We are particularly interested in your judgment on this very miserable question about how much do the variations in State payment levels really reflect different cost of living levels. We will take advantage of getting some unpaid consultation from you.

Mr. CARLESON. Mr. Chairman, on that point. I will give you the answer in writing, but just very quickly, there are a couple of things in the present law that encourage some of those States to have artificially low-benefit levels and a couple of those things, if removed, in my opinion, would cause a relatively rapid rise in benefit levels in those states.

Senator MOYNIHAN. Would you give us the details of that? That is an important idea. You have been at both ends of this. You have been up here as part of the monster Federal bureaucracy, and you have been down there as part of the hapless State and local governments. You are uniquely qualified and we will appreciate your answers. We thank you very much for coming, and we thank you, Mrs. McMahon.

[The prepared statement of Mr. Carleson and questions of Senator Moynihan to Mr. Carleson follow:]

STATEMENT OF THE CHAMBER OF COMMERCE OF THE UNITED STATES

BY ROBERT B. CARLESON

My name is Robert B. Carleson, President of Robert B. Carleson & Associates, Inc., consultants in management and public policy, Washington, D.C. and Sacramento, California.

I am a consultant to federal, state and local officials on welfare policy and management, and have had experience in this field as former U.S. Commissioner of Welfare (1973-75), former Director of the California State Department of Social Welfare, and a former City Manager.

I appear before this Subcommittee as a witness for the Chamber of Commerce of the United States, and a member of its Panel on Welfare Reform Proposals.

With me today is Linda S. McMahon, Associate Director of Social Insurance and Welfare for the National Chamber, and staff executive of the Chamber's Welfare Panel.

We appear on behalf of the more than 73,000 members of the Chamber of Commerce of the United States to present our views on welfare reform proposals.

THE NEED FOR REFORM

The National Chamber is concerned about public assistance programs—their ability to help those in need through no fault of their own; their costs; and the burden they inflict on taxpayers and state and local government budgets.

We have many questions about our nation's welfare programs. For example, just how well do they serve those in need and to what extent do they serve those who might be considered not needy? We are concerned about welfare costs which have quadrupled in the last 10 years and the burden that future welfare costs will impose on taxpayers. We are also concerned about the future directions of our welfare programs and their impact upon other social insurance programs and policies.

The National Chamber is particularly concerned that efforts to turn over to the Federal Government the bulk of the responsibility of designing, controlling and administering these programs will eventually result in the complete federalization of the welfare system. As our statement will show, federalization of welfare programs will not solve the problems facing the current system but will add to the already enormous cost of public assistance and increase the number of people dependent on welfare.

We do recognize the need to make changes in our existing welfare system, and we support comprehensive reform of that system, but our approach is to decentralize rather than federalize the programs. The States should have maximum freedom to create and tailor their own welfare programs, because the closer the implementation of the programs to the people they are designed to serve, the more likely the programs will meet the needs of those individuals who cannot help themselves.

President Carter's "Better Jobs and Income Program" is an example of comprehensive federalization under which existing programs are completely overhauled and major decision-making authority over the programs is given to the Federal Government. The Ullman "Welfare Reform Act" and the Baker-Bellmon "Job Opportunities and Family Security Program" are examples of incremental federalization in which changes are made in existing programs without dismantling them and more authority is given to the Federal Government to determine how the program should be run. The Michel "Welfare Improvement and Cost Reduction Act" is an example of incremental decentralization under which current programs remain intact while fiscal incentives are made available to the States to make certain administrative changes to reduce error and abuse, and consequently, costs. The approach endorsed by the National Chamber is comprehensive decentralization under which federal programs are dismantled, and complete design and control of welfare programs is given to the States.

The point at issue in the divergent approaches taken by the National Chamber and the legislative proposals before this Subcommittee is decentralization versus federalization. The purpose of our statement is to explain why decentralization is the best method of welfare reform.

THE CASE AGAINST FEDERALIZATION

In the debate over which approach to welfare reform will be the best, it is necessary to specify the goals we hope to achieve, namely lower caseloads, lower costs, elimination of errors, increase in benefits to the truly needy, equitable treatment of recipients, and workable programs. Also, we have to identify both the problems to be solved and the best type of system to provide solutions.

Why is our welfare system called "the welfare mess?" A number of reasons have been advanced. In examining these reasons, we hope to demonstrate that federalization is not the best approach to welfare reform.

1. "Caseloads are too high"

In January 1977, an estimated 26 million persons, 12% of the U.S. population, received aid from just five programs: Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), food stamps, medic-aid or General Assistance. Since there are many more means-tested welfare programs, the total number of people receiving aid is likely to be somewhat higher, but because some individuals participate in more than one program, this figure is hard to determine.

In any event, there are too many people dependent on public assistance today, and the current system perpetuates that problem. Welfare is more profitable than employment in many cases, and such work incentives as the deduction of "\$30 and 1/3" (under which the first \$30 plus 1/3 of the recipient's income is not counted in determining eligibility for AFDC) plus work-related expenses enables recipients to continue to receive welfare payments although they are earning enough money to support themselves and their families.

Federal policies have been the greatest contributor to expanded welfare rolls. Federal programs, such as food stamps and SSI, have resulted in many more persons drawing welfare than would have been eligible under State eligibility rules. Federal regulations, such as the "\$30 and 1/3" earnings deduction, have also bypassed State eligibility considerations and resulted in many more applications for assistance.

Despite these handicaps, State agencies in many instances have been able to bring AFDC caseloads under control during the last several years with increases falling in line with increases in the cost of living.

On the other hand, federal programs such as SSI and food stamps have continued to grow. SSI caseloads increased from 3.6 million in 1975 to 4.3 million in 1976. Food stamp recipients increased from 442,359 in 1965 to 18.6 million in 1976.

2. "Costs are too high"

In FY 76, the expenditures for the five programs just mentioned above totalled almost \$40 billion. Federal expenditures for AFDC have increased tenfold in the last 25 years. Medicaid costs have more than doubled since 1971, and food stamp costs have gone up from \$35.6 million in 1965 when the program was initiated to \$5.9 billion in 1977. In 1971, prior to the enactment of SSI, when the States had responsibility for programs to assist the aged, blind and disabled, this cost amounted to \$3.9 billion. Five years later, in 1976, after SSI was in place, the cost was \$6.3 billion.

In spite of the fact that state and local governments have a \$30 billion surplus this year, they are still crying for fiscal relief from welfare costs, and taxpayers are constantly complaining about the proliferation of welfare programs. Yet, a comparison of state and federal programs shows that the States have demonstrated an ability to control costs while the Federal Government has not. For example, the average annual growth rate for AFDC between 1971 and 1976 was 16.29% while the average annual growth rate for the federal Food Stamp Program during that period was 52.52%.

3. "Error rates are too high"

The national average for AFDC case error rates was 42.6% in 1978 and the payment error rate was 16.5%. Errors include ineligible as well as overpayments and underpayments. Error rates have considerably improved through quality control, and in 1976 the national average for case error rates was 23.2% while the average for payment error was 8.5%.

The States continue to do an excellent job of controlling errors, and at this level of government, only the District of Columbia has had problems (its error rate has increased). Although the Federal Government has an error rate in the SSI program which is comparable to the state AFDC rate, the case error rate for food stamps during 1976 was 42.9% and the payment error rate was 28.5%. The Federal Government has not been any more successful than the States in controlling errors, and in some cases it has been much less successful.

4. *"Benefits are too low in some States"*

In twelve of the fifty States, benefit levels are below \$4,200 a year for a family of four. In Mississippi, the benefit is only \$720 a year. Even in rural areas of States with a comparatively low cost of living, that is not enough money for a family to live on at subsistence level. It is often alleged that welfare clients migrate from low to high benefit States and create an unfair burden on the taxpayers in the high benefit States.

Actually, there is evidence that low benefit States are improving their record. For instance, the Mississippi benefit will increase to \$1056 a year for a family of four in July, 1978. The one-man, one-vote decision of the Supreme Court has increased representation for urban areas, and the Voting Rights Act and Civil Rights Act have enfranchised the poor. As a result, benefits are increasing in previously low benefit States. Benjamin L. Hooks, Executive Director of the NAACP, recognized this phenomenon in a statement before the National Governors' Association on February 27, 1978. He said that "recently we have come to the conclusion . . . there has been a change, and there has been a new sense of responsiveness" on the part of state governments to the needs of the black community.

Will federal standards reduce the disparity in benefits between the States? Not if federal standards fail to recognize differences in the cost of living in the various States. Failure to recognize such differences would create two new problems: too high benefits in some cases and too low benefits in others. If federal standards do recognize these State by State differences, a benefit array will develop that will roughly parallel the existing benefit levels. As for the migration factor, there is little evidence to back up the allegation that migration between low and high benefit States occurs due to the difference in welfare benefit levels.

5. *"The system is unfair"*

Under existing welfare programs, families with similar circumstances and problems are not always treated in the same manner. For instance, if a family on AFDC is able to increase its income well above the poverty level, it can continue to draw benefits due to the "\$30 and 1/3" plus work-related expenses deductions. According to the distinguished Chairman of this Subcommittee this figure can go as high as \$29,000 in one county of New York.

A family with less income—whose income was never low enough to qualify them for AFDC to begin with—is not entitled to any assistance. One of the reasons that the system is unfair is the intrusion of federal regulations such as the "\$30 and 1/3" deduction. Without that regulation the example cited could not occur.

There is concern that families in Mississippi get a much smaller benefit than a similar family in New York. However, treating recipients in Mississippi the same as those in New York is not an improvement, because such action would not take into account the difference in the cost of living in the two States.

6. *"The system undermines family stability"*

It has been argued that because low-income families with working fathers are not eligible for cash assistance, whereas the same family with an absent father is eligible for welfare benefits which add up to more than the working father can provide, there is an incentive built into the system for fathers to leave home.

There is no evidence to show that current programs cause family breakups. In fact, the income maintenance experiments in Denver and Seattle could indicate that the contrary is true, and that it is the guaranteed income approach which causes family instability. In any event, if the States are unencumbered by federal regulations and competing federal programs, they will have a better opportunity to work out programs which will keep families together.

7. "The multiplicity of programs is undesirable"

There are more than 55 means-tested welfare programs in effect now providing aid in the form of cash, medical care, food, jobs and training, housing, education and other goods and services. These programs are often duplicative and overlapping, and because they are so numerous, the bureaucracy required to administer them continues to grow.

A *diversity* of welfare programs is not necessarily undesirable. People are on welfare for a variety of reasons—family break-up, need for education, disability, lack of motivation, etc.—and therefore, they need different approaches to help them solve those problems. Yet, multiple programs can be a problem when duplication and overlapping of programs brings about a waste of money and an increase in red tape. Much of this waste is attributable to the policy judgments being made by both state and federal levels of government. If federal guidelines and controls are eliminated and each State is left to develop comprehensive programs of its own, that kind of duplication and waste can be eliminated.

Federalization is not the answer

According to the proponents of federalization, the way to untangle the welfare mess is to give more responsibility for welfare programs to the Federal Government. However, experience with federal aspects of current welfare programs discounts this easy assumption. As we have pointed out in the examples that we have given, the best way to get help to the people who need it is to decentralize the programs, and move the creation and administration of welfare activities closer to the people they serve and to the people who pay for them. Decentralization will bring about better control of the programs, thereby reducing error rates, cutting costs, limiting eligibility to those truly in need and increasing benefits to the truly needs.

DECENTRALIZATION WILL WORK

State and local government capabilities

Some people feel that state and local governments cannot handle the welfare problem. In fact, they feel it is the fault of the States that there is such a welfare mess. However, this is not the case. State and local governments have been able to reduce caseloads, costs, and error rates in the programs over which they have control while increasing benefit levels.

In California, a welfare reform plan was implemented in 1971, under Governor Ronald Reagan. Within three and a half years, the rolls—which had been increasing at the rate of 40,000 a month—dropped by more than 350,000 persons. Since the program's inception, those in need through no fault of their own have been given an increase of over 50% in benefits. Governor Reagan's successor, Governor Edmund Brown, agrees that the program works amazingly well.

According to Governor Michael D. Dukakis of Massachusetts, that State has improved its system for finding private sector jobs for welfare recipients, and 9,000 people (13% of the employable welfare recipients in Massachusetts) were placed in private sector jobs last year. Six thousand of those are fathers who have found their way out of the welfare system.

Oregon Governor Bob Straub notes that his State has successfully operated a job location and placement program in conjunction with its welfare programs for over two and a half years providing work for over 20,000 welfare families. Of those families, 15,000 have left the welfare system completely, and 91% of those have been off welfare for over 2 years. Due to the success of this program, welfare expenditures in Oregon have been reduced by \$3 million.

Governor Hugh Carey reports that the State of New York has reduced its ineligibility rate in the Aid to Families with Dependent Children program from 12.7% to 6.2% since January 1975, and last year it held the line on Medicaid costs.

Last year the City of San Francisco, through verification and cross-checking, was able to reduce its caseload from 18,000 to 15,600, reduce its error rate from 47% to 11% and save \$10 million.

A spokesman for the National Conference of State Legislatures pointed out during hearings before the Special House Subcommittee on Welfare Reform

last year that the State have developed outstanding training programs, methods of reducing errors and other administrative capacities that are most effective. Michigan, for example, has an excellent child support enforcement program, and a first rate quality control program, and its computer capacity is constantly being improved.

Richard P. Nathan of the Brookings Institution has stated "Leaving out New York City and the District of Columbia . . . , there has been striking improvement in reducing AFDC error rates over the last three years. These error rates on a national basis have been cut in half." As John Dempsey, National Council of State Public Welfare Administrators put it, "States are doing a good job now—a better job than is generally recognized—of administering cash assistance."

State and local government willingness to assume greater welfare responsibility

As important as whether or not the States can handle welfare reform is whether or not they want to do the job. In spite of the fact that mayors, governors, legislators and county officials have endorsed federalization, the message is clear that what they really want is fiscal relief through federal dollars. They may be willing to pay the price of federalization of their programs to get those dollars, but most declare that they have the expertise—grounded in day-to-day experience with these programs—to run the programs most effectively, efficiently and equitably. They recognize the need for reform at the state and local level, and they know what works best with their citizens. If all the federal regulations are dispensed with, they could make the best use of the federal dollars they get, cut out duplication and waste, control error and abuse, and relate to the people who have needs that these programs can fill, and fit their programs to those needs.

In testimony presented to the Special House Subcommittee on Welfare Reform, various state and local officials have commented on the need for state and local control of welfare programs. Speaking for the National Association of Counties, Frank Jungas said, "County governments will always be closer to the people than the federal machinery." Nicholas Carbone, representing the U.S. Conference of Mayors and the National League of Cities, stated, "Policies which work counter to local economic development and attendant improvements in employment conditions because of some theoretical benefit to a segment of the population need to be re-examined in the light of local economic realities."

National Conference of State Legislature spokesman Irving Stolberg testified, "The SSI experience has largely demonstrated the inability of the Federal Government to be responsible to individuals at the local level . . . There are tremendous cost savings and other advantages to using state administrative capabilities to their fullest." Keith Mollin, Director of the Michigan Department of Labor, commented that "A statewide perspective is essential if local programs are to receive the kind of guidance and engage in the kind of coordination they must have to be successful."

John Affleck, speaking for the National Council of State Public Welfare Administrators, said, "We have direct contact with those who are served by current programs and we have developed a sensitivity to and understanding of their needs." John E. Brandl, State Legislator from Minnesota states, "In this time of big government, it would also be a sensible return to the Founding Fathers' notion that on occasion the Federal Government could learn from the States."

Edward J. Dirkswager, Acting Commissioner of Public Welfare for the State of Minnesota, endorsed more State control during hearings before a Task Force of the House Committee on the Budget last year: "I think if State officials are going to be required to fund and subsidize both jobs and welfare . . . that someone in the State must be responsible for it . . . Therefore, I think the program has to be unified at a State level and unified so that control and responsibility flow together. This would mean . . . giving the Governor and legislature more control."

BLOCK GRANTS

In order to reconcile the goal of fiscal relief to the States and localities with the goals of effectiveness and cost control in welfare programs, the substantive share of the costs of these programs should be covered by federal financing in the form of block grants. The States should have a meaningful share in the financing of the programs through a matching formula in order to give them

an incentive for effective and efficient utilization of welfare funds. They should not be hampered by federal standards which create the facade of state administration but which actually reduce the States to the status of clerks.

DEMONSTRATION PROJECTS

Although the National Chamber supports the block grant approach with full state responsibility for welfare programs, we recognize the danger inherent in rushing into major public policy changes without adequate testing of those changes. Therefore, we support pilot testing of the block grant approach. It would be well to choose several States to test various methods of welfare reform. Some should be given complete freedom to establish and run their own programs—without interference from the Federal Government—while others might utilize the approaches suggested in proposals such as the Administration's Better Jobs and Income Act. After a reasonable period of time, the success of each State's program would be evaluated, and we would have a better understanding of what works and what does not.

SUMMARY

The Chamber of Commerce of the United States recognizes the need for basic changes in our current welfare system in order to bring down costs, curtail dependency and give adequate aid to the truly needy. We support a decentralized system of welfare programs with maximum control of those programs exercised by the States. We support substantial federal financing through block grants with the States required to match those funds to some extent in order to insure an incentive for fiscal integrity. Finally, we support pilot testing of any and all proposed welfare reform measures before any major changes are instituted.

RESPONSES TO QUESTIONS OF SENATOR MOYNIHAN TO ACCOMPANY THE STATEMENT OF THE CHAMBER OF COMMERCE OF THE UNITED STATES OF AMERICA ON WELFARE REFORM PROPOSALS—BY ROBERT B. CARLSON, APRIL 17, 1978

Question No. 1

We have heard a lot in this Committee about welfare reform and some of us have even been accused of taking rather radical positions on the subject. But I cannot recall hearing any proposals quite as radical as the one you have just put forth. Do I understand correctly that you, and the Chamber of Commerce of the United States, are asking the federal government to pay a "substantive share" of the costs of welfare, but have little or no hand in administering the programs? Is that fiscally responsible?

Answer

The proposal of block grants to the states to replace the present AFDC and food stamp programs could be considered radical. In our testimony we did contend that there are two comprehensive methods of reforming welfare. One is to go toward complete federalization and the other is to decentralize through the block grant system. We described both of these as comprehensive. According to my desk dictionary a radical "is one who advocates radical and sweeping changes in laws and methods of government *with the least delay.*" I think that certainly the block grant concept is a sweeping change, however, the Chamber of Commerce's recommendation is that before we institute it on a national basis we try it out in about five or six states. I think the fact that it would be tested before it is put into effect nationally would take it out of the "radical" category. I think that the advantage of testing it in the states is: (1) we will find out how different state versions work, and (2) we would end up with several different models which other states could use when they have the opportunity to use block grants.

You have questioned the fiscal responsibility of proposing that the federal government pay a substantial share of the costs of welfare but have little or no hand in administering the program. We have to consider what we have at the present time. At present we have an open ended budget. The federal government simply matches whatever the states spend in the AFDC program. It is worse in the food stamp program where the federal government pays 100% of the costs of the food stamp bonus on a completely open ended basis. And

as a matter of act, because of that, the major controls the federal government has over these programs are through the quality control programs which have been adopted in recent years in AFDC and food stamps. In addition, because the federal government wants to bring a greater fiscal responsibility to these programs, we have been seeing more and more federal regulations which interfere with the states' freedom to operate. We also have federal constraints on the categories of persons who can receive aid, the amounts of property they can have, and so forth. Under a block grant system the states would be freed from these constraints, these categorical constraints, and could develop their own programs with their own categories, or, if they choose, without any exclusive categories at all.

Under the block grant concept, we would have a fixed amount of money that would go to each state each year. It would be based on what it received in the most recent historic year before the program was changed and it could be indexed for inflation and for population shifts. It would be a fixed amount of money each year and the states would, therefore, have an incentive to run an effective and relatively error free program. If they administered a program with a high amount of error, they would then have to use state money to make up the difference. So I think that the real fiscal responsibility is that the amount of federal money for each state would be finite. The states that do an effective job of administering their programs will have money left over to use for other welfare related programs. Those states that are inefficient in the way they run their systems are going to have to finance their additional welfare programs from their own state funds.

Question No. 2

In your testimony, you refer on a number of occasions to the AFDC error rates. How are those obtained? (AFDC Quality Control survey) Wasn't "quality control" an idea that originated with the federal government?

Answer

At present, the way the error rate data is obtained is that the state auditors connected with the welfare programs make a thorough field audit of a large representative and statistically reliable sample of cases within each state to establish what the error rate is in the entire program. The federal government will then audit a sub-sample of the state sample to insure that the state is actively pursuing an effective program of uncovering errors.

Now, as to your question of whether or not the idea of quality control originated with the federal government. The quality control program in AFDC was a requirement very loosely administered by the Social and Rehabilitation Service back in the very late 60's and early 70's. It was so loosely administered that the error rates which were reported were artificially low. Throughout the country, as a matter of fact, the error rates were so low based on unthorough quality control audits that it backed up the HEW thesis, which has since been proven a myth, that there was little or no error or fraud in the welfare system.

When I became Director of the State Department of Social Welfare in California in January 1971 we instituted a thorough and intensive audit of a representative sample of cases to find out how much error actually existed in our AFDC program. We built on the very sketchy and inadequate quality control structure that existed in the state at that time. The high rates of error that we uncovered made headlines throughout California and throughout much of the country. What we were doing through out intensified audit program in California was first to find out where our problems were by uncovering our errors in ineligibility and overpayment, and then act to clean up the program with administrative and other changes. Approximately a year after California started its intensive quality control audit for its own purposes, the State of New York under Governor Rockefeller followed suit with a very similar auditing effort. New York found the same thing that California did, that they had very high rates of ineligibility and overpayments. Several other states then started following suit. HEW then announced a tough regulation that would have penalized states with high error rates retroactively. The effect of that proposed regulation would have been to put a completed damper on the efforts of the states to uncover errors. First, it would have been unfair to States like California and New York which had been doing an intensive quality control audit and therefore uncovered a large percentage of errors. The States which were doing very little and therefore had apparently low error rates because they

were not auditing effectively would have benefited. But, worse than that, there would have been a real damper on future efforts. States would not have started to uncover errors and the States that had been doing so may have reduced their efforts because they knew they would lose federal money as a result of accurate audits. Those regulations, fortunately, were never put into effect because of the protests from California, New York and several other states. Instead, we developed, after I became U.S. Commissioner of Welfare, a plan whereby the States would be given a six month period to uncover as much error as they could in their welfare programs to determine how much ineligibility and overpayment existed in order to establish a base from which to improve. The states were assured that there would be no penalties for the errors that they uncovered during that first period, and as a matter of fact, it would be beneficial to the states to uncover as much error as they could at that time because in the future, they would be judged on how much they reduce their errors, from those found in the initial base period. Then, over an 18 month period, the States would take three more audits. If a state were effectively working its way down toward the tolerable error rate of 3 percent for ineligibility and 5 percent for overpayment, there would be no penalty, but if they didn't meet the benchmark positions in each 6 months, they would lose some of their federal matching funds. Some of the program has been held up in court but the fact that HEW has indicated to the States that there would be an effective quality control program, gave them a free period, and the fact that the error rates have been publicized in each state as well as the fact that the States are required to develop their own corrective action plans based on their own problems has resulted in a tremendous reduction in error rates in the AFDC program nationwide.

I think that the principal reason why the States have worked so hard to reduce their error rates is simply because up to 50 percent of the AFDC cost is financed by state funds. The real incentive for the States to reduce error is to save state money that is being spent unnecessarily.

Question No. 5

What do you think of the Title IV-D program, which seeks to have support payments obtained from fathers of AFDC children? How many states had adopted such programs before it became federal law?

Answer

I think it is a great program. As a matter of fact, this program is one that was recommended by Governor Reagan, by me and by others before the Senate Finance Committee back in February of 1972. The only complaints, along with Senator Long, that I have about the program, is that HEW, which has never supported the program in the past, is watering it down by making some of the definitions of what should be required of the mothers very loose. The second part of your question was "how many States have adopted such program before it became federal law?" The answer of course is that we don't know exactly how many states have adopted identical programs; they varied from State to State. Generally, the concept of seeking out the absent father was very unpopular in the welfare establishment particularly in HEW and in the state welfare bureaucracies. Those people in those bureaucracies at the state and federal levels who wanted to see programs like IV-D were generally not listened to and had very little support in the welfare hierarchy. This is one of the reasons why when Title IV-D was first drafted Senator Long wanted to place the program in the Department of Justice rather than in the Department of HEW. However, several states were pursuing actively the absent father in relation to their welfare programs. One of the most massive efforts to require child support started with California's Welfare Reform Program where one of its most important parts was to require support from the absent fathers of AFDC children. The state of Michigan was another one of the strong leaders in this program as were several other states. But the ingredient of the California program that was unique was that we induced the counties and the DA's to participate in the program and raise its priority by giving them financial rewards for making the program work. Our California welfare reform provided that the counties could keep most of the state welfare money that was recovered from the absent fathers and this money could go unrestricted into the country treasuries. I believe that this factor plus many other child support tools we put into our Welfare Reform Act is what moved the child

support efforts in counties and in DA offices from a very low priority to a very high priority and resulted in the program's huge success. The Federal Title IV-D program later provided the same concept that originated in California. Local governments are permitted to keep a significant portion of the federal AFDC money they recover through the Title IV-D program. This fiscal incentive has had a real impact on making the program work. Other significant things about IV-D are that the programs are administered by the States and local governments; federal agencies are required to cooperate with the States in giving information so that the fathers can be located. Information in the Social Security Administration, the Defense Department, and the Veterans Administration and other federal agencies is now available to the States in locating absent parents. In addition, assistance can be had from Federal courts and the Internal Revenue Service, and for the first time Federal employees' wages can be attached. I think that this is an ideal type of federal program where the Federal government provides the tools and the fiscal incentives to do the job but the States have the basic responsibility for the program. The reward to the federal Treasury is that a good absent parent support program will result in more fathers supporting their children voluntarily, and their families, therefore, will avoid going on the welfare rolls at all.

Question No. 4

I note that between 1973 and 1975 you served as U.S. Commissioner of Welfare. Could you describe some of the steps you took at that time to move towards the decentralization of welfare you are now seeking? (None that I know of; to contrary, sought to have own version of welfare reform put upon states.)

Answer

As I indicated in my opening testimony, I certainly was a maverick in HEW while I was there. Almost our entire effort was spent on trying to move as much of these programs to the States as we could. I will give a few examples of my efforts to decentralize welfare. First of all, I want to indicate we changed the role of the U.S. Commissioner of Welfare when I went into that Department. I intended only to stay two years, I stayed two and a half years. I told Secretary Weinberger, that I couldn't help the states reform their welfare program as we had done in California and also operate a federal welfare bureaucracy at the same time. So we moved the position of Commissioner of Welfare into the immediate office of the Secretary in a staff role. I had direct authority to bypass the Washington and regional federal bureaucracy and go directly to governors, legislators, and the States. The other half of the time, I was working in an advisory capacity, trying to bring about changes in federal regulations to give the states more discretion in the area of welfare and to help them tighten up their systems. Much of what I did involved making recommendations rather than the ability to make actual decisions and changes.

Let me give you some of the examples of some things that happened during that period. In the AFDC program, for example, one of the problems we had in California reform was a regulation of HEW's that said you couldn't check or verify with a third party any information submitted by a recipient or an applicant without first getting the consent of the recipient or applicant in each individual verification and then only do it if we had reason to believe that the information they had given was either incomplete or erroneous. Of course, that is Catch 22. How do you know if it is incomplete or erroneous if you don't have the opportunity to verify the information with a third party. When I came into HEW we proceeded to change that regulation. We had two alternatives. One was simply to eliminate the prohibition so that the states would be free to do any checking or verifying with third parties that they wished while respecting the constitutional and other rights of the individuals. Or we could have replaced that regulation with another regulation that would have given the States directives with a whole list of factors they would be required to verify. The list could have been extremely long. And there was certainly a temptation to use the second option and impose on the States what I might do in administering a welfare program in my own State. Instead we resisted that temptation. We simply took the first option and eliminated the prohibition against the states doing third party checking and verifying. There was no requirement to do any checking or verifying. However, because federal spending is open ended with the federal government matching whatever the States

spend to be fiscally responsible it was necessary to control efficiency through the quality control program. (See Answer to Question #2.) We told the States to develop a corrective action plan of how they were going to reduce their errors and that they file that plan with HEW, but we did not require that HEW had to approve the plan or could change the plan or could amend it. The states were and are able to develop any plan of corrective action they choose, and they are judged only by the effectiveness of their program. Are their error rates for ineligibility and overpayments and underpayments going down? Are they staying the same? Or are they going up? This was an example of not directing the states, taking a constraint off of them, letting them operate their own programs and judging them simply by the results.

Another example of my efforts to decentralize was what, in effect, resulted in the Title XX program. Prior to the Title XX program, and its immediate predecessor, social service spending also was open-ended. The federal government would pay \$3 for every \$1 of state money spent in a broad category of social services. I know that the Chairman and the members of the Committee are aware that this program got completely out of control in 1970, 1971 and 1972. Congress was casting about for a way to bring it under control. I testified in 1972 before Rep. Martha Griffith's Joint Economic Committee, on the need to put a lid on this kind of spending. I believe I was the only state welfare director who recommended that there be a ceiling put on the spending and that the money be distributed in the form of block grants to the states based on population. I pointed out that there were three alternatives. One was that there be detailed and constrictive federal regulation if it were kept open-ended in order to have fiscal responsibility. The second alternative, to do nothing, would be fiscally irresponsible. The third, which I thought most desirable, was to put a lid on the total amount of money available and then distribute it to the States in the form of block grants with minimum federal interference. Congress, in effect, ended up doing just that. It put a lid on the spending at \$2.5 billion per year, with money distributed to States on the basis of population. States were required to match as before. Eligibility requirements and other mandates imposed on states were relaxed or removed. At the same time, unfortunately, HEW continued with its plan to impose a series of very stringent and tight regulations on the program which interfered with the States' freedom to operate. As a result, Congress did suspend the regulations and eventually enacted the Title XX program which is the closest thing we have in welfare to a block grant program. Under Title XX there is an authorized finite amount of money distributed to the States on the basis of population. The States are required to match this. Title XX removed most of the federally mandated services which existed under the previous social services program. It permits greater flexibility to the States on who can get the services and what services can be provided and I think one of the most important things about Title XX, and this is something I fought for very hard while I was in HEW, was that the State would be the final decision-maker as to how it would use its Title XX money—that the final decision would rest with the Governor of the State and not with the Secretary of HEW which was in the original draft. I am very pleased with the way Title XX evolved even though I think there are many things about it that can be improved on—that can give the States even more discretion than they have at the present time.

While I was in HEW, and before, I fought unsuccessfully to change many of the highly constrictive day care standards that were and are driving the costs of child care beyond reason. The States would be much better off to use their social services money on other programs and finance day care with state money where they can develop their own standards.

A fourth example of my efforts to help decentralize was in the Supplemental Security Income Program. While I was welfare director in California, I had opposed the federalization of the program for the aged, blind and disabled, and I think many of the things that we predicted at that time have come about. I continue to believe that the program for assistance to the aged, blind and disabled would be better handled at the state level. However, while in HEW my arguments were instrumental in permitting the States to have a variety of different state supplements based on different living arrangements. Of course, the Social Security Administration, for administrative purposes, would have preferred that the States not have this discretion. Since that time there has been a restricting of this ability of the States to have variables in their state

supplementation. I also was successful in getting the Secretary to HEW to agree that at least California could continue to administer the SSI Program under contract with the Social Security Administration instead of the other way around. Unfortunately, California wouldn't take on this responsibility after the Social Security Administration insisted that California would have to pay half of the administrative costs. I personally believed if California had gone ahead at that time and had administered the SSI program (1) they would have demonstrated to the nation that the program could still be administered better at the state level and (2) I believe they would have saved a tremendous amount of state supplemental money that has been wasted through errors in federal administration.

A third instance in SSI where I was influential was in requiring that the States would be reimbursed for losses of state supplemental money due to federal errors. The quality control which was written into the State-Federal contracts was very similar to the one in the AFDC program except that it was in reverse. In effect, the Federal Government would have to pay the States if the Federal Government made errors which resulted in losses of state money.

One last example of my efforts to decentralize welfare. When I became U.S. Commissioner of Welfare, I indicated to governors and other state officials that we would be willing to send teams into a State, by invitation, to study and evaluate its welfare policy, its welfare management and make recommendations to the state officials to improve the policies and management of their welfare program. As a result, five States received a comprehensive review of their welfare program. Each of these States voluntarily requested a review. The review for the State of Pennsylvania was requested by its House of Representatives. In the case of the other States, Michigan, New Hampshire, and South Carolina, our review was requested by the Governors. In the fifth state, Maine, our review was requested by action of the Senate, the House of Representatives and a letter from the Governors.

All reports were in the form of conclusions and recommendations and were in no way binding on the States.

Question No. 5

Do you have any figures to support your assertion that differences in welfare payments among the States reflect cost-of-living differences? For example, is it really four times cheaper for a family of four to live in Mississippi than in your State of California.

Answer

Unfortunately there is very little reliable data on the cost of living by state. Most work done in this area does not treat the discrete needs or costs of basic necessities for the poor. I do believe, however, based on my experience as a practitioner at the local, state and Federal level that the single most significant reason for variations in welfare benefits between and within States is the difference in cost of living. I would admit, however, that there have been other reasons as well.

I think those of us who have been involved in welfare policy and management and others have come to the definite conclusion that often costs of living can vary as much within a State as it does vary from State to State. Of course, we also know that there are very distinct differences in cost of living in different areas under different living conditions. I believe that what is even more significant, however, is the difference in the standard of living, and to my knowledge nothing has been done in researching this area. For example, I believe that the cost of living in the South Bronx may be high, but the standard of living in the South Bronx may be low. I believe there are some places in the rural parts of our country where the cost of living may be low but the standard of living is relatively high. I think that the relationship between the standards of living and cost are easily as important, if not more important, than the relationship between the different costs of living. You have asked a question as to whether or not it is really four times cheaper for a family of four to live in Mississippi than it is in California (California's AFDC and food stamp benefits are approximately twice rather than four times higher than Mississippi's.) I could ask the question a different way, I could say is someone in the South Bronx who is receiving a welfare benefit level $2\frac{1}{2}$ times higher than in Mississippi living at $2\frac{1}{2}$ times the standard of living of the average person on welfare in Mississippi. I certainly think they are not. But I guess what I really am getting at is the fact that there are these differences

and there are a tremendous amount of variables, not only in the cost of living in the various parts of the country but the various parts of the States and also the standard of living in the various parts of each of the States and throughout the country. I believe that this is why we cannot have a national solution to this problem and why federalization would be moving in exactly the wrong direction. I believe the States are the only ones who will be able to determine what the real cost of living is in their areas and how that fits with the standard of living for the people who have to be receiving welfare. However, having said that I will agree and will admit that there has been an unnecessary and unreasonable variation between benefit levels among the States. Some States have benefits that we know are really too high, that exceed the poverty level or exceed particularly when we apply all of the income disregards that are permitted or required by federal law. On the other hand, we know that there are states where the benefit levels have been much too low and we know that there have been political and historical reasons why this has been changing. The one-man, one-vote decision, the Civil Rights and Voting Rights Acts have resulted in an enfranchising of the poor and as a result of that we can see the benefit levels increasing very rapidly in the South. Our example in our testimony regarding Mississippi is to indicate that in the middle of the year there will be an approximately 50% increase in the AFDC benefit in the State of Mississippi and I think this demonstrates that the States where the benefit levels are too low are moving for political reasons to increase their benefits.

Now, when you proposed this question originally at the hearing, I indicated to you that there are a couple of artificial reasons in federal law that are contributing to these low AFDC benefit levels in some of our states and you asked me to give you those two factors. One of them is the Food Stamp Program. On my last day in office, October 10, 1975, I testified before a Subcommittee of the Senate Agriculture Committee and at that time I indicated that one of the reasons the food stamp program was in so much trouble was because the States had little incentive for good management because the food stamp bonus or benefit is 100% federal money while the administrative costs are roughly 50-50, federal and state. At the same time, I also indicated that because the food stamp benefit is 100% federally financed and AFDC has a lower level of federal financing there is an incentive for States to keep their AFDC benefit low so that the income benefits to the families will be low and therefore the families will be eligible for a higher food stamp budget or a food stamp supplement which is 100% federally funded. This ensures that a higher percentage of the overall welfare cost is paid by the federal government. At that time I recommended that to solve that part of the problem we make the food stamp program the same sharing ratios of state and federal money as to the AFDC programs. I also recognized that if the States were required to take over what could be up to 50% of the costs of their food stamp program, there would be a tremendous new load on the States so I recommended that a block grant program be instituted that would provide the States with an amount of money unrestricted, based on what it was estimated would be the share of the food stamp costs they would be assuming over a five year period, taking into consideration, inflation. Then a State if it found that it had excess money because it was able to administer its food stamp program more accurately, could use the rest of the block grant for other purposes within the States. This change will, I believe, result in an increase in AFDC benefit levels in quite a few of the States and a reduction of errors in the food stamp program.

The other element of federal law that I think contributes to low benefit levels in at least five States is the old AFDC matching formula. I will not go into the technical details, but a State has an option of either using the old AFDC matching formula or using the Medicaid matching formula to determine how much federal match will come into their AFDC program. The old program which is in effect in only 6 States, encourages a low average AFDC benefit because it puts a ceiling on the average amount of money that can be spent per person on AFDC which will be matched by the federal government. At the present time, that ceiling is \$32.00 per month per person, so if a State pay an average AFDC benefit that exceeds \$32.00 per month per person, it has to pay the additional benefit entirely out of state and local funds. On the other hand, if the State keeps its benefit to \$32.00 a month or below, the percentage of federal match can be very high. There are five States in the South that retain this formula. They are Georgia, Mississippi, South Carolina, Ten-

nessee and Texas. (One additional State, Arizona, also uses this method but the only reason it uses it is because the other portion is tied to the Medicaid formula and Arizona is the only State that had not adopted the Medicaid program; it doesn't have the option). Those five States are the five lowest paying AFDC States in the country. Therefore, I believe, one way to encourage them to increase their AFDC benefit levels would be to provide that all States use the Medicaid matching formula for AFDC matching ratios, and provide grants to those five States for five years to hold them harmless from increased costs because of the switch from the old formula to the Medicaid matching formula.

I believe that if we make these two changes in Federal law we will realize a significant increase in AFDC benefits in those five States as well as in other States that are having artificially low benefits because of the 100% food stamp federal ratio.

Senator MOYNIHAN. Now, it is a great personal pleasure for me to invite Dr. Blanche Bernstein, who is administrator of the New York City Human Resources Administration, having previously been the deputy commissioner of Social Welfare for the State of New York. As becomes an economist and a scholar, you have arrived with a rather lengthy statement, Dr. Bernstein, and I offer you the choice of summarizing it or, as you have been very patient with us, we will with equal patience and great interest listen to you do exactly as you wish. Take as much time as you wish. We may have to go and vote one of these moments, but we welcome you.

STATEMENT OF DR. BLANCHE BERNSTEIN, ADMINISTRATOR, NEW YORK CITY HUMAN RESOURCES ADMINISTRATION

Ms. BERNSTEIN. Thank you very much, Senator Moynihan.

I took the precaution last night, at the end of the broadcast of the first episode of Holocaust, of writing out a summary, so what I shall do, since you do have my written testimony, is try to summarize it and perhaps pick up just a few things from the written testimony.

I speak mainly from my current responsibilities as the administrator of the Human Resources Administration in New York.

In New York City, we spend \$1.4 billion for grants to 925,000 welfare clients and for supplements to the Federal grant to about 225,000 SSI recipients. We also spend about \$200 million for welfare administration.

We do need reform of the welfare system. With respect to the Better Jobs and Incomes bill, S. 2084, there has been much discussion of this bill since it was introduced in August 1977. I support the inclusion of intact families and single persons in that bill, its emphasis on work, and its attempts at standardization. But it doesn't provide sufficient fiscal relief. Our estimates indicate that the fiscal relief to New York City in 1981 will be about \$66 million.

Senator MOYNIHAN. Let's see, that is \$66 million as against the present total of how much?

Ms. BERNSTEIN. The total local share for grants and administration currently is running at about \$556 million a year, and that is just the New York City share.

Senator MOYNIHAN. Now, let's get that again. This couldn't be more important. You are spending about \$556 million, and the President's program will undertake to reduce that by about 10 percent?

Ms. BERNSTEIN. I think it is 12, but that is very little.

Senator MOYNIHAN. Of all that \$24 billion, you get \$66 million?

Ms. BERNSTEIN. That is correct, sir.

Senator MOYNIHAN. You mean, we shall have put this enormous effort into welfare reform, and nothing will have changed in New York City?

Ms. BERNSTEIN. There will be changes, but the changes do not promise any significant fiscal relief for New York City, and we are, of course, very troubled by that.

Senator MOYNIHAN. I wrote that plank into the Democratic platform in order to get that money out of the New York City budget. That is one of the reasons why New York City is bankrupt. I harassed the poor President last May to get him to send up the bill because it was supposed to do something for New York. It was supposed to do two things: Fiscal relief was one, and the change in the system of income maintenance, the other.

And you estimate, Dr. Bernstein, that of the \$556 million New York City share, adding 1 percent of the GNP, which is what this bill would do, would only get you \$66 million?

Ms. BERNSTEIN. It will only get us \$66 million.

Senator MOYNIHAN. Do they know that in the White House?

Ms. BERNSTEIN. Well, I think so. These estimates have been worked over and—

Senator MOYNIHAN. And that is their idea of urban policy?

Ms. BERNSTEIN. It is not our idea of fiscal relief.

Senator MOYNIHAN. No, ma'am. I did not mean to suggest it was. Please continue. That is a shock. That is a depressing figure.

Ms. BERNSTEIN. There are other problems with the administration bill. The grants for emergency assistance are insufficient. The sum of \$100 per month for single individuals who are expected to work is too low, and the earned income disregard, though better than the present one, still leaves the cutoff point at too high a level, \$12,500 per year.

Senator MOYNIHAN. Do I understand correctly? Mr. Carleson testified that earnings can be as high as \$29,000 in New York City?

Ms. BERNSTEIN. Yes, that is correct.

Senator MOYNIHAN. That is kind of crazy. Do you expect any sympathy from Senator Proxmire when he finds that out?

Ms. BERNSTEIN. No, I don't.

Senator MOYNIHAN. You have only been there 2 months.

Ms. BERNSTEIN. You have quoted me. I have written about that figure. I think it is outrageously high and it doesn't make any sense.

Senator MOYNIHAN. It is part of the craziness of the welfare profession, to let people draw welfare who are earning \$29,000 a year and expect Arkansas to say, hey, those folks need help.

Ms. BERNSTEIN. But I might point out, Senator, that is a result of a Federal requirement and not anything that we have instituted in New York City.

Senator MOYNIHAN. Absolutely right.

Ms. BERNSTEIN. Finally, the administration bill does not provide enough jobs, and this is an issue which I shall come back to in connection with the Baker-Bellmon bill.

The changes wrought by the House Subcommittee on Welfare Reform incorporate some good provisions and some not so good, but fiscally, it comes out at about the same. The amount of fiscal relief, again, is in the neighborhood of \$66-67 million and it is not enough to deal with our problems in New York City.

The Baker-Bellmon bill, S. 2777, with its more limited approach to welfare reform, provides more fiscal relief to New York and to other urban areas and provides it sooner, beginning in 1980. In 1981, it would give the city \$108 million or \$42 million more than the administration bill and it would indeed provide about 20 percent of the city's current fiscal burden for welfare assistance.

A word about provision re: 1982. We would love to see New York State pick up the whole local tab in 1982, but we do not know if it will. Therefore, we would like to see this requirement eliminated, i.e., that the increase in Federal matching will go to 80 percent only if the State picks up the remaining 20 percent.

Senator MOYNIHAN. Now, let's talk about that a moment. If the object of the Baker-Bellmon-Ribicoff-Danforth bill went forward, and the States got 80 percent sharing by picking up local costs, it would save New York City \$560 million, not 12 percent but 100 percent, right?

Ms. BERNSTEIN. Correct.

Senator MOYNIHAN. And the question is whether the incentive is strong enough to make the State do that.

Ms. BERNSTEIN. It may very well. I certainly recognize what the Congress is trying to do and I personally support that very strongly. But as the administrator of the New York City welfare program, I do not like to take things for granted. Particularly, it is very hard to determine how the State legislature will feel about this. We deal always in New York State with upstate New York and the city.

Senator MOYNIHAN. New York City's welfare costs are lower as a proportion of its budget than the typical upstairs county where, as you know, they run around 50 percent. So there would be incentive across that board.

Let me ask you a question because I have always been of several minds on this, and as you know, I was secretary to the Governor in the 1950s in New York. I have always felt that—although at election time, the candidates for office in New York City pretend that they are being abused by the State which won't do its duty by the city—in fact, the city has a political culture that very much resists the State's taking over these functions, because they are a form of an elaborate patronage system within the city itself.

If the city didn't pay for the welfare, you wouldn't have a city welfare commissioner, and he wouldn't have nine deputies, and they wouldn't have assistants. You wouldn't be able to maintain a sense of a separate and somewhat superior culture, which the city does with respect to the State, erroneously thinking "we care more about our poor people than the farmers in Delaware County."

What do you think about that? I would put it to you that the city has resisted turning over to the State things it ought to do because of the small returns that come with control.

Ms. BERNSTEIN. I think I would agree with your analysis as a description of the past.

Senator MOYNIHAN. You think that roughly has been the case in the past.

Ms. BERNSTEIN. Yes, I would agree. I think not only the city officials, not only previous administrators of the Human Resources Administration and their deputies, I would add to that the unions.

Senator MOYNIHAN. Oh, I am talking about a political culture. Surely, the trade unions would feel it is better to deal with the Mayor than to deal with the Governor. Their influence on a Mayor has got to be greater because of concentration. And I suppose the schools of social work are included.

Ms. BERNSTEIN. I would say, however, that that is not the sole explanation of why we have not had a State takeover.

Senator MOYNIHAN. Not the sole one, but it is not as if the city has genuinely been seeking this for two generations and can't get it.

Ms. BERNSTEIN. I would agree. I think on both sides, there has been reluctance to move in the direction of a State administration.

That may change.

Senator MOYNIHAN. Dr. Johnson said that the prospect of hanging wonderfully concentrates the mind, and the prospect of bankruptcy has had at least a little bit of that sort of impact on the situation.

Ms. BERNSTEIN. I agree with that.

To come back to S. 2777, the provision with respect to the 100-hour rule is all to the good, but it doesn't, in my view, go far enough in support of the working intact family. Federal participation will extend only to those intact families who earn less than \$4,200 a year, and this is simply 130 hours a month times the minimum rate of \$2.65 an hour, current rates.

This continuing discrimination against the intact as compared to the female-headed family, in a society which lays such great store on families staying together, providing for and guiding their children and helping them develop, has never made any sense to me, and I am impatient to see the end of it.

While I recognize that S. 2777 is designed to provide incremental reform, and I am sympathetic to that approach, I do feel that there is room for some Federal concern for the single individual and the two-person family, such as the 60-year-old father and his spouse.

Perhaps the Federal contribution could be set at a lower percentage than that for families, but since society must support these single persons and childless couples if they are in need because they cannot find work or cannot work, why not a Federal contribution to them?

I have already indicated some criticism of the cutoff point in the administration bill. The disregard in S. 2777 is such that the four-person, female headed family can remain on welfare until income reaches \$14,300 per year. The figure is better, of course, than it is now, but it is substantially in excess of the BLS lower level of living which, in the fall of 1977 required about \$11,000 per year in the New York City area. And I would note that on average, it takes 1.3 wage earners per family to achieve that level in New York City.

I have always been quite fascinated with the figures showing how many wage earners per family it takes, on average, to reach the BLS lower level of living, the moderate and the higher level. The figure keeps going up, and on average, it takes 2.2 wage earners per family

to reach the BLS higher level of living. I think this must be taken into account in the establishment of welfare standards, and there must be a sensible relationship between the welfare standard, with all of its disregards, and what the ordinary family can earn doing a fairly decent moderately skilled job.

In relation to the provisions in the Baker-Bellmon bill for penalties, I must state that the figure is unrealistic; that is, the 4-percent goal for major urban areas. New York City currently of course exceeds that goal by a substantial margin. But so do most other large cities in the country.

We have substantially reduced error rates in New York City over the last few years and as current administrator of HRA, I am committed to pursuing every avenue to reduce ineligibility and overpayments, as well as underpayments, further. But I would recommend a system of penalties which recognizes differences between large urban areas and the smaller towns and rural areas and which recognizes effort such as has been and will be made in New York City.

Senator MOYNIHAN. Why has New York City had such trouble? Mr. Carleson cited Dr. Nathan saying there has been great improvement in AFDC error rate reduction, save for New York City and the District of Columbia. Has this got to do with a political culture, as well? You just get so big that nobody knows anybody?

Ms. BERNSTEIN. The fact is that the city is large and it is difficult to know about the individual and if the individual hides assets, hides income, you are not living in a small town where the neighbors might know about it and might let you know. But I think I again agree with what you implied in your statement. I think if we go back to the sixties in New York, there was a culture of permissiveness with respect to the welfare system. I think there was a sense of guilt at the results of discrimination over preceding decades. There was a very loose administration. It was the era of self-declaration and of the recertification by mail, and a denial of the possibility that ineligibility rates were high.

It wasn't until 1973, when the State took over the audit and quality control function and did a rather thorough analysis, that there began to be recognition that in fact at that time total ineligibility in New York was 18.3 percent, overpayments exceeded 35 percent, and underpayments were around 11.

Now, since then, a good deal has been done. I think particularly since 1975—and I take some credit for that as deputy administrator—

Senator MOYNIHAN. You deserve some credit for that, Dr. Bernstein.

Ms. BERNSTEIN. And I work closely with the city. Those rates have come down. Ineligibility is about 8.6 percent, overpayments about 19.5 percent. But there is still a lot of money that is being wasted, and there is no question about that, and we are making additional efforts.

I might say that for the first time, we were able to obtain access to the social security wage records, and we have just completed the first match of the welfare payment file against the first quarter of 1977 wage records. With all the cleaning that has been done and the

passage of time, we nevertheless have 7,000 hits, as they are called, meaning 7,000 cases of people who worked in the first quarter of 1977, were obtaining welfare during that period, and did not report to us that they were working. We anticipate some reduction in the caseload from this match.

Further, we are now getting the records of the second and third quarters of 1977, and these should be even more productive because they are more recent. And we are doing a great many other things in the way of matching. We are getting the cooperation of some of the savings banks, and we have completed a preliminary match on that, also with some startling results.

So I am confident that we now have the will in New York City to reduce ineligibility, and I think we can find the ways. We have already found many of them.

My written testimony includes comments on a number of other provisions in the Baker-Bellmon bill, but I will not try to summarize them. I would like to make a plea for a change in the disability definition to include addicts and alcoholics. This is particularly a New York City problem but also is evident in a few other large urban areas.

We have about 7,000 addicts and alcoholics.

Senator MOYNIHAN. Dr. Bernstein, are you talking about SSI?

Ms. BERNSTEIN. Which is part, obviously, of the social security bill and of this.

Senator MOYNIHAN. Right.

Ms. BERNSTEIN. These people are on home relief in New York City at a cost borne exclusively by the city and State, and they are on home relief because in fact they cannot work. But since the present law does not recognize addiction as a disability in itself—only if there are other associated ailments that go with it—we have not been able to get them transferred to SSI.

Senator MOYNIHAN. Oh, I see. This would apply to people over 65?

Ms. BERNSTEIN. No, under 65. If you are over 65, you qualify for SSI if you are in need.

Senator MOYNIHAN. SSI, of course, takes up aid for the permanently disabled, as well?

Ms. BERNSTEIN. Right.

Senator MOYNIHAN. That is an awfully fair point. I would trust you with it. Would I trust your successor?

Ms. BERNSTEIN. I think you can. I would hope that there will be some permanent effects of my tenure in New York. I think also the atmosphere in New York has changed to some extent.

I would agree again, in the past that provision was handled very loosely and we saw a big upsurge in the home relief caseload as a variety of people claimed that they were addicts, but I think that has been brought under some control. We do have a variety of constraints. These people must be in treatment programs. There is reasonable supervision and reasonable frequent reviews and recertification of the cases. So I think we have it under control but we would indeed appreciate a redefinition of disability.

Senator MOYNIHAN. You have a problem, don't you, in that? Is there any medically acceptable definition of an addict?

Ms. BERNSTEIN. Yes.

Senator MOYNIHAN. I am not telling you at all; I am just asking.

Ms. BERNSTEIN. Well, perhaps, I should not have answered that so quickly. It is in the medical dictionaries. There is a recognition of addiction and of alcoholism as a medical disease. The problem comes—and this is where our present difficulty is—in determining, is the addiction a disability in terms of seeking work. That is the crux.

Senator MOYNIHAN. Why don't you have the goodness to ask the medical people in the city government—and they all have friends here in the National Institutes of Health—what is the medical dependability of that kind of diagnosis? Would you do that for us?

Ms. BERNSTEIN. I will do that. We are pursuing it further.

Senator MOYNIHAN. The reality is there. You know it and can see it.

Ms. BERNSTEIN. Again, as deputy commissioner at the State level, I devoted a fair amount of time to working with the Federal people to try to get a change in the regulations, but they always came back and said, we can't change the regulations unless the law is changed.

But I will try to get—and if you like, I will send it on to you—the medical definition of addiction.

Senator MOYNIHAN. We not only like, we command.

Ms. BERNSTEIN. In that case, I shall obey.

[The definition of addiction follows:]

DEFINITION OF DRUG ADDICTION AND ALCOHOLISM

SOURCE.—DSM-II Diagnostic and Statistical Manual of Mental Disorders (Second Edition), Prepared by The Committee on Nomenclature and Statistics of the American Psychiatric Association, Published by American Psychiatric Association, 1700 18th Street, N.W., Washington, D.C. 20009—1968, Pages 45-46.

303 ALCOHOLISM

This category is for patients whose alcohol intake is great enough to damage their physical health, or their personal or social functioning, or when it has become a prerequisite to normal functioning. If the alcoholism is due to another mental disorder, both diagnoses should be made. The following types of alcoholism are recognized:

303.0 Episodic excessive drinking.—If alcoholism is present and the individual becomes intoxicated as frequently as four times a year, the condition should be classified here. Intoxication is defined as a state in which the individual's coordination or speech is definitely impaired or his behavior is clearly altered.

303.1 Habitual excessive drinking.—This diagnosis is given to persons who are alcoholic and who either become intoxicated more than 12 times a year or are recognizably under the influence of alcohol more than once a week, even though not intoxicated.

303.2 Alcohol addiction.—This condition should be diagnosed when there is direct or strong presumptive evidence that the patient is dependent on alcohol. If available, the best direct evidence of such dependence is the appearance of withdrawal symptoms. The inability of the patient to go one day without drinking is presumptive evidence. When heavy drinking continues for three months or more it is reasonable to presume addiction to alcohol has been established.

303.9 Other (and unspecified) alcoholism.

304 DRUG DEPENDENCE

This category is for patients who are addicted to or dependent on drugs other than alcohol, tobacco, and ordinary caffeine-containing beverages. Dependence on medically prescribed drugs is also excluded so long as the drug is

medically indicated and the intake is proportionate to the medical need. The diagnosis requires evidence of habitual use or a clear sense of need for the drug. Withdrawal symptoms are not the only evidence of dependence; while always present when opium derivatives are withdrawn, they may be entirely absent when cocaine or marihuana are withdrawn. The diagnosis may stand alone or be coupled with any other diagnosis.

Ms. BERNSTEIN. If I may just have one final comment on the jobs component of the Baker-Bellmon bill. In my view, expectations that the CETA programs can be phased down in connection with these welfare reform efforts may be unrealistic, and this is especially so in New York City where unemployment, as you well know, Senator, is substantially higher than the national average. Unless economic conditions in the city improve dramatically, the need is for more, not less, CETA jobs.

Further, while I applaud the emphasis on increasing family stability or in any event, helping families by allocating 50 percent of the title VI CETA jobs to AFDC families, this should not be accomplished by reducing the number of jobs available to single persons, especially young people between the ages of 18 to 24, where we have very high unemployment rates, especially among minority groups.

There has been much discussion this morning about the value of work rather than welfare and, as you know, I feel personally very strongly that we must encourage people to work, but it is very difficult to do this and to run, by the way, an efficient welfare system with a work test unless jobs are available. So I would plead for understanding of that problem in New York City and an increase in the provisions for jobs.

Senator MOYNIHAN. New York City has lost almost 600,000 jobs in 9 years. There are 18 States in the Union that don't have a work force as large as the number of jobs that have disappeared in New York, and that is clearly a special problem for you.

On that matter of addicts, I hope that you could deal with the question that addicts and, to a somewhat lesser degree, alcoholics are people who by definition spend a lot of money. They get it somewhere, and that suggests a question about how disabled they are, if they have the capacity to acquire sometimes extraordinary amounts of cash.

As you know, we are very much concerned about this whole question of error rates. I, not for the first time, admired your candor in saying that, yes, there was a kind of political culture in the 1960's that encouraged dependency and a certain kind of what Lenin called the infantile left with all sorts of wonderful fantasies about bringing down daddy and mommy by bankrupting the city. I don't know what the particular origins of the disorder were, but they certainly came under the heading of what Lenin would call an infantile disorder. But it ended up with the city going nearly bankrupt.

You have said something very disturbing. I guess I don't want to pretend too much shock and dismay because I guess I have anticipated it. But I am disturbed that tremendous efforts of the President's program carried out in HEW—which in my thinking has as one of its primary purposes getting welfare costs out of the budget of the Nation's most important cities—do little of the kind. It is part of the mentality, I am afraid, of the social welfare profession that it just

doesn't strike them that New York City matters. First of all, it never occurred to them that New York City would go bankrupt, and now, they just refuse to believe it is bankrupt. They have designed this elaborate system which, as you say, out of 500, some 66, did you say?

Ms. BERNSTEIN. Yes.

Senator MOYNIHAN. We had to go through all that to get \$66 million? It bespeaks a mentality. It bespeaks a mindset, don't you think?

Ms. BERNSTEIN. I think this partly comes from New York but partly this is from the Federal Government. I think there wasn't a realization that in this effort at comprehensive welfare reform, some aspects of which I must say I am sympathetic to—I certainly am sympathetic to including the intact family.

But with a high cutoff point at \$12,500, we would be including a substantially larger proportion of the population of New York State and New York City under a welfare program than we are now and with the contribution that the bill proposes, the end result—and also, with the decrease in the emergency assistance and with other provisions—the net result of the whole thing is only a \$66-million reduction in our burden.

Senator MOYNIHAN. That is pretty damned discouraging. It bespeaks a mindset that is incapable, among other things, of recognizing bankruptcy. We are bankrupt, and we are going around to the Congress begging people to lend us money. Then, when we come to fashioning a major program—which begins with the acceptance of the validity of the claim that there ought to be fiscal relief—1½ years later, the program is completed, and there is practically no fiscal relief at all.

Ms. BERNSTEIN. That is right.

Senator MOYNIHAN. I have one other question, Dr. Bernstein. One of the things that troubles this committee is the seeming inability of New York State and especially New York City to obtain child support under the 4-D program. What is your thought about that and what do you want to do?

Ms. BERNSTEIN. I might start by saying that the situation that New York City is in now with respect to 4-D reflects also that culture that we were talking about before. When that provision was introduced and implementation required, the general reaction from the social welfare establishment, if I may call it that, in New York was, it is a perfectly silly provision. It will never work, we will never get any money from it. And it is still under attack from the social welfare establishment in New York.

I think that that influenced the early administration of that provision in New York City. I heard the previous administrator say at a major meeting of State and city officials—one of the more difficult meetings I have ever attended—that it just won't work; that is what the high priests of welfare tell him. Well, it is working a bit better now.

Again, there has been a change over the last year, and I intend to focus a good deal of attention on the problem. Collections are going up, but we are very far from a level that we ought to be achieving in

New York City. I can only say that we will make a greater effort and we have a substantial part of the community behind us, but it is going to take a good deal of work.

Senator MOYNIHAN. You do have somebody behind you?

Ms. BERNSTEIN. Yes.

Senator MOYNIHAN. What sort of persons?

Ms. BERNSTEIN. The business community, I believe, is behind us and speaking up on the issue a bit more, and I am speaking up on the issue.

Senator MOYNIHAN. You are a community in your own right.

Let me ask you a question. This gets into a sensitive area, and I probably will regret it. I have regretted a lot of things in my life, and I haven't always been wrong about the things I have come to regret. It seems to me, as I wrote in my book, "The Politics of Guaranteed Income," that welfare institutionalizes the exploitation of women. As I said, this is not everybody's view, but it happens to be mine.

One would think that if ever there were a case where persons concerned with women's rights would be alert, it would be the proposition that males who father children can just leave the female who bears them to raise the children herself. That there should be no inconvenience attached to the fact that you happen to be the father of the child and that the woman should just be left there because it is ever her plight.

Doesn't it strike you as odd that there seems to be so little feeling that this is almost an institutionalized exploitation of women, that you should just let women bear children and leave them on their own? I mean, is it assumed that it is the male who is being oppressed when he is asked to pay some part? Is there a secret male supremacy movement that controls the inner offices of the welfare bureaucracy, and no one dares presume to ask a father to pay some support of the child?

Ms. BERNSTEIN. I don't think it is male supremacy in this case.

Senator MOYNIHAN. Now, listen. I happen to know the Free Masons are up to a lot of things in this country that nobody knows about. How do you know there isn't a secret male supremacy society right there in the middle of your administration?

Ms. BERNSTEIN. When I get back to New York, I shall look for it and if it is there, I shall try to root it out. [General laughter.]

Senator MOYNIHAN. Seriously, I don't know how much government can do about that large issue, but don't you think there is a question that women have rights to have the father of their children share in the support?

Ms. BERNSTEIN. Let me say very seriously, in response to your question, I think we need a change in attitude in certain sectors of our population of New York City, and I would include in that not just the social welfare establishment but the family courts and the judges in the family courts.

We have a good deal of trouble when we go into the family court. There is a State standard, and I helped develop it, so I think it is quite good, of the level of support payment that you should expect from a father at this or that income level. We find that the courts,

when they issue an order, order less than half of the standard that we think is reasonable. There is just this attitude that it is sort of unfair to put this burden on the absent father.

Senator MOYNIHAN. What a decline of a culture that says, just imagine asking a father to support his child. How awful when the State can do it for him.

Ms. BERNSTEIN. It is not easy to change this attitude, but we are trying to.

Senator MOYNIHAN. God have mercy on us all, Dr. Bernstein.

You have said some things that are very disquieting, very helpful. I do particularly thank you for having paid so close attention to the Baker-Bellmon-Danforth-Ribicoff bill, because it is obviously a very important option before this committee. We need your advice, and we will come back for it.

I hope we didn't keep you too long today, but on the other hand, you heard some good testimony. You are a good listener, as well as a very effective and welcome witness before this committee.

Now, get back to New York and catch some of those male supremacists who are preventing the laws of the country from being carried out.

Ms. BERNSTEIN. Thank you very much.

[The prepared statement of Dr. Bernstein follows:]

STATEMENT OF DR. BLANCHE BERNSTEIN, ADMINISTRATOR/COMMISSIONER,
NEW YORK CITY HUMAN RESOURCES ADMINISTRATION

INTRODUCTION

Mr. Chairman, members of the Subcommittee on Public Assistance—I am Blanche Bernstein, Administrator of the New York City Human Resources Administration. On behalf of the City of New York and the New York City Human Resources Administration, I would like to thank you for inviting me to speak before you on the subject of Welfare Reform. My testimony today will reflect my experience as Deputy Commissioner of the Division of Income Maintenance with the New York State Department of Social Services; as well as my current responsibilities as Administrator of the New York City Human Resources Administration.

The \$1.6 billion welfare budget for New York City consists of \$1.4 billion for grants to 925,000 clients and for SSI supplements and an additional \$200 million for the administration of the program. It represents 12 percent of the City's Expense Budget and is supported by \$556 million in City funds as well as State and Federal monies. As such, it is one of only 12 localities whose states require that they contribute a local share to the support of welfare. You can well understand my interest in welfare reform which is aimed at streamlining administration and providing fiscal relief to states and localities. As Administrator of HRA, I am committed to eliminating waste and abuse in the welfare program. We have instituted numerous cost containment projects and additional ones will be initiated shortly. Even with Herculean efforts, however, the problem cannot be solved by local levels of government.

The current welfare system is in need of reform and this reform must occur at the Federal level.

The better jobs and income bill

The Better Jobs and Income Bill (S. 2084) is a significant attempt at such reform. Since its introduction in August 1977 there has been much discussion and debate over its provisions. As I am in general agreement with the positions detailed by New York City's Administration over the past nine months, I will not present a detailed analysis of the bill today. Rather, I will highlight its most noteworthy points.

I support its inclusion of intact families and single persons, its emphasis upon work, and its attempts at standardization. However, while I support these basic principles, I do not necessarily agree with the bill as written.

To begin with, the amount of fiscal relief it would provide is far from adequate. Our latest analysis indicates that New York City would receive only \$68 million of fiscal relief in 1981.

The bill's provision for a basic federal grant level is compromised by the requirement of a 10 percent state/local share.

While the bill makes federal funds available to share in the cost of supplementation above the basic grant level, the bill also sets limits on the amount of allowable supplementation. Portions of the grant above these limits would not receive federal support. Thus, the provision for supplementation is compromised because, for many individuals, these limits are below our current grant level.

In addition, there are no provisions for periodic cost of living increases.

I am concerned that the block grant allotment for emergency support will be inadequate. Since the welfare reform program would be a substantial departure from the current program, these emergency funds would have to be used for expenditures which were formerly part of the individual grant. Because of this change, we should let experience determine the appropriate level for emergency assistance funds before placing a cap on them.

The two tier benefit system is philosophically desirable, however, in practice an individual cannot live on less than \$100 per month. I am referring to an individual who cannot find a job in the private sector but who is expected to work though not eligible for a public sector job. I am by no means advocating public support to individuals who refuse to work. I am merely pointing out that the provisions in the proposed bill are inadequate in this regard.

The earned income disregard is another example of a good theory poorly translated into action. The amounts proposed disturb me for two major reasons. First, a family of four earning as much as \$12,500 will still be eligible for welfare supplements. Second, Medicaid eligibility levels are currently linked to welfare eligibility. Under the proposed program this would no longer be so and a separate eligibility determination would be required for Medicaid.

Finally, I would like to voice my concern that there will not be enough jobs to meet the demand. I say this because no priority is given to welfare recipients for these jobs. Rather they are open to non-recipients as well. I also question the feasibility of a jobs program that does not allow for payment of prevailing wages instead of the minimum.

I do not wish to convey a negative attitude toward welfare reform. I am very much in favor of a reform and am pleased to see that legislative interest continues as new proposals are introduced.

House Subcommittee revision of BJI

The House Subcommittee on welfare reform, after much discussion and testimony, has amended the original Better Jobs and Income Bill. Their revised version (HR 10950) incorporates a number of the City's recommendations such as the elimination of the lower tier benefit level during the job search period when the unemployment rate is high. It also raises the allowable supplementation level to coincide with existing grant levels and it increases the benefit reduction rate. Alternatively, the revised bill incorporates a number of provisions that the City does not support. For example the requirement that childless 18 to 24 years olds file for assistance as members of their parents' households instead of as a separate household. The long and the short of it is that while some of the changes would save the City money, others cost us money. Our end position, in terms of fiscal relief, is basically the same as under the original bill. Let me turn now to the Job Opportunities and Family Support Act.

Fiscal relief

As I stated earlier, one of our primary concerns in any Welfare Reform Legislation is Fiscal Relief. Towards this end we have long sought an increase in the Federal Matching Rate, to at least a 75% share, with implementation to be accomplished as quickly as possible. S.2777 with its limited approach to Welfare Reform would provide New York City with more significant Fiscal Relief than that provided by the more Extensive Administration Proposal. In 1981, for example, the Administration's Bill would provide New York City

approximately \$66 million in savings whereas the Baker Bill would provide \$108 million or \$42 million more in savings.

This means that New York City would save 12% of total current welfare costs under the Administration's Bill compared to 20% under the Baker Bill. We applaud this step as a means of bringing States and localities the assistance they desperately need to ease the crushing burden of public assistance payments they now bear. We would hope, though, that the timetable for implementation of this Fiscal Relief could be speeded up in order to reduce the enormous load we now carry.

S.2777 will provide a 70% match in 1981 and might bring us to the 80% Federal match within 4 years. I say "might" because of the requirement that, in order to receive the FY '82 increase in Federal Financial Participation, a state could not require a political subdivision to pay for any portion of aid to needy families with children. Obviously, we in New York City would love to see our State Government assume this responsibility. We hope it will. However, since we can't be sure it will exercise this option, our preference would lie with eliminating this requirement as a condition for receipt of the final 10% increase in the Federal Match.

Elimination of work connection requirement

S.2777 contains another significant improvement over current law which, although not of major fiscal import to the City, does provide some relief. I refer, of course, to the elimination of the "Work Force Connection" requirement and the replacement of the "100 hour rule" by the rule of 130 hours times the minimum wage. In New York City, we estimate some 3800 families comprising some 20,000 persons now receiving general assistance payments, could qualify for coverage. This would reduce our local expenditures by approximately \$343,000 a month.

More importantly, in those jurisdictions which do not now have an AFDC-U program (or a general assistant program locally funded), but which would be required to enact one under this bill, families will not be encouraged to break apart in order to qualify for Public Assistance.

Intact childless families and single persons

Although I realize the bill was drafted to take an incremental approach to Welfare Reform, I believe it does not go far enough in support of intact families. Under the provisions set forth, federal participation will extend only to those intact families who earn less than \$4200 per year. This is substantially below the welfare grant level for a family of four in New York of about \$5,500 excluding the food stamp bonus and net of work expenses and taxes. This continues the pattern of discrimination against those intact families who are working, staying together, providing parental guidance to their children but who don't earn enough to support their families without public aid. It passes on what is legitimately a federal obligation to those states and localities who have provided general assistance. This federal obligation has been recognized in the Administration's B.J.I. bill.

The Administration's B.J.I. bill recognized that there is a federal responsibility for providing aid to this group of citizens. I urge you to consider including this group for coverage in any legislation you propose.

I feel very strongly that this failure to provide federal assistance for working, intact families leads to individual family decisions to break up in order to qualify for AFDC. I urge you to consider in adopting this legislation a policy that will not make it fiscally advantageous for a parent to leave his children.

I am also very much concerned that this bill does not deal at all with those childless couples and single individuals who can work, want to work, but can't find a job. Unemployment is a national problem and States have very little ammunition in their arsenals to tackle the root causes. In New York City we are requiring about 40,000 employable recipients to report every two weeks to the Labor Department for jobs. They report and mostly come away empty handed. The cost of supporting this population is borne by the State and the City. The answer for this group is to provide jobs. Where this bill strengthens the CETA programs some aid is provided, but it is not sufficient. Further, we have an additional 60,000 single persons or members of two person families, such as 60 year old husband and spouse, on welfare who are not employable. These people are entitled to assistance from society. I would hope for some

federal contribution to the costs of maintaining the single person and couples who cannot find work or cannot work, though perhaps less than the federal contribution to assistance to families.

Earned income disregard

I note that this bill attempts to deal with the issue of putting a cap on the amount of money which a recipient can earn before he is removed from the public assistance rolls. I believe my views on the inequities fostered by the earned income disregard as they now exist in the Social Security Act are well known. Theoretically it is possible for an AFDC family to earn as much as \$29,000 and still receive some public assistance benefits. People have asked me whether I ever came across such a case. I haven't. I have, however, come across a case where a mother of one child was earning \$13,000 and still entitled to receive public assistance. I have worked out the figures for a family of four based on the proposal in this bill. A mother with three children paying child care of \$300/month would have to earn in excess of \$14,300/year before she became ineligible for public assistance payments. When you consider that the Bureau of Labor Statistics reports that, in the fall of 1977, a family of four in New York City required about \$11,000 for a lower standard of living, and, that on average, it takes 1.3 wage earners per family to achieve this level, this bill has not yet erased the inequities between the working family who never asks for public aid and the family who had public assistance and gets a job. There have been many proposals for an earned disregard formula that achieves the goal of providing an incentive but cuts off public benefits before the assisted family's income outdistances the non-assisted family's income. I am sure that most of you are familiar with these alternative proposals and I don't want to take the Committee's time by repeating them except to point out that whatever legislation you enact has to balance the need to provide an incentive to enter the labor market with the need to avoid disincentives to those who are working and maintaining their families without public aid.

Quality control penalties

S. 2777 provides a penalty for quality control errors, both over and under-payments resulting in dollar losses in excess of 4%. As you know, I believe that public welfare administrators should do everything they can to reduce ineligibility and to insure that eligible recipients get the correct amount of benefits. New York City has made significant strides in accomplishing these objectives. From an ineligibility rate of 18.3% found by Quality Control in the base period of April, 1973, the percentage has been reduced to 8.4% in the last half of 1977. Overpayment errors have fallen from 35.2% to 19.4% in the same period. Despite these strides, we are not satisfied and will continue to pursue every avenue open to us to reduce ineligibility further.

At this point of cost of payments to ineligibles and overpaid cases in New York City is \$154 million, far in excess of 4% of expenditures. I firmly believe that penalizing states or localities that have made every effort is not the way to achieve continued reductions in errors. I also do not believe that you can measure the performance of states across the country by setting a national percentage factor. Ineligibility comes primarily from concealment by the recipient of salient facts. Administering the welfare program in rural and low density areas is very different than administering the program in large cities. An investigation of ineligibility in a small town where most people know each other is bound to yield different results than an investigation in a dense ghetto area where residents are loathe to give information to public officials.

In dense urban areas where a significant percentage of the population is receiving AFDC, administrators have to use different techniques to insure eligibility. In our efforts to improve our techniques we have visited and studied most of the large cities in the nation. Like New York City, they experience the same difficulties in ascertaining the facts that establish eligibility. In the course of our studies, we also noted that some states do better than we do because their state plans block out some of the possibility of error. For example, if a state plan calls for one payment to include all items of need they will never make a shelter payment error. On the other hand, a state providing a shelter allowance based on actual rent and sharing the allowance between public assistance and non-public assistance recipients can and does make errors.

I would like to suggest an alternative because I can understand Congressional concern to reduce error. The Congress might suggest to the Secretary of

HEW that he require every state to submit a plan aimed at error reduction. The Secretary should be required to review the plan, make suggestions, consult with state administrators, and sign off on the plan. Performance in the plan should be measured with penalties tied into non-performance. I don't believe any public welfare administrator thinks he has all the solutions and, I suspect, would certainly welcome suggestions to improve his performance. I know I have welcomed the Secretary's views on improving the operations here in New York City.

Foster care/adoptive subsidies

In reviewing S.2777, I was gratified to see the Deletion of the Foster Care Expenditure Cap contained in the Senate version of H.R. 7200. Enactment of such a limit would go a long way toward reducing the Fiscal Relief States and Localities now desperately need. I urge that any legislation dealing with this subject not contain such a provision.

I was also delighted to see two new and welcome groups made eligible for Federal financial participation in the Foster Care/Adoption area. Most important in my view, is the provision for subsidized adoption. New York State has, within the past year, enacted legislation to provide such assistance for handicapped and hard to place children in Foster Care. With additional Federal monies made available, this program can be expanded to provide additional opportunities for the most forlorn of our children and offer them a chance for a stable life. I think inclusion of such funding is critically important for their future.

Along these lines I also support the inclusion of Public institutions where up to twenty-five children in Foster Care reside as eligible for federal funding. This will encourage states to move away from the large institutional settings of prior days and accelerate the development of smaller, more community-oriented facilities where such youngsters can better develop socially and emotionally.

Additional provisions—Mechanized claims processing

By extending increased Federal reimbursement to the Aid to Families Program for the installation of computerized claims processing and information retrieval systems, a strong incentive is supplied to states which have considered this method worthwhile, but were unable to implement it because of fiscal considerations. New York does have legislation on the books authorizing such systems and will, I'm sure, find these additional funds helpful, as well as the technical assistance that goes with it.

Emergency assistance

S. 2777 contains some new provisions which would substantially change the Emergency Assistance to Families Program.

By placing a ceiling of \$150 million nationwide, the current open-ended funding would terminate. However, by increasing the Federal reimbursement rate to 100%, and allotting available monies on the basis of a state's need, we believe no significant fiscal problems will occur. Furthermore, the additional flexibility given to states in determining eligibility for these funds is most welcome and a marked improvement over the way we now operate, especially the opportunity offered to grant such assistance to single individuals.

SSI issues

The provision progressively lowering the SSI age limitation to 62 by 1982 is a potential source of fiscal savings, should the "Under 65's" not be covered by Federal financial matching under a final Welfare Reform bill. Although these savings would be small, we welcome any assistance offered.

Finally I should like to touch on a problem perhaps more important to New York City than most other urban areas in the country, and that is the provision of public assistance to needy drug addicts and alcoholics. We now support 7,000 such individuals on Home Relief in New York City at a cost to State and City of approximately \$16.8 million annually because the current interpretation in Social Security disability regulations prevents payment of SSI benefits to an individual addicted to drugs or alcohol unless such individual is found to be disabled by reason of some mental or physical impairment not associated with these conditions. Although there is recognition that an addiction to drugs or alcohol may adversely affect or cause some other impairment, there is no provision for allowing benefits where the addiction

itself causes the functional loss. Yet, there is now general acceptance that drug and alcohol addiction are medically recognized as diagnostic entities and are listed in all standard references categorizing diseases. In addition, the disability program is inequitable to this segment of the population because addiction is known to be a condition that prevents work under circumstances than can be described. The SSI legislation, Section 1611 (e) (3) of the Social Security Act, provides for treatment and monitoring of drug addicts and alcoholics as a condition of payment which seems to indicate that it was the Congressional intent to find such individuals disabled.

New York experience has been that addicted persons under treatment require long periods for restoration of ability to work on a regular basis. Many such individuals under treatment have emotional problems, not severe by themselves, which prevent them from continuing in treatment for sufficient periods to achieve recovery. Therefore, new legislation is needed to rectify this situation.

We propose an amendment to the definition of disability under Title XVI, Section 1614 be added to include the following concepts:

1. For the purpose of this Title, alone, an individual may be considered disabled if he has been medically diagnosed as addicted to alcohol or such drugs as heroin and is not engaging in substantial gainful activity.

2. Such addictions will be presumed to be expected to last for a continuous period of not less than 12 months.

JOBS COMPONENT OF WELFARE REFORM LEGISLATION

As proposed, the welfare reform legislation does not provide a sufficient number of public service jobs. Expectations that the CETA programs can be phased down in connection with the welfare reform efforts may be unrealistic. In New York City, where chronically high levels of unemployment exists, the current CETA public service employment programs must remain operational at levels which are correlated to local unemployment levels. As of February 1978, the national unadjusted level of unemployment was 6.9% and approximately 725,000 public service positions were filled; in New York City unemployment was 9.8% and public service positions numbered approximately 26,000. Unless economic conditions improve drastically, the need is for more not less CETA jobs. Further, the proposed eligibility requirements for P.S.E. participation are more restrictive than the current ones. The proposal limits the ability of major portions of the unemployed, including singles, childless couples and youths, to obtain needed public service jobs. While I applaud the emphasis on increasing family stability by allocating 50% of CETA Title VI jobs to AFDC families this should not be accomplished by reducing the number of jobs to single persons, especially youth or the childless couples. Adopting any wage rate which is not the prevailing entry level wage for these classes of positions establishes a dual system of compensation for employees.

The City strongly supports the efforts of Congress to provide incentives for private sector development of jobs for eligible applicants. However, the voucher subsidy system is administratively complex; the tax credit and the voucher systems require evaluation to determine whether incentives provided are reasonable; and both systems do not provide assurances that jobs developed will be geared toward permanent unsubsidized employment. Though time constraints do not permit us to evaluate this matter in any greater detail, the jobs components of the proposed legislation address a variety of issues which are of concern to the City of New York and extensive analysis and review is required.

Senator MOYNIHAN. Now, as our next witnesses, we have a panel of Mr. John Cosgrove, who is the legislative director of the Public Employee Department of the AFL-CIO; and Mr. David Crippen, who is executive director of the California State Social Services Union, who is here on behalf of the Service Employees International Union of the AFL-CIO; Lois Balfour, of the Boston Social Workers Guild; Andrew Stern and Jane Perkins, of the Pennsylvania Social Services Union; and Gail Wright, of the Rhode Island Alliance of Social Service Employees.

Now, I don't know your names, other than Mr. Cosgrove. Good morning, sir, and welcome to the committee. Would you introduce your associates?

STATEMENT OF JOHN E. COSGROVE, LEGISLATIVE DIRECTOR, PUBLIC EMPLOYEE DEPARTMENT, AFL-CIO; DAVID CRIPPEN, EXECUTIVE DIRECTOR, CALIFORNIA STATE SOCIAL SERVICES UNION, ON BEHALF OF THE SERVICE EMPLOYEES INTERNATIONAL UNION, AFL-CIO, ACCOMPANIED BY: LOIS BALFOUR, BOSTON SOCIAL WORKERS GUILD; ANDREW STERN AND JANE PERKINS, PENNSYLVANIA SOCIAL SERVICES UNION; GAIL WRIGHT AND MICHAEL BERNSTEIN, RHODE ISLAND ALLIANCE OF SOCIAL SERVICE EMPLOYEES; AND STANLEY WISNIEWSKI, DIRECTOR OF RESEARCH, SERVICE EMPLOYEES INTERNATIONAL UNION, AFL-CIO

Mr. COSGROVE. Thank you, Mr. Chairman.

I will ask Mr. Crippen to make the introductions, if he will do that, since he is more acquainted, I think, with the members of the panel.

Mr. CRIPPEN. I am David Crippen. I am the executive director of the California State Social Services Union, accompanied by Andrew Stern of Pennsylvania, Michael Bernstein of Rhode Island, Lois Balfour of Massachusetts, Jane Perkins from Pennsylvania, and Gail Wright from Rhode Island.

Senator MOYNIHAN. Good afternoon to you all.

Mr. Cosgrove, you are very well known to the chairman of this committee, and welcome before it.

Mr. COSGROVE. Thank you, Mr. Chairman. It is a pleasure to be with you and with the committee and testify this afternoon. For the record, my name is John E. Cosgrove, legislative director of the AFL-CIO Public Employee Department.

Our department is a coalition of 30 national and international unions which have about 2 million members employed in the public sector, working at every level of government, Federal, State, county, city, postal, school boards, transit authorities, and others. We are interested first, as citizens; second as part of the labor movement with its objective of advancing social justice; and third and specifically as public employees. We appreciate this opportunity to testify on the President's welfare reform proposal and related bills and considerations.

As a preliminary, let me say that we compliment the administration for its proposal to address in a comprehensive way this complex and pressing problem of welfare. We similarly compliment this committee for addressing this problem. We share with you the expression that action is possible in this difficult and complex area, and the gratification that there is some indication that we are moving forward.

We also share very deeply the concern for the problems of New York City and our other great centers because without this, the

country will not be the strong and great country that it is, so to the degree that that is germane, we are delighted that this is going forward.

Mr. Chairman, with your permission, I would like to submit a study that our department had commissioned last year on various facets of the welfare issue for the record, and also a longer statement of testimony, confining my remarks to only three pages of oral testimony.

Senator MOYNIHAN. By all means.
[The report referred to follows:]

THE WELFARE ISSUE—WHAT'S AT STAKE FOR PUBLIC SERVICE EMPLOYEES?

(Prepared for the Public Employee Department, AFL-CIO by Ruttenberg, Friedman, Kilgallon, Gutchess & Associates, Inc., Jocelyn Gutchess, Senior Associate, Diane B. Manning, Associate, July 11, 1977)

INTRODUCTORY SUMMARY

Cities near bankruptcy? State treasuries in trouble! Mass layoffs of public workers! Drastic cutbacks of public services! All too frequently today those are headline topics—the message of the media.

The difficulties faced by state and local governments as they strive to maintain basic services have become distressingly familiar. Equally distressing and almost as familiar are the stories and headlines concerning the "welfare mess." In our view, there is a connection between the two sets of problems.

When people talk about the "welfare mess," they usually are referring to the group of federal-state-local programs designed to sustain on an economic basis individuals who, for one reason or another, cannot support themselves. The "welfare mess" embraces a multitude of problems—rising costs, inadequacies, inequities, program duplication, administrative red tape—to name but a few.

One aspect of the "welfare mess" is the duplication of programs and services that has occurred in recent years, producing a wasteful, inefficient system of public assistance. By the "welfare mess," people also mean the inequities that are present between one state and the next, between states and localities, between categories of need, and between workers and nonworkers. They also mean the inadequacy of certain programs in terms of meeting needs and helping people.

The "welfare mess" undoubtedly brings to mind administrative red tape—nightmarish procedures and protocol that defy reason and sometimes sanity. It also recalls the crushing and indeed unequal burden which welfare programs have placed on some local and state governments. The "welfare mess" refers to the unfortunate fact of fraud which has developed in some localities, and which has given the entire welfare effort a bad name.

For more than a decade it has been generally recognized by all those involved in welfare—political leaders, government officials, lawmakers, welfare workers and welfare recipients—that the welfare system is indeed a mess and that reform is desperately needed. But how this is to be accomplished is another story—a story which there has not yet been agreement. Agreement on specific reform measures has been stymied because—to put it simply—the interests of the several constituencies desiring and working for reform are not the same. In fact, in some cases, they appear to be incompatible.

Now, after years of debate and years of experimenting with various "demonstration" projects, the time has arrived to find a way to resolve these conflicting interests. Reform of the welfare system and corrections of the "welfare mess" can no longer be limited to political campaign rhetoric or classroom discussion. Reform is no longer a luxury. It is a necessity. The magnitude of the welfare problem and the failures of past reform efforts demand that we immediately get down to the serious business of developing and implementing national welfare reform. President Carter, recognizing this, has made welfare reform a top priority of his administration. An administration plan was released August, 1977.

Thus, a major purpose of this paper is to help to lay the groundwork for a successful reform effort. To do this, it is first necessary to understand what the present welfare system is, how it works, and whom it serves. The first part of this paper will provide this information. Secondly, it is necessary to examine the deficiencies of the present system and the impact of the increasing welfare burden. The final section of the paper will discuss the four principal approaches to welfare reform that are most frequently considered by policymakers and others concerned with the welfare issue.

All of these approaches, including the one developed by President Carter and his staff, involve some degree of "federalization" of the welfare program, particularly in establishing uniform national standards for coverage (who should be included in the system) and benefit levels (a guaranteed income plan). They differ, however, in important respects—particularly in how they would handle other aspects of "federalization," such as assumption of costs, federal versus state or local program administration, and provision for regional or local program variations.

This welfare study proposes a single reform scheme of its own, and develops some basic principles which must underlie any reform plan if it is to succeed. In addition, the study identifies certain program elements or components which we believe are essential to successful reform.

The important principles are these:

The welfare problem is not a problem of people. It is a problem of institutional failures. First among these is the failure of the economy to provide enough jobs. A full employment policy must, therefore, be the starting point from which welfare reform takes off.

A sound welfare system requires a much greater degree of federal involvement, including financial support, than is now the case. Eventually—indeed as soon as possible—the entire cost of the welfare system should be shifted to the federal government.

Federal involvement should not be limited to financial support. Sound welfare policy also requires establishment of certain minimum standards. There should be a single set of national standards for coverage, eligibility for participation, benefit levels, computation of benefits, treatment of income deductions and work expenses, and benefit-reduction rates.

The federal government has an obligation to its citizens: to provide income support for all those unable to work and to provide jobs and training to those who can work. This includes the development of some form of income support for new entrants and reentrants into the labor force.

The federal government also has an obligation to see to it that those who are working receive just and decent rewards. It is not right that so many of our citizens remain in poverty even though they work full time. Nor is it right that those who are working should be penalized for so doing.

If there is to be full federal financing of a welfare system, including establishment of uniform federal standards, it may be necessary to move toward federal administration of the system. But such a move should be made only on the basis of careful consideration, review of the experience of existing federal programs, and detailed planning and preparation. Further, it should not be done without full concern for and protection of the rights, working conditions and job security of the thousands of state and local employees who currently bear the brunt of the "welfare mess."

As is usually the case, these principles are more easily stated than carried out. However, the success or failure of the welfare reform effort will be largely determined by the degree to which they are implemented.

CHAPTER I—POVERTY AND WELFARE TODAY

POVERTY

Since the mid-1960's, federal social policy has been directed—albeit not always very energetically—at alleviating poverty and raising the living standards of the millions of Americans who, for a variety of reasons, are unable to support themselves. In pursuit of these goals, billions of dollars have been spent and dozens of programs have been established. These programs make up a vast network of benefits and services that are known by such names as welfare, public assistance, income maintenance, income support, income security. These

efforts to alleviate poverty have provided relief to many persons. For a period of time, in fact, the level of poverty actually decreased. However, as recent Census Bureau statistics indicate, the problem of poverty is very much with us today, and is not diminishing.

The number of persons living in poverty sharply increased 10.7 percent from 1974 to 1975, according to the latest Census Bureau figures. This was the second yearly increase in a row and the largest single increase since 1969 when poverty data were first available. In 1975, 25.9 million persons, or 12 percent of the entire U.S. population, lived below the official poverty level which was then set at \$5,500 annual income for a nonfarm family of four. (The poverty level is now \$5,850).

Who are the poor? They are mainly older persons, children and their mothers in female-headed households, disabled persons, blacks, persons of Spanish origin and other minority groups. The poor are more likely to live in central cities and non-metropolitan areas than in suburbia. Between 1965 and 1975, the percentage of poor households headed by females increased from 33 to 47 percent, while the incidence of poverty in male-headed households decreased by the same amount (14 percent). One out of four female-headed households received three-fourths or more of their income from public aid in 1975 compared to one in 17 of the men's families. The Census Bureau reports that during the same year the likelihood of poverty for minority group families was nearly three times that of white-headed families. Historically, increases in the incidence of poverty have gone hand in hand with recession and high unemployment. Such was the case in 1975. National unemployment jumped from 5.6 percent at the end of 1974 to 8.5 percent, resulting in heavy demands on the unemployment insurance system. During 1975, more people exhausted their unemployment benefits than in previous years, 4.3 million compared to 2.0 million in 1974. In 42 percent of the cases where families fell below the poverty line in 1975, the family head was unable to find work during the entire year or was unemployed longer than 15 weeks.

WELFARE TODAY

There are about 60 major, federally-supported programs which provide benefits to millions of Americans. These income maintenance, or income transfer, programs are expected to cost over \$184 billion in fiscal 1977. Both government and the American people recognize the benefits to society when the welfare of all citizens is protected. Recent expansion in the number of programs, coverage and costs, reflects growing commitment to this national policy.

MAJOR INCOME ASSISTANCE PROGRAMS—RECIPIENTS, BENEFITS, COSTS

Program	Population served	Brief description	Work requirement	Benefit levels	Number of recipients fiscal year (millions)	Expenditures (fiscal year 1977) ¹ (billions)			Total monthly spending per recipient (fisc- all year 1976) ²
						Total	Federal	State-local	
Aid to Families with Dependent Children (AFDC).	Low-income, single-parent families with dependent children. 27 States provide benefits to families with an unemployed father present.	A cash assistance program financed by Federal, State, and in some States local governments, and administered by the States. Eligibility and benefits are determined by the State.	Employable recipients register for work or or training with the Work Incentive (WIN) program, or risk loss of benefits.	Maximum monthly payment for family of 4 (July 1975): High—\$497 Hawaii; Low—\$60 Mississippi.	11.4	\$10.3	\$5.7	\$4.6	\$73
Supplemental Security Income (SSI).	Low-income aged, blind, and disabled persons.	A federal cash assistance program with nationally uniform eligibility standards and benefit levels. Eligibility is based strictly on need. Optional and mandatory State supplementation to Federal minimum.	No work registration requirement.	Maximum monthly payment (July 1977): Couple—\$266.70; Individual—\$177.80.	4.4	6.3	4.7	1.6	116

Food Stamp Program.....	Low-income working and nonworking persons and families without regard to population category. AFDC and SSI recipients are automatically eligible.	A federally funded program which aims to improve the nutritional quality of the diets of low-income persons by providing monthly coupons for the purchase of food. Coupon allotment varies with household size. Purchase price varies with income level. State-administered.	Employable recipients must register for work or training, or risk loss of benefits.	Maximum monthly "bonus" value of food stamps to family of 4 with no income (July 1977)—\$170. Average monthly bonus per person—\$24.	17.7	5.0	5.0	(?)	24
General assistance (GA)..	Varies from state to state and locality to locality. Generally aids low-income persons not eligible for federally-supported assistance programs.	Cash and in-kind benefits for needy persons, funded and administered by State and local governments. Benefits and eligibility standards vary widely. Not available in all states.	Depends on State and local law.	Vary from State to State.....	.9	1.3	0.0	1.3	103
Medicaid.....	AFDC and SSI recipients and, in some States, other "medically needy" persons.	A jointly funded Federal-State program which provides free medical care and services for low-income persons. Eligibility requirements and covered services vary from State to State. Benefits are in form of fee payments to providers of medical services.	No work registration requirement.	Average annual payment per recipient (FY 1977)—\$695.	24.7	17.2	9.7	7.5	134

¹ Fiscal year 1977 figures are estimates.

² Source: "National Journal," Jan. 8, 1977, No. 2.

³ Not available.

The major portion of the \$184 billion for income maintenance funds such as social insurance programs as Social Security, Medicare and Unemployment Insurance. Through these programs, income support is provided individuals whose earnings are interrupted or discontinued because of unemployment, disability, retirement or death. The cost of these social insurance programs in fiscal 1977 is estimated at \$135 billion. Eligibility for social insurance programs is based on such criteria as old age, previous employment record, physical disability, and temporary, involuntary unemployment. Social Security and Unemployment Insurance are considered "earned" benefits. In order to be eligible for these programs, a person must have worked in covered employment for a specified period of time. Medicare benefits are "earned" by virtue of one's age and are available to persons 65 or older. Social Security and Unemployment Insurance are financed by taxes on employer payrolls and employee earnings through annual appropriations from federal tax funds. Similarly, the hospital insurance program of Medicare is funded by employer and employee contributions while Medicare's general medical insurance program is financed by general revenues and the premiums paid by enrollees.

The remaining one-fourth of income maintenance expenditures supports welfare programs which are "means-tested", with eligibility based primarily on financial need. These programs are financed solely out of federal, state and local government tax revenues. There are five major means tested income assistance programs for low-income persons: Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), Food Stamps, Medicaid, and General Assistance. Other "means-tested" programs include housing assistance, veterans pensions, educational grants for low-income students, and the earned income tax credits for low-income persons. Expenditures for means-tested income assistance programs now total about \$49 billion, as compared to \$26 billion five years ago. The federal government pays about 70 percent of the \$49 billion. State and local government bear 30 percent of the cost. Of the total expenditure, local governments pay 5 percent or less than \$15 billion.

The \$49 billion, means-tested income assistance programs are the focus of the current welfare debate. And the five major programs—AFDC, SSI, Food Stamps, Medicaid and General Assistance—are the primary targets of reform proposals.

AID TO FAMILIES WITH DEPENDENT CHILDREN

Much of the discussion about the so-called "welfare mess" and the need for welfare reform has focused on the income assistance program called Aid to Families with Dependent Children (AFDC). AFDC is one of the largest public assistance programs in the United States, serving over 11 million persons a month. For fiscal 1977, total federal-state expenditures for the program are expected to be \$10.3 billion. The AFDC program has been the source of considerable public debate and controversy, particularly in recent years when costs and growth rates escalated sharply. The controversy—and the subsequent demands for reform—partly arises from the complex laws and regulations which govern the program. Too frequently, inequities, inadequacies, and inefficiencies exist in the administration of AFDC.

This program is a joint federal-state effort. Basic operating rules are set by federal law and regulations. The states, however, have broad powers in setting their own policies, and considerable latitude in applying federal regulations. States establish their own benefit payment standards, determine eligibility criteria, and have broad discretion in computing benefit amounts. AFDC funding is shared by the federal and state governments, with some local government contributions. The federal government, currently pays anywhere from 43 percent to 83 percent of a state's benefit costs. Local government participation depends entirely upon state law. Localities in 14 states currently pay part of the state's share of AFDC costs.

The federal government pays an average of 55 percent of state AFDC financial payments to recipients. The federal share for each state, computed on the basis of formulas spelled out in the Social Security Act greatly varies. In fiscal 1975, the federal government paid as high as 83.4 percent in the state of Mississippi, and as low as 43.6 percent in Massachusetts. Local government shares range from less than one percent of the non-federal share to more than 25 percent of the non-federal share. (See page 29 for a comparison of federal, state and local shares.)

AFDC was established under the Social Security Act of 1935. It was designed to provide financial help to needy children under 16 who were deprived of family support or care because of the parent's death, continued absence from the home, mental or physical incapacity. Now AFDC also provides aid to a needy parent or other relative with whom a child is living, and to children 18 to 21 years old who are students. Since 1961, federal legislation has permitted states to pay AFDC benefits to families with an unemployed father present. Twenty-seven states now pay such benefits.

Under the AFDC program, persons in financial need who meet state and federal eligibility criteria may receive direct cash assistance. The amount of payments depends upon a "standard of need" set by each state and upon the fiscal ability of state and local governments to meet the standards they set. As a result, AFDC payments vary considerably from state to state. In Hawaii, for example, a family of four could receive up to \$497 a month. In Texas, the most a family of the same size could receive is \$187 a month. The amount of a family's payment depends on various factors, including family size and composition, income, property, and benefits received from other welfare programs. Individuals and families who receive AFDC benefits are automatically eligible for food stamps, Medicaid assistance, employment services and other federal assistance programs.

The financial need of a family is determined by comparing total income to the basic "need standard" set by the state. Each state sets its own standard, in terms of what basic living expenses are included and how much they would cost in the state. If family income is below the state standard, and meets other legal requirements, they are eligible for AFDC assistance.

Federal law requires a state to set a need standard if it participates in the AFDC programs, but the law does not establish a minimum level of need, nor does it require that states pay in full the levels they set. Consequently, a wide variation in AFDC need standards and in the percentages of that standard the various states pay exists. The need standard merely serves as a basis for determining benefit levels and it not a guaranteed minimum income for indigent families. As of July, 1975, 30 states did not pay 100 percent of their need standard. In 1975, Mississippi paid only 22 percent of its standard, or \$60 a month for a family of four, while the national median was 88 percent.

Both federal and state laws govern how AFDC benefit payment levels are computed, and what factors are considered in the computation. Among the factors are family size and composition, living arrangement, amount of rent paid, and family income and assets. AFDC payments are reduced if family income rises beyond the "income disregard" point set by federal law. Since 1967, federal law has required the states to disregard work-related expenses and the first \$30 of monthly earnings, plus one-third of additional monthly earnings, in computing AFDC benefits. Federal law also allows the states to determine which work expenses, and in what amounts, may be disregarded. These expenses include such costs as transportation, child care, and special clothing required for a job.

An underlying premise of the AFDC program is that those who are able should work. This concept is reflected in the regulations governing AFDC and in amendments to the Social Security Act setting up the Work Incentive (WIN) program. Established in 1967, WIN attempts to tie welfare eligibility to participation in work and training programs. WIN provides employment and training services to AFDC recipients to enable them to become self-supporting. Under the program, any able-bodied AFDC recipient over the age of 16 is required to register with WIN and accept available work or training offer. Exempted from the registration-work requirement are persons who are ill, incapacitated or aged, children who are full-time students, and persons who do not live near a WIN project. Also exempted are mothers, or other relatives, caring for children under six or for a family member who is ill or incapacitated, and female caretakers of children in homes where the adult male is already registered.

AFDC—Unemployed father program (AFDC-UF)

Since 1961, federal legislation has permitted states to provide AFDC benefits to families in which the father is present and unemployed. This AFDC assistance is currently available in 27 states. These states also tend to provide the highest AFDC benefits. To be considered for AFDC-UF benefits, a

father must: 1) have been unemployed for at least 30 days prior to receipt of such benefits, or not be working more than 100 hours per month in the 30-day period; 2) not have refused an offer of training or employment without good cause; 3) have worked (defined as having earned \$50 or more) in six or more quarters in a 13-calendar-quarter period ending within one year prior to applying for AFDC benefits, or have qualified to receive unemployment compensation within one year prior to applying; 4) be registered with the state Employment Service; 5) not be receiving unemployment compensation. AFDC-UF benefits obviously are not available to people who might give up their job search if welfare benefits were readily available to them. Essentially, a father must be unemployed and have made some effort to find work.

AFDC—Emergency assistance

In addition to the regular payments provided under AFDC, some states provide Emergency Assistance (EA). This aid is available to families with dependent children who have exhausted other welfare program benefits. The Emergency Assistance program is optional for the states, and only 23 states now offer such aid. The federal government provides 50 percent matching funds to states whose EA plans comply with federal regulations governing the program. The federally reimbursable benefits may not exceed 30 days in any 12-month period for any one family.

The circumstances under which a family may receive EA benefits vary among the states. These situations generally include: loss of housing because of delinquent rent or other emergency, loss of utility service, emergency moving expenses, and destitution caused by natural disasters such as floods, fires or tornadoes. The benefits may include food, clothing, shelter, household furnishings, and services such as medical care, legal aid, counseling and child care. In fiscal 1975, over 350,000 families received aid under the federal-state Emergency Assistance program. Total expenditures for the program during the year were about \$74 million. Of that total, the federal share was about \$43 million.

SUPPLEMENTAL SECURITY INCOME

The Supplemental Security Income (SSI) program provides federal financial assistance to indigent aged, blind, and disabled persons. Under amendments to the Social Security Act in 1972, three separate income maintenance programs were consolidated into the one program. The federal categorical grant-in-aid programs known as old age assistance, aid to the blind and aid to the permanently and totally disabled were replaced with SSI. The Joint Economic Committee of Congress, in a study of public welfare programs, predicted that the reforms enacted through this legislation would begin "... unraveling the administrative snarl that currently envelops welfare programs." The SSI program, which became effective January 1, 1974, establishes a nationwide system, with nationally uniform eligibility standards and benefit levels, for administering cash assistance to eligible individuals.

The federalized SSI program incorporates many features of reform sought by proponents of comprehensive welfare reform. These features include establishment of a national minimum benefit level for low-income persons, uniform treatment of income and assets in determining benefit amounts, setting of uniform definitions of blindness and disability, and establishment of uniform methods of computing benefits.

In fiscal 1977, approximately 4.4 million persons will receive SSI benefits. Total expenditures for the program will be about \$6.3 billion, with the federal government paying three-fourths of the cost and state governments paying one-fourth. The basic Supplementary Security Income payment level is currently \$177.80 a month for an individual and \$266.70 for a couple. The payment levels are adjusted for the same cost-of-living increases as social security benefits. Persons who are 65 or over, or who meet the blind and disabled eligibility requirements and whose income is below the SSI basic payment levels are eligible to receive benefits. Total assets, excluding the value of a home, care, personal effects and household goods of reasonable value, may not exceed \$1,500 for an individual and \$2,250 for a couple.

FOOD STAMP PROGRAM

Another form of income supplementation for economically needy persons is provided through the nationwide Food Stamp Program. Established by the

Food Stamp Act of 1964, the program provides federal subsidies to low-income working and non-working persons for the purchase of food and food products. By increasing the purchasing power of needy households, the Food Stamp Program aims to improve the nutritional quality and to reduce the incidence of hunger and malnutrition among the nation's poor.

Under the current program, eligible households are able to buy food "stamps" or coupons at a price less than market value. They use the stamps as cash for purchasing food through normal channels of trade at authorized food stores. (Legislation now before the Congress would eliminate the purchase requirement and make food stamps available at no cost to eligible households.)

The amount of food stamps and the cost of the stamps to a household depend upon household size and income in relation to the cost of a nutritious diet as determined by the Food and Nutrition Service of the Department of Agriculture. Currently, about 6 percent of all households in the United States—or about one in every 17 households—receives food stamps. The Food Stamp Program has grown from a small pilot program in the early 1960's to a major public assistance program. The program operates in every county of the United States—over 3,000 counties in all—and serves more than 17 million persons a month. But, only about 55 percent of the estimated 31 million persons eligible to receive food stamps participate in any given month. The cost of the program in fiscal 1976 was \$5.7 billion and is projected to be somewhat less—\$5.0 billion—in fiscal 1977.

Certain features of the Food Stamp Program are similar to the goals sought by many advocates of welfare reform. These reform features include: universal availability of the program, uniform national eligibility standards and benefits, a work registration requirement, periodic adjustment in benefit levels to reflect changes in food prices, and full federal financing of benefit costs. The Food Stamp Program is the most "federalized" of the major public assistance programs. The federal government provides all funding for the cost of Food Stamp benefits, and pays 50 percent of administrative costs to state and local governments. Unlike AFDC and Medicaid, spending and benefit levels for the Food Stamp Program do not depend on state appropriations. Food Stamp benefits and eligibility standards are set by federal law. Regulations are uniform throughout the United States. Eligibility is based solely upon economic need regardless of population category or household characteristics.

Coverage of the Food Stamp Program is broader than AFDC, Medicaid or SSI. Food stamps are available to all persons whose net income is below a fixed amount, regardless of age, sex, employment status or family circumstance. The program is the major federal assistance effort for the working poor, intact families with a working member, non-aged single adults and childless couples, as well as AFDC and SSI recipients. Food stamps are issued to households of persons who live together as one economic unit, who share common cooking facilities and who purchase food in common. Households in which *all* members receive federally aided public assistance (AFDC or SSI), or state or local general assistance which has need criteria similar to the federal assistance programs, are automatically eligible for food stamps. For other households, including those in which *some* members receive public assistance or general assistance, eligibility for food stamps depends upon uniform national standards set by the Department of Agriculture in regard to household income and resources.

According to the standards now in effect, the most a household of four could earn, and still be eligible for food stamps, is \$567 a month or about \$6,804 a year. This annual income level is \$954 higher than the current poverty level, which demonstrates another of the inconsistencies in the whole welfare system. The income eligibility levels are adjusted semi-annually to reflect changes in food prices. Certain deductions from income, including some housing, medical and child care costs, are allowed when determining eligibility. The Department of Agriculture's Food and Nutrition Service sets the income standards which determine whether or not a household is eligible to receive food stamps. The income eligibility levels vary according to household size and estimated food costs for households of differing sizes. For a household of four persons (two adults and two children) the cost of food for one month is currently estimated at \$170.

In addition to household income and resources, eligibility for the Food Stamp Program includes a work registration requirement. This requirement,

like the AFDC program, stipulates that all able-bodied persons in a household (with certain exceptions) must register for and accept suitable employment in order to receive benefits. Exempted from the registration requirements are persons under 18 and over 65 years of age, students enrolled at least half-time in school or training, persons working at least 80 hours a week, and household members who care for dependent children or incapacitated adults. If an employable member of a household fails to comply with the registration and work requirement, the entire household may be disqualified from receiving Food Stamp benefits.

Federal regulations stipulate that no eligible household should pay more than 30 percent of its net income for monthly food stamps. A family of four earning less than \$30 a month, for example, would receive stamps at no charge. A family of four at the poverty level (currently \$5,850 a year or \$487.50 a month) would pay \$140 for \$170 worth of stamps a month. In 1976, the average monthly "bonus" per recipient was \$24 or \$288 per year. Eligible households currently pay an average 23 percent of adjusted net income for food stamps.

GENERAL ASSISTANCE PROGRAMS

Most state and local governments provide some type of public aid to persons who need income support but who do not qualify for assistance under AFDC, SSI, Food Stamps or other federal income maintenance programs. These state and local programs are usually called general assistance (GA). Emergency assistance, or home relief, varies widely from one jurisdiction to another, and is entirely a state and local responsibility. States, cities, and county governments administer and finance these programs, which serve far fewer people (about one million persons a year) than the federally-supported programs. Total expenditures for the state and local aid programs are about \$1 billion annually. In fiscal 1976, such programs were available in 42 states.

The programs vary widely in eligibility criteria, extent of coverage, amount and type of benefits. Because no federal funds are involved, general assistance aid is not subject to federal regulations or standards. The state and local programs are generally more limited in coverage, amount and duration of benefits than federally-aided assistance programs. Some programs are strictly local, providing short-term assistance such as food, clothing, shelter, social services and medical care to persons for whom no other aid is available and to persons experiencing emergency situations. Other programs are statewide and offer long-term cash assistance to needy persons not covered by AFDC or SSI. In some states, where long-term aid is available, general assistance benefits for persons with absolutely no income are similar to those of the AFDC program. For persons with some earnings, however, GA benefits are considerably smaller than AFDC benefits because of higher income deductions. With no federal matching funds available to help cover the costs, increased general assistance benefits would mean higher taxes for state and local residents. Consequently, the rules governing these programs, benefit levels and reduction rates tend to be stricter than the federally supported AFDC program.

MEDICAID

Medicaid, the most costly public assistance program, provides free medical care and rehabilitation services. Needy families with dependent children, the aged, blind and disabled and other indigents who cannot pay for medical care, could be eligible for Medicaid. In fiscal 1977, about 24 million persons are expected to receive Medicaid benefits, at an estimated federal-state cost of \$18.3 billion. This joint federal-state program enacted in 1965 (Title XIX of the Social Security Act) now operates in all states.

Each state administers its own Medicaid program within guidelines established by the federal government. Federal law and regulations prescribe certain requirements for the program. But each state sets its own eligibility standards, determines which optional services to provide and the amount of fees paid to providers. Consequently, there is considerable variation in the groups covered by Medicaid, and in available benefits.

Families qualifying for AFDC, and individuals receiving SSI benefits, are automatically eligible for Medicaid, if they meet their state's income and resource standards. In 22 states, Medicaid assistance is available *only* to "categorically needy" persons. Similar to the AFDC program, the categorical restrictions on eligibility mean that certain groups of needy persons—childless couples, single persons aged 21 to 65, the working poor and intact families—are excluded from Medicaid benefits in some states.

Medicaid assistance to poor persons, other than the "categorically needy," are provided in 28 states. Persons whose income and resources are too high to qualify as "categorically needy," but who cannot afford to pay their medical expenses, are considered to be "medically needy" by the states which offer extended Medicaid coverage. In order to qualify, a person's resources must be within certain limits and medical expenses must equal or exceed any income above the state maximum income level.

Medicaid is financed by federal, state and local government funds. The federal share, which is appropriated from general revenues, varies from 50 to 78 percent of the cost of a state's Medicaid assistance payments. The percentage for each state is derived from a formula which takes into consideration state per capita income. States with higher per capita income receive a smaller share of the federal matching funds. Currently, the federal share is about 55 percent of total national expenditures for Medicaid assistance payments. Twelve states require their local governments to contribute to the nonfederal costs of Medicaid.

CHAPTER II—THE CASE FOR WELFARE REFORM

Inadequate benefits, unmet needs

Despite the general level of affluence in this country, and government outlays designed to provide income assistance to the needy, poverty remains a very real, persistent problem. As previously noted, 28 million Americans, 12 percent of the population, live below the government's official poverty level. Seventy-one percent of these poor people are unable to work, or should not be expected to work. They include children under 16, students, mothers with children under six, and the aged, blind and disabled. Nineteen percent of the poor work either full time or part time, yet do not earn enough to bring them over the poverty level. As a result, 90 percent of the poor either work, or are people society does not expect to work. Of the remaining 10 percent, most are women with family responsibilities, and only 2 percent are non-aged, non-disabled males who do not work.

In light of these facts, crucial questions must be answered concerning the effectiveness of existing poverty programs. How adequate are the benefits provided by income transfer programs? How responsible are the myriad public assistance programs and services in meeting the needs of our nation's poor? How effective are these programs in meeting the goal of alleviating poverty? Detailed examinations of the AFDC, SSI, Food Stamp and Medicaid programs offer convincing evidence that the benefit levels of these programs are not sufficient to maintain decent living standards for the poor. Nor are they successful in relieving the poverty of millions of Americans. The research and testimony of many poverty experts, scholars, political leaders and government officials support this evidence. Perhaps the best witnesses to the inadequacy of current welfare programs are the millions of poor who remain poor, despite receiving benefits and working.

Further evidence of the inadequacy of current welfare benefits is apparent in the need standards established by the states for determining AFDC benefits. As shown by Table I, the need standards for a family of four (one adult and three children) is less than \$250 a month in 13 states. Texas has the lowest standard at \$187 a month, followed by North Carolina at \$200, South Carolina and Tennessee at \$217. Even if 100 percent of the need standards set by states were paid, including food stamps and other benefits, total welfare benefits frequently are too low to maintain adequate living standards. Many families are free to subsist at or below the poverty level.

TABLE I.—DISPARITY BETWEEN STATE AFDC NEED STANDARDS AND MAXIMUM AFDC ASSISTANCE PAYMENTS
AS OF JULY 1975

State	Monthly AFDC need standard for family of 4 ¹	Maximum monthly AFDC assistance pay- ments for family of 4 ²	Monthly amount by which needs exceed payment
Alabama	\$225	\$135	\$90
Alaska	400	400	.....
Arizona	282	183	99
Arkansas	302	140	162
California	389	349	40
Colorado	264	264	.....
Connecticut	347	347	.....
Delaware	287	258	29
District of Columbia	349	297	52
Florida	230	170	60
Georgia	227	152	75
Guam	306	306	.....
Hawaii	497	497	.....
Idaho	395	344	51
Illinois	300	300	.....
Indiana	363	318	45
Iowa	376	357	19
Kansas	295	295	.....
Kentucky	235	235	.....
Louisiana	203	158	45
Maine	349	279	70
Maryland	314	242	72
Massachusetts	304	304	.....
Michigan	418	418	.....
Minnesota	293	293	.....
Mississippi	277	60	217
Missouri	337	150	187
Montana	252	252	.....
Nebraska	380	336	44
Nevada	341	249	92
New Hampshire	221	221	.....
New Jersey	356	356	.....
New Mexico	239	206	33
New York	\$ 448	\$ 448	.....
North Carolina	200	200	.....
North Dakota	347	347	.....
Ohio	431	254	177
Oklahoma	264	264	.....
Oregon	431	392	39
Pennsylvania	349	349	.....
Puerto Rico	106	42	64
Rhode Island	319	319	.....
South Carolina	217	117	100
South Dakota	329	329	.....
Tennessee	217	131	86
Texas	187	140	47
Utah	397	306	91
Vermont	439	351	88
Virgin Islands	166	166	.....
Virginia	272	245	27
Washington	370	370	.....
West Virginia	332	249	83
Wisconsin	456	397	59
Wyoming	270	250	20

¹ As defined by the States.

² For a family of 4 with no other income.

³ For areas outside of the city of New York, the average shelter allowance plus the amount for other basic needs allowed within the consolidated standard would result in a standard of \$392 and a payment of \$392.

Source: U.S. Department of Health, Education, and Welfare.

More revealing are the actual monthly benefit payments made to eligible families. According to HEW, the maximum monthly AFDC payment to a family of four, as of July 1975, was below \$200 in 11 states, and as low as \$60 in one state. Current AFDC benefits, plus food stamps, exceed the poverty level in only four states. In 24 states, the combined benefits of the two programs are less than three-fourths of the poverty line. Only 20 states paid 100 percent of local need standards. As a result, AFDC families, even those with no income, were unable to receive the full amount of the standards of need for local basis living expenses in the remaining 30 states. In those states which paid less than 100 percent of need standards, the disparity between need

standards and the maximum monthly AFDC assistance payments available to a family of four varied considerably. As shown by Table I, this disparity was as high as \$217 a month in Mississippi, and \$177 in Ohio.

An extensive survey of welfare benefits in 100 localities in the United States was conducted by the Joint Economic Committee of Congress in 1974. The results further document the inadequacy of existing income transfer programs. The committee found that, except for female-headed families, the total amount of welfare benefits available to the poor was often inadequate. In addition, benefits varied considerably from state to state, and from county to county. The availability of public assistance was particularly limited for two-parent families with children, and for individuals and couples without children. Need standards which do not reflect economic realities, inadequate benefit levels, lack of program coverage and benefits for many needy persons in need are a few of many deficiencies in the present welfare system. The need for national welfare reform, then, becomes clearly self-evident.

A system fraught with inequities

The case for welfare reform is further strengthened by the presence of numerous inequities that result in unfair, inconsistent treatment of welfare recipients. Examples include uneven program coverage for needy groups, wide disparities in eligibility requirements and benefit levels, differing methods used by states for computing welfare benefits, and large differences among state and local governments in spending for public assistance programs. The most flagrant inequities exist in eligibility criteria and benefit levels determined primarily by the states without federal guidelines.

Uneven program coverage and availability

The absence of national standards for welfare programs excludes many needy persons and causes favorable treatment for some groups. Certain public assistance programs are primarily federal programs, national in scope and available to all qualified persons regardless of their state of residence. Other assistance programs, however, are optional for the states. As a result, program coverage and availability vary from state to state, and even from locality to locality. Coverage and availability often depend upon the willingness, and fiscal capabilities, of state and local governments to supplement federal spending for public assistance. The needs of the nation's poor go unanswered because of "gaps" existing in program coverage:

AFDC benefits to families with an unemployed father present are not provided in 23 states;

Less than half of the states (23) provide Emergency Assistance for AFDC recipients;

In 22 states, Medicaid benefits are available only to persons who receive SSI or AFDC benefits;

In nine states during fiscal year 1976, neither the state nor local governments provided funds for general assistance aid to persons who were not covered by any of the federally supported cash assistance programs.

A study by the Joint Economic Committee offers a detailed picture of available public income transfer programs and covered groups. These findings depict the extent benefits were available to low-income families and individuals in the early 1970's:

Twenty-six percent of the poor lived in counties without housing projects (the survey also found that in those counties with housing programs, most had too few units to meet the demands);

Forty-one percent of the poor lived in states which did not have the optional unemployed father segment of AFDC;

Forty-nine states provided Medicaid to families on AFDC. But 63 percent of all AFDC cases were in states offering Medicaid to families not on AFDC and whose net incomes were sufficiently low to qualify for Medicaid;

Forty percent of the poor lived in areas where general assistance (GA), or home relief, offered long-term aid to able-bodied people in need.

Inequities in eligibility requirements

Some of the most serious inequities in the welfare system result from differences in eligibility criteria from state to state for the same federally-supported programs. Federal law sets nationally uniform standards for SSI and for the Food Stamp Program. But eligibility requirements for AFDC and

Medicaid, the two programs which consume the largest share of national welfare expenditures, are determined by the states within broad federal guidelines. Eligibility rules for general assistance, which receives no federal matching funds, are decided solely by state and local governments.

The absence of national standards for AFDC and Medicaid result in wide variations in eligibility criteria from state to state. Persons and families in similar circumstances who reside in different states, for example, do not necessarily qualify for the same federally-funded benefits. Under this approach to welfare, the place of residence may have more impact on welfare eligibility and benefit amounts than the economic needs or earning capability of potential recipients. States have broad discretionary powers in interpreting and determining federal laws. Whether or not AFDC benefits are available to unemployed fathers, for instance, is decided by the states, not the federal government. The states also determine the extent of AFDC coverage for two-parent families, for families in which the mother works and the age limits and school attendance requirements for children who might be included in AFDC payments.

Eligibility for public assistance does not depend solely upon income or financial need. Some assistance programs are "categorical,"—they provide benefits only to certain categories of needy persons. For example, AFDC assists families with dependent children in which one parent is absent from the home or incapacitated, and, in 27 states, families in which the father is present but unemployed. The SSI program provides cash assistance to the elderly, blind and disabled. In 21 states, eligibility for Medicaid is "categorical" and medical assistance is available only to AFDC and SSI recipients. This approach to eligibility excludes many low-income persons who do not fit into a given category of need. Situations exist in most states where low-income single persons, childless couples or two-parent families in which one parent works full time are provided little cash assistance.

Eligibility for Medicaid is tied to participation in the AFDC program which extends inequities present in AFDC health care. The Joint Economic Committee (JEC) describes Medicaid as "a major factor in the inequity of the welfare system," because one-parent, female-headed families receive more favorable treatment than two-parent families. The JEC cites the following case of two families, of four persons each, living in the same city. If the head of the family is a woman who earns \$4,000 a year, the family may receive \$1,656 a year from AFDC and also get free health care. However, if the family head is a man earning the same amount, the family would not be eligible for either cash aid or Medicaid.

Existing welfare programs and categorical eligibility requirements also discriminate against the "working poor." States impose welfare eligibility restrictions on low-income working families, and reduce welfare benefits when earned income increases. As a result, the working poor are often excluded from assistance programs even though they earn less from employment than they could receive from welfare. Families in which the male head of household is unemployed, or works less than 100 hours a month, receive a financial advantage under AFDC and accompanying Medicaid coverage. Working beyond the limit results in a reduction of AFDC benefits.

Disparities in benefit levels

Inequities in the welfare system are further compounded by wide disparities existing in the amount of benefits paid by each state. Some variations in benefit levels reflect regional differences in the cost-of-living. The JEC, however, found that the differences in benefits within such programs as AFDC, Medicaid and public housing, exceeded regional cost-of-living differentials. The JEC noted that regional variances in the cost-of-living are generally small at low-income budget levels. In a separate study, the University of Wisconsin's Institute for Research on Poverty concludes, "Differences (in welfare benefits) are primarily based on the relative desires and capabilities of political subdivisions to assist their needy populations and only partially on cost-of-living differentials."

Policy decisions by individual states add to the inadequacies and inequities of the present system. Each state determines its own need standard, amount of benefits paid, and the reduction in benefits caused by income received from other public assistance programs and by working. Wide variations also exist

among states concerning the rules governing the deduction of taxes and work-related expenses from earned income for the purposes of calculating AFDC benefits.

Disparities in state need standards and in payments amounts are illustrated in Table I. Standards range from a low of \$187 a month for a family of four in Texas to a high of \$497 in Hawaii. States, of course, are not required to pay the full amount of need standards they set. According to HEW only 20 states appropriate enough welfare funds to pay the full difference between need standard and recipients' actual income. Limited state appropriations for welfare and the application of benefit-reduction rules affect payment levels. The percentage of need standard actually paid, in fact, may be as low as 22 percent in some states. The highest state AFDC benefits are paid in the Northeast, the Midwest and the Pacific. Except for Ohio, New Hampshire and Missouri, the states of these three regions rank in the top half of the nation in terms of highest payments. Nine of the 10 states located in the South provide the lowest payments. All of the southern states rank in the bottom half of the nation in terms of benefits.

Large disparities also occur in the Medicaid program. The federal matching share for Medicaid ranges from 50 to 78 percent of the states' costs. Federal law and regulations set broad guidelines governing the operation of state Medicaid programs. Similar to AFDC, Medicaid programs vary from state to state. Each state establishes a separate Medicaid plan, sets its own eligibility standards, and determines the medical services covered under its plan. HEW reports that in the fourth quarter of fiscal 1976, the average monthly Medicaid payment per recipient was \$249 in Minnesota, \$244 in Pennsylvania, \$67 in Missouri and \$68 in Mississippi.

The pattern of regional disparity also holds for state general assistance programs. According to a National Governors' Conference survey of state welfare programs, general assistance programs are not available in any southern state except for Maryland and West Virginia. (Limited county assistance programs are available in North Carolina and Virginia.) General assistance benefits, coverage and eligibility standards vary considerably from state to state. Average general assistance payments per recipient in 1974 were \$125 in Pennsylvania and Michigan, and \$5 in Arkansas and \$8 in Oklahoma.

A system which discourages work

Public assistance programs should be designed to encourage able-bodied persons to work. But many employment and training experts, welfare agency officials and, even, welfare recipients can readily document that the present welfare system does little to promote employment. In fact, many features of the system may actually *discourage* recipients from seeking and holding jobs. Why, in a society which places great emphasis on work and self-reliance, does this ironic circumstance exist? Welfare laws and regulations in some states and localities disqualify the poor from receiving public assistance, and require sharp reductions in benefits when recipients become employed. High reduction rates can mean that losses in benefits outweigh income gained from employment. If benefits are reduced one dollar for every dollar earned, recipients have little incentive to take a job that pays less than the full amount of welfare benefits.

The combined effect of restrictive, categorical eligibility criteria, high benefit-reduction rates, and outlays for taxes and employment-related expenses is particularly unfair and burdensome for the working poor. Although working, these individuals do not earn enough to raise their income above the poverty level. In 22 states, AFDC benefits and food stamps currently exceed the income of a full-time worker at the minimum wage. Some assistance programs actually give favorable treatment to able-bodied recipients who do *not* work. Applicants for AFDC benefits already working, for example, are not allowed an exemption for earned income (except deductions for work-related expenses) when their needs and the benefit amounts are computed. But people who begin working while in the AFDC program are allowed an earning exemption of \$30 a month plus one-third of earnings over \$30, in addition to deductions for work-related expenses. Different standards have been established for applicants and recipients. An *applicant* who is employed, but earns less than an employed *recipient*, may not be eligible for AFDC benefits. They may even receive fewer benefits than an AFDC recipient whose financial and family circumstances are similar.

Discrimination against the working poor is also found in the unemployed father segment of AFDC (AFDC-UF). AFDC-UF is structured in a way which discourages eligible males from working full time. If a father works more than the 100-hour limit, regardless of his earnings, he automatically becomes ineligible for AFDC-UF benefits. He also loses accompanying Medicaid coverage and possibly other assistance benefits offered by the state. For many poor workers, whose job skills and earnings potential are limited, lost benefits may be greater than the minimum wage. Consequently, the welfare system presents many family heads with the difficult choice—work more than 100 hours a month and lose substantial welfare benefits for their families; or work only part-time and continue public assistance.

The Medicaid program is another example where employment earnings can seriously jeopardize eligibility for substantial welfare benefits. In this case, the loss would be the important medical insurance coverage that accompanies participation in the AFDC and SSI programs. Because of the categorical eligibility requirements for the Medicaid program, an AFDC family may lose all Medicaid benefits when family income exceeds the AFDC eligibility level in its state.

An administrative nightmare

The case for welfare reform is further strengthened by the urgent need to improve the administration of public assistance programs and the delivery of services to client groups. For the most part, the administration of current welfare programs is characterized at both the national and local level by inefficiency, complex application and payment procedures, voluminous paperwork, overlapping and sometimes conflicting, program goals. Such conditions cause obvious difficulties for program administrators. They also result in economic hardships and inconveniences for program recipients who must depend upon public aid for economic survival.

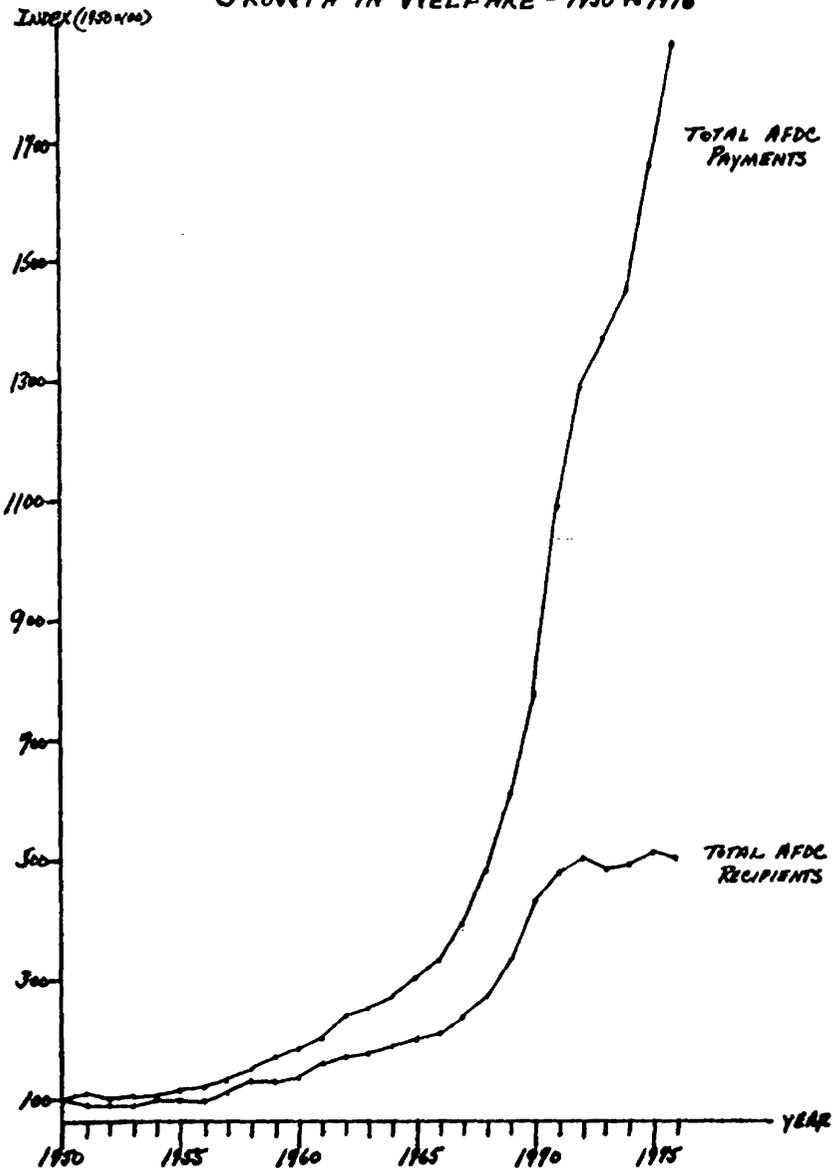
Confusing rules and regulations governing public assistance programs complicate the work of already over-burdened state and local welfare agencies which administer numerous diverse programs and services. Miles of seemingly endless red tape stand between many needy persons and the program benefits to which they are legally entitled. Processing an application for welfare benefits in one city involves filling out as many as 29 different forms. The administrative complexities that characterize current welfare programs have, according to the American Public Welfare Association, "curtailed the ability of states and localities to respond to the special circumstances existing in their respective areas."

Complicated, time-consuming regulations and procedures have caused high error rates in the distribution of benefits to recipients. HEW recently reported that, in the first half of 1976, 24.6 percent of all AFDC recipients were paid either too much or too little. Overpayments and payments to ineligible persons in the various public assistance programs may cost taxpayers a billion dollars or more a year. In addressing welfare administration problems, a special task force of the National Governors' Conference stated that the system is further complicated "by continued court-ordered changes, two or three levels of administration, and a lack of clear policy." As a result, the task force contends that, "the present system creates many points at which both administrative and client error are possible." These conditions, coupled with lax supervisory and inspection procedures, make the system highly vulnerable to error and abuse.

The current state of welfare program administration reflects the way in which public assistance programs at the national and local levels have developed in this country. Various assistance programs, with slightly different goals and serving slightly different, and sometimes overlapping, client groups, have developed independently of each other. These assistance programs supposedly share the common goal of providing income support for low-income persons. But they contain different eligibility requirements, benefit structures, and rules governing benefit-reduction rates and deductions for work-related expenses. The lack of program coordination and integration has produced a costly patchwork of overlapping programs, which still do not provide equitable, comprehensive coverage to all persons in need. The result is a welfare system which is hampered by administrative inefficiencies, duplicated procedures and services, unnecessary paper work, delays in responding to client needs, and errors in determining eligibility for program benefits and in computing the amount of benefits.

A major goal of comprehensive welfare reform is to standardize and simplify administrative regulations and procedures. A system of public assistance should be established which operates efficiently, without undue delays and bureaucratic red tape for clients. Fair, equitable treatment for all people should be provided. For those programs which serve similar client groups, standardization of application procedures, establishment of common eligibility standards, and common methods for collecting information and distributing benefits are important first steps toward reform. These changes would also help reduce error rates, streamline program operation, cut administrative costs, and perhaps more importantly, improve service to clients.

GROWTH IN WELFARE - 1950 to 1976



SOURCE: U.S. DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE.

Welfare costs—Heavy burdens on State and local governments

Many facets of the "welfare mess" are subject to debate and partisan judgments. One indisputable point is the immense growth during the past 15 years, both in the number of recipients and taxpayer dollars spent to finance the system. The AFDC program alone has jumped astronomically, illustrated in Graph A. Between 1950 and 1965, expenditures for AFDC assistance payments increased 203 percent from \$520,000 a year to \$1.6 billion, representing an average annual increase of 14 percent. In the same fifteen-year period, the number of AFDC recipients per month doubled from 2.2 million in fiscal 1950 to 4.4 million in fiscal 1965, an average annual increase of 7 percent. Even more dramatic is the growth occurring from 1965 to 1976. Expenditures for AFDC increased more than five times and the number of recipients more than doubled. AFDC spending spurted from \$1.6 billion in 1965 to \$9.7 billion in fiscal 1976, an average increase of 46 percent per year. The number of recipients per month jumped from 4.4 million in December 1965 to 11.2 million in June 1976, an average increase of 15 percent per year.

The tremendous growth in the AFDC program, and other public assistance efforts such as Medicaid, strains already limited public treasuries. Ultimately, the burden falls on all taxpayers who must foot the bills for the ever-increasing costs of public welfare programs. However, the taxpayer's burden is not equal because of the uneven distribution of welfare costs.

The welfare burden also has become a major factor contributing to the distressing financial plight of many local and state governments. State, city and county budgets are suffering from sharply escalating costs of welfare. As welfare costs continue to consume a larger share of limited government resources, state and local governments frequently cut back—and occasionally, eliminate other important public services. Education, health, police and fire protection are among the broad spectrum of public services affected. Welfare workers face difficulties as the welfare rolls increase. New burdens, new programs, more and more regulations are thrust upon welfare employees. But they are required to perform their tasks with reduced staffs in many states and localities. Even at the national level, the impact of rising welfare costs is felt in other parts of the federal budget. Reluctant and inadequate funding for other federal social programs such as education, health and manpower, reflects the increasing costs of the welfare system.

The "welfare problem" is not isolated. Welfare and financing have critical implications for a wide range of government activities and responsibilities. As other vital public services continue to suffer, the need for national welfare reform becomes even more urgent. Establishment of national eligibility benefit standards, improvements in welfare administration, financial relief to state and local governments are just a few imperative steps which must be taken.

The number of public assistance recipients and the amount of welfare expenditures during the past 16 years clearly shows the uneven escalation of welfare costs hitting states and local governments. One cause is the variations in welfare benefits, program coverage and availability existing in different states and localities. Some states have been more willing to provide broader coverage and more liberal benefits than other states. Another cause is demographic patterns. In the past, the promise of a better life through better jobs attracted increased numbers of the poor and low-skill workers to the industrial northeast and northcentral states. Too often, hoped-for opportunities did not materialize, and the rural poor became the urban poor. Population migrations resulted in high concentrations of poor, low-skill workers and their families in the major urban centers of the country. These areas were forced to increase their welfare programs and services, and new financial burdens were added to already hard-pressed city governments. This immigration apparently has subsided, and is going the other way into the sunbelt states. The reversal in migration patterns, however, has not reached the welfare population. New migrants to the south generally possess the skills and education needed by new industries. The unskilled and undereducated are left behind, further compounding problems in the older, industrial cities of the north. As industry, business and highly skilled workers move, the tax base of these areas dwindles, creating worse problems.

Other factors contribute to the uneven distribution of the welfare burden. Differences exist in the amount of federal funds funneled into states and localities for certain welfare programs. In both the AFDC and Medicaid programs, the federal share is determined by applying a "federal matching percentage" to program costs in each state. For the AFDC program, current fed-

eral matching percentages range from 44 percent in Massachusetts to 83 percent in Mississippi. In most areas, the non-federal share is paid by state governments alone. However, 14 states require their localities to contribute to AFDC financing. (See Table II.) Local shares range from 27 percent in New York State and 20 percent in Colorado to less than one percent in several other states. For Medicaid, the federal share is 50 to 78 percent of each state's medical assistance costs.

A 1975 survey of welfare practices conducted by the National Governors' Conference documents the wide disparity in welfare costs from state to state. According to the survey, total state and local per capita expenditures for the five major welfare programs (AFDC, SSI, Medical Assistance, General Assistance and Food Stamps) ranged from \$7 in Wyoming to \$172 in Rhode Island. Further evidence of the uneven distribution in welfare financing is contained in the U.S. Department of Commerce's annual publication, *City Government Finances*. The Department's analysis of per capita welfare costs shows that the biggest cities are the hardest hit. In fiscal 1975, per capita expenditures for public welfare in cities with a population of one million or more were \$163, compared to \$28 for all cities.

TABLE II.—COMPARISON OF FEDERAL, STATE AND/OR LOCAL SHARE OF TOTAL 1975 AFDC EXPENDITURES FOR INDIVIDUAL STATES

State	Percent distribution of total AFDC expenditures ¹			Total AFDC expenditures ¹	Number of recipients ²
	Federal	State	Local		
Massachusetts.....	43.6	56.4	.....	\$416,368,434	361,078
Connecticut.....	46.1	53.9	.....	123,839,030	129,666
California.....	47.1	35.7	17.2	1,258,183,634	1,385,462
Washington.....	47.3	52.7	.....	145,678,668	139,419
Nevada.....	47.5	52.5	.....	8,392,433	14,341
Illinois.....	48.4	51.7	.....	695,262,812	809,880
Maryland.....	48.8	48.4	2.8	138,056,159	216,891
Michigan.....	48.9	51.1	.....	612,809,239	635,960
New York.....	49.3	24.0	26.7	1,381,109,092	1,215,476
Hawaii.....	49.5	50.5	.....	51,491,706	50,548
Ohio.....	49.6	50.4	.....	347,248,712	563,577
Delaware.....	49.8	50.2	.....	19,752,480	31,742
Alaska.....	49.8	50.2	.....	13,136,866	11,115
New Jersey.....	50.9	36.6	12.5	400,972,760	446,643
Minnesota.....	51.2	30.5	18.3	140,036,466	124,783
Rhode Island.....	53.1	45.9	.....	48,313,103	52,777
Pennsylvania.....	54.0	46.0	.....	575,037,142	630,610
Colorado.....	54.7	25.3	20.0	74,844,453	95,766
Kansas.....	54.7	45.3	.....	52,987,270	70,429
Indiana.....	55.3	27.2	17.5	93,329,511	166,286
Iowa.....	55.3	44.7	.....	82,337,127	91,522
Wisconsin.....	57.1	42.9	.....	176,097,921	175,126
Oregon.....	57.3	42.7	(*)	82,945,294	102,496
Nebraska.....	57.6	42.4	.....	25,369,063	38,030
Virginia.....	59.2	39.8	1.0	131,963,495	180,911
Missouri.....	59.3	40.7	.....	123,185,019	268,473
New Hampshire.....	59.7	40.3	(*)	22,182,585	27,057
Wyoming.....	61.0	19.7	19.3	4,207,256	6,792
Vermont.....	62.7	37.3	.....	22,393,772	22,121
Montana.....	63.5	29.3	7.3	13,578,834	21,120
Idaho.....	65.6	34.4	.....	16,079,577	19,576
Arizona.....	66.3	33.7	.....	31,958,230	79,002
Florida.....	66.6	33.4	.....	110,064,913	257,000
Oklahoma.....	67.6	32.4	.....	66,118,583	96,600
South Dakota.....	68.1	31.9	.....	19,285,263	25,310
North Carolina.....	69.1	15.9	15.0	102,244,065	188,857
Utah.....	69.3	30.7	.....	29,774,251	34,282
North Dakota.....	69.3	25.0	5.7	11,429,837	13,918
Maine.....	69.7	30.3	.....	49,145,529	80,101
Kentucky.....	72.3	27.8	.....	98,682,662	172,177
West Virginia.....	72.8	27.2	.....	44,697,937	72,742
New Mexico.....	73.9	26.1	.....	30,507,733	61,634
Georgia.....	74.0	26.0	.....	137,280,205	363,402
Texas.....	74.1	25.9	.....	146,030,830	383,569
Louisiana.....	74.4	25.6	.....	85,139,032	236,857
Arkansas.....	74.8	25.2	.....	47,169,536	108,749
Tennessee.....	75.1	24.9	.....	80,680,830	209,099
Alabama.....	76.6	23.4	.....	56,082,539	168,723
South Carolina.....	77.2	22.9	.....	43,148,606	138,769
Mississippi.....	83.4	16.6	.....	31,980,444	188,920
Washington, D.C.....	100.0	.....	.....	89,818,001	103,655

¹ Data for fiscal year 1975.

² As of June 30, 1975.

* Amount is negligible.

Source: U.S. Department of Health, Education, and Welfare

TABLE III.—WELFARE BURDEN IN THE 14 STATES WHERE FEDERAL SHARE OF AFDC IS LESS THAN 51 PERCENT

	Total AFDC expenditures †	Percent of expenditures	Total AFDC recipients ‡	Percent of total recipients
United States	\$8,638,529,324	100.0	11,303,634	100.0
New York.....	1,381,108,092	16.0	1,215,476	10.8
California.....	1,258,183,634	14.6	1,385,462	12.3
Illinois.....	695,262,812	8.0	859,880	7.2
Michigan.....	612,809,239	7.1	635,960	5.6
Massachusetts.....	416,368,434	4.8	361,028	3.2
New Jersey.....	400,972,760	4.6	446,643	4.0
Ohio.....	347,248,712	4.0	573,577	5.1
Washington.....	145,678,668	1.7	139,419	1.2
Maryland.....	138,056,159	1.6	216,891	1.9
Connecticut.....	123,839,030	1.4	129,666	1.1
Hawaii.....	51,491,706	.6	50,848	.4
Delaware.....	19,752,480	.2	31,742	.3
Alaska.....	13,136,866	.2	11,115	.1
Nevada.....	8,392,433	.1	14,341	.1
14 State total.....	5,612,301,025	65.0	6,021,748	53.3

† Total expenditures by all levels of government for fiscal year 1975.

‡ Number of AFDC recipients as of June 30, 1975.

Source: U.S. Department of Health, Education, and Welfare.

A state-by-state analysis of AFDC expenditures and recipients, based on HEW data, further documents the imbalance in the distribution of welfare costs among states (See Table II). Such an imbalance represents a national problem, whose origins and causes do not necessarily lie in any given region or locality. The welfare burden is heaviest in the 14 states where the federal contribution for AFDC payments is less than 51 percent (See Table III). In fiscal 1975, 53 percent of all AFDC recipients lived in these 14 states. California alone had over 12 percent of the national AFDC caseload and New York State had almost 11 percent. The federal contribution to AFDC payments in the remaining 36 other states was 51 percent or more, and was as high as 83 percent in Mississippi. In 23 states, federal matching funds were more than 60 percent, and 11 states received over 70 percent.

Between 1965 and 1975, the welfare burden in the 14 states which pay at least half of their welfare costs increased from 46 percent of the total number of AFDC recipients to 53 percent, a jump of nearly four million.

	1965 AFDC recipients		1975 AFDC recipients	
	Number	Percent of U.S. total	Number	Percent of U.S. total
United States.....	4,429,044	100.0	11,303,634	100.0
14 State total.....	2,050,625	46.3	6,021,748	53.3
Balance of United States.....	2,378,419	53.7	5,281,886	56.7

Source: U.S. Department of Health, Education, and Welfare.

A breakdown of expenditures for AFDC assistance payments in those 14 states for fiscal 1975 is shown in Table III. Aggregate expenditures in these states comprised 65 percent of total national cost for AFDC. New York's share of the national total was as high as 16 percent, while California paid over 14 percent. Such high expenditures for welfare place extremely heavy burdens on state and local finances. Clearly, these 14 states—which carry more than half of the national AFDC caseload, and receive below 51 percent in federal contributions—bear a disproportionate share of the AFDC caseload.

Further analysis of AFDC data reveals that within the 14 states the welfare burden is highly concentrated in 11 major cities (See Table IV). AFDC recipients in these 11 cities comprised 25 percent of the AFDC caseload for the entire country. But the total population for these 11 cities is only 14 percent of national pop-

ulation. Several cities bear particularly heavy welfare caseloads. New York City has 70 percent of the state's AFDC population. In Delaware, 75 percent of the AFDC recipients reside in Wilmington. Chicago bears 69 percent of the Illinois caseload, and Baltimore handles 63 percent of Maryland's caseload. These 11 cities, where 25 percent of all AFDC recipients live, are obviously struggling with the greatest welfare burden. Carrying a significantly disproportionate welfare caseload, these 11 states and cities certainly bear more than their share of the national welfare problem and pay out the highest share of national AFDC costs. Ironically, the federal government's share of AFDC funds is lowest in these areas. The wide disparities that exist in federal matching shares and the disproportionate welfare burden borne by some states and localities are glaring inequities which should be corrected. The sharply rising welfare costs strongly underscore the need for immediate fiscal relief to these financially hard-pressed state and local governments.

TABLE IV.—WELFARE POPULATION AS COMPARED TO TOTAL POPULATION IN 11 SELECTED CITIES, 1975

	Total AFDC recipients ¹	Percent of AFDC recipients	Total 1970 population ²	Percent of 1970 population
United States.....	11, 303, 634	100. 0	207, 976, 452	100. 0
New York City.....	844, 941	7. 5	7, 867, 760	3. 8
Los Angeles.....	548, 722	4. 9	7, 032, 075	3. 4
Chicago.....	554, 566	4. 9	5, 492, 369	2. 6
Detroit.....	289, 954	2. 6	2, 666, 751	1. 3
Boston.....	106, 241	. 9	735, 190	. 4
Newark.....	118, 113	1. 0	929, 986	. 4
Cleveland.....	136, 052	1. 2	1, 721, 300	. 8
Seattle.....	43, 193	. 4	1, 156, 633	. 6
Baltimore.....	135, 500	1. 2	905, 759	. 4
Hartford.....	39, 543	. 3	816, 737	. 4
Wilmington.....	23, 678	. 2	385, 856	. 2
11 city total.....	2, 840, 503	25. 1	29, 710, 416	14. 3

¹ AFDC recipients as of June 30, 1975, for counties in which major cities are located.

² Population for counties in which major cities are located.

Source: U.S. Department of Health, Education, and Welfare and U.S. Bureau of Census.

CHAPTER III—WHICH WAY REFORM?

Even though the case for welfare reform may be compelling, and indeed convincing to most people (both the Democratic and Republican parties have included a reform plank in their respective platforms for years), actual reform will not be easy. While there is now agreement among experts on the necessity for reform and even on broad goals (the extensive welfare reform study undertaken by HEW underscores the "overwhelming sentiment" to change the present structure of income assistance programs), there has not been general agreement on any specific reform scheme—on exactly how reform shall be achieved. As all would-be reformers recognize, the "how" of welfare reform is not only as important, but is much trickier than the "why." This is because of wide differences in opinion—not so much on the goals of reform, but on the relative priority of those goals. It is true that there is general agreement that the welfare system should be adequate, equitable, administratively simple and efficient. There is also agreement that there should be a fairer distribution of the costs, that the burden borne by some state and local governments should be alleviated, and that the program should be so structured as to lead to family stability and to eliminate work disincentives. But to the extent that some of these goals are conflicting—and they are—it is clear that different interest groups place different values on one or another of the goals. For example, if assuring the adequacy of the program will involve higher costs, how can that be kept consistent with the goal of providing fiscal relief to local and state governments? Or if a strong work incentive is included in the reform package, what happens to administrative simplicity? This is not to say that these questions cannot be answered, but rather that solution of the problems requires recognition that inconsistencies and potential conflicts do exist.

As those most closely concerned with the welfare reform problem have wrestled with these problems, four basic approaches to reform have emerged. The four are:

The incremental or modernization approach. This would bring about reform by gradually improving certain aspects of the existing system. Although some of the changes which have been put forward under this approach would indeed result in fairly drastic changes in the system, its underlying strategy is to leave most of the present structure intact. Some experts call this approach a multiple program strategy.

A consolidated cash assistance program. This approach is more familiarly known as a negative income tax strategy. It would replace existing cash and in-kind programs with a single cash payment to all low-income persons.

A combination program with primary emphasis on providing jobs, through some sort of job guarantee program, coupled with a consolidated cash assistance program for low-income families.

A triple-track approach built around the concept that the principal issue is jobs, not welfare. This approach forms the position of the AFL-CIO on welfare reform. Under this system, persons unable to work would be provided direct cash assistance with benefit levels no lower than the poverty level and indexed to reflect inflation; a public service employment program created for those who can work, but are unable to find jobs in the public sector; the earned income tax credit should be improved to lift the working poor out of poverty.

The last three approaches would do away with the existing system and start fresh, from the bottom, each with an entirely new and different conceptual basis from that on which the present pastiche of programs is built. Only the incremental approach would leave more or less intact the conceptual framework of the existing system.

President Carter, who campaigned on a promise of welfare reform, made this issue one of his administration's primary objectives. Initial administration proposals were released in August, 1977. The proposal is pending before Congress. In keeping with the President's emphasis on the value of work, the plan under consideration by the Carter administration provides strong financial incentives for welfare recipients to seek and hold jobs. For some population groups, the plan would make cash assistance contingent upon working as long as jobs or training were available. The administration plan also stresses private sector employment over public by providing a more generous "income disregard" for private wage earners, and imposes a more stringent work requirement on single persons and childless couples than on families with dependent children.

The four basic approaches to welfare reform are not necessarily mutually exclusive. Sharing many goals, each represents an attempt to put together a workable, efficient and politically attractive package of reform measures. Each is made up of several components—many of them identical. For example, all four of the reform approaches recognize the necessity for establishment of uniform federal standards, particularly in eligibility for receipt of benefits, and in benefit levels. The proposals differ, however, not only in terms of what those standards should be, but in how they should be developed, administered and enforced.

In one sense, it could be said that all of the current welfare proposals look to "federalization" of the welfare system as offering a potential solution to some of the current problems. However, in the context of welfare reform, the term federalization has many different meanings, ranging from the institution of uniform national standards, to complete financial support and administration of the total program by the federal government.

The issue of fiscal relief, that is how and to what extent state and local governments can be relieved of the financial burden that increasing welfare loads impose on them, is typically not the primary aim of most reformers. Instead, it is seen either as a by-product of reform, or more often, as an additional and hopefully an effective tool to get enough leverage to bring about the kinds of basic changes in the system that are desired. Clearly, reform can take place with or without federal assumption of welfare costs. Fiscal relief is not an absolute prerequisite for any of the four reform approaches named above. (Conversely, neither is fiscal relief entirely dependent on re-

form. It could take place without any other reforms.) However, supporters of each approach recognize the political reality that reform cannot be achieved without the political support of governors, mayors and county executives. Therefore, all of the proposals do in fact provide for some federal assumption of the state and local welfare burden. It should be made clear that this kind of "federalization"—that is, federal assumption of welfare costs—does not imply or necessitate direct federal administration of the system. Arguments can be made both for and against having the welfare system operated entirely by the federal government, with federal employees. This question will be discussed further later in this section.

Since advocates of each approach address the welfare problem from different perspectives, they, therefore, have different interpretations of the issues facing them, especially of the public's desire for and acceptance of reform. Problems of cost, work requirements, family integrity, and the relationship of reform to the non-welfare working poor loom very large. All would-be reformers are acutely aware of recent reform history, particularly of the failure of the Nixon administration's proposal, the Family Assistance Plan or FAP, and as a result, today are extremely sensitive to the need for public support and understanding. To a large extent, the argument over the best route to reform is influenced as much by such tactical considerations as it is over substantive content. In the next few pages, each of the four basic approaches is described in some detail, although it is already clear that reform, when it comes, must inevitably represent a compromise—indeed a series of compromises among the supporters of each of the four. In other words, the final result will not look like any of the proposals here described, but more likely an amalgam of all of them.

Consolidated cash assistance

The consolidated cash assistance approach, would bring together all of the separate cash and in-kind income support programs into one federally administered program of cash grants to needy persons. It is basically a negative income tax proposal, so-called because it is the mirror image of the familiar positive income tax. There are various possible forms of a consolidated cash assistance program but all start from the premise that there should be a federally guaranteed floor below which income should not fall, and that the federal government should make up the difference between a person's earnings and this floor. The floor is usually thought of in relation to the poverty standard, which as noted earlier, is presently set for an urban family of four at an annual income of \$5,850.

Since the mid-sixties, there have been several serious proposals for a negative income tax or consolidated cash assistance program. The ball started rolling with conservative economist Milton Friedman's advocacy. He saw this approach as a way to check the then frightening growth of AFDC. Friedman's particular concern was the high benefit reduction rate of the earlier AFDC program when benefits were reduced dollar for dollar for all earned income. Friedman claims the high reduction rate was a strong contributory factor in the increase in the welfare rolls. It became clear that once on welfare it was hardly worth it for a recipient to try to get off since she or he was in effect paying a 100 percent tax on earned income, unless the earnings were sufficiently high to eliminate the individual's need for some cash assistance. (At the present time, the reduction rate is 67 percent, reduced from the 100 percent level of the early sixties, but is still a fairly substantial work disincentive). The negative income tax was seen by Friedman and other conservatives as a way to get around the reduction rate problem, particularly if the minimum income guarantee was set low enough to permit lowering of the reduction rate. With a low rate, the conservatives argued, those on welfare would have incentive to go to work. As earnings increased, cash payments would decline until eventually a break-even point would be reached and welfare rolls reduced, or at least held in check.

In 1968, President Johnson appointed a special commission to study the whole problem of income maintenance. The commission, chaired by industrialist Ben Heineman, also recommended a form of negative income tax, but with a fifty percent reduction rate. This was also the reduction rate provided in the FAP proposal of the Nixon administration in 1969. The Family Assistance Plan started with a guaranteed income of \$1,000 for a family of four, and

following the AFDC philosophy, was to be made available only to families with dependent children. It also included fairly strict work requirements. As outside earnings increased, the cash payment would be reduced, fifty cents for every dollar earned, until the break-even point of \$3,200 was reached. The proposal was attacked by liberals and groups representing the welfare clients as being too niggardly and unnecessarily harsh in its work requirements. Conservatives shied away from it because they felt the guaranteed income was dangerously socialistic, that it was contrary to the work ethic, and opened the door to the federal Treasury too wide. The price tag which the Nixon administration originally put on its program was \$6 billion. (Note that 1976 federal expenditures for AFDC were \$9.7 billion.)

In 1973-75, the then Secretary of HEW, Caspar Weinberger put together still another cash assistance suggestion called the Income Supplement Program or ISP. The Weinberger proposal called for replacement of the AFDC, SSI and the Food Stamp Program with a single cash transfer program subject to both income and social security taxes. It would have provided an income floor which for a family of four was \$3,600. Unlike FAP, ISP was not restricted to families with dependent children but extended to all needy individuals. The estimated cost at that time was some \$21.6 billion or \$3.3 billion more than the three programs together were costing at the time. Although Mr. Weinberger was unable to persuade President Ford of the value or wisdom of ISP, the basic outlines of his proposal have been adopted by those who support the consolidated cash assistance approach.

Still another proposal was made in 1974 by Representative Martha Griffiths' fiscal subcommittee of the Joint Economic Committee. The Griffiths proposal suggested replacement of AFDC and the Food Stamp Program (leaving SSI intact) with a universal tax credit of \$225 per person eliminating the \$750 personal income tax exemption in effect at that time. The proposal provided for cash payments—in addition to the tax credit—that would guarantee an income of \$3,600 for a family of four. The total cost was estimated at approximately \$15 billion to \$18 billion a year. Eligibility was to be based strictly on financial need, and unlike the previous proposals, there was to be no work requirement. The basic elements of the Griffiths plan were re-introduced in January 1977 by Representative Robert Cornell of Wisconsin. The Cornell proposal differs in that it would consolidate SSI along with AFDC and the Food Stamp Program, would raise the minimum income to \$4,300 for a family of four, and would include a modified work requirement.

From Friedman on, all of those who have played with various formulas for an effective cash assistance program have faced the same dilemmas, the same problems. Perhaps the most difficult of these concerns is the trade-off between costs and work incentives. To those in the field, it is called the "notch" problem, because it relates to that point of overlap or notching where a welfare recipient moves away from government assistance and into the private economy. The problem arises because of the conflicting objectives of the welfare reformers. Since in this country it is generally accepted that people should be rewarded for working and that it is wrong to pay people more for not working than they could obtain by working, that means that any reform proposal must: 1) stress the development of a full employment program to make jobs available for those able to work, and 2) provide adequate, equitable benefits for people unable or not expected to work.

All reformers also start with the proposition that a basic objective of welfare is to provide a decent living for the needy, particularly for those now living below poverty standards. This means that the guaranteed income floor has to be high enough to do that. A third objective is the reduction of the welfare burden, especially for state and local governments. The dilemma facing reformers is that a benefit level high enough to provide a decent living, coupled with a reasonable reduction rate—necessary to maintain work incentives—not only becomes extremely costly, but it tends to make those not eligible for participation worse off than those who are eligible, and therefore is immediately counterproductive. The table below shows how the arithmetic of the notch problem works. For the sake of illustration, let us start with a guaranteed income level for a family of four of \$4,000. This is, of course, considerably below the present poverty standard, but within the range that is presently being discussed in most cash assistance proposals.

Outside earnings	Cash payments	Total family income
\$0	\$4,000	\$4,000
\$1,000	3,500	4,500
\$2,000	3,000	5,000
\$3,000	2,500	5,500
\$4,000	2,000	6,000
\$5,000	1,500	6,500
\$6,000	1,000	7,000
\$7,000	500	7,500
\$8,000	0	8,000

A cash assistance proposal which starts with a minimum guarantee of \$4,000 for a family of four will mean that any family whose income is less than \$8,000 will receive some federal cash aid. If the present poverty standard of \$5,850 becomes the base, the range of cash assistance eligibles would extend to all families with an income up to \$11,700 per year. If the base is reduced to three fourths of the poverty standard or \$4,388 (this is the base most frequently discussed), the range of eligibles is reduced but still extends to those with current annual incomes of \$8,776. That would be costly, of course, but the problem is compounded if the present linkages that exist between such in-kind programs as Medicaid and housing assistance were preserved. Then cash assistance recipients would receive extra benefits denied the non-eligibles and the difference between earnings of \$11,700 and \$11,701 would become politically unbearable. Since the constituencies for Medicaid and housing are not likely to permit elimination of those programs, the problem cannot be lightly dismissed.

If on the other hand, the starting point is lowered in order to hold costs down, or if the reduction rate is raised beyond 50 percent, not only will benefits be inadequate to meet minimum standards of decency and health, but the problem of work disincentives is unresolved. Moreover, the notch problem is only lowered; it does not go away. Most of the cash assistance plans aim for eventual federal assumption of the entire welfare burden. But because benefit levels presently vary so much among states, and in some states are already considerably higher than any practically feasible guaranteed income level, all of the current cash assistance proposals must provide for state supplementation of benefit levels at least in the initial stages. To the extent that the high benefit states must continue to supplement the federal payment, they will not get the fiscal relief they need, and in addition, the inequities that currently exist between states will not be removed.

One clear advantage of the cash assistance approach is that it permits consolidation of existing federal programs, particularly AFDC, SSI and the Food Stamp programs. Certainly on theoretical grounds, consolidation of SSI and AFDC under a cash grant approach is justified. SSI and AFDC are separate because they were developed separately, addressing different target groups and different populations, not because of a difference in program objectives or program content. Once the obligation of government is established to see that income is sufficient for health and decency, no reasonable differentiation can be made between categories of needy individuals. What the government does for one needy individual it should do for all with a like degree of need. So consolidation with SSI makes sense. When it comes to the Food Stamp Program, however, the problem is somewhat different. It is not a consolidation of populations that is being talked about, but of program content. In this case, consolidation involves "cashing out" of the Food Stamp Program and lumping the financial benefits into one comprehensive support package for a single population. The presumption is that the minimum income floor would be increased by an amount equal to the value of the food stamps to which needy individuals are presently entitled. If that presumption were in fact carried out, it would add to the cost of the cash assistance program and compound the financial problem. Much more likely, however, is that the additional payment intended to compensate for the loss of the Food Stamp Program would be gradually absorbed and the nutritional objectives of the Food Stamp eroded. As a result, recipients could be worse off than they are under the present system.

Another thorny issue confronting cash assistance supporters involves the need to include a strong work incentive, and with that, a work requirement. If work is to be required, all sorts of questions are raised. For example, who should be required to work, for what wages and under what conditions? (It has been estimated that only 10 to 12 percent of those presently receiving AFDC are actually employable, primarily because of the need for day care and the lack of suitable jobs at a wage sufficient to support a family.) Should parents have a choice as to whether they work or remain at home, what is the government's obligation to provide suitable substitutes for parental care? And for that matter, if there is to be a work requirement, what is the government's obligation to provide jobs? These are some of the questions that have led to the development of another basic reform approach, the triple-track approach.

The triple-track approach

The triple-track approach is so named because it divides the income support universe into three distinct parts—persons who are expected to work but have no job, persons who are not expected to work, and the "working poor"—persons who work but have inadequate income. The proposal then deals with each group in a way designed to meet its own special needs and requirements. This is the policy called for by the AFL-CIO.

The triple-track proponents started with a conviction that although there could be no question that the existing welfare system badly needed complete overhaul, no one "welfare" program could be expected to meet the widely different economic needs of such a diverse income support population. They also started with the conviction that it was not so much welfare that needed reforming, but the total economic and social system that resulted in so many failures which then became the burden of the welfare system. It was recognized, however, that even with full employment, changes in the present welfare system are necessary.

The triple-track concept represents a completely different way of looking at the welfare problem. The triple-track proposal differs from the present philosophy in that it starts from the premise that it is not lack of will, nor slothfulness, nor greed that keeps most of the income support population from working, but lack of opportunity. A related premise is that the resulting unemployment is an insurable risk properly borne by the government. The concept also accepts the fact that there are some people in some circumstances who cannot and should not be expected to work but for whom the government has an obligation to provide a decent level of support. Moreover, the triple-track planners felt that if it were possible to identify these people who should not be expected to work, the public and political opposition to decent support levels could be reduced—as it is, for example, for those on SSI.

The triple-track approach suggests a different income support strategy for each of the three groups identified above—tax reform for the working poor, a manpower track for the unemployed, and a welfare (cash assistance) track for persons unable or not expected to work. The working poor would receive income supplementation through an expanded earned income tax credit and through Food Stamps. For persons expected to work but do not have a job, the triple-track strategy would emphasize employment assistance, training, job placement, and for some, public service employment. Those persons not expected to work would receive a federal cash benefit set at the poverty level.

At the present time, the federal manpower system includes an unemployment insurance element designed to protect workers when and if they lose their jobs because of adverse economic conditions, because of no fault of their own. It is an insurance program, dependent on employer payroll taxes. It is designed for workers who have some attachment to the labor force, i.e., those who have "earned" the right to collect insurance as a result of premiums paid on their behalf. The current unemployment insurance program (UI) does not cover new entrants or reentrants, nor does it include all employers and all occupations. The manpower system also includes an array of federally supported employment and training programs, most of them administered by state and local governments under the Comprehensive Employment and Training Act (CETA). The system also includes the federal-state Employment Service which provides labor market exchange services on a universal basis, in addition to administering the work test associated with the unemployment insurance pro-

gram and, in some cases, providing selected manpower services to CETA itself includes at the present time a substantial public service employment component. Welfare recipients are eligible for participation in this program, but for the most part, it has been used by the state and local governments who are CETA "prime sponsors" to provide subsidized public service jobs to workers who are unemployed as a result of the recession and the continuing lag in the economic recovery.

Under the triple-track proposal, the AFL-CIO urges enactment of a program which would establish:

1. A redefined welfare system to provide income support in a direct, equitable and efficient manner to poor individuals and families who are unable or cannot be expected to be employed. The program should be entirely federally financed with a national minimum benefit standard designed to provide a decent standard of living. Additionally, closely associated with the welfare system must be an effective system of services to strengthen family life, focus on opportunities for children and provide long-range help in moving people from dependence to independence.

2. A unified and restructured employment and training system which is responsible for providing assistance to all persons who, with proper training and/or placement, can be expected to work outside their homes and maintain jobs. This would require a fundamental restructuring of existing programs to provide an integrated system of training, job placement services and public service employment opportunities. Temporary income support must be provided through the employment and training system and not through welfare for unemployed persons in training until such time as they are properly trained and placed in adequate employment at the minimum or prevailing wage.

3. An increased minimum wage with adjustment annually for change in average hourly earnings and coverage for all workers is the program most crucial for the working poor—that group which is the most inequitably treated under the current welfare system. A strengthened food stamp program as well as an income supplementation through an expanded earned income tax credit extension of current policy will be necessary for those workers who, because they have large families or have suffered extraordinary circumstances, are still in poverty.

The program would be fully federally financed, phased in perhaps over a period of time, removing most of the present fiscal burden on state and local governments. Administration could be provided through the states, certainly during the transition period, but the expectation is that the program would eventually be federally administered as well as federally financed.

The triple-track approach offers several clear advantages. First, and perhaps most important, particularly from a tactical point of view, it avoids to some extent the "work incentive/benefit level/high cost dilemma." Since there will be no one in the welfare program who *could* work, there is no need to worry about work disincentives, and no need to set benefit levels in relation to marginal tax benefit reduction rates. Also the tie-in of benefit levels for those employables who are not covered by regular UI to prevailing average wage levels defuses the work or welfare issue. Further, this approach has the advantage of building on an existing highly effective system which has stood the test of time—namely, the present unemployment insurance system. Although UI is not and should never be considered as a substitute for a comprehensive full employment policy, nevertheless, the present system as it has developed over time has proved to be an effective backstop to the economy.

The incremental or multiple program strategy

A third major approach to welfare reform, the incremental, or as its chief spokesman, Brookings economist Richard Nathan prefers to call it, the modernization approach, stems from a conviction that these transition problems are the chief barriers to effective reform. This approach—which in the jargon of the experts is called a multiple program strategy—starts from the premise that fundamental reform of the welfare system is not politically possible, and that, therefore, reform must be approached on a gradual or incremental basis. The supporters of this strategy would make the changes in the existing system necessary to achieve the desired objectives but would do it through the back door without making a frontal attack on the system itself. In addition to the tactical considerations, the advocates of the multiple program approach point

to the undeniable fact that the Food Stamp Program as it has evolved (particularly if the purchase requirement is eliminated) has already achieved some of the objectives toward which other reform proposals are aimed. Specifically, the Food Stamp Program has reduced to some extent the inequities that exist between high-and-low-benefit states since recipients in the low-benefit states receive a greater portion of benefits from the Food Stamp Program than do those in the high-benefit states. It has also helped revise the level of benefits overall, thereby addressing the adequacy problem. And because food stamps are available to the working poor as well as those on welfare, the program has tended to ease poverty among low-income working persons.

It is important to recognize, however, that although the incrementalists reject any approach which would completely do away with the existing systems, they are pretty much in agreement with other groups as to the kinds of improvements that must occur to make the welfare system equitable, efficient and effective. Among the specific reforms proposed by the incrementalists are the following:

The establishment of a national minimum benefit standard for AFDC, perhaps with geographical cost-of-living variations.

Mandatory inclusion of unemployed fathers or parents.

The establishment of national eligibility standards under AFDC, and its integration with the Food Stamp Program.

An annual cost-of-living adjustment in AFDC payments. Worth nothing in this connection is that most other income support programs have such a cost-of-living adjustment already built in although not always in a direct form. The adjustment is included in the Food Stamp Program by virtue of its relationship to food prices; in the Medicaid program, because of its relationship to fees for service; in the unemployment compensation system, because of the tie-in to average wage rates; and, of course, in the Social Security system which has a direct cost-of-living adjustment feature.

The elimination of the purchase requirement for food stamps to remove the penalty now suffered by those at the very bottom of the economic ladder whose inability to scrape up the cash to buy the food stamps to which they are entitled can mean non-participation in the program.

Fiscal relief for state and local governments.

Mandatory emergency assistance as part of both the AFDC program and the SSI program, and assumption by the federal government of full responsibility for financing such emergency assistance.

Other improvements could be suggested. The important point to make, however, is that the incremental approach is not necessarily a niggardly approach. Important and significant improvements in the system are being suggested by this approach. What the incremental approach does not do is to attack some of most basic problems. Even granting that the modernization improvements would go a long way to meet the reform goals of equity, adequacy and administrative efficiency, and also could provide some fiscal relief, there is some question whether the tactical judgment of the incrementalists is correct. Are they right that it will be easier, or will it be harder to address the question of reform on a piece-meal basis? Would it be easier or harder to shepherd each of the above reforms through the Congress on a one-by-one basis?

The Carter administration has apparently decided that it would be harder, and has therefore rejected this strategy. Indeed since even the modest goals of the incrementalists would require the development of broad public support and a major political effort, the administration's decision would appear to be correct. If a reform effort is to be made at all, it might as well be a good one. Tinkering with the present system is simply not enough.

The guaranteed jobs/cash assistance program—The administration proposal

Taking the same tack to welfare reform as the proponents of the triple-track approach, the Carter administration has also based its proposal on the thesis that the key to reform is employment. The administration strategy makes the same sharp distinction between persons expected and those not expected to work as is made by the triple-track approach. In addition, the assumption is made that the expectation of work must be backed by a job guarantee—with the federal government backstopping the private economy with sufficient jobs to fill the guarantee, and secondly, that there must be an adequate system of cash assistance for persons not expected to work.

In his statement on welfare reform on May 2, 1977, President Carter summarized the main thrust of the administration strategy, outlining twelve principles for reform which he said would provide the framework for the administration's plan. As a first principle, President Carter stated that reform plan should have no higher initial cost than the present system. (Establishment of such a ceiling on the cost of reform clearly conflicts with the achievement of many of the other generally agreed-upon goals of welfare reform, particularly the setting of a reasonably decent income floor for needy persons and providing fiscal relief to state and local governments.) Other Carter principles provide that every family with children and a member able to work should have access to a job, preferably in the private sector, but as a back-up, public training and employment programs should also be available. Strong, financial incentives should be provided to encourage private sector employment, to keep families together, and to assure that working families receive more income than non-working families. The President's welfare goals also include a continuation of the present earned income tax credit to aid the working poor, and the consolidation of existing federal benefits into a single cash payment for persons who cannot work as well as for those who work but do not earn adequate income. A further goal identified by the President is to make the administration of welfare programs simpler and easier and to emphasize local administration of public job programs. And finally, the President stated that the financial burden imposed on state and local governments by escalating welfare costs should be reduced as rapidly as federal resources permit.

These principles are very much evident in the administration's welfare reform plan. Under the plan, persons who can and should work are guaranteed a job or training and federal cash assistance is provided both to persons who are unable to work and to those who do work but do not earn adequate income. Under the jobs component, persons expected to work register with the local employment and training agency which will seek to place the person in private sector employment. If private sector work is not available, the principal wage earner in families with dependent children will have access to a public service job or training slot under a federally funded public employment program. These public jobs will pay the minimum wage. The administration estimates that as many as 1.4 million jobs and training slots will be needed if the unemployment rate is lowered to 5.6 percent by the time the program is implemented. The expectation is to re-target public service jobs currently funded under the Comprehensive Employment and Training Act (CETA) to the welfare population, once the economy picks up and generates substantial numbers of jobs in the private sector. Incentives, in the form of higher cash assistance, would aim to encourage persons to take private sector jobs over public employment. Single-parent families with children under 6 years old will be encouraged but not required to work. Those with children between the ages of 6-13 will be required to take part-time jobs during the hours the children are in school. The administration plans to create 300,000 part-time jobs for this purpose. Low-income single persons and childless couples will be required to accept work or training, or lose their eligibility for cash assistance.

As it is being developed, the Carter administration plan would consolidate the three major existing income assistance programs—AFDC, SSI and Food Stamps—into a single cash assistance payment to eligible persons. Central to the new cash assistance program is the distinction it makes between recipients who are required to work and those who may work, but are not required to do so. This distinction is based on the assumption that certain population groups—the aged, blind and disabled, and single-parent families with young children—are not expected to work to support themselves. However, the setting of a fairly low cash benefit level (about three-fourths of the poverty level) aims to encourage some of these persons to seek employment. The incentive to work for all other persons—those deemed employable—is even stronger, as their benefit level would be set at less than one-half the poverty level. Thus, what is proposed is a two-tiered cash assistance program which would provide (1) income support for those persons not expected to work as well as for those persons expected to work but for whom a job is not available; and (2) work supplements for persons who do work but have inadequate income.

The set of numbers currently under consideration by the administration policymakers would produce the following benefit structure (in 1978 dollars) for the two-tiered cash assistance program:

1. Income support tier (for persons not required to work) :

For a family of four with no other income -----	\$4,700
For a single-parent with one child -----	3,800
For aged, blind or disabled persons :	
Couple -----	3,900
Single persons -----	2,600

Benefits would be reduced by 50 cents for each dollar earned. For a four-person family, program eligibility would end when total income (cash assistance and earnings) reached the "break-even" point of \$9,400 a year.

2. Work supplement tier (for persons required to work) :

For a family of four with a job -----	\$2,600
For single individuals (if no job is available) -----	1,200
For childless couples (if no job is available) -----	2,400

Earnings from employment do *not* reduce benefits until a family's total income (including cash assistance) approaches the poverty level. Persons in private sector jobs may earn up to \$4,200 (the "income disregard") before benefits are reduced 50 cents for each dollar earned beyond the disregard level. However, for persons holding special public jobs, the proposed income disregard is only \$2,100. This distinction reflects the Carter administration's goal of encouraging private sector employment over public jobs for welfare recipients. For single persons and childless couples, there is no income disregard and their cash benefits would be reduced 50 cents for *every* dollar of earnings. These two groups would become ineligible for any cash assistance if a job or training slot paying the minimum wage became available to them whether or not the job or training were accepted.

The administration's welfare package would continue the present earned income tax credit for all families with children and would not cause reductions in benefits paid by the cash assistance component of the plan. However, two so-called technical changes under consideration by the Carter welfare team could have significant impact on current welfare recipients. These changes, if enacted, would have the effect of eliminating or reducing welfare payments to many current recipients and would lower present costs making room for some new welfare initiatives, yet keeping within the President's goal of no higher initial cost than current expenditures. These technical changes include a re-definition of the "filing unit," the group of people considered in determining financial need and in counting income, and a lengthening of the "accountable period," the period of time in which income is computed to determine eligibility.

These proposed changes—specifically to broaden the definition of the filing unit to include more persons residing in the same household and to lengthen the accountable period from the current practice of one month to as long as six months—are rationalized on the basis that they would assure a more equitable way of counting income and determining eligibility for benefits. But as a practical matter, the most significant effect would be to eliminate or reduce payments to many of those currently receiving benefits, and to deny benefits to many poor people at a time when they most need financial help. Even with strengthened emergency assistance programs, real economic hardship would increase. There is no doubt that these changes would help to hold down costs—but at a high price in terms of individual and family needs.

If the administration adheres to its projected spending estimates for welfare, its reform proposals would carry a price tag of just about \$31.1 billion in fiscal 1978, \$2.1 billion over the current total spending level for AFDC, SSI, Food Stamps, Extended Unemployment Insurance, housing assistance and CETA and WIN employment programs. Under the new welfare program, the groups that would receive less federal cash assistance are current AFDC and SSI recipients in high-benefit states, current SSI recipients living with relatives, and households that currently receive Extended Unemployment Insurance who would not be eligible for benefits under the new program. Those that would receive more federal dollars would be two-parent families with children, single-parent families with children in low-benefit states, and single persons and childless couples in states which have limited General Assistance programs. According to administration estimates, the cost of the new welfare program—including both the cash assistance and the jobs program components—would be partially offset by savings from the former cash programs and

by retargeting CETA public service jobs to welfare recipients, resulting in minimal additional federal expenditures.

The tough issues

At this writing many of the really tough issues which are basic to effective welfare reform are still unresolved. As reform legislation works its way through the Congress and as public debate on the welfare problem gains in intensity over the next few months, some of these issues will come into sharper focus. In addition to the questions of eligibility and benefit levels (or income guarantee) already discussed, are questions relating to such matters as the work guarantee and work requirement; the problem of providing fiscal relief to state and local governments; the proper roles of federal, state and local governments both in providing financial support for the system and in administering the program; the provision of day care for children of working parents; and the relationship of welfare reform to other income support programs, particularly to Medicaid and housing assistance.

For the labor movement, one of the most important issues concerns the work requirement and work guarantee. For both political and economic reasons, the need to accept some kind of work requirement as a condition for receiving benefits is recognized by most experts as being an essential component of any successful reform scheme. But to be just and equitable, the work requirement must not only be applied fairly and only to those who can reasonably be expected to work but there must also be decent jobs for these people. For example, the work requirement should be the same in all states. It should not apply to full-time students in high school or college. Nor should it apply to adults who are needed in the home to take care of young children or incapacitated persons. Nor, of course, should it apply to aged, blind or disabled persons. Fair application of a work requirement will necessitate efficient and even-handed administration. More difficult is the problem of making good on a job guarantee so that all who are expected to work will actually be provided a meaningful job, and/or training if that is needed first. The administration's proposal is intended to do just that, but unfortunately is deficient in several respects. If a job is to be meaningful, it must not be a make-work, do-nothing kind of job. Nor should it replace existing jobs. Therefore, the job must not only pay a decent wage, but must pay the same wage that is paid to non-welfare recipients doing the same work. The administration proposal includes a large public jobs component, more than a million public service jobs to be paid at the minimum wage. To create this many jobs, the Carter proposal would convert the existing CETA public employment program into a public job program reserved for welfare recipients. At the present time, approximately 725,000 public service jobs are funded under CETA at a cost of over \$6 billion a year. The CETA public job program was established as an anti-recession measure to help reduce unemployment and stimulate the economy. The Carter welfare proposal, constrained as it is by the necessity to hold costs to the present level, has looked to CETA as a solution. In so doing, the proposal assumes that by the time welfare reform can be implemented (not until 1981 or after) unemployment will have declined and it will be safe to convert CETA funds to the welfare program.

The proposal is seriously faulty on two counts. First, to suggest that the public service jobs should pay only the minimum wage is not only unfair, but would be unworkable. It is simply not possible to put two workers side by side, doing the same jobs but at different wages. Unless the prevailing wage rate is used, one of two things is likely to occur. Either the existing wage rates will be depressed—and if so, the quality of the work performed will certainly suffer. Or welfare recipients on these jobs will themselves force the rate up to existing prevailing levels. Moreover, since the minimum wage rate does not produce enough income to move a family beyond the poverty threshold (at even \$2.80 an hour, a full-time worker would earn only \$5,824, an amount not quite equal to the official poverty level for a family of four), to the extent that the prevailing wage is depressed, the program would be counter-productive—only adding to poverty and dependency instead of reducing it.

Equally serious is what would happen to the concept of public service employment as a manpower tool if CETA becomes the chief vehicle for meeting the job guarantee for welfare recipients. For many years, the labor movement has fought for a permanent public service employment program which could be expanded as needed when unemployment was high, and/or targeted

to areas and segments of the labor force particularly hard hit by unemployment even when the general level of joblessness was low. The present CETA public service employment program represents a hard won victory for the labor movement in this regard. If it is allowed to be converted to a welfare program, it will be very difficult or even impossible to mount a large-scale, non-welfare public job program in the event of future downturns in the economy. Its use as an effective, comprehensive manpower tool will be hopelessly compromised.

The fiscal relief problem is another thorny issue. At the beginning of this section, the point was made that the problem of fiscal relief—that is the alleviation of the financial burden presently borne by state and local governments—could conceivably be resolved either with or without enactment of other welfare reform measures. Most of those concerned with reform, however, recognize that reform has a better chance of enactment if it is coupled with some measure of fiscal relief. They also recognize that without fiscal relief the present welfare mess will most likely worsen.

It is not only political expediency which makes fiscal relief a necessary and essential element of any reform scheme. Federal assumption of the costs of welfare is probably a prerequisite for other welfare improvements, particularly for the establishment of uniform eligibility and benefit standards, as well as for simplified administration and the operation of an effective work program.

It is of course possible that fiscal relief for state and local governments could come about in stages, moving gradually toward assumption of the full costs by the federal government. For example, it might be possible for the federal government to assume only a part of the current state and local shares of AFDC—perhaps 75 or 50 percent at first, taking four or five years or more to get to 100 percent. The fiscal relief problem is complicated by the fact that some states and some local governments, now pay higher benefits than are contemplated—or indeed possible—under any of the reform schemes under discussion. As a practical matter, there is simply no way by which an acceptable national guaranteed income level, or benefit level, will be as high as the benefit level currently paid in the highest benefit states, such as in New York or California. That being the case, it is clear that unless the high benefit states are willing to reduce the benefits of their present welfare recipients—something that is probably politically impossible—there will have to be some state supplementation of benefits. And that means continued state and/or local financing of a part of the welfare program, or additional federal relief for those high paying states.

Three further points must be made on the problem of fiscal relief.

First. The argument is frequently made that the assumption of the full costs of welfare by the federal government will make no difference to the taxpayer. The bill must be paid, and the taxpayer must pay it whether through federal, state or local taxes. Some argue that federalization will inevitably be accompanied by an increase in costs, so the taxpayer will be worse off than before. This matter depends, however, on which taxpayer is being talked about. Generally speaking, the federal tax system is more progressive than most state and local government systems, and can call on resources not available to states and localities. That being so, federalization would probably benefit the lower and middle income groups, although it would put an additional burden on the upper income groups. Also, it is not at all a foregone conclusion that welfare costs would rise as a result of federalization. Initially that might be the case, particularly if decent national standards were adopted. However, if federalization were accompanied by the administrative reforms necessary to eliminate waste, and especially if reform were coupled with an active full employment policy, certainly in the long run welfare costs could reduce.

Second. The argument is also made the federal assumption of the costs of welfare would not help the large cities which are in most serious financial straits since only a few of the cities presently contribute to total welfare costs, New York and Los Angeles being the prime examples. As described earlier, although it is true that in most states the entire non-federal share of welfare costs is borne by the state, not the local government, it must be recognized that it is in precisely those states and cities which require a local contribution that the welfare load is concentrated. If financial help is provided to just those states, a good part of the national welfare population will be affected. Furthermore, it should be obvious that if state governments were relieved of all or even part of the financial obligation that the welfare system imposes

on them, and because they have a much broader revenue base to draw on than the cities, they would be able to direct more assistance to the cities than they can now.

Third, there is the matter of general assistance, the local dole. To the extent that the welfare system is enlarged to cover all needy persons instead of being limited to families and the categorical groups (aged, blind and disabled), the need for the general assistance program (the non-federal programs available in most states and localities to pick up and care for those people who do not qualify for help under any federal program), will disappear, and relief will be provided through the new federal program. However, for this to happen, the federal program will have to more adequately cover people than Carter's current proposals.

Directly related to the issues of federal assumption of the costs of welfare, and of continued state supplementation of program benefits is the question of the role of state and local governments in the administration of a reformed welfare system. It is sometimes argued that if the federal government is going to assume full fiscal responsibility for the program it should also have full responsibility for program administration. Such complete federalization makes sense, it is argued, because it would lead to administrative simplicity and assure that federal standards and requirements were maintained. Experience with the present SSI program does not entirely support this position.

As noted earlier in this report, the enactment of the Supplemental Security Income program in 1972 was slated to be a major first step toward achieving reform of this country's approach to public assistance. To a large extent, the SSI legislation "federalized" the former federal-state grant-in-aid programs which provided income assistance for indigent aged, blind and disabled persons. For the first time, SSI established nationally uniform eligibility requirements for receiving income assistance and established a national income floor, financed by the federal government, and thus substantially increased the level of income support for aged, blind and disabled persons.

The SSI program has been in operation since January 1, 1974, and currently provides benefits to 4.4 million people. The program's performance thus far has received mixed reviews, and just how successful SSI will be in meeting the goals set out for it remains to be seen. However, its record and the problems encountered to date offer important insights for welfare administrators and policymakers as they move toward what may be a major overhaul of the nation's welfare system. Among the questions raised are the following: If a welfare program is primarily federally administered (as in the case of SSI), how responsive can it be to individual client needs?

If the states are to have a role in administration, should it be on a contractual or a cost-sharing basis with the federal government? Assuming that the states will be required to supplement a basic federal payment in order to protect recipients from suffering cutbacks in benefits, how will the state supplements be administered—by the federal government or by the states? Can states be required to supplement without being given the authority to administer the supplement? Who should be responsible for the administration of emergency aid? What linkages should there be between the cash assistance and jobs programs at the local level? And last but not least, what impact would federal administration have on state and local welfare personnel?

The three-and-a-half year operation of SSI sheds some light on these questions. What was intended to be primarily a federal program has turned out to be a mix of federal and state roles and responsibilities. As it has turned out, the extent of federalization of income assistance for the aged, blind and disabled achieved under SSI has been limited by the need to have the states supplement the federal benefit which in turn has resulted in varying SSI benefit payments from state to state, differences in eligibility requirements for the state supplementary payments, and a mix of federal and state administration of the supplementary payments.

Some observers have noted that the administration of SSI by the Social Security Administration has become encumbered by unexpected, unreasonable demands on the agency to handle matters other than providing income assistance. These observers agree that matters such as referrals of clients to other programs and services, and the provision of emergency assistance are better left to state and local services. The SSI experience also points up the need for careful coordination of any new program and administrative mechanisms with existing structures that will remain in place in order to maximize service and assistance to program clients. But probably the most important lesson of

SSI is that successful reform cannot be considered apart from consideration of administration problems. No reform scheme, however clearly devised, or carefully engineered, will work if it does not have competent, well-trained adequately paid workers to run it. Further, it must be able to attract and hold the kind of people who can understand and deal effectively with the most difficult human problems. This would indicate a continuation of state and local administration of the program, at least in the initial stages. It must be remembered that the bureaucratic nightmare that exists today is just as much a trial for those who work in the system as for those who are on the receiving end. It is not only the recipient who must deal with forms, overlap and confusion. Those involved in trying to make the present system work are all but buried in an avalanche of paper. If that nightmare is to be brought to an end, not only must present working conditions be improved, but job rights and security must be fully protected.

CHAPTER IV—FINDINGS AND RECOMMENDATIONS

The major findings of this study are as follows:

It is clear that time for reform of the welfare system is long overdue. President Carter is right to make it a top priority of his administration. The existing system, with its inequities, confusion, overlap and inadequacies can no longer be tolerated. It is unfair, often more harmful than helpful, and frequently counterproductive. Moreover, it is swamped in an avalanche of paper, mired in a morass of detail, much of which is meaningless and frustrating both to those who are on the receiving end and those who are attempting to manage the system.

It is not enough to tinker with the present system, correcting this or that fault, but leaving the basic system intact. A major overhaul is necessary. This is because the existing system is a patchwork of many programs, with different and frequently overlapping objectives, goals and target groups. The present programs grew up to meet a series of unrelated problems, one at a time, as each problem arose. To make sense of the welfare system, there must be a single conceptual framework—a clear understanding of what we want welfare to do. That of course means starting from the bottom. But once that is done, the development and arrangement of the components to make up a total scheme will become easier.

In our view, the triple-track system represents the best approach to the problem. The broad conceptual framework upon which it is built is both rational and correct primarily because it recognizes that the welfare problem is not one of supporting lazy, non-working people. It is an employment problem for those able to work, and a matter of assisting those truly in need.

In the introduction to this study, several basic principles which we consider essential to successful welfare reform were listed. They bear repeating here.

The welfare problem is not a problem of people. It is a problem of institutional failures. First among these is the chronic failure of the economy to provide enough jobs. A full employment policy must therefore be the starting point from which any welfare reform plan takes off.

A sound welfare system requires a much greater degree of federal involvement, including financial support than is now the case. Eventually—indeed, as soon as possible, the entire cost of the welfare system should be shifted to the federal government.

Federal involvement should not be limited to financial support. Sound welfare policy also requires the establishment of certain minimum standards. There should be a single set of national standards for coverage, eligibility for participation, benefit levels, computation of benefits, treatment of income deductions, work expenses, and benefit reduction rates.

The federal government has an obligation to provide income support for all those unable to work and to provide jobs and training to those who can work. This includes the development of some kind of income support for new entrants and reentrants into the labor force.

The federal government also has an obligation to see to it that those who are working receive just and decent compensation for their work. It is not right that so many of our citizens remain in poverty even though they work full time. Nor is it right that those who are working should be penalized for so doing.

If there is to be full federal financing of a welfare system, including establishment of uniform federal standards, it may be necessary to move toward Federal administration of the system. But such a move should be made only on the basis of careful consideration of all the advantages and disadvantages, review of the experience of existing federalized programs, and detailed planning and preparation. Furthermore, it should not be done without full concern for and protection of the rights, working conditions and job security of the thousands of state and local employees who currently bear the brunt of the "welfare mess."

Public policies should be designed to keep families together—not to split them up. Mandatory extension of welfare coverage to include families with an unemployed father is essential to preserving family structure.

The triple-track strategy is entirely consistent with these principles and recognizes the diverse needs of the income support population and offers different and separate solutions to meet these needs.

Although the current system has been a source of controversy for more than a decade, recent escalation in costs and number of recipients has catapulted welfare reform into a major national issue. The magnitude of the welfare mess and failure of past reform efforts are cited almost daily by the news media, government studies, political leaders, welfare workers and welfare recipients.

State and local governments, in particular, have been under severe fiscal strain. Traditional public services—recreation, safety protection, education, etc.—have been disrupted as local governments shift spending priorities to meet welfare demands. Unemployment, recession and inflation, meanwhile, have continued to drain local treasuries.

The brunt of service cutbacks, of course, falls on public employees. Public workers feel the impact of budget belt tightening through layoffs, increased workloads, and "inability to pay" arguments at the bargaining table. Ironically, this lowering in the quality of public services occurs at the very time when the demand for these services is astronomical because of increased welfare caseloads.

Welfare reform, however, cannot be achieved with a patch and repair job. The entire system needs a major, total overhaul. Immediate attention obviously is required, and effective short-term measures should be followed up with a long-term program providing decent jobs and real income security.

GROWTH IN WELFARE—1950 TO 1976

	Total AFDC expenditures		Total AFDC recipients ¹	
	(thousand)	Index 1950= 100	(thousand)	Index 1950= 100
1950.....	520,330	100.0	2,233	100.0
1951.....	557,743	107.2	2,041	91.4
1952.....	536,201	103.1	1,991	89.2
1953.....	547,606	105.2	1,941	86.9
1954.....	545,550	104.8	2,173	97.3
1955.....	601,556	115.6	2,192	98.2
1956.....	616,442	118.5	2,270	101.7
1957.....	673,424	129.4	2,497	111.8
1958.....	771,560	148.4	2,846	127.5
1959.....	500,286	173.0	2,946	131.9
1960.....	961,746	184.8	3,073	137.6
1961.....	1,050,130	201.8	3,566	159.7
1962.....	1,247,291	239.7	3,789	169.7
1963.....	1,324,996	254.6	3,930	176.0
1964.....	1,414,016	271.8	4,219	188.9
1965.....	1,573,767	302.5	4,396	196.9
1966.....	1,719,742	330.5	4,666	209.0
1967.....	2,027,441	389.6	5,309	237.8
1968.....	2,516,261	483.5	6,086	272.5
1969.....	3,160,162	607.3	7,313	327.5
1970.....	4,065,466	781.3	9,659	432.6
1971.....	5,653,184	1,086.5	10,653	477.1
1972.....	6,709,672	1,282.5	11,069	495.7
1973.....	7,144,567	1,373.1	10,815	484.3
1974.....	7,526,092	1,446.4	11,006	492.9
1975.....	8,638,529	1,660.2	11,389	510.0
1976 ²	9,675,979	1,859.6	11,248	503.7

¹ Data are for December of each year.

² Data are for July.

Source: Department of Health, Education, and Welfare.

Mr. COSGROVE. The few points, Mr. Chairman, I would cover in my oral presentation would begin with not taking the committee's time to agree with everyone else that much is needed to be done to rectify the whole system. Rather, let us concentrate on a few points which to us seem salient.

The 1969 effort with which you were illustriously involved, to enact a family assistance plan, failed to reach fruition, we think, for several reasons. Certainly one of them was the polarization of those who sought a thoroughly ample benefit, with every possible protection for the beneficiaries—a position, I might say, nearer to our own—and those who were primarily interested in cutting back costs of welfare. Clearly, there will have to be a compromise if any passable program is to emerge.

Accordingly, we hope the legislation will be as adequate as we can make it, fully protective of the human dignity of the recipients, including a practical program for training for job opportunities, the creation of which must be provided, given the persistent high unemployment, and an efficient administration to assure a decent return of real gain for the resources the country invests.

A national full employment policy as contained in H.R. 50, S. 50, is we think the first requirement. Federal responsibility must follow Federal commitment.

With regard to both AFDC and medicaid, State and local governments carry a substantial part of the cost. On a national basis the non-Federal share of AFDC averages slightly less than half the total. It is about the same for medicaid. General assistance is almost entirely financed by State and local governments. The strain of this on local resources is, of course, staggering and uneven across the country.

For the non-Federal share to vary from 56 percent in Massachusetts to 17 percent in Mississippi illustrates the problem here. Because some States and some cities are bearing a disproportionate share of the growing welfare problem whose origins, causes and even solutions do not lie in a given region or locality, we conclude that the ultimate goal must be full Federal assumption of the welfare cost. Perhaps we could establish the goal now and move gradually toward it. A dividend of this policy would be that relief of the tax burden on States and localities can enable them better to provide the essential public services which are in so many places in need of improvement.

Federal involvement in the welfare problem should go beyond financial support and should include national minimum standards. National standards should apply to coverage, eligibility, benefit levels and other central factors.

Ultimately it may be that there should be a Federal responsibility for the whole system. If so, however, there must be full job protection of the job rights and employment conditions of State and local employees who administer the program. It cannot in fact be run from Washington. Individuals operating the system should be aware of and sensitive to local conditions and they should provide the social services which should accompany welfare benefit payments.

Lastly, we believe that those provided jobs, in connection with or in lieu of the welfare system, should have jobs commensurate with human dignity, and not be a source of semislave labor.

The administration proposal might well force millions of citizens to take private or public jobs at the minimum wage no matter how much that falls below the prevailing wage rate. Pay should be, in our judgment, at the level of that negotiated by the union or the prevailing rate.

As the last AFL-CIO Convention noted in part:

There is no assurance that the public service jobs that would be created under the Administration's proposal would not simply replace jobs of workers now employed or who would otherwise be hired by state and local governments.

Neither of course should they be used in any case as strikebreakers. This is a central concern of ours.

Senator MOYNIHAN. What about strikebreakers if they were confined exclusively to the Panama Canal?

Mr. COSGROVE. No exceptions, sir.

Senator MOYNIHAN. There is the labor movement again, arbitrary, intransigent, inflexible.

Mr. COSGROVE. Mr. Chairman, we want to offer at this point no further reservations or addendums to the Canal treaties.

We would urge, in addition, expanded tax credits for the working poor. People should not be penalized if they work and should receive income supplements which will guarantee them at least a poverty-level existence.

Adoption of this multitrack approach to welfare reform will begin to eliminate some of the problems that plague the system, begin to meet the real needs of our citizens and, most important, achieve the goal of providing a decent living for all.

Thank you.

Senator MOYNIHAN. That is the goal the American labor movement has been committed to for a century, Mr. Cosgrove.

Mr. CRIPPEN, did you want to testify formally, before we begin discussion here?

Mr. CRIPPEN. Yes. You have our formal statement, Senator.

I would also like to introduce Stan Wisniewski, who is the director of the research department of the Service Employees International Union, based here in Washington.

Senator MOYNIHAN. We welcome you to this committee, sir.

Mr. CRIPPEN. The position of the Service Employees, I think, to make our message brief, is that we believe that the time has come to stop the philosophical debates over the issue of welfare reform. If any agreement can be reached on a way to overhaul the system, then we should do so. If not, then we should still attempt to correct the most glaring problems.

As we see it, the following problems must be addressed by this Congress: one, inadequate benefit levels in many States; two, a senseless diversity of payment schedules and eligibility requirements from State to State; three, an increasing fiscal burden in many States and most cities; four, continued perverse incentives against maintaining family stability; five, lack of realistic employment opportunities for those who are able to work; and six, lack of adequate day care facilities for welfare families.

Short of a complete overhaul, we would hope that at a minimum, the following steps could be taken this year: one, rapidly phase in

full Federal funding for AFDC; two, establish minimum benefit levels at the poverty level with a cost of living allowance; three, establish Federal eligibility requirements; four, require AFDCUF in all States; five, phase in full Federal funding of medicaid; six, maintain the food stamp program with no purchase requirements; seven, adopt the earned income tax credit, as reported by the House special committee; eight, ensure that the job programs recognize the principle of equal pay for equal work; nine, expand the proposed number of public service jobs to at least 3 million; and ten, maintain and expand the present UI program to provide for the long-term unemployed outside the welfare system.

We are very much opposed to the so-called comprehensive reform schemes that would cash out all services and in-kind programs in favor of a negative income tax approach. Poverty has numerous causes; no one program can address the needs of all of the poor, and more is needed than just handing them a computerized check each month.

Services under title XX, the housing program, food stamps, day care, are all programs of immense importance to those millions of people who rely on them. That is why we favor a partnership with State governments. The more comprehensive and progressive taxing powers of the Federal Government should be used to raise the revenue to fund these programs.

The causes of poverty are national in scope and the burden of relieving poverty should be borne by the Nation as a whole. In return, there should be Federal standards for eligibility and benefit level.

The program should be administered locally, by the level closest to welfare clients. This would ensure that needed services are coordinated with the monthly benefit check and that the provision of social services is responsive to the specific needs of the poor.

Our goals, then, would be a fully federally-funded program with State administration providing a decent minimum benefit level to those who cannot be expected to work, and a job at a fair and equitable wage level to those who can work.

In light of these principles, we would like to submit our comments which you have.

Jobs. Meaningful reform of the Nation's welfare system cannot be accomplished unless enough jobs are made available at fair wages. No employable person should remain trapped at the poverty treadmill for lack of an adequate level of earned income. While each of the current reform programs recognizes the need for more job opportunities, none offers a sound strategy for producing the necessary levels of worthwhile employment.

Senate bill 2084 requires all persons eligible for employment be placed in private or public sector jobs. Given the current state of our economy, where the additional unsubsidized job opportunities are to come from remains a mystery.

Apparently the underlying assumption of S. 2084 is that the 7½ million unemployed and discouraged workers have been unable to secure jobs simply because they are unwilling to work for the minimum wage. That notion is clearly at odds with the realities of the Nation's labor market.

The subsidized portion of the jobs in S. 2084 mandatory work program will create at best 1.4 million public sector jobs. This is only a modest increase in the amount of full-time jobs provided by the present CETA public employment programs. Yet with the availability of only a limited number of temporary minimum-wage jobs, the administration hopes to meet the employment needs of all eligible individuals who cannot be immediately placed in unsubsidized jobs.

Moreover, the minimum wage requirement attached to the public employment program is certain to upset wage structures and employment in the public sector.

An equally important problem is that there is no guarantee that public services jobs "created" to help the unemployed poor will not replace the jobs of existing workers or those of workers who would otherwise have been hired by State and local governments. Neither public service programs of S. 2084 or H.R. 10950 make any serious effort to prevent job displacement or wage-cutting from occurring.

The voucher system in S. 2777 is nothing more than a thinly disguised scheme for making workers available to employers at less than prevailing wage rates. Little or no effort is made by the proponents of this system to guard against the wholesale substitution of subsidized employees for currently employed workers.

Attempting to stimulate employment through business tax credits has been tried time and again and in almost every instance, the results have proved disappointing. Similarly, the Ullman proposal, H.R. 10711, contains virtually all of the same inequities and uncertainties found in the other bills while providing far fewer jobs than some of the alternatives.

The jobs component of any welfare reform proposal is deficient if it does not help the target population meet existing job requirements. Training potential workers and upgrading their job qualifications is absolutely essential to a successful employment effort, yet improved training provisions beyond what currently exist in the CETA public employment programs are notably absent from S. 2084 or even in the improved H.R. 10950.

It is critical that any temporary job component be more than just a holding point for the poor. Having a future is an integral part of the path out of poverty. Subsidized job holders do not need to be merely occupied; they need an occupation.

While we recognize the urgent need for Federal standards and benefit levels and eligibility requirements, we feel strongly that State and local administration is by far the most sensible approach to welfare reform. Federalizing the administration of these programs will destroy the essential services that America's poor now receive from State and local social service agencies.

The experience of federalization in the income maintenance programs for the aged, blind and disabled represents a case study in the kind of problems we foresee with Federal administration. With the creation of the supplemental security income program, administration was shifted from State and local social service agencies to the Social Security Administration. Social security offices had and have little understanding of the nature of the services previously provided by the social service agencies at the State and local level.

Local social service agencies had to continue to deal with clients who received their financial assistance from the Social Security Administration but whose other needs required specialized attention.

Federal administration will also undermine the comprehensive package of services which have been successfully developed by local social service agencies in coordination with probation departments, health departments, employment departments, public defenders, district attorneys, and schools.

Benefit levels and eligibility requirements can and should be federalized, but not at the cost of eliminating essentially local administered social services.

Senator MOYNIHAN. I do thank you, sir. I was struck by how similar in some respects Mr. Crippen's testimony was on behalf of the Service Employees International Union with that of the chamber of commerce.

Mr. CRIPPEN. You mean they have seen the light?

Senator MOYNIHAN. Some of you have simultaneously come together. But your proposals and the chamber of commerce proposals are rather similar.

Let me say first of all to Mr. Cosgrove, as I think he knows, that I couldn't be more supportive of the public employee unions. I drafted the Executive order that President Kennedy promulgated in 1962, which gave union recognition to Federal employees, and, I guess, led to the formation of your department, did it not, a couple of years later?

Mr. COSGROVE. Some years later. We have been in existence about 4 years, Senator, but certainly Executive Order 10988 gave great impetus to the organization of Federal employees.

Senator MOYNIHAN. Let me ask you a general question first of all, and I hope everybody here will feel free to speak. Which of the programs that has been proposed do you like? Do you like none of them and would you like the arrangement that you got? You have spoken that the President's program doesn't seem to have pleased you and the Ullman does not nor does the Baker-Bellmon-Danforth-Ribicoff.

Do you think the present system is working well enough if it were just adequately financed?

Mr. COSGROVE. I think the central objection that we have about the President's proposal is that the benefit level is totally inadequate. It is \$4,200 for a family of four. Obviously, the benefit level is a central aspect. This is less than two-thirds of the poverty level, officially established, and less than the families in 38 States are currently receiving through combined welfare benefits and food stamps, so that would be a central problem, I think.

Senator MOYNIHAN. You are quite right. It is 65 percent of the poverty level and in Baker-Bellmon, it would be set there.

Mr. COSGROVE. That I think has traditionally been a central problem throughout this, the failure to recognize that there is a large group that is simply unemployable, so this talk about "work-fare," while it is one with which we would also agree in broad terms, can in a certain light be considered demagogic, if there is a concentration on it to the exclusion of the fact that some people cannot in fact be employed.

This in no way diminishes the need for work, and we put high emphasis on this, real public service jobs. I think our concern there is somewhat repetitious, so I will simply summarize it. These would be jobs not depressive of human dignity but supportive of the human dignity of those referred to them because public service jobs should be that; they should have dignity, they should be consequential, not leaf-raking, but many of the good things and many of the most excellent projects of the old PWA and WPA days of the thirties made major contributions to our security and our capacity to provide for our security in World War II and the rest. So these were not boondoggles by any means, no matter how portrayed by the cartoonists.

Senator MOYNIHAN. No, they were not.

Mr. COSGROVE. We think that they can be again, to really strengthen America for its needs. But in terms of the employee himself, our concern would be that they be additional social functions that were undertaken and not the displacement of now existing workers.

Senator MOYNIHAN. All right, now, you have had your chance, Mr. Cosgrove.

What do you say, Miss Wright, on the bills you have heard about?

Ms. WRIGHT. My most important concern is what will happen if the Federal Government takes over the programs.

Senator MOYNIHAN. Describe that concern.

Ms. WRIGHT. As far as the employees that are members of my local union that I represent, they are all State employees at this point, and if their jobs were to become Federal, there would be a question as to whether they would be assimilated into this program and whether we would represent them any more.

Senator MOYNIHAN. That is an absolutely legitimate concern in any program. This did not happen with SSI, did it?

Mr. COSGROVE. No.

Senator MOYNIHAN. And it must have meant some disorganization, I would think.

Which of you was around when that took place? You were, Mr. Crippen?

Mr. CRIPPEN. SSI absorbed very few people from current Government. It just took the program in the Social Security Administration. They attempted to make do with mostly what they had. I think they expanded rather slightly. They really don't know how to deal with the issues. Our offices are in the same building with the Social Security Administration and I spend some time in conversation with the people in social security. They say things like, gee, it is the worst thing that has ever happened to this agency. We just don't know how to deal with it.

Senator MOYNIHAN. They say this?

Mr. CRIPPEN. Right. The office manager said to me, can you imagine what it is like working in an agency where some people are in the waiting room waiting for an earned benefit and other people are there just because they need it?

I really couldn't see the difference but apparently they could see the difference, and they feel it is different, and they do not have a problem-solving orientation. They don't like getting involved in problem solving.

All of the welfare departments in California have specialized workers who deal with people who are on SSI, who come over to the welfare agencies, some because of delayed checks and redtape, but others because they need some assistance with the other problems that accompany poverty and the Social Security Administration is a fine agency, and if you need an agency to get people a check on time, that is what it does very well but it doesn't help people with their problems. They just don't have the proper training, background, staff, or orientation.

Senator MOYNIHAN. Well, there is a different orientation. An insurance arrangement is different from a charitable arrangement, and there are different modes to deal with problems.

Mr. CRIPPEN. But people are sent back and forth between agencies attempting to get their problem solved. They get to the welfare agency, then there are mechanism within the welfare agency that can help them. There are social workers there who help insure that an aged person may remain in the community or if a conservatorship or guardianship is needed, then there is a worker there who can assist the family or an individual, in terms of making sure that those things are done.

I would wonder about the propriety of having a Federal employee go into local court, for instance, and file a petition for conservatorship or guardianship on behalf of an aged person.

Senator MOYNIHAN. I do thank you. It is past 2 o'clock, and we have one more witness. I am going to have to forego the pleasure of hearing from all of you, but there will be another opportunity. If any of you have any further personal statements you would like to submit for the record, we will include them. I would just like to say before you leave that I very much share the sentiment in Mr. Cosgrove's statement that there must be full job protection of the job rights and employment conditions of State and local employees who administer these programs, if there is to be further federalization. That is a responsibility which the Congress ought to address itself to and knowing you will be close at hand, we will see that you are consulted as we move along.

We thank you all. You are very courteous. I wish we had seen you first thing in the morning but as you know, we had two Senators and they, as they sometimes do, went on a little longer than they expected.

Mr. COSGROVE. On behalf of all of us, thank you, Senator.

[The prepared statements of the preceding panel follow:]

STATEMENT OF THE AFL-CIO PUBLIC EMPLOYEE DEPARTMENT

My name is John E. Cosgrove, Legislative Director of the AFL-CIO Public Employee Department, a coalition of 30 national unions which have affiliated with the Department some 2 million public employees they represent. These members work at every level of government: federal, states, counties, cities, postal service, school boards, transit authorities, and others. We are interested first as citizens, secondly as part of the labor movement with its objective of advancing social justice and, thirdly and specifically, as public employees. We appreciate this opportunity to testify on the President's welfare reform proposal, S. 2084 and related considerations. As a preliminary let me say that we compliment the Administration for its proposal to address—in a comprehensive way—the complex and pressing problem of welfare. We similarly compliment this Committee for addressing this question.

I. THE PROBLEM

The problem of welfare reform is one that must be addressed by the American people, through the Congress and the Administration, because of its importance to all our people, including the 26 million Americans below the poverty level. Our earliest approach to poverty in the United States was a *laissez faire* attitude, which relied on a sort of Darwinian theory of "let them suffer", unless "they" are fortunate enough to find some private charity. Next came the county poor farms or poorhouses which overlapped the private charities, many of which collapsed in the Great Depression.

The first major address to this question was, of course, the Social Security Act of 1935. Today we have, from the 1935 Act and subsequent legislation: Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), Food Stamp Program, General Assistance (GA) and Medicaid as the five major welfare programs.

There is probably only one aspect of this "welfare system" over which there is universal agreement: that is the truism that it is indeed a mess. It can even be questioned whether it is a "system" at all. It has the twin characteristic of being increasingly exorbitant in cost to taxpayers and, simultaneously, largely inadequate to the recipients sought to be served. That, of course, is why the Administration and the Congress are seeking a more equitable and workable solution.

Our Department, last year, commissioned a study, a single copy of which we would like to submit for the record. A particular excerpt might be helpful to your considerations and we set it out at this point.

"For the labor movement, one of the most important issues concerns the work requirement and work guarantee. For both political and economic reasons, the need to accept some kind of work requirement as a condition for receiving benefits is recognized by most experts as being an essential component of any successful reform scheme. But to be just and equitable, the work requirement must not only be applied fairly and only to those who can reasonably be expected to work but there must also be decent jobs for these people. For example, the work requirement should be the same in all states. It should not apply to full-time students in high school or college. Nor should it apply to adults who are needed in the home to take care of young children or incapacitated persons. Nor, of course, should it apply to aged, blind or disabled persons. Fair application of a work requirement will necessitate efficient and even-handed administration. More difficult is the problem of making good on a job guarantee so that all who are expected to work will actually be provided a meaningful job, and/or training if that is needed first. The administration's proposal is intended to do just that, but unfortunately is deficient in several respects. If a job is to be meaningful, it must not be a make-work, do-nothing kind of job. Nor should it replace existing jobs. Therefore, the job must not only pay a decent wage, but must pay the same wage that is paid to non-welfare recipients doing the same work. The administration proposal includes a large public jobs component, more than a million public service jobs to be paid at the minimum wage. To create this many jobs, the Carter proposal would convert the existing CETA public employment program into a public job program reserved for welfare recipients. At the present time, approximately 725,000 public service jobs are funded under CETA at a cost of over \$8 billion a year. The CETA public job program was established as an anti-recession measure to help reduce unemployment and stimulate the economy. The Carter welfare proposal, constrained as it is by the necessity to hold costs to the present level, has looked to CETA as a solution. In so doing, the proposal assumes that by the time welfare reform can be implemented (not until 1981 or after) unemployment will have declined and it will be safe to convert CETA funds to the welfare program.

"The proposal is seriously faulty on two counts. First, to suggest that the public service jobs should pay only the minimum wage is not only unfair, but would be unworkable. It is simply not possible to put two workers side by side, doing the same jobs but at different wages. Unless the prevailing wage rate is used, one of two things is likely to occur. Either the existing wage rate will be depressed—and if so, the quality of the work performed will certainly suffer. Or welfare recipients on these jobs will themselves force the rate up to existing prevailing levels. Moreover, since the minimum wage rate does not produce enough income to move a family beyond the poverty

threshold (at even \$2.80 an hour, a full-time worker would earn only \$5,824, an amount not quite equal to the official poverty level for a family of four), to the extent that the prevailing wage is depressed, the program would be counterproductive—only adding to poverty and dependency instead of reducing it.

"Equally serious is what would happen to the concept of public service employment as a manpower tool if CETA becomes the chief vehicle for meeting the job guarantee for welfare recipients. For many years, the labor movement has fought for a permanent public service employment program which could be expanded as needed when unemployment was high, and/or targeted to areas and segments of the labor force particularly hard hit by unemployment even when the general level of joblessness was low. The present CETA public service employment program represents a hard won victory for the labor movement in this regard. If it is allowed to be converted to a welfare program, it will be very difficult or even impossible to mount a large-scale, non-welfare public job program in the event of future downturns in the economy. Its use as an effective, comprehensive manpower tool will be hopelessly compromised."

Most of us remember well the 1969 efforts to enact a family assistance plan, and there was much of value in it. The lesson which emerged from that abortive attempt is that we must expand job and training opportunities for all who are employable and, at the same time, provide fairly and sufficiently for that large majority of AFDC recipients who can in no case fend for themselves. Certainly the situation today is far beyond any remedy by well-intentioned amendments. A major overhaul is required.

The patent inequity of a society as rich as ours failing to order its priorities to provide for the fundamental requirements of its members requires little elaboration. We suggest that each member of a national or local community has some responsibility for and should feel some sense of solidarity with, all the other members. A particular obligation rests on the more fortunate to help those not so fortunate. The question is the way to meet it best.

What is needed is a program to assure that each family and each person in the country have an adequate annual income, either through employment or, where that is not a proper or practical means, through an alternate method. This goal, a system of adequate guaranteed annual income, which could be achieved through other programs or a combination of programs is both desirable "to promote the general welfare" and feasible in the near future.

Last year, we spent through federal, state and local governments billions on welfare. Nevertheless, 12% of our population remains below the poverty line. The great gains in federal social policy under President Lyndon Johnson's "War on Poverty" were, no matter how valuable, insufficient. In the past ten years the number of AFDC recipients has jumped from 4.4 million to 11.2. The hard core remain and grow. Their condition is drastically exacerbated by the recession and its high unemployment which remains very much with us even now.

The Congressional Budget Office estimates that the \$9.6 billion AFDC bill for FY 1976 will rise to \$11.4 billion in 1978. They summarize all categories of welfare programs as having similar large increases. Thus the magnitude of the problem is evident.

II. THE SOLUTIONS

First, we believe a full-employment policy is the prime requirement. We endorse the proposed 1.4 million public service jobs in the Administration's plan, provided they do not simply replace present public employees with new ones, which would accomplish nothing for either the unemployment problem or the welfare problem. Neither would it be of social value to have public service jobs that are below the prevailing rate of pay for like jobs. Full labor standards protection must be provided. Similarly, the work to be performed under these programs should be to meet the many social needs not now addressed, or not now addressed adequately, by government.

The average AFDC payment of less than half the poverty level is manifestly inadequate. To meet these needs adequately we believe that, at some point, a substantially greater share of the program's cost—if indeed not all of it—should be assumed by the federal government.

Second. A sound welfare system requires a much greater degree of federal involvement than is now the case. Nowhere is this more evident than in the

area of financing. The two biggest programs, Aid to Families with Dependent Children and Medicaid, are shared, with state and local governments bearing a substantial part of the total cost. On a national basis, the non-federal share of AFDC averages slightly less than half the total. For Medicaid, the non-federal share averages about the same. The general assistance programs are financed entirely by state and local governments. The rapid growth of these programs in the past five years, particularly of AFDC and Medicaid, has put a tremendous financial strain on local resources. It would be bad enough if that strain were more or less evenly distributed around the nation but it is not. The non-federal share of AFDC and Medicaid is much higher in some states than in others. In the AFDC program, for example, the non-federal share varies from 56% in Massachusetts to 17% in Mississippi. Further compounding the problem, the states and localities with the higher non-federal shares are often the very same states with the heaviest welfare caseloads. They are also apt to be the states paying the highest benefits. Our study shows that there are 14 states in which the federal share of the cost of AFDC is less than 51%. But in 1975, more than half (53%) of all those receiving aid under AFDC lived in those 14 states. They are also the states with the most rapid growth rate in the welfare caseload. Between 1965 and 1975 the welfare burden in these 14 states increased from 46% of the national total to 53%; from 2 million to 6 million recipients. Of these 14 states, ten rank in the top half of all states in terms of maximum monthly benefit payments. Eight rank in the top fourth.

What all this means is that some states and some cities are bearing a disproportionate share of this country's growing welfare problem, a problem which is national in scope and whose origins, causes, and even solutions do not lie in any given region or locality. We believe the only way to correct these disparities is to establish an ultimate goal of full federal assumption of the welfare cost. We recognize that full federal financing probably cannot be accomplished in one move. But this should not deter us from working toward that goal, or from starting immediately. The important thing is to establish the principle of full federal support, and to work toward that goal as quickly as we can. A dividend of this policy would be that relief of the tax burden on states and localities can enable them better to provide the essential public services which are in so many places in need of improvement.

Absent full federal financing, the Administration proposal to save \$2.1 billion in state and local governments would be an important step forward. Particularly high-benefit states such as California, Illinois, Massachusetts, Michigan, New York and Pennsylvania will receive needed help if, as the Administration believes, all realize savings in excess of 25% of their present outlays.

Third. Federal involvement in the welfare program should not be limited to financial support. Sound welfare policy also requires the establishment of certain national minimum standards.

We should have a single set of national standards for coverage, eligibility for participation, benefit levels, computation of benefits, treatment of income deductions and work expenses, and benefit reduction rates. It simply does not make any sense for place of residence to be the most important factor in determining government's response to individual need.

Fourth. We believe that full federal financing with the introduction of federal standards requires the assumption of federal responsibility for the system. This can and should be accomplished gradually, and must be done with full protection of the job rights and employment conditions of state and local government employees. We do not suggest that the welfare system should be run via computer from Washington. Quite the contrary. An efficient and responsive welfare system we believe is best operated by individuals who are fully aware of and sensitive to local situations; social service must accompany welfare benefit payments. But if the welfare system is to be supported by all of the taxpayers, it must be made accountable to all of the taxpayers.

Fifth. We strongly believe that the federal government has a dual obligation to its citizens, to provide income support for those unable to work and to provide jobs and training for those who are not able and who want to work. It also has an obligation to see to it that those who are working receive just rewards for doing so. The welfare system was designed to help those needy persons who cannot or should not be expected to work. It should not be burdened with all of the other problems of society. The needs of people are

too diverse to lump together under one huge monolithic system. Other systems should be strengthened and improved to meet the needs of people who are able and want to work, but who cannot find a suitable job, as well as to meet the needs of those who could work if they had additional training and employment assistance and of those who are already working, but at a wage too low to sustain a decent standard of living. Improvements in the existing system should start with adoption of a full employment policy, recognizing the right of every worker to employment at a decent wage. Prudent planning coupled with sound fiscal and monetary policies could do much to bring about such a desired result. To the extent that gaps remain, the government job guarantee must be backed by a carefully structured government jobs program.

Adoption of this multi-track approach to welfare reform, will begin to eliminate some of the problems that plague the system, begin to meet the real needs of our citizens and, most important, achieve the goal of providing a decent living for all.

STATEMENT OF THE SERVICE EMPLOYEES INTERNATIONAL UNION, AFL-CIO
SUMMARY OF SERVICE EMPLOYEES INTERNATIONAL UNION TESTIMONY ON WELFARE REFORM

(1) SEIU supports the general approach taken by the Administration, that there should be a "two-track approach" with a welfare component for those who cannot be expected to work, and a job component for those who are able to work.

(2) There should be eventual full Federal funding of AFDC (and ideally medicaid) with Federal standards on eligibility and a minimum benefit level raised quickly in steps to the poverty level.

(3) Welfare administration should remain with the states and localities to insure the coordination of the payment program with other programs and services.

(4) "Cash outs" of other programs should be avoided. The food stamp program should be maintained with no purchase requirements.

(5) An "incremental" approach to reform could insure that some much-needed changes (such as extending AFDC-UF to every state) are made this year.

(6) The jobs portion of any legislation must recognize the principle of "equal pay for equal work" and include strong job protection and maintenance-of-effort requirements.

(7) The number of jobs to be created in each of the present proposals are far too few.

(8) A major goal for Congress should be some measure of fiscal relief for our nation's cities.

Statement

Good morning. My name is David Crippen, Executive Director of the California State Social Services Union. I am here today to testify on behalf of the 600,000 member Service Employees International Union. With me are the heads of three of our largest unions representing state welfare workers: Lois Balfour of the Boston Social Workers Guild, Andrew Stern and Jane Perkins of the Pennsylvania Social Services Union, and Gail Wright of the Rhode Island Alliance of Social Service Employees.

Service Employees represents over 50,000 welfare workers throughout the United States. But we are here today speaking not only as social workers, who are closest to the welfare clients, but also for the hundreds of thousands of other workers SEIU represents in every major city across the country. Welfare reform is not only a critical concern for the millions of Americans on the welfare roles. It is also an urgent problem that affects every facet of our national life.

Our message this morning is brief. The time has come to stop the philosophical debates over the issue of welfare reform. The time has come to do something *now* to relieve the most pressing problems in the entire welfare mess.

If we must wait until every interest group, every political viewpoint, is satisfied with a proposal to overhaul the welfare system in its entirety, there seems no realistic hope that anything will be done this year.

For the past ten years we have intensely debated this issue. I sincerely hope that we will not end up here ten years from now—again pleading for reform. If any agreement can be reached on a way to overhaul the system, then we should do so. If not, we should still attempt to correct the most glaring problems.

As we see it, the following problems must be addressed by this Congress:

1. Inadequate benefit levels in many states.
2. A senseless diversity of payment schedules and eligibility requirements from state to state.
3. An increasing fiscal burden in many states and most cities.
4. Continued perverse incentives against maintaining family stability.
5. Lack of realistic employment opportunities for those able to work.
6. Lack of adequate day care facilities for welfare families.

Short of a complete overhaul, we would hope that at a minimum, the following steps could be taken this year:

1. Rapidly phase in full Federal funding for AFDC.
2. Establish minimum benefit levels at poverty level, with a cost of living allowance.
3. Establish Federal eligibility requirements.
4. Require AFDC-UF in all states.
5. Phase in full Federal funding of medicaid.
6. Maintain the food stamp program with no purchase requirements.
7. Adopt the Earned Income Tax Credit as reported by the House Special Committee.
8. Insure that jobs programs recognize the principle of equal pay for equal work.
9. Expand the proposed number of public service jobs to at least three million.
10. Maintain and expand the present UI program to provide for the long term unemployed outside the welfare system.

We are very much opposed to so-called comprehensive reform schemes that would cast out all services and in-kind programs in favor of a negative income tax approach.

Poverty has numerous causes. No one program can address the needs of all the poor. And more is needed than just handing them a computerized check each month. Services under Title XX, the housing program, food stamps, day care, all are programs of immense importance to those millions of people who rely on them.

As social workers we see the most glaring failures in the present system. When state programs to aid the blind, aged and disabled were Federalized several years ago, people expected miracles.

It quickly became obvious to those of us in state welfare programs that although Federal financing was a godsend that relieved the fiscal burden on many states and localities, Federal administration left much to be desired.

That's why we favor a partnership with the state governments. The more comprehensive and progressive taxing powers of the Federal government should be used to raise the revenue to fund these programs. The causes of poverty should be born by the nation as a whole. In return there should be Federal standards for eligibility and benefit levels.

The program should be administered locally, however, by those closest to the welfare clients. This would insure that needed services are coordinated with monthly benefit checks, and that the provision of social services is responsive to the specific needs of the poor.

Our goals then would be a fully Federally funded program with state administration providing a decent minimum benefit level to those who cannot be expected to work, and a job at a fair and equitable wage level to those who can work.

In light of these principles we would like to submit our comments on the various facets of the bills presently before this committee.

Jobs

Meaningful reform of the nation's welfare system cannot be accomplished unless enough jobs are made available at fair wages. No employable person should remain trapped on the poverty treadmill for lack of an adequate level of earned income. While each of the current reform proposals recognizes the need for more job opportunities, none offers a sound strategy for producing the necessary levels of worthwhile employment.

S. 2084 requires that all persons eligible for employment be placed in private or public sector jobs.

Given the current state of our economy, where the additional unsubsidized job opportunities are to come from remains a mystery. Apparently, the assumption underlying S. 2084 is that seven and a half million unemployed and discouraged workers have been unable to secure jobs simply because they were unwilling to work for the minimum wage.

That notion, implicitly expressed in Section 933 of S. 2084 is clearly at odds with the realities of the nation's labor markets. To claim that minimum wage levels will magically produce millions of new jobs where none existed before, is to blindly ignore established economic fact.

What is necessary is a real effort to implement full employment economic policies that will result in adequate numbers of net new jobs paying fair wages which will be filled by properly trained and qualified workers.

The subsidized jobs portion of the S. 2084 mandatory work program will create at best, 1.4 million public sector jobs. This represents only a modest increase in the amount of full-time jobs provided by present CETA public employment programs. Yet, with the availability of only a limited number of temporary minimum wage jobs, the Administration hopes to meet the employment needs of all eligible individuals who cannot be immediately placed in unsubsidized jobs.

Moreover, the minimum wage requirement attached to the public employment program is certain to upset wage structures and employment in the public sector.

Congress must recognize that in many state and local jurisdictions collective bargaining has become a fact of life. Public service job programs which pay less than the prevailing wage and provide minimum benefits without contractual protections have a devastating effect on the delicate collective bargaining relationships which these state and local government workers have attained over the years.

This situation is so disturbing that under normal circumstances I would expect public employers to be here alongside of us to tell you of the problems they must face. However, the prospects of "free labor" and the desire to hold down taxes by the use of these public service programs undoubtedly outweighs their concern to protect their collective bargaining relationships with public workers.

As harmful as the affect of the existing collective service programs have been to management and labor, the affect on public service participants has been even worse. You cannot imagine the humility of being asked to do the same work as regular public workers for half the wages, few benefits, and most important of all, no contractual rights.

The absence of contractual protections means that when the boss says "jump", you jump. When he says that he's changing your hours, they are changed. If he wants you to work on Saturday, you work on Saturday. All of this occurs in the full view of co-workers who are not subject to their supervisors whims because of their contractual rights. In addition, you are regarded by your co-workers as a threat to the rights, wages, and benefits they have struggled to acquire.

An equally important problem is that there is no guarantee that public service jobs "created" to help the unemployed poor will not replace the jobs of existing workers, or of those workers who would otherwise have been hired by state and local governments.

In spite of maintenance-of-effort regulations, job substitution and job displacement have plagued regular public employees since the inception of CETA public employment programs. Neither the public service programs of S. 2084 or H.R. 10950 make any serious effort to prevent the same sort of job displacement or wagecutting effects from occurring on a still larger scale.

Other proposals currently being considered, such as S. 2777 and H.R. 10711, provide even less useful employment strategies. They create far fewer public service job opportunities than the inadequate levels suggested by S.2084—and again, at far less than prevailing wage rates.

S. 2777 seeks to heavily involve the private sector in job creation through the payment of a direct subsidy in the form of a \$1.00 per hour redeemable voucher or an indirect subsidy in the form of a tax credit for employers who hire eligible persons.

The voucher system is nothing more than a thinly disguised scheme for making workers available to employers at less than prevailing wage rates. Little or no effort is made by proponents of this system to guard against the wholesale substitution of subsidized employees for currently employed workers.

Attempting to stimulate employment through business tax credits has been tried time and time again. In almost every instance, the results have proved disappointing. Tax credits have been consistently underutilized. Preliminary results from a recent WIN demonstration project specifically designed to test employer awareness and use of tax credits indicated that: "tax credits do not appear to function as a significant hiring incentive. Employers appear to place greater emphasis on the qualifications of workers than on any tax credit attached to worker salaries."¹

Federal funds allocated under S. 2777 for the business voucher and tax credit program unnecessarily divert urgently needed Federal funds that could be used for essential job-creating efforts.

Similarly, the Ullman proposal (H.R. 10711) offers a decidedly uninspired plan for meeting the unemployment needs of the poor. In this plan, public service employment opportunities are limited to 500,000 minimum wage jobs, while private sector jobs creation depends on the dubious business tax credit for success. The Ullman approach contains virtually all of the same inequities and uncertainties found in the other bills, while providing far fewer jobs than some of the alternatives.

Surely, a more farsighted proposal can be developed.

Increased numbers of public service jobs should be made available at prevailing wage rates. In addition to prevailing wages, other safeguards against job displacement of regular public employees should be introduced. For example, it should be a program requirement that certified bargaining agents play a role in the approval process necessitated by any public service employment request.

The jobs component of any welfare reform proposal is deficient if it does not help the target population meet existing job requirements. Training potential workers and upgrading their job qualifications is absolutely essential to a successful employment effort. Obstacles to full employment at decent wages, such as a lack of marketable skill, transportation problems or adequate child care for working parents, need to be seriously addressed.

Yet improved training provisions, beyond what currently exist in OETA public employment programs are notably absent from S. 2084 (or even the improved H.R. 10950). Under CETA, prime sponsors have the authority to use funds for training, but in fiscal 1977, Title II and Title IV enrollment in the public service employment activity stood at 96 per cent of enrollment in all activities. In other words, classroom and on-the-job training accounted for a miniscule amount of funded activities. In spite of their neglect and inexperience in developing meaningful training programs, S. 2084 proposes to leave the responsibility for training with local prime sponsors.

A commitment to creating meaningful job opportunities for welfare recipients who are able to work, necessarily involves a substantial training effort coupled with other supportive services. It is critical that any temporary jobs component be more than just a holding point for the poor. Having a future is an integral part of the path out of poverty. Subsidized job holders do not need to be merely occupied, they need an occupation.

Local administration of services

While we recognize the urgent need for Federal standards in benefit levels and eligibility requirements, we feel strongly that state and local administration is by far the most sensible approach to welfare reform. Federalizing the administration of these programs will destroy the essential services that America's poor now receive from state and local social service agencies.

We should draw the important distinction between Federal standardization of welfare programs and turning these programs over to Federal administration. The experience of the Federalization of income maintenance programs for the aged, blind and disabled represents a case study in the kinds of problems we foresee with Federal administration.

¹ Employment and Training Report of the President, 1977, (U.S. Government Printing Office, Washington, D.C., 1977) p. 82.

Amendments to the Social Security Act in 1972 consolidated old age assistance, aid to the blind and aid to the permanently and totally disabled into the Supplemental Security Income (SSI) program.

The Federalized SSI program incorporated many worthwhile features of welfare reform, such as national uniform eligibility and payment standards, Federal financing and the establishment of uniform methods of computing benefits.

With the Federalization of these financial assistance programs, however, administration was shifted from state and local social service agencies to the Social Security Administration. Shortly thereafter, Social Security offices found themselves confronted with great numbers of clients with complex problems. There was very little understanding of the nature of the services previously provided by social service agencies at the state and local level. Federal administration did not anticipate the variety and seriousness of the problems they had to face.

Frankly, the Social Security Administration was never designed to be a problem-solving agency. It performed best when asked to simply determine the eligibility of a client to receive a check and seeing to it that the check was regularly issued. As a result, the agency was unprepared to deal with the multitude of problems presented by the poor of our nation. The press recorded the resultant dismay and waning morale of the staff of the Social Security Administration.

Local social service agencies continued to deal with clients who received their financial assistance from the Social Security Administration, but whose other needs required specialized attention. The blind, aged or disabled, for example, need assistance to remain in their homes, instead of going to nursing homes. Their families needed help and guidance in order to cope with the many problems of having an aged, blind, or disabled family member in their home. The Social Security Administration was incapable of addressing these needs which had previously been met by state and local social service departments.

In a recent month, the Alameda County Welfare Agency received more than 2,600 phone calls and 500 visits from SSI benefit recipients who could not get emergency assistance from the Social Security Administration. During the same period, 75 loans had to be made to SSI benefit recipients because administrative red tape or computer error held up their checks. The Alameda County Welfare Agency has had to appoint one caseworker as a SSI emergency specialist to handle the growing volume of SSI recipients who need immediate assistance.

An important relationship between state and local service agencies and other government agencies will also be undermined by Federal administration. Over the years, and with considerable effort, a comprehensive package of services is now coordinated by state and local social service agencies with probation departments, health departments, employment services, public defenders, district attorneys and schools. On many occasions, these services can be provided at multiple service centers, where a client can come into one location and receive a variety of services. Social workers, for example, are often asked to intervene in guardianship proceedings, or when a conservatorship is being instituted. These problems are within the jurisdiction of local courts. Bringing in Federal workers to perform investigations and make recommendations seems inappropriate to us.

In addition, social service agencies coordinate their services with private community and charitable organizations. Together they attempt to design a constellation of services which are tailored to suit the communities' needs. There are communities, for example, where services must be designed predominantly for adults, while in other communities more attention may be needed to meet the needs of children. It is doubtful that this kind of local coordination can be affected under Federal administration.

Federalization has been successfully accomplished in the area of employment services, but one of the major reasons for this success is that employment services continued to be operated by state governments.

H.R. 9030, H.R. 10950 and H.R. 10711 all propose Federal administration. S. 2777 provides for a state administered structure similar to the structure

now found in employment services. While this approach comes closest to continuation of state and local welfare services, we see no advantage to eliminating local involvement.

Benefit levels and eligibility requirements can and should be Federalized, but not at the cost of eliminating essential locally administered social services.

Fiscal relief

One of the most distressing problems in our current welfare system is that while state and local government agencies are in the best position to assess and service the needs of the nation's poor, many of these governments do not have the resources to properly carry out these tasks.

For one thing, state and local government expenditures are extremely sensitive to national and regional economic fluctuations. As a result, jurisdictions with heavy commitments to welfare programs are placed in a fiscal squeeze during an economic downturn. A system which must work within these constraints cannot function with full effectiveness. A more rational, equitable financing mechanism must be devised.

The state and local share of the welfare burden has grown to intolerable levels in some areas. In California, state and local contributions towards AFDC payments have increased 59 per cent from \$29 per recipient in 1971 to \$48 per recipient in 1976. Similarly, in New York, state and local AFDC expenditures per recipient have climbed 46 per cent in the last five years for which figures are available to a level of \$57 per recipient. With the average number of recipients in New York numbering 1,226,700 in 1976, total state and local AFDC expenditures amounted to a whopping \$840,000,000 in FY 1976.

The Administration's proposal, as embodied in S. 2084 claims to provide \$2.1 billion in fiscal relief to state and local governments. Unfortunately much of the so-called "savings" is gained by meeting fewer recipient needs rather than extending Federal responsibility. For example, Sec. 2108 of S. 2084 bases eligibility on a six-month accounting period, thus ignoring current need. While this approach tightens eligibility requirements, it fails to help those persons equally in need who are ineligible on the basis of the six-month rule. Assistance will have to be provided to this group as well—probably at considerable local cost.

Alternative plans, such as S. 2777 provide even less fiscal relief by further limiting Federal responsibilities. According to Congressional Budget Office estimates, state and local costs as a percentage of the total cost of the plan are higher for S. 2777 than for either S. 2084 or H.R. 10950.

Through increased welfare cost, states and localities continue to bear the burden of inadequate Federal funding of other social programs such as education, health and manpower training. It is time that the Federal government recognize that state and local welfare programs cannot be looked at in a vacuum without reference to other social programs. It is time we realize that we, as a nation, desperately need both decent welfare standards and adequate funding.

We, therefore, strongly support full Federal funding of our nation's welfare program to insure provision of adequate minimum benefits for the unemployable and a job opportunity at a fair wage for every American who can work. But Federal funding must go hand in hand with local administration to insure that social services are tailored to meet the needs of each recipient.

We also urge the Congress to take some action towards welfare reform this year. Should we again fall short of reaching agreement on a wide sweeping reform package, then it is imperative that Congress turn its attention to incremental reforms and reduce the fiscal burden of state and local governments and bring greater equity to our welfare system.

We thank the committee for the opportunity to present our views on the several welfare reform proposals of 1978, and we would hope that you will consider our recommendations in your deliberations.

Senator MOYNIHAN. Now our last witness of the morning, appearing this afternoon, having been very patient, is Maya Miller, who is the director of the work and welfare project of the women's lobby. Ms. Miller, we welcome you once again to this committee.

STATEMENT OF MS. MAYA MILLER, DIRECTOR, WORK AND WELFARE PROJECT, WOMEN'S LOBBY, INC.

Ms. MILLER. Thank you. You are patient, and I will be expeditious. Senator MOYNIHAN. You are certainly never anything but patient yourself, so you go right ahead.

Ms. MILLER. You have my testimony, and I will assume that you can read and will not, therefore, try to read it to you.

We have a series of things which we hope can be accomplished this year. We started out with high hopes for an administration who went about trying to get comprehensive welfare reform. We would like to see that, but we have been increasingly discouraged by what we have not seen in a constituent pressure for it nor a single kind of agreement around very much that is in the comprehensive package as expressed in S. 2084, as well as, I think, the provisions, as I understand them, from Ullman and the S. 2777.

There are things that they do have in common that we are interested to see accomplished this year, and we are eager to know if you in the Finance Committee feel that there is a way of getting them this year, the first thing being a Federal floor for AFDC. We are particularly targeting our interests on those States where women with children are still getting \$140 a month on AFDC. In Texas—and Texas is not a small nor a poor State, they have over \$2 billion in their own State treasury.

To take Senator Long's suggestion—and I am sorry that he is not here because the relationship of women and work and welfare is the subject that we have been most interested to explore—we think, and Mr. Comrie may be correct, that the issue has changed materially over the last few years, partially because of some sociological differences, that young mothers may need jobs most of all. We are interested to acknowledge and to have others acknowledge the fact that the population is primarily women and their children.

We have not heard that in many of the discussions that have gone on, either through the development of the plan or through the discussions on the House side.

Senator MOYNIHAN. Good for you, because the population is primarily women and their children that we are talking about, but it became for some strange reason something you shouldn't say. I am glad to hear somebody saying it.

Ms. MILLER. There was a period after the war, a kind of a Dr. Spock period, when women were made to feel that their life's integrity had to do with staying at home, and especially during those first 5 years, and I think that that syndrome has undergirded some of the emphasis on not expecting women to work during those years.

The figures that I have provided for you and just listed out of some of the Census Bureau and Mr. Plotkin's testimony in this committee really underscore what is in the general population a trend which disavows that concept. It now is the norm for two adults in a household to be working, the mother and the father. The figures which were presented a little while ago of the numbers it takes to get to the upper income level were well documented in a recent Time Magazine article where it talked about the increasing numbers of

two-adult households, not necessarily parents, who are now making more and more money and thereby able to afford their own airplane and an assortment of other things, all of which simply says that the two-adult earning family puts a pressure on inflation which is a very severe pressure and works against the women who are at the bottom of the heap, who are those women who are on welfare or those women who do not enjoy the benefits of welfare because, as in the State of Texas, if they have an income of \$150, they won't qualify for AFDC and therefore, do not qualify for medicaid.

Women's Lobby is particularly interested to see us tackling the targeting of those jobs for women. In that respect, we are interested in a little bit of the pieces of the Baker-Bellmon—I don't know whether Ullman did that or not—but Baker-Bellmon clearly looks at AFDC as the population where the jobs should go first.

Senator MOYNIHAN. Yes, I think that is exactly the case, and I am glad to hear you say that about Baker-Bellmon because that is a clear emphasis in their program.

Ms. MILLER. What has happened with the administration's bill is that there is a diffusion of those jobs over a broader spectrum which we see to be jobs going to what are conceived as "intact" families. That is a family with both mother and father.

I would just say here parenthetically that we are not at all convinced that the extension of AFDCUF to the other 23 States, especially in light of the fact that only 106,000 families now use it, gives us any great hope of rolling back the trend toward single, female-headed households. We think that is a trend which is generic to the times and to the general population.

While we would be happy to have AFDCUF, we do not see that as the panacea.

Senator MOYNIHAN. Now, just because you are profemale, don't become antimale.

Ms. MILLER. No, I am not antimale, sir.

Senator MOYNIHAN. You are quite right; there are no significantly different rates of family breakup or single parents in the States that have AFDCUF as against those that don't. But it is a matter of social equity.

Ms. MILLER. Yes, I think that too, and I have no problem with always supporting that in my own State legislature.

I should tell you that I am basically from the State of Nevada, and I want to just make a parenthesis there having to do with the fact that I think we have one of the lowest rates of fraud, or whatever that is called, error rates. But I also want to say that my observation is that is at the cost of a tremendously increasing bureaucracy. Everytime they cut down the rolls, they add a good healthy cadre of welfare workers who are getting \$10,000. You are going to have testifying before you, I think, on the eighth an assemblywoman who has been very active in this on the Welfare Committee, who has some interesting facts on that subject.

Senator MOYNIHAN. I am going to have to say we will look forward to hearing from you again in the course of these hearings. Your testimony is extraordinarily careful. I do very much like your notion about triage.

[The prepared statement of Ms. Miller follows:]

STATEMENT OF MAYA MILLER, DIRECTOR, WORK & WELFARE PROJECT, WOMEN'S LOBBY

Mr. Chairman, thank you for the opportunity to bring before this committee our views on welfare reform. Women's Lobby is an organization which lobbies only on legislation particularly affecting women. For the past two and a half years we have been focusing on those economic issues that press most severely on women at the bottom of the economic ladder. In the absence of specific welfare reform proposals we worked on food stamps, minimum wage, full employment, CETA, part-time jobs, national health insurance, medicaid abortions, pregnancy disability, child care tax credit. Since last February we have followed and sought to influence comprehensive welfare reform plans as developed by the Administration and acted on by the House Special Subcommittee. We welcome the chance to share our present thoughts on S 2084, or whatever welfare reform can come out in this session of the Congress.

Women's Lobby deeply believes that *something* should come out of this Congress to help the poor women of this country and their children. We believe that they have been waiting too long for some perfect overall reform of our chaotic patchwork of programs to alleviate poverty in the United States, and while we support the concept of comprehensive welfare reform, we do not want mothers and children in the poorest places sacrificed another year on the altar of the concept.

We have some parts and pieces we want this year: a federal floor for Aid to Families with Dependent Children which will assure their survival needs, jobs for poor women, medical care for them and their children.

Every year these women get left farther and farther behind in the most basic of human needs while government, labor and business try to equalize benefits for those in much more comfortable condition. Meanwhile an inflationary economy takes its worst toll at the bottom.

We have some important facts and figures that bear on women and children and being poor that we want to highlight for you, and some views about women's special needs in pulling out of poverty. Attached are several sheets of these figures, drawn chiefly out of the recent reports of the Bureau of the Census and the Bureau of Labor Statistics. They may not be new to you, but Women's Lobby's perspective is especially adapted to the population most in need. Our views on work and family have been hard-developed over a number of years' solid thought and study on women and children, close experience with poor women and the welfare system, state administration, federal schemes for change, advocate reactions and pressures.

First, briefly addressing S 2084: we like the *federal floor for AFDC* with federal regulations, but we think the benefit level 35% below poverty to be a disgracefully low guarantee.

We have strenuously objected from the beginning to the "two-track" system, identifying groups as "expected to work" and "not expected to work." We believe it to be an awkward, expensive, belabored way of trying to meet the public's prejudice about lazy welfare recipients. It digs deeper the discrimination against women in the world of paid employment. It makes no effort to acknowledge work in the home as work with monetary value. It perpetuates the ingrained notion that men need jobs or unemployment compensation, while women need the "dole" of welfare.

On the other hand, we like in S. 2084 the link between job creation and welfare. We think that the jobs created should be more narrowly targeted to help mothers. There are too few jobs for the number of welfare mothers, and the absence of a tight needs test diffuses the effort. We do not approve of the "principal wage-earner" preference. Preference in job creation should go to those most in need, namely mothers trying to bring up children alone. We consider the 300,000 part-time jobs to be one of the innovative, truly progressive parts of the bill, recognizing as this provision does the changing patterns and time demands of a single parent with children. Care must be taken, though, that part-time jobs carry proportional fringe benefits and full rights and protections. Women have suffered disproportionately over time from the tendency to use part-time jobs as a means of cheap labor without retirement or unemployment insurance or medical or vacation benefits of any kind.

We like the *training* components and the job search help proposed, although we see no sense in the long search period for some "private sector" job when

a public sector one is apt to be more available and more purposeful. We are very skeptical about the Employment Service delivery on the whole placement process. We think the training provisions need strengthening. Women with children often need special help in entering, or re-entering the job market after pregnancy, and they need training especially in those jobs in the labor force where pay is better than in the traditional women's jobs of sales and service.

We like the *cash supplement*. It is a crucial piece for women, since overall women make a median income very close to the poverty line (indeed, only \$699 median a year in the domestic work most available to welfare women). In any effort to help get them out of poverty via part-time or even full-time jobs, they are most apt to need a supplement to their wages.

For that reason we also like the *earned income tax credit*. And it is a way of giving to low-earning women a break through the tax system, where the affluent have long learned to get their breaks. Money not collected into the public though is considerably less visible and irritating to the public than money "doled" out. We think it only fair to apply EITC to the public service jobs as well as to private employment, since we fail to recognize the mystical superiority of the private sector. Since women have been doing for free many community services sorely needed, public service jobs may well be the easiest for women to get—and the most valuable for the society's well-being.

We also approve the *child care deduction* in figuring the earning base for a working mother, since child care is the first and most important work expense for a single parent.

We find totally irrational and unworkable the failure to include eligibility for Medicaid as an automatic accompaniment to new eligibility for AFDC. *Health care* for a woman with children comes right after food and shelter in priority need.

Now, we wish also to quarrel with a number of basic assumptions about *families* and *women and work* which are embedded in the proposals and the rhetoric advancing them:

That women are "needed in the home"; have "greater home care responsibilities"; women with young children "are not expected to work."

That the expansion of AFDC-UF to the remaining 23 states will make an appreciable inroad on keeping two-parent families together.

That single-parent families are not "intact."

That the Norman Rockwell family of papa-breadwinner, mama-homemaker & children is any kind of norm for American families.

That the "working woman" is a passing phenomenon.

The truth of the matter is that women *do* expect to work, outside as well as inside the home. Women *need* to work outside as well as inside the home, especially if they are poor. In the society as a whole there has been a steady increase of women at all economic levels in the paid labor force, from 33% in 1950 to 47% in 1976. Even when married, 45% work. They work not for little personal luxuries, but to allow their families to join the middle class. Even when they have children, women work. Over half, 55.7% of all women with children 6 to 13 years old, are in the paid labor force; and amazingly, 1/3d of those with children under three (2.6 million of the 7.7 million total) of whom 2.1 million have husbands present and only 434,000 have no man in the home. If anything, the 2-earner household is the norm, 22 million of them earning \$17,300 between them, versus 18 million one-earner households earning \$12,400.

Congresswoman Martha Griffiths in a remarkable study and set of hearings for the Joint Economic Committee in 1972 struggled with the significance for these working women earning low-to-middling wages of the growing number of welfare women who, in liberal states like her own of Michigan, were receiving close to an equal amount of money. The dilemma remains.

The only way out of poverty for millions of married American families is women's work. Just so, under most welfare plans, including S 2084, the only way out of poverty is work. It is not a kindness to leave poor women with children behind in this upward mobility—to have their job skills atrophy and their tiny incomes eaten up by inflation. 10% of all AFDC mothers work full-time now; 5.7% more part-time. And Secretary Marshall reported to this Committee in February that between 80 and 50% of AFDC adult recipients worked at some time during the year—only slightly lower than the general

population. But women's earnings are so low that they have special needs for help, in training, in access to non-traditional fields of work where pay is higher, in tax breaks, in cash supplements, in child care.

In many ways the increasingly high earning power of the American man has been built on the volunteer labor of women in the home. Low grants to welfare women follow logically this assumption of the valueless work at home. And the gap in earnings between men and women in the labor force is growing (women earned 63% of men's earnings in 1955; only 57% in 1976), thanks in part to those automatic percentage increases in most business establishments, union contracts, federal and state employee pay, and retirement systems, including SSI. We commend to you the statistics that follow:

SOME SIGNIFICANT FACTS ABOUT THE WELFARE POPULATION OF AFDC

Of the total AFDC population of 3.4 million families, 2.7 million, 79% are single female-headed; 420,000, 12%, are children-only-no-adult-recipient; 106,312, 3%, are single male-headed; and 236,000, 6%, are 2-adult.

Basically, the population is 3 million women with 8 million children. (Probably another million women with children live in poverty with no AFDC help). Over half the children are 8 or under.

Eighty-two percent of all the children live in single-parent households.

Families with large numbers of children are not characteristic, 37.9% of all households have only 1 child; 26% of all households have only 2 children; 16% of all households have only 3 children; and 20% only have 4 or more children.

In 1976 there were only 150,000 AFDC-UF families, even though 27 states and the District of Columbia had the UF program (according to the Senate Finance Committee staff report of 7-11-77).

This fact, along with personal experience, leads us to believe that there will not be appreciable family formation changes, i.e. large numbers of women staying married or marrying or remarrying or men returning to their children, because AFDC-UF gets authorized in the remaining 23 states.

We are, rather, convinced by the widely-known statistics on the rising divorce rate (1 out of 3) in the general population, and the fascinating but not widely-known figures on family structure and poverty contained in Director Manuel Plotkin's February 7, 1978 testimony before this committee, that we are going to have to rely on other methods to seriously affect family poverty in America.

Let me note a few of his observations most interesting to us:

While poverty declined radically in the '60s (from 39 to 24 millions), the decline was all in male-headed households. For families headed by women there was no such change. Not only that, but because of the increase in female-headed households (so admirably documented and discussed also by Isabel Sawhill in *Time of Transition*), and because of the earnings differential for women, there has been an increase from 1.5 million female-headed households living in poverty to 2.3 million in 1976.

You asked, Mr. Chairman, to have Mr. Plotkin speculate about "what might have happened to the poverty population if these changes hadn't occurred," and he acknowledges that the decline might well have continued though not at the rate of the '60s. But family composition has changed. More and more families are headed by single women. And he reinforces the fact that we find ourselves monotonously trying to make understood, that the vulnerable population of our economy is primarily women and children.

He notes also that the underlying patterns of family composition change are "similar regardless of race." That is an important observation.

And he offers figures that suggest that the effect of education is far less in relation to poverty than the effect of having a family headed by a woman. "Since 1966 the poverty rate families headed by men with 8 or less years of education declined from 20 percent to 13% in 1976. The poverty rates for female heads of families by education group show no change, however." That bears out our favorite figures at Women's Lobby: women vs. men's earning power: \$5,136 vs. \$9,406—with 8th grade; \$6,623 vs. \$12,017—with high school; and \$9,771 vs. \$16,576 with college completed. It doesn't matter how good our education, we still pant far behind; and a woman with a college education makes over \$2,000 less than a man with only a high school degree.

Plotkin also assures us that the increase in families headed by women is not peculiar to the welfare population, but (in his cautious phrase) "is strongly

associated with changing marital status patterns among the population" at large, 79% increase in the number divorced between 1970 and 1977.

I found his most startling figures to be "The number of mother-child families increased by more than 200% among divorced women and among never-married women between 1970 and 1977." Most of us understand that there has been an increase in "never-married" women. (What of the men? I think there is a man—only perhaps "never married"—for every never-married woman. Is he also never counted?) What does it mean for welfare?

Mr. Plotkin's conclusions seem to indicate that the strong economy of the 1960s together with the increase in transfer payments substantially decreased poverty. But it is not only the shaky economy that now causes a stalemate in our progress to wipe out poverty in our rich society; it is the increase in female-headed households, and the close connection of Women plus Children with Poverty. We would agree.

We need to address one more important issue: that of family size. Although AFDC families have an average of 2.3 children, news stories are almost always about 8 and 10. The consequent public image and fears may account for the ugly phenomenon of forced sterilization of welfare women in some communities.

Women's Lobby finds the Congress full of ambivalence on the family size issue. On the one hand, there is a strong Zero Population Growth tide running, observable in the provisions to make cut-offs for aid (no child care for more than 2 children, no food stamps for over 7 in a family, 35%-below poverty grants for women and children). On the other hand, Congress has cruelly cut off the means—medicaid abortions—by which poor women can choose to control family size. This decision is bound to add hundreds of thousands of new AFDC cases in this next year, at least a third teenage mothers.

The crux of the problem is sex and the cost of children. Whereas both men and women enjoy sex, it is only women who get pregnant ("pregnant persons" is only a euphemism peculiar to the Supreme Court), and women in the last analysis are left to give life support by hook or by crook to the consequent children.

Women know that they have a responsibility to face up to the cost of child-bearing and child-caring. (The rapid increase in medicaid abortions after 1973 proves that poor women in increasing numbers were understanding and facing that responsibility). We believe that women have to start doing some tougher calculations about our need for skills and jobs to provide us and our children with a sound economic base. Men will sometimes, but not always, do it for us.

Meantime, this society cannot *triage* the children and their mothers who are already here. That is what AFDC is all about. We think AFDC deserves a decent safety net this year, while we continue the struggle to insure jobs in a free society for everyone who needs them—including women!

SOME SIGNIFICANT FIGURES ABOUT INCOME

Re Families

There are 56.7 million families in the United States. Their median income is \$14,960. 5.3 million of them are poor. For a family of 4, that is \$5,815.

If they are families of other sizes and shapes, there are over a hundred ways poverty has been figured for families. But poverty is not a mystery, it is a hard fact.

7.7 million families in the U.S. have female heads. 2.5 million of them are poor (33%); 25% of white female-headed families are poor; 52% black; and 53% Spanish.

Forty-nine million families have male heads. 2.8 million of them are poor (5.8%).

The numbers of Male-headed households in poverty have gone down radically from 6.4 million 1969, whereas the numbers of Female-headed households in poverty have gone up from 1.5 million.

Living in the 2.5 million poor female-headed families are 5.5 million children plus no fathers; 2.8 million poor male-headed families are 4.5 million children plus 3.3 m. "other" (presumably mostly mother-others).

Hence, the numbers of mothers living in poverty must be around 5 million.

Re Individuals

There are 136 million individuals with income in the United States.

Seventy-two million males, with a median income of \$9,426 (6 m. males have 0 income); sixty-three million females, with a median income of \$3,576 (23 m. females have 0 income).

Re Children

52.7% of all children living in female-headed households live below the poverty line; 41.4% of all black children live below the poverty line.

We are troubled by the increasing gap between men's and women's incomes, and what the static AFDC payments in the low-grant states bodes in dire consequences for children and for the society they will enter, when all the rest of the society has indexed earnings. AFDC has been the basic life-support system in state after state without a normal increase to meet inflated shelter and food and fuel costs which all the rest of us know are devastating even middle Americans. (Mississippi gives a mother and 3 children \$60 a month; Texas gives her \$140).

Income figures from: *Money Income & Poverty Status of Families & Persons in the U.S.: 1976* (Advance Report) U.S. Dept. of Commerce, Bureau of the Census, Series P-60, #107, Sept. 1977, Tables 12, 16, 20; and: *U.S. Working Women: A Databook*, U.S. Department of Labor, Bureau of Labor Statistics 1977, Bulletin 1977; and: *AFDC 1975 Recipient Characteristics Study*, U.S. Dept. of Health Education and Welfare, Pub. # (SSA) 77-11777.

SOME SIGNIFICANT FACTS AND FIGURES ABOUT EARNINGS

Work commands very different wages in the U.S. among different classes: Men in the labor force earn a median of \$10,301; women in the labor force earn a median of \$4,296. Women working at home get no agreed-upon wage.

Selected characteristics that make up significant differences between men's and women's job and earning possibilities:

	Men				Women			
			Year round				Year round	
	Numbers (millions)	Pay (median)	Numbers (millions)	Pay (median)	Numbers (millions)	Pay (median)	Numbers (millions)	Pay (median)
Managers.....	7.9	\$15,584	6.7	\$16,674	2.3	\$7,511	1.5	\$9,804
Blue-collar.....	28.0	9,482	16.0	12,469	6.5	4,618	2.7	6,808
Service.....	5.98	4,931	2.7	10,030	10.8	1,854	2.4	5,674
Private home.....	.07	574	.003	(B)	1.9	699	.1	2,570
Not private home.....	5.91	5,042	2.7	10,036	8.6	2,327	2.3	5,840
Laborers.....	5.3	3,940	1.7	10,100	.5	2,791	.1	7,613

It helps to think of these earnings for different family make-ups:

- As one-earner family with one adult doing the work at home;
- As one-earner family with no adult doing the work at home; and
- As two-earner family with no adult doing the work at home.

Managers.—A good job if you're a man.

- Women get less than one-third as many managerial jobs as men.
- Women are paid around one-half as well.

Blue-collar.—Also a decent job if you're a man.

28 million men have them.

6.5 million women get them, only 2.7 million of them year-round.

Laborers.—A living wage job for a family if it's year round but is very part-time for men as well as women—80%.

Women earn 30% less either part-time or full-time.

Women get only 10% of the jobs.

Service.—A job to feed a family if you're a man.

Note the large numbers of women in part-time.

Note the low pay for women, even year-round.

Note the very low number of men in the lowest paid, i.e. *in the home*, jobs.

(These are the jobs welfare women are most apt to get, the jobs about which most folks complain when speaking of welfare women and work).

Senator MOYNIHAN. It is 2:20, and the debate on the Panama Canal is going on. I want to thank you so much, and I look forward to seeing you next time.

[Whereupon, at 2:18 p.m., the subcommittee adjourned, subject to the call of the Chair.]

WELFARE REFORM PROPOSALS

TUESDAY, APRIL 18, 1978

U.S. SENATE,
SUBCOMMITTEE ON PUBLIC ASSISTANCE AND WELFARE,
OF THE COMMITTEE ON FINANCE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:20 a.m. in room 2221, Dirksen Senate Office Building, Hon. Daniel P. Moynihan, chairman of the subcommittee, presiding.

Senator MOYNIHAN. Good morning to you all. Right now I have the unhappy task of reporting to you that this, being the final day of the Panama Canal debate, the leadership of the Senate has decreed, as is its right, and in this circumstance, it is a necessity, that no committee hearing can be held today. And there is now to be a succession of votes, six votes in a row. There is a vote on now.

I can only express my deep disappointment in this situation. Each and every one of you who might wish to come back on another day of hearings which we have scheduled for this purpose will, of course, be welcome. If some of you cannot come back, I will try to meet with you in my office this morning between votes, which may be possible, starting around 11:30 or 12 o'clock. I just do not know.

We have set several dates in early May on which those of you who were expecting to speak today would be invited back.

With that, I simply have to say to you that I am being summoned by those bells. If you would like to—

Mr. RICH. Is this testimony to be released, or should we hold it until it is presented?

Senator MOYNIHAN. I think that should be the judgment of the individual. My preference is that the testimony be released. Is there anybody who would not like his or her testimony to be released?

Mr. RICH. We do not care. We just want to have a uniform rule. If you want to hold it until the actual hearing, that is fine. Actually, it would be better.

Senator MOYNIHAN. I think, in all fairness, there are those of you who came to report what was going to be said. This was going to be said.

I think any testimony on your desk will be considered as released unless the person involved comes and grabs it from you.

Now I am going to run and vote.

Those who would like to meet with me in my office, would you speak to Mr. Stern?

[Thereupon, at 10:25 a.m., the hearing in the above-entitled matter was recessed, to reconvene on Tuesday, April 25, 1978.]

WELFARE REFORM PROPOSALS

TUESDAY, APRIL 25, 1978

U.S. SENATE,
SUBCOMMITTEE ON PUBLIC ASSISTANCE
OF THE COMMITTEE ON FINANCE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10:05 a.m. in room 2221, Dirksen Senate Office Building, Hon. Daniel P. Moynihan, chairman of the subcommittee, presiding.

Present: Senators Moynihan, Long, and Danforth.

Senator MOYNIHAN. Good morning to you all. We are here on the second day of the series of hearings which have been scheduled on public assistance proposals. This is actually the third session scheduled, as we were required by the Senate not to meet last Tuesday when the vote on the Panama Canal was taking place.

This morning, we have the very great pleasure of having our colleague and friend, the Honorable Baltasar Corrada who is the present Commissioner of the Commonwealth of Puerto Rico. Good morning, and we welcome you.

Mr. CORRADA. Good morning, Mr. Chairman.

STATEMENT OF HON. BALTASAR CORRADA, RESIDENT COMMISSIONER OF THE COMMONWEALTH OF PUERTO RICO

Mr. CORRADA. Mr. Chairman, I am glad for the opportunity to appear before you today to comment on the Better Jobs and Income Act.

I have followed President Carter's welfare reform proposal very closely, since as many of you know, it is precisely in this area of public assistance where the U.S. citizens residing in Puerto Rico are unfairly treated through a series of discriminatory legislative provisions.

Although I find the President's proposal to be in principle a good one, I cannot say that I am pleased with the way this legislation treats the U.S. citizens residing in Puerto Rico, Guam, and the Virgin Islands, and the other offshore areas. The limitations on payments to the residents of these areas imposed by section 2112 of the bill are, in my opinion, unfair and unjustified.

As everybody in this room probably knows, the cost of living in the offshore areas is substantially higher than in the mainland due to the fact, among others, that we import most of our consumer goods from the mainland and in American flag carriers paying rates which are higher than those charged by foreign flag carriers. Puerto Rico

purchased over \$3.5 billion worth of goods and services from the mainland in 1976 and although final figures are not available at this time, we expect to exceed that figure in 1977 and for years to come.

By the way, Puerto Rico buys more from the mainland U.S. than all countries in the world but six. Furthermore, 80 percent of what Puerto Ricans buy with their food stamps is produced in the U.S. mainland.

I think that limiting the payments to the residents of Puerto Rico through an arbitrary formula based on the ratio that the per capita income of Puerto Rico bears to that of the State with the lowest per capita income is inequitable, unjust and unfair. Such ratio is not applied to any of the States in determining benefits for their residents. To make matters worse, the administration's proposal provides that this formula would remain static for subsequent years at the ratio computed between July 1 and September 30, 1981.

This comparison of the per capita income would mean that benefits payable in Puerto Rico and the other areas would be about 60 percent of what are paid in the mainland. Now, are we to accept that the human rights of the U.S. citizens residing in these territories are only around 60 percent of those human rights enjoyed by their mainland counterparts? I wonder what would happen if we had applied the same kind of formulas to the draft; would only 60 percent of those drafted in the offshore areas had to serve, or would all serve but only fight 60 percent of the time? We never proposed or demanded that, for the purposes of defending the Nation, Puerto Ricans should be treated differently than anyone else.

The residents of offshore territories bear many of the burdens and responsibilities of our citizenship and I believe that those most in need should also share in the benefits.

Some people may say that the lower benefits are justified because the residents of Puerto Rico do not pay Federal taxes.

Mr. Chairman, the residents of Puerto Rico do not pay Federal income taxes because of a long standing Federal policy exempting the offshore territories from Federal tax liabilities in order to aid these jurisdictions in their economic development. It would be an injustice that because of that fiscal policy, the poor and the unemployed should be shortchanged in the welfare reform proposal. By placing restrictions on the applicability of Federal programs in Puerto Rico, you would be further delaying the economic development of these areas.

In addition, may I say—and this is something that ought to be emphasized—the policy of Federal tax exemption is mainly beneficial to mainland corporations operating in Puerto Rico through subsidiaries that do business there. Puerto Ricans get the jobs and the mainland companies get the tax-free profits which ultimately will go to their stockholders all around the Nation.

Such fiscal policy of economic stimulus provides tax-free profits for some and jobs for others. But the main beneficiaries of welfare reform—the elderly, the blind, the disabled, the families with dependent children, the unemployed, should not be penalized because others are getting tax-free profits and still others are getting jobs. People in these categories are not investors and most of them cannot work. For those who can work, we have not been able to provide a job

in our economy and we would hope that they could participate in the jobs component of the welfare reform program as those who live in some of the ghettos of this Nation where unemployment is comparable, and at times higher, than what we have in Puerto Rico.

Mr. Chairman, let me now explain to you in practical terms what would happen to the residents of Puerto Rico if the proposed formula were adopted by Congress.

The average AFDC family of four in Puerto Rico receives around \$50 per month or \$600 per year under the AFDC program. In addition, they receive about \$1,500 in food stamps every year. Now, as you know, Mr. Chairman, H.R. 7200 contains amendments which will enable us in Puerto Rico to more than double the amount received by beneficiaries under the AFDC program if that bill is finally enacted by Congress. This would mean that the average family would be receiving about \$1,200 a year under the program. This, added to \$1,500 received under food stamps, would add up to \$2,700 per year.

Under the formula proposed by the administration, the average family would receive around \$2,500 per year in Puerto Rico. This means that the average family in Puerto Rico would be receiving \$200 less per year than they were receiving under the existing programs, assuming, of course, the approval of H.R. 7200.

I realize, Mr. Chairman, that the bill contains a hold-harmless provision, but this is not much consolation to us since, as you well know—and as I have stated at the beginning of the statement—the residents of Puerto Rico and the other offshore territories have been treated very poorly under existing welfare legislation.

I hope, Mr. Chairman and members of the subcommittee, that this subcommittee and Congress will reject this concept and that adequate treatment would be afforded to those U.S. citizens residing in Puerto Rico, Guam, the Virgin Islands, and the other offshore areas. If we are going to embark ourselves on the comprehensive reform of the welfare programs, it is the time to provide full equity to the offshore areas now rather than leave that to be resolved in the future.

If I may, Mr. Chairman, I would like to suggest a formula which is in keeping with the spirit of the President's proposal and which I think would be fair to my constituents. It is a formula that will not give more incentive or disincentive to work than that provided in the President's proposal.

I propose that the annual base income support payment in Puerto Rico should be established by determining the ratio of the base income support payments in the mainland—\$4,200—bear to the income received by a person working at the Federal minimum wage in the mainland, which is \$5,512, and applying that same ratio to the Federal minimum wage in Puerto Rico prescribed pursuant to section 918(6) of the bill. This formula would supersede the formula proposed in section 2112.

I also propose that section 918(6) be amended as follows: With respect to Puerto Rico and the Virgin Islands, the Federal minimum wage for the purposes of this bill shall be the weighted average of the Federal minimum wages paid in those two jurisdictions under section 6(c) of the Fair Labor Standards Act. I am willing to work with the committee and the staff to obtain all pertinent information and data to develop this formula.

I will now discuss another provision in the welfare reform proposal which deeply concerns me. In title II, Puerto Rico's participation in the jobs component section of the bill is limited to 2.5 percent of the total amount appropriated. At a time when Congress is consistently eliminating these set-asides on Puerto Rico the welfare reform proposal is swimming against the current trying to reestablish this concept.

I think that Congress should reject this approach to the jobs section of the bill. As many of you know, Puerto Rico has been treated as a State for the purposes of manpower legislation. This responds to the realization by Congress that Puerto Rico urgently needs Federal assistance in job-creating legislation and also to the basic fairness that has characterized the jurisdictional committees during the past years. Funds, may I say, for human, economic and social development and not funds to create beggars or to enhance dependency.

It is hard for me to figure out why if Puerto Rico has been treated as a State in the Comprehensive Employment and Training Act and now when we are adding a new title to this act, our participation is to be limited to 2.5 percent. I think, Mr. Chairman, that Puerto Rico should be treated as a State under this new title and the allocations going to our island for the benefit of U.S. citizens who are the targets of this legislation should be based on the nationwide formula as it is under the CETA jobs program. In the name of justice and fairness, I can demand no more and I can accept no less.

With respect to section 918(6) I have already proposed amendment to that section since it provides that "Federal minimum wage" as it applies to Puerto Rico and the Virgin Islands would be prescribed by the Secretary of Labor through regulation.

It is a matter of record that we in Puerto Rico are trying, to the extent that it is economically feasible, to increase our wages to make them relevant to the high cost of living in Puerto Rico. As you know, last year we proposed amendments to the Fair Labor Standards Act regarding Federal minimum wages paid in Puerto Rico, which were approved by Congress and became law. Congress, therefore, should not allow the Secretary of Labor to set wages under this bill which may be substandard while legislating higher minimums through the Fair Labor Standards Act.

Finally, Mr. Chairman, I would like to bring to your attention the exclusion of residents of Puerto Rico from the benefits of earned income credit.

As you may know, Federal employees in Puerto Rico pay Federal income taxes in the same manner as the residents of the 50 States; however, they are excluded from participating in the earned income credit program. This is a minor aspect, but nevertheless, of significance. As I said before, the residents of Puerto Rico are being discriminated against because they do not pay Federal taxes, but here we have a number of residents who do pay Federal taxes and are still being discriminated for the sole reason that they happen to live there.

I urge this subcommittee to take appropriate action to amend this legislation so that the U.S. citizens residing in Puerto Rico be accorded some measure of justice under this bill.

That concludes my testimony. I will be glad to answer the questions that you or other members of the subcommittee may have.

Senator MOYNIHAN. You are characteristically lucid, direct, and right within the time limit.

Mr. Chairman?

Senator LONG. What is the population of Puerto Rico right now?

Mr. CORRADA. 3.2 million inhabitants, Senator Long.

Senator LONG. You made some reference to the minimum wage problem. What is the minimum wage in Puerto Rico at this time?

Mr. CORRADA. Well, under the Fair Labor Standards Act amendments that we approved last year, those industries that had already attained a level of \$2.30 in payments to the workers were supposed to increase the Federal minimum wage in Puerto Rico as in the mainland. Seventy percent of employees covered by the Fair Labor Standards Act in Puerto Rico have attained that level. In other words, 70 percent of all workers covered in Puerto Rico are already at no less than the Federal minimum wage of \$2.65 effective January 1, 1978.

With respect to the other 30 percent, those that are between \$2.00 and \$2.29 were to increase 25 cents on January 1, 1978 and 30 cents subsequently every year until attaining parity. Those below \$2.00 would have to increase 20 cents effective January 1, 1978 and 25 cents subsequently until they attain parity.

On that basis, Senator Long, it is expected that all workers in Puerto Rico covered by the FLSA would attain the Federal minimum wage that exists for the mainland in a period of 4 to 5 years.

Senator LONG. And what percentage of people do you have out of work now? What percent do you have unemployed?

Mr. CORRADA. The last figures available, Senator, may I say show an improvement—a slight improvement, nevertheless an improvement—17.4 percent are unemployed, however we had a 22 percent unemployment in January 1977. That came down to 17.9 percent in December 1977 and there has been a further reduction, so it is 17.4 percent for March 1978.

Senator LONG. You say you are not getting the benefit of the earned income credit. Are you getting the benefit of the jobs credit that the Congress passed last year?

Mr. CORRADA. No, we do not get that in Puerto Rico, Senator. That is because the taxes are not paid to the U.S. Government.

Senator LONG. I see.

How could we get the benefit of that to Puerto Rico if we wanted to extend it to Puerto Rico? How could we do it?

Mr. CORRADA. Well, there could be two ways. It could be done with respect to those who actually pay Federal taxes to Puerto Rico, like Federal employees and others who pay Federal taxes, or the others would be estimating the amount would otherwise be payable and then providing for some relief in the bill.

Senator LONG. You would have something like a refundable tax credit, something like that?

Mr. CORRADA. Some concept that would take care of that problem.

Senator LONG. Thank you very much.

Senator MOYNIHAN. Mr. Commissioner, as you know, this committee is interested in legislation which we have sponsored that provides

some protection to mothers who are abandoned by the fathers of their children and which gives mothers rights to support. We think that the experience, in the main, has been a good one.

Some of our States do not do very well. Louisiana does badly and New York does worse, but Puerto Rico has the distinction of doing worst of all. In the ratio of collections to expenditures, Puerto Rico ranks 53d. Is there any reason why that should be?

Let me tell you that, for some reason, Massachusetts ranks first.

Mr. CORRADA. I presume, Senator, that one of the complicating factors here is that some of these parents leave the island, come to the mainland, and it is much more difficult to be able to get to them in terms of fulfilling their obligations.

Senator MOYNIHAN. You might look into that.

Mr. CORRADA. I can assure you that we will look into it, Senator, and there is a strong program going on now in our Department of Social Services to bring these persons to answer to their responsibilities with their children. We have started a family-oriented program in Puerto Rico now, there is even legislation provided for it, in terms of being able to give much more assistance to these families.

Senator MOYNIHAN. One other question. The food stamp program has been very important in Puerto Rico, I believe. What proportion of Puerto Ricans receive food stamp assistance?

Mr. CORRADA. There is a very high proportion, Senator, of Puerto Ricans receiving food stamps. I believe that the figures are close to 50 percent, that receive food stamps one way or the other. It does not mean that they do not make payments to get them under the old provisions.

Now, may I say that one of the reasons that this is high is that one must remember that with respect to the AFDC program there is a \$24 million restriction or ceiling in Puerto Rico and SSI does not apply at all.

So, without SSI at all and with restricted payments under the AFDC, you might very well conclude that the Food Stamp program is bearing the brunt of all those people who need assistance under just that one program because in the others we do not participate, or have a very restricted participation.

Senator MOYNIHAN. Well, that makes sense. That is why I think we have to be very careful.

As you know, I fundamentally agree with the position you put forward. As you also know, we have a new bill before this committee. Senators Baker, Bellmon, Danforth, and Ribicoff have introduced a comprehensive welfare proposal.

I do not expect you to be able to comment on it this morning, but we would be most interested if you could send to us in writing, for the record, your comments on that proposal. Could you do that?

Mr. CORRADA. Oh, I would be very pleased to do it.

Senator MOYNIHAN. We are necessarily going to pay attention to the proposals of our other Senators.

Mr. CORRADA. I would be very, very pleased to do it, Mr. Chairman. And may I just add something to my explanation to the food stamps that I made before?

Senator MOYNIHAN. I think it is important for the people on the mainland to realize that we have estimated that 80 percent of what the people of Puerto Rico buy with their food stamps are produced on the mainland and that we are providing a market for U.S. goods there.

What I am saying is that these are not lump sums that are going to Puerto Rico at a total loss to American taxpayers and farmers but that this consumer market provides jobs for many Americans here on the mainland who are involved in food production and distribution.

As you said, there are only approximately six countries in the world that buy more United States exports than Puerto Rico.

Mr. CORRADA. That is right.

Senator MOYNIHAN. We thank you very much, sir, and we will look forward to those general comments on Senator Ribicoff's and Senator Baker's bill.

Mr. CORRADA. We will be submitting that to you, Mr. Chairman, if it is agreeable to you within the next 10 days?

Senator MOYNIHAN. Fine, just fine. Do not fail, because, as I say, we are taking this whole subject very seriously.

Mr. CORRADA. Not at all.

Thank you very much, Senator, and Senator Long.

[The following was subsequently supplied for the record:]

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., May 9, 1978.

HON. DANIEL PATRICK MOYNIHAN,
Chairman, Subcommittee on Public Assistance, Committee on Finance,
U.S. Senate,
Washington, D.C.

DEAR MR. CHAIRMAN: When I testified before your Subcommittee on April 25th you requested my views on the bill S. 2777, a substitute welfare reform bill introduced by Senators Baker, Bellmon, Danforth and Ribicoff.

After an examination of that bill and after consulting with staff members in Senator Baker's office, I would like to express my support for that bill.

I believe the bill takes a sensible, and I think, achievable approach to welfare reform. Moreover, I was pleasantly surprised by the fact that for the first time Puerto Rico is treated as a state in any welfare legislation submitted before the United States Congress. Section 415 of that bill repeals Section 1108 of the Social Security Act, which has for years placed a ceiling on the welfare benefits received by the residents of Puerto Rico and the other territories. I applaud this approach for I believe it is time that the people of Puerto Rico be treated as equals with their fellow citizens in the fifty states.

This is something that I personally, and all my predecessors have been striving for, and I hope that Congress with its sense of justice and fairness, will see fit to extend these full benefits to the United States citizens residing in Puerto Rico.

Unfortunately, Mr. Chairman, the bill does not extend the benefits of the Supplementary Security Income to the aged, blind and disabled people residing in Puerto Rico. I brought this up to the attention of Senator Baker's staff and they have assured me they will be taking a look into this matter. I hope that appropriate steps will be taken by you to extend the benefits of this program to those persons residing in Puerto Rico that qualify for it. As you know, the House passed H.R. 7200, which provides for the extension of the SSI Program to Puerto Rico, the Virgin Islands and the other outlying territories I urge you to include the extension of the SSI to these areas in S. 2777, assuming for the purposes of the welfare reform program passage of H.R. 7200 as approved by the House.

I would also like to bring to your attention the fact that Part B of Title II, the Private Sector Voucher Program, gives the impression of excluding Puerto Rico from participating in that particular program. In its definitions, "state" is defined as the several states and the District of Columbia. However, since this new Title is an amendment to the "Comprehensive Employment and Training Act" in which Puerto Rico is treated as a state for the purposes of that act, we have been informed by Senator Baker's office that the private sector in Puerto Rico will not be excluded from participating in this particular program. In order to leave no doubt about this, I urge you to amend the definition of "state" for this program to include Puerto Rico and the other territories.

Moreover, Mr. Chairman, Section 704 of the bill ("Uniform Definitions") mandates that the Secretary of Health, Education and Welfare, in consultation with the Secretaries of Agriculture, Housing and Urban Development and Labor shall develop definitions which will be useful in various programs which are based upon need and that the Secretary of Health, Education and Welfare shall submit to Congress proposals for legislative changes based upon the use of such "Uniform Definitions". Since as you probably know, there are countless definitions included in the Social Security Act, particularly in the case of Puerto Rico and the territories, I have been informed by Senator Baker's staff that part of this mandate is to make uniform definitions which will treat Puerto Rico as a state in every instance in this act. I urge you to make sure this is the case.

I believe that I cannot but wholeheartedly endorse this legislative proposal provided the above mentioned changes are made since for the first time justice would be done to those that deserve justice in Puerto Rico and the various territories. By this I mean, the blind, the aged, disabled and families with dependent children that have no other hope but to look to their government to help them through a situation not of their choosing, but one which is beyond their control.

Mr. Chairman, I applaud this legislation, not only for its approach, but for finally recognizing that the people of Puerto Rico and the territories deserve to be treated in an equal manner as their fellow citizens in the fifty states and that the basic human needs of these people are met.

I hope, Mr. Chairman, you will make this letter part of the permanent hearing record—and thank you for the opportunity to express my views on this matter.

With best wishes, I am
Sincerely,

BALTASAR CORREDA,
Member of Congress.

Senator MOYNIHAN. And now we are going to hear from a panel that consists of some old friends of this committee: Mr. John J. Affleck, who is director of the Rhode Island Department of Social and Rehabilitative Services and Dr. John T. Dempsey of the Michigan Department of Social Services who will be here on behalf of the National Council of State Public Welfare Administrators. Then Mr. Samuel Bauer, who is the director of the Cuyahoga County Department of Public Welfare in Cleveland and who appears on behalf of the National Council of Local Public Welfare Administrators.

Welcome.

Mr. AFFLECK. Good morning, Senator.

It is very good to be here again and to have the opportunity to meet with you again, sir.

**STATEMENT OF JOHN J. AFFLECK, DIRECTOR, RHODE ISLAND
DEPARTMENT OF SOCIAL AND REHABILITATIVE SERVICES AND
CHAIRMAN, NATIONAL COUNCIL OF STATE PUBLIC WELFARE
ADMINISTRATORS**

Mr. AFFLECK. As you indicated, I am John J. Affleck and I am director of the Rhode Island Department of Social and Rehabilita-

tive Services and, at the present time, I am chairman of the National Council of State Public Welfare Administrators of the American Public Welfare Association.

I would observe that our last opportunity was, indeed, testifying before you, sir, on H.R. 7200, which we most appreciated.

And, as you indicated, today with me are Dr. John T. Dempsey on my right and Mr. Samuel T. Bauer. Dr. Dempsey, as you indicated, is director of the Michigan Department of Social Services and serves as the very able chairman of our State Council Income Maintenance Committee. Dr. Dempsey joins me today in representing the views of the State Council on reforming our welfare system.

Mr. Bauer is director of the Cuyahoga County Department of Public Welfare in Cleveland, Ohio, and serves as the chairman, my counterpart, of the National Council of Local Public Welfare Administrators.

We indeed, very much appreciate the opportunity to be with you this morning.

As you indicate, the National Council of State Public Welfare Administrators is composed of officials in each of the States, the three territories and the District of Columbia, and we are responsible for administering myriad income maintenance and social service programs which provide assistance to millions of very vulnerable, low-income individuals and families.

These programs include, as you know, among others, aid to families with dependent children; the food stamp program; general assistance; and, of course, until recently, the services and programs for the aged, blind and disabled. Indeed, many of us are still very much involved with the SSI program.

We are experienced.

We care very deeply for the people that we serve. We are proud of what we have accomplished, and yet we are cognizant of the problems and inequities that permeate our current welfare system.

In fact, I would think that next to the applicants and recipients, we know these problems better than any other single group within America.

It is precisely because of our unique insight into the strengths and weaknesses of the current welfare system and our firsthand experience with running these programs on a day-to-day basis that we believe we can assist this subcommittee in developing and refining legislation to substantially overhaul and improve our welfare system.

I do not believe that I need dwell on the various provisions of the bills that are before the Congress, particularly the two that are specifically before this subcommittee. Certainly you are intimately familiar with them.

We have attached to our statement a technical paper which addresses certain portions of S. 2084—H.R. 9030—in substantial detail, and I would hope that it might be made a part of the record, Mr. Chairman.

Our State council has often praised the Carter administration for launching a meaningful welfare reform initiative. And we commend Representative Corman and his colleagues on the special subcommittee, before whom we had the opportunity to testify, for their

remarkable efforts in constructively amending—and, in our view, substantially improving—the PBJI as a vehicle for welfare reform.

Finally, the council certainly applauds the very widespread congressional interest in reforming the welfare system, as evidenced by the introduction of alternative welfare reform bills in both Houses. We are especially heartened by the bipartisan support demonstrated here in this subcommittee and, indeed, in the Senate.

Mr. Chairman, we are confident that a strong, coherent welfare reform bill can be forged out of the several interesting alternatives now before the Congress. We respectfully urge that the Congress move speedily to pass such a bill before the end of this session, and we would hope that this subcommittee, under your able leadership, will do its part to move the bill expeditiously through the Senate.

Having stressed the importance of enacting a welfare reform measure in this session of the Congress, Mr. Chairman, I would like now to describe those features of welfare reform which our State council believes must be included in any worthwhile bill.

I might add that the council's position is the result of 2 years of thoughtful deliberation and my colleagues, Mr. Bauer and Dr. Dempsey, will elaborate on the following points:

To begin with, as administrators, we are of the very firm conviction that any welfare reform measure must have, as its cornerstone, two primary objectives:

First, to be responsive and sensitive to the needs of welfare recipients and applicants; and secondly, to meet those needs as effectively and efficiently as possible.

Mr. Chairman, we assert most emphatically that these two objectives are not, and need not be, mutually exclusive.

In order to achieve these two objectives, our council, with its collective knowledge, experience, and sensitivity believes that the following eight principles must be enacted as a part of welfare reform.

In order to save time, sir, I would like to just identify these and then Mr. Bauer and Dr. Dempsey will expand upon them and perhaps during discussion we might be able to discuss them further. Let me identify them.

First, there is a need to expand coverage to include all families, childless couples and single adults. Comprehensive coverage, if you will.

Second, we recommend that a national minimum benefit level be established.

Third, there should be State supplementation permitted at the State's option.

Fourth, strong work requirements should be adopted as part of any legislation together with appropriate job opportunities.

Fifth, the emergency needs program needs to be expanded.

Sixth, administration needs to be simplified.

Seventh, fiscal relief needs to be an integral part of the effort.

Eighth, there should be the opportunity for non-Federal administration directly by the State or at the State's option through local subdivisions, counties or municipalities.

Mr. Chairman, the council is very pleased to note that all of the major welfare reform bills now before the Congress would, at the very least, expand coverage, provide a national minimum benefit level, expand the earned income tax credit, seek to provide jobs for welfare recipients, and address the issue of fiscal relief. Each of them does this.

At this time, however, the program for better jobs and income, particularly as it has been amended by Mr. Corman's special subcommittee, comes, in our judgment, closest to addressing the council's concerns as addressed in these eight principles.

Again, we urge that such a bill be enacted in this session of the Congress. The council is extremely concerned, however, that enactment of such a bill may be unnecessarily delayed, not because it lacks consensus for broad reforms, but because the initial costs of conversion are high and policymakers face unavoidable fiscal limitations.

As a result, Mr. Chairman, we urge that this subcommittee seriously consider legislation that will implement gradually—that is, phase in over a period of years—all of the far-reaching provisions we have identified. Using expanded coverage as one example, the legislation could extend coverage to all families with unemployed parents in the year 1980, add childless couples by 1982, and single adults by 1985. Other provisions, such as raising the national minimum benefit level to the poverty line are also conducive to this phased-in approach.

The council subscribes to this phased-in approach because it permits the Congress to act now on long-awaited, sorely needed reforms; spreads the cost of conversion over a number of years, thereby reducing the fiscal impact in any 1 year; and provides sufficient lead-time for implementing new and expanded provisions.

Mr. Chairman, we would like to commend you and the subcommittee for scheduling these hearings and for your continued efforts to develop responsive and workable welfare reform legislation. We realize that developing such legislation poses extreme difficulties. We are confident that it can and must be done. Toward this end, we stand ready to assist in any way that we can.

And now, Mr. Chairman, if I might ask Mr. Bauer first, and then Dr. Dempsey, to add to my statement, then we would be extremely pleased and happy to respond to any questions.

Senator MOYNIHAN. Mr. Affleck, the dread spectre of incrementalism appears in this hearing room. It is interesting that, for example, when Chairman Long and I met with the President about a month ago to discuss the proposal, I remarked how that very academic term "incrementalist" had made its way into the political arena and how people fling it at one another as if it were a charge and raise it as a banner to be defended. But clearly, you are of a view that is surprisingly consonant, I think, with that of Senators Baker, Ribicoff, Bellmon and Danforth, who want to do as much this year as possible. And so, of course, do we.

Mr. Chairman, shall we hear Dr. Dempsey first?

Mr. AFFLECK. Mr. Bauer first, if we might, Mr. Chairman, and then Dr. Dempsey.

STATEMENT OF SAMUEL P. BAUER, DIRECTOR, CUYAHOGA COUNTY DEPARTMENT OF PUBLIC WELFARE, CLEVELAND, OHIO, ON BEHALF OF NATIONAL COUNCIL OF LOCAL PUBLIC WELFARE ADMINISTRATORS

Mr. BAUER. Thank you, Mr. Chairman and Senator Long. I am Samuel P. Bauer, director of the Cuyahoga County Welfare Department in Cleveland, Ohio, and today I have the honor of appearing before you as chairman of the National Council of Local Public Welfare Administrators, which is a companion organization to the Council of State Administrators of the American Public Welfare Association.

On behalf of my associates on the Local Administrators Council, I thank you for this opportunity to testify on a subject of quite critical importance to us, and that is welfare reform.

Reforming this Nation's multibillion dollar welfare system is one of the highest priorities of the National Council of Local Public Welfare Administrators. Our particular interest in this goal stems from the fact that we are the people working in the counties, municipalities and other local jurisdictions across the country, who are responsible for the actual day-by-day provision of welfare assistance and services.

It is our job to see to it that the help available from programs designed by Congress, such as aid to families with dependent children and food stamps, as well as our own programs of general assistance, is delivered efficiently and effectively to those who need it. Needless to say, as the welfare system has grown in expense and complexity, this task of the local administrator, the delivery of benefits, has become increasingly difficult to perform.

It is from this vantage point of first-hand knowledge of the workings of the system and the people that it serves that I come before you today as the council's representative to share our view on welfare reform.

Beginning with the formulation of the Carter administration proposal last year, we have witnessed with optimism the resurgence of Federal interest in this complicated and sometimes intimidating issue. We sense that there is support from both the legislative and executive branches of the Federal Government and from both political parties. With that, we, the local administrators of public welfare believe that an acceptable reform measure can and should be enacted in 1978.

In our view, such a measure should incorporate the following goals:

Establishment of a minimum national benefit which will reduce the broad disparities in payment levels that currently exist among the States and which will begin to assure all recipients some degree of adequacy in the cash assistance available to them.

Two, the expansion of coverage which will bring into the program groups of people who are presently excluded, in whole or in part, from Federal financial assistance. This should be based on financial need and the willingness to work.

Three, the consolidation of programs, a most important goal, which will significantly simplify the very complex aspects of administration which we face.

And, fourth, the creation of an enlarged jobs program to provide many recipients with employment opportunities which they currently do not have.

Taken together, we believe these principles will serve as a viable framework for developing a welfare reform program that is administratively, fiscally and politically feasible.

While we are enthusiastic about the prospects for reform, there are some issues in the current deliberations which specifically concern us and which we hope will be appropriately dealt with by the Congress.

In the time I have remaining, I would like to briefly identify these issues and our suggestions for resolving them.

No. 1: Categorization. One of the greatest sources of complexity and inequity in the present welfare system is that Federal funds are available only to help people who fall into certain categories unrelated to financial need. That is, besides being poor, one must be either aged, blind, disabled or a dependent child. Not only does this arrangement preclude other groups of people from obtaining federally funded benefits, but it also leads to unnecessary program fragmentation and it is this very fragmentation which promotes excessive administrative complexity and undermines the development of a welfare system that is understandable to both the recipients who depend on it and the public who support it.

To lessen this problem, we believe that whatever welfare reform legislation is enacted should include provisions requiring the development of a national uniform benefit schedule with benefits varied only by family size. Lower benefits should only be paid to families in which an employable person refuses to comply with the requirement to work.

With respect to emergency needs, we at the local level have often identified "immediate needs" when an individual applies for welfare assistance. For a variety of reasons, however, they may not be fully eligible at that point and, as a consequence, they must turn to other sources of aid.

Presently, State emergency assistance programs, funded locally and occasionally with Federal assistance, have been of some help in this regard. Welfare reform should assure that these emergency needs continue to be met with sufficient Federal financial participation.

Of key importance is the interrelationship with medicaid and social services. One of the most significant obstacles to bringing about welfare reform is the interrelationship of income maintenance with other public welfare programs, such as medicaid and title XX social service. We believe that very serious consideration should be given to protecting States and localities against any increases in their costs for these programs attributable to welfare reform.

We further believe that those two programs should be somehow made consonant with whatever welfare reform program is devised.

Jobs. One of the greatest shortcomings of current welfare policy that we observe at our local level is that we seem to require work but

we do little to provide employment. Thus we suggest that a jobs program be enacted as a part of welfare reform. We suggest, also, that it be put in place before the balance of the cash assistance component is fully implemented.

We should emphasize that jobs created for welfare recipients be consistent with the job needs of our economy. Further, any jobs program must safeguard against displacing current workers. Finally, the jobs component must mesh administratively with cash assistance.

Properly designed, such a program would greatly enhance the overall functioning of the welfare system.

Perhaps the most critical issue in welfare reform is how the program affects the recipient. Will eligible individuals and families fare better under a new system than they fare now? That should be the major test.

Providing higher levels of cash assistance in States where current levels are low, expanding job opportunities and simplifying administration, as we have suggested above, should significantly improve the lot of many recipients.

Senator MOYNIHAN. Thank you.

Dr. Dempsey?

STATEMENT OF JOHN T. DEMPSEY, DIRECTOR, MICHIGAN STATE DEPARTMENT OF SOCIAL SERVICES, ON BEHALF OF THE NATIONAL COUNCIL OF STATE PUBLIC WELFARE ADMINISTRATORS

Dr. DEMPSEY. Senator, Mr. Affleck emphasized that the two of us speak for two national councils and therefore for all 50 States, as well as local administrators. Mr. Affleck indicated that the National Council of State Public Welfare Administrators over the last 3 years has been working on this subject and has, in effect, developed eight major principles. I would like to elaborate on each of them very quickly.

First of all, it is our position that welfare reform or welfare improvement has to include comprehensive coverage of all families, childless couples and single individuals. There are two reasons for this. The first is, of course, the needs of the individuals concerned. But the second is the fact that about half the States presently provide for all of these people.

There is a great deal of talk as to whether we should have universal coverage. In my State of Michigan, your State of New York, and other States, we have universal coverage today.

Senator MOYNIHAN. That is right.

Dr. DEMPSEY. So we think that national reform or improvement must inevitably do that, or certain States will be disadvantaged.

Second, we think there should be a national minimum federally guaranteed benefit level because of the fact that benefits vary so widely today.

In September of 1977, according to the staff report provided by your committee, monthly AFDC payments for an average family varied from \$47.23 a month in Mississippi to \$377.47 in New York. Cost of living differences, obviously do not justify such an extreme spread.

Important as the difference between one State in one part of the country and another State in another part of the country is, variations between adjacent States are even more significant. For example, my State of Michigan, last September, paid \$277.03 to the average family. The neighboring State of Indiana paid \$178.90. A hundred dollars a month difference for moving across the road, so to speak.

An average family in Kansas City, Kans., got \$234 a month; the same family in Kansas City, Mo., got \$160. Now, there is a difference of essentially \$80 for moving across the river.

Food stamps do ameliorate these differences to a degree, but food stamps present their own problem. My Governor has recommended to the Michigan legislature that we upgrade AFDC grants the 1st of October of this year by approximately 6 percent. Our legislature will do that. When they do, the cash made available to the family of four will increase. The food stamp bonus value will decrease. And so, in the end, what happens is that States that do raise grants with their own money are subsidizing the U.S. Department of Agriculture, something we do not want to do.

Third, there has to be an allowance for State supplementation above the nationally established minimum and we believe the Federal Government should pay a substantial share of such supplementation. Any other course would reduce benefits to a lot of people, or increase State costs even further. We think both of those alternatives are unacceptable.

Fourth, there should be a firm work requirement. Everybody agrees on this. Everybody who is able to work must be expected to work and should be required to work, if work is available.

However, I point out that there is substantial misunderstanding in this area, and I would like to use the Michigan caseload of February 1978 to demonstrate this fact.

We presently have 192,000 AFDC cases. A little over 11,000 are AFDC-U where the parent is unemployed. He is able to work, he is willing to work, he is looking for work, but no work is available.

Another 6,400 are AFDC-I. The cases in this category have a parent who is unable to work for medical reasons.

Another 12,800 of my cases are children living with a self-supporting relative. The grant is made only to the child, obviously we are not going to require the child to work. The relative is working.

Another 9,100 cases in Michigan are children living with a stepparent. Under Michigan and national law, the stepparent is not legally liable for their support. The children receive the grant, we cannot require them to work.

We have 105,229 families with children under 7 years of age; 38,900 with no children under 7, but children over 7; 8,900 with no children under 14. Now, how many of these people should be expected to work?

Using the administration's work requirement, as in the Corman bill reported by the special subcommittee in the House, the following breakdown would occur for Michigan: 55 percent of our AFDC caseload have children under 7. They would be exempted from work requirements.

Another 25 percent are either children themselves or they are incapacitated adults. They would be excused under the Corman bill.

So 70 percent of my caseload would not be expected to work, even by the rather rigid requirements of the Corman bill.

Twenty percent of my caseload would be expected to work part time. Since they are women, usually, with children under 14 but over the age of 7.

A total of 10 percent would be expected to work full time. Now, these are the 8,900 cases with no children under 14 and 11,000 AFDC-U cases.

I am sure that the situation is similar for most other States.

Mr. Affleck mentioned that we believe an emergency needs program is essential. Every State has one today. In the State of Michigan last year, we spent approximately \$20 million on emergency needs.

The Federal Government presently participates in part of this, but the total amount of Federal funds we got in connection with that \$20 million in expenditures was about \$3.4 million, because the Federal program is defined narrowly to include emergencies only once a year within a 30-day period.

So we spend about six State dollars to every Federal dollar for emergencies.

There will continue to be emergencies. Families suffer burn-outs, brown-outs, flame-outs, inevitable natural disasters, malfunctioning appliances and so on, and there are, of course, problems, when people cannot meet eligibility standards immediately.

In the SSI program, the State of Michigan usually makes an initial advance to families and sometimes we advance money for 4 to 6 months while the Federal system is gearing up. Those sorts of emergencies will continue to occur and there has to be some mechanism to respond to them.

Very importantly, Mr. Affleck's sixth point, welfare programs have to be simplified, standardized, and coordinated. All of the elaborate and complicated programs adopted by Congress and directed by Cabinet Secretaries and Federal and State officials ultimately come together at the local level in the challenge facing an intake worker.

In my State, the average intake worker is a person with a high school education, paid about \$12,000 annually, required to deal usually with three case openings each 8-hour day. Every person who come in is eligible—presuming they are eligible at all—for at least one program, sometimes it is two, sometimes it is three, sometimes it is four, five, and so on. Each of these programs has unique eligibility criteria and a unique standard for determining assets, resources, and income.

Processing one case may require three or more different applications using different criteria, different standards of eligibility, but always the same set of facts. This is the point where error occurs. Usually, it is not the fault of the worker; it is the fault of the program requirements.

Because Congress acts at different times, through different committees, to enact or to change program requirements for different programs, we have, today, a complicated system of conflicting and contradictory requirements. The task of the intake worker is to apply all of these conflicting and contradictory requirements to the same set of circumstances, those involving the individual family.

Accordingly, we would urge that, whatever this committee does, it attempt to standardize and simplify all assistance programs.

Mr. Affleck's seventh point was fiscal relief for States. We think there are several reasons why this is required.

The first is that States are heavily burdened today and it is increasingly difficult for them to bear welfare costs. Related to this, however, is the fact that rising costs have made it difficult to increase grants and even where States have done so, the rate of increase has not kept up with inflation.

For example, in my State, Michigan, we are one of the few States that have raised the grant level each year. In the last 7 years we have raised grants every year and the total increase has been 47 percent.

The Consumer Price Index, at the same time, has increased 55 percent. And so people in Michigan, even though we raise grants every year, are worse off today than they were 6 years ago.

Many other States have not been able to raise grants regularly or at all. I am told that New York State, for example, has not increased its AFDC grant for more than 4 years.

So, from the standpoint of State fiscal problems as well as from the standpoint of clients themselves, there should be fiscal relief for States and there should be some sort of a built-in cost-of-living index so that grant levels do not lag behind, as they have historically.

I would point out that the States are grateful for the limited fiscal relief which this committee has afforded to us this year and we appreciate your leadership, Senator Moynihan, as well as Senator Long and Senator Danforth. We hope you will continue it, and do more of it, as a matter of fact.

Finally, I would reemphasize that it is our position that the administration of these programs, if Congress acts to reform them, must remain non-Federal.

We do not believe the Federal Government has the capacity to administer programs with the sensitivity and the deftness that is required. I wonder what would happen if, under the original administration proposal, which included Federal administration, a computer malfunctioned on a given day in, let's say May, and 300,000 AFDC checks did not reach Harlem or 100,000 did not reach downtown Detroit, or what have you.

Senator MOYNIHAN. What would happen?

Dr. DEMPSEY. We would have a rebirth, I think, of the 1967 spirit.

Senator MOYNIHAN. Sir, what is the evidence of that? Are you threatening violence if you do not keep your own civil service?

Dr. DEMPSEY. No, sir, I am not threatening violence. I am simply—

Senator MOYNIHAN. What do you mean we would have a recurrence of 1967? What do you mean, sir?

Dr. DEMPSEY. I mean there would be major problems, and you know that.

Senator LONG. Senator, I think that you misunderstood his answer. What he is saying is that if you had a computer error and 300,000 people did not get their checks, he thinks that some of the proposed recipients, failing to get their checks, would resort to violence.

Senator MOYNIHAN. I think that is a shocking thing. I am not amused one bit. These are law-abiding, American citizens who happen

to be dependent. The idea that if they miss one check they would go out and break the law does not seem to me to speak well of those people at all. I am surprised at you, Dr. Dempsey.

Dr. DEMPSEY. Well, Senator, it is my impression, based on experience that when we have a computer malfunction and 10,000 checks do not get delivered, we have a mechanism to respond immediately, because the average person living on public assistance does not have—

Senator MOYNIHAN. Doctor, supposing your paycheck were not here next Wednesday. Would you go out and break the law?

Dr. DEMPSEY. I have seen instances where 50,000 or 60,000 State employees did not get paid and they broke the law.

Senator MOYNIHAN. What did they do?

Dr. DEMPSEY. They demonstrated. They refused to do their jobs. They failed to function.

Senator MOYNIHAN. That is not the description you gave to me of the 1960's. That is not what you were referring to at all.

Dr. DEMPSEY. Senator, I did not mean to exaggerate.

Senator MOYNIHAN. Lootings, burnings—

Dr. DEMPSEY. All I am saying is that we have 87,000 families in the city of Detroit.

Senator MOYNIHAN. I will not have the welfare recipients of this country, who are honorable and respectable people, treated as persons who will violate laws, burn, loot, just because they were inconvenienced.

Dr. DEMPSEY. Senator, I did not say that.

Senator MOYNIHAN. You did say it, sir.

Dr. DEMPSEY. Well, I did not mean to say that, then. What I am saying, in effect, is that—

Senator MOYNIHAN. We will drop the matter. I am sorry. That is an image of the recipients of welfare which I cannot accept.

Are you through, sir?

Dr. DEMPSEY. One more comment, sir.

I do apologize if I either misinformed you or misled you. The point I was trying to make is that if, on a given day, in my home city of Detroit 80,000 AFDC checks do not get delivered, what would happen? I asked a Federal official about this, and he said—

Senator MOYNIHAN. I will tell you what would happen. A lot of honest people would do their best to cope.

Dr. DEMPSEY. Yes. But his point is well, there would be no problem because you would simply have to tell them that Congress or Washington made a mistake. What I am saying is that we would have to have a mechanism that responds immediately.

We do have computed errors. We have times checks do not go out. Clients show up at our offices and, because they are Michigan offices or local offices they get an emergency check.

All I am saying is that if you had a nationally administered program, you know, with 30 million families and the computer blew that big circuit, you would not have the capacity to respond immediately. That is what I was trying to say.

Senator MOYNIHAN. Thank you.

Mr. Chairman?

Senator LONG. I just want to explore one or two things with you. Under this proposed bill, you said that 55 percent of the mothers on your caseload have children under age 7.

Dr. DEMPSEY. Yes, sir.

Senator LONG. Now, if we are going to try to get any mothers to take a job and do some work for the benefit of their family, does it really make much sense that a mother with one child, assuming the child is under age 6, should not take a job?

Dr. DEMPSEY. I think they should be encouraged to take a job, and I find that many of them do. In my caseload, that 55 percent, we presently have about 14,000 working right now, and we have another 10,000 who are looking for work. So roughly one-quarter of the caseload is either employed or actively seeking work, and I think that is a legitimate and appropriate—

Senator LONG. Could I ask the other witnesses, what is your reaction to a situation where a mother has one small child below age 6, preschool age.

Mr. AFFLECK. Our experience, Senator, is very much the same as Dr. Dempsey's. The reality is that we have clear evidence that—I tried to use the word "job opportunities" in my remarks—and the reality is that we find many such women with children younger than 7 who seek out, on a volunteer basis, job opportunities.

And my thrust would be to make those opportunities available to them. In Rhode Island, we have significant numbers, up to 20 percent of our AFDC caseload, many with children under 7, who have income from employment, Senator.

Senator LONG. Well, I have given this illustration many times. The displaced schoolteachers want us to absorb all of them who cannot be used in the school system in day care centers at \$12,000 a head. People who have operated day care centers tell me that, on the average, a welfare mother can do what is needed in that respect just as well as a displaced schoolteacher, and, in many cases, better. All it takes is someone who loves little children to keep them from getting into fights and to keep them secure on the playground. Now, if you break that job us two ways you could hire one mother to take the morning shift and another mother to take the afternoon shift and for the same \$12,000 you could move both those two families out of poverty, assuming they both have just the one child.

That to me is the kind of approach we ought to use to help these people find a job doing something useful rather than to pay them to do nothing. Does that appeal to you?

Mr. AFFLECK. Yes, it does, Senator. I would observe that, certainly in my own home State of Rhode Island and throughout the country, one can find a variety of job responsibilities within the field of day care. One does, indeed, find responsibilities for the educator.

In addition, one finds responsibilities for the child care worker. In fact, I welcomed the development under the title XX provisions of day care where we have been able to place some AFDC mothers in our day care centers on subsidized employment. It is significant that such job placements have worked out very well, Senator.

Senator LONG. It concerns me to hire somebody for \$12,000 a year to be at a day care center and then mandate that they only have one worker for every four people. That automatically means that you are stuck with a \$3,000 labor cost at a minimum for somebody just to watch children play on a playground.

Of course, I am in favor of cranking some educational benefit in, but not to where you are going to run the cost up from what a few years ago was \$100 a month up to \$300 a month. We had some very able secretaries right here in this Senate Office Building who had their children in day care centers paying around \$100, \$125 a month while we had people testifying that you ought to be paying over \$300 a month for day care for children.

Basically, the difference in cost was the difference in paying \$12,000 and \$6,000 for somebody to watch those children play on the playground.

At that rate, if a mother had more than two children, you could not afford to put the children in day care. You would just have to pay her to stay there with them. But that mother could become a part of the mainstream if you could hold the cost down, or if you could look at the cost you would have to pay anyway and say, well, we could very well afford to pay two mothers, each working a half day where they would each make \$6,000 and take both families off the welfare rolls.

If you can provide for someone to take care of the children in day care centers, then you should be able to put those mothers to work who are not in the day care centers doing something useful. It would be attractive if you would make it deductible for the families where both the husband and the wife are working to hire somebody to do the housework while the wife is out working to help increase the family income. If you would provide a tax credit of as much as 50 percent, or maybe even make it deductible if they are making substantial income between the two of them, and then you would provide a similar tax advantage for someone to help these dear old people because they cannot do much because they have reached age 80 or thereabouts and really need somebody to be around the house with them, otherwise you are going to have to move them into nursing homes or something similar—you probably could not find enough people to take all of the jobs, at least that is the impression I gain.

What is your impression about that, Dr. Dempsey?

Dr. DEMPSEY. My impression, Senator, is that you are right. I think, however, that more is done today than you realize. In Michigan, for example, a substantial portion of our day care payments are to what we call day care aides. This is for family day care.

In effect, one of the reasons our average payments are lower than the need standards—our standard of need in Wayne County is \$450. But we are paying an average of about \$280—is because, as Mr. Affleck indicated, 20 percent of the cases have some earned income. For many of them, the earned income comes from day care. They are taking care of someone else's children. We do not pay them the center rate, which is \$7.50 per day. We pay them a day care aide rate, which is about \$3 a day.

We also have a chore services program for senior citizens, such as you mention. We spend about \$25 million a year on them. A substan-

tial portion of that pays for chore services provided by people on public assistance. So we are doing both of those.

We run into another problem, I would have to say very frankly, and that is the ceiling on title XX expenditures. In my State, we have a maximum of \$107 million Federal dollars. We are spending about \$40 million on top of that, that of our own money with no match. If the ceiling could be raised, I suspect we would have more chore services and more family day care and, therefore, more employment of public assistance recipients.

Senator LONG. I do not think you are going to have any difficulty getting an increase in the title XX money. I think that is a need that is clearly demonstrated and that we can agree on. The point that concerns me, though, is this approach of talking about making somebody go to work. My attitude is that I do not want to *make* anybody go to work. I just do not want to pay them a lot of money for *not* working.

It seems to me that the logical way to do it is to just say that where a mother has only one child and she has no husband to help support that family, she ought to be expected to take a job and help her family.

My thought about this matter is that it ought to be very easily within our capability to offer jobs if we just target those CETA jobs on the people who need them and otherwise would be on the welfare rolls, and if we provide adequate tax incentives to help these old people hire somebody to come in their homes to help them so they will not be forced out of their homes into nursing homes or day care centers needlessly, and if we provide enough help to provide for nurse's aides and for people to help where both the husband and wife want to work—if we do these things, we can create enough jobs, especially if we use the jobs credit and target that on welfare eligibility also.

I do not see that we should have difficulty creating enough jobs so that anybody who wants a job can find one. If we do that, I do not see why we ought to be saying to people that they are forced to work. It seems to me as though we could say, well, we can pay you something, it is not much, if you do not want to do anything, but if you take a job—and we can refer you to any one of several—that will solve your problem.

Now, how does that appeal to you?

Dr. DEMPSEY. Very much.

Senator LONG. What I am concerned about, in addition to all of that, is the fact that it is awfully easy for people to rip us off. The State of Michigan was concerned about these child support regulations. It is so easy for a man to simply make himself pretend to be unavailable to support that family, with all the time we spent on the right to privacy, notwithstanding that the family is on welfare on the theory that he had abandoned them, and that they need the welfare help.

If that is the case, you can easily find someone with a mother and one child, for example, who would be getting—let's say, \$3,000; papa is getting \$7,000. When he sees fit to be around the house he is a very generous soul. He gives the family maybe \$100 a month out of his \$600 a month that he is making, but the overall family income

would be \$10,000 in a case like that and not just the amount of the welfare payment. It works out to a ripoff of the taxpayers.

I do not see how you are going to get those figures, because either HEW of the States or somebody has so zealously protected the right of privacy that it looks to me that it will be almost impossible to prove the point that many of these cases, papa is not only available to support the family, but he is already helping the family.

What is your reaction to that situation?

Dr. DEMPSEY. I think it is true, and I would like to make a suggestion, frankly. Under the Internal Revenue Code a husband can claim a deduction for alimony, and they do, but not for child support. I think if you could make an amendment that child support was a legitimate deduction, whether as a tax credit or a deduction or what have you, husbands then would start declaring the money that they pay and then we would have access to it, because we could access certain figures, and so on.

But it is my impression that a good percentage of the husbands do make payments, and they are not reported.

In Michigan, we estimate—well, we collected last year, in child support for AFDC families about \$70 million. We estimate that the friends of the court throughout the State collected \$195 million additional for non-AFDC families, but it is not reported, by and large.

Senator LONG. Dr. Dempsey, what you have said just made my day. That is one of the best ideas that has been suggested to me in a long time. Did you hear that, Senator Moynihan?

Senator MOYNIHAN. Yes, sir, Mr. Chairman.

Senator LONG. Well, I was not aware of that, but I learned something.

Dr. DEMPSEY. It would benefit the father, because his taxes would be reduced. It would benefit the system because we would have a report on it.

Senator LONG. It would benefit every father except someone who is ripping us off—and there might be a considerable number of them, I regret to say. But, with that exception, it would benefit all of them. I think it is a very fine idea.

(The following was subsequently supplied for the record:)

DEPARTMENT OF SOCIAL SERVICES,
Lansing, Mich., May 1, 1978.

Hon. RUSSELL B. LONG,
U.S. Senator, Dirksen Senate Office Building, Washington, D.C.

DEAR SENATOR LONG: During our recent meeting in Washington, I suggested that child support recovery might be enhanced by providing some sort of tax break to the obligor.

Herewith please find the proposal which is set out to present an approach to the problem.

We realize it will take much study and will call for statistical resources which are not within our power to get. Nevertheless, the proposal does present suggestions and questions which may lead to a method of increasing collections, and thus decreasing the overall tax burden.

We will provide any additional ideas or information we can to solve this problem of mutual concern.

Sincerely,

JOHN T. DEMPSEY, *Director.*

Enclosure.

CHILD SUPPORT PROGRAM PROPOSAL

The problem facing all states regarding the Child Support Program is enforcement of the support order. Without adequate enforcement, revenues do not meet projections, and the costs to the state and federal governments are not offset to the fullest extent.

A contributing factor to the problem is a lack of something positive to the obligor in return for complying with a court order. Presently, failure to pay results in the negative: punishment by the court.

One possible way to shift from the negative to the positive is to provide some sort of tax relief to the obligor who pays.

Under the present IRS Code, child support is not deductible by the obligor, nor is it included as income in the return of the obligee.

For purposes of determining what approach, if any, could or should be taken regarding the granting of credit for child support under the Internal Revenue Code, the following options are examined:

1. The allowance of child support paid as an itemized deduction: This would not be acceptable inasmuch as itemization is not used by all. Consequently, the granting of a deduction to one who does not itemize would not provide the stimulus to pay child support.

2. Tax Credit: Although this could prove workable, it is by far the most complicated. A formula would have to be developed based upon payment and number of children, and would, we fear, turn into something so complex as to be unworkable.

3. Adjustment to Gross Income: If such credit were to be given, doing so under the adjustment to gross income section would appear to be the most workable. The mechanism already is in place, and little or no complicated computation is called for.

In selecting a method of tax relief, we must assume that we do not want to make the relief so attractive that people will separate, i.e. granting a tax break greater than the married couple with children, and not separated, receive.

Secondly, it must be determined what tax rate the majority of obligors of child support fall into. Without benefit of research statistics, but with a great deal of experience in the child support area, the figure of 16 percent should prove fairly accurate.

Thirdly, it must be determined to what cases this should be applicable. The answer must be that it should apply to all support and paternity cases. The latter category is very important: some positive stimulus will or should lead to more voluntary acknowledgements, thus avoiding costly court time as well as delays.

Fourthly, it must be determined whether or not the income to the obligee should be taxed. An argument for this is that it will reduce the cost. However a stronger argument against this is that the obligee (usually the mother) faced with a larger tax, may surrender employment and opt for ADC, the very thing we seek to avoid.

Some further considerations have to be made regarding total costs. Some of these require actuarial studies of some length. However, if we use an example, we can illustrate how it might work, based upon the assumption that the obligor is in the 16 percent tax bracket. For example:

Child Support Order: \$30 per week.

Number of Children: 2.

1 Year obligation (52 x \$30): \$1,560.

Present payment: None.

Under our example, assume the obligee is on ADC. In Michigan the ADC grant exceeds \$1,560 which was never paid anyway. Consequently, \$780 each is contributed by Michigan and the United States.

Assuming the tax relief provides the necessary stimulus, and the obligor pays \$1,560 which is shared equally by the state and federal governments. The obligor would be entitled to a tax break of \$260, and the federal government would still have a net gain of \$520 (\$780 minus \$260.)

Under these circumstances, even if the 16 percent tax rate turned out to be inaccurate, a 20 percent rate would not have that much negative effect.

Impact on the states must be considered inasmuch as those states having a state income tax might be affected. In Michigan, as in most states, adjustments to income for federal purposes are also allowable for state purposes. However, the state income tax rates are very low by comparison (4.6 percent in Michigan) and

the impact would be little. Further a state such as Michigan would be allowing a 4.6 percent credit in return for a 5 percent revenue (ADC cost share) on ADC cases.

The tax structure would have to be applied universally to ADC and non-ADC in order to make the stimulus work. A credit for only those obligors whose dependents are on ADC would be discriminatory. Moreover, it would tend to increase the ADC rolls, thereby producing results contrary to those intended.

Earlier we mentioned that the divorced or separated parent should get no larger break than the married and together couple. With the adjustment to income device, this should be prevented. It would take an extremely large payment, under the obligors tax rate, to reach a \$750 tax reduction equivalent to an exemption.

To that end, if an obligor, even under the existing law, can prove that he is furnishing over half the support of the dependent, he can claim the exemption. Consequently, the large-paying obligor is not penalized.

A further consideration to be examined is arrearages. If payment is to be stimulated it would appear that the granting of relief for all payments (current and arrearages) must be given. To do the contrary would give obligors no reason to catch up and stay current.

The foregoing presents an approach to the problem, not as a panacea, but as an idea to study and refine. By so doing we can help shift the burden for the support of minor children back to those legally liable and financially able to do so.

Senator LONG. I want to ask you, Dr. Dempsey, are the quality control fiscal sanctions effective?

Dr. DEMPSEY. No, sir.

Senator LONG. Will you explain to me why not and how, in your opinion, they could be made effective?

Dr. DEMPSEY. They are not effective because they are too gross. They have never been imposed. Every time the time comes, we all bring pressure on Congress and Congress delays the date.

If they are ever imposed, and I guess they are going to be sometime, they, in effect, disadvantage only the recipient. They do not penalize the administrators.

I have been saying to HEW for the last 3 years, if you are going to take sanctions, take meaningful sanctions, but take them only against administration.

In other words, when we were confronted by the probability of sanctions about a year ago, it was our estimate because our error rate was high that the Feds were going to take \$50 million away from Michigan. Now, I can very easily go to my legislature, you know, and get them ranting and raving about the Federal Government for \$50 million.

If you took sanctions on the Federal share of administration—let's say the total cost of administration in Michigan is about \$160 million and it is 50 percent Federal and 50 percent State. If you were to decide you were going to take a 10-percent sanction against administration, in effect, I have to go to my legislature and say I need an extra \$8 million because my department is not running this program equitably.

They would take it out of my hide. In the end they would come up with it, but they certainly would make either me or my successor perform more admirably.

But when you say you are going to take \$50 million away from clients, the only way you can achieve it is either to put State money in or to have a ratable reduction, and the average routine that the average State has had to take when they are faced with problems is

a ratable reduction. So the director does not get hurt, the civil servant does not get hurt, the people who are making the errors do not get hurt, but the clients do, and I think that is grossly unfair.

Senator LONG. Do you have any specific recommendations for minimizing erroneous payments?

Dr. DEMPSEY. Well, there are two recommendations that I would make. The first is the one I did mention earlier and that is simplification and standardization. I really wish someday this subcommittee could call in three or four intake workers and have them lay out for you what they are required to do.

I said once that the job of the frontline worker requires the patience of Job, the tenderness of a newborn mother, and the brains of a Phi Beta Kappa—and we only pay them \$12,000. Simplify the system.

Second: We should have some sort of a mechanism to act when we find an error—and this would include also fraud, by the way. I have a comment I would like to make on the fraud question.

We frequently detect fraud, but under the situation in any State, all we can do is refer fraud to a local prosecutor. They very rarely are willing to move against it because, in most cases the amount in question is \$400 or \$500. The ones they do move against are the gross cases where it is \$10,000 to \$12,000.

I would suggest that this committee give some thought to a program like IV-D for fraud detection and prosecution. We have had great success in Michigan with IV-D because our local prosecutors have seen it as a way to get resources to build staffs to do the job.

We have very little success in getting local prosecutors to prosecute fraud. If they were to receive a portion, as they do under IV-D, of money recovered, they then, I think, would begin to move against fraud.

Senator MOYNIHAN. You are talking about—

Dr. DEMPSEY. Child support.

Senator LONG. The child support enforcement unit.

Now, this committee has heard me refer to occasions where, I was a poverty lawyer myself, that is before the Government started hiring poverty lawyers. Some poor woman would come to me and tell me that she had been abandoned and the man was ordered to pay something for the children but would not pay. Not many lawyers who were affluent felt like even fooling around with that kind of case, but I was a young fellow who did not have any business anyhow, trying to get started, and I thought I might as well tackle that as anything else.

My impression was that if a lawyer back there at that time was hungry enough to go out and pursue a fellow, you could find him and make him pay something. You could drive those fathers out of their mind or out of the State, one way or the other.

Now, in the type area that you are talking about, the fraud area, it looks to me like we need to find some way to provide someone with sufficient incentive to go out and pursue it. Four hundred dollars may not be much money, but if someone were being paid adequately put an end to fraud, I think he would do it.

Dr. DEMPSEY. Well, what I am saying is that the prosecutor in

Wayne County, for instance, which includes Detroit, has literally hundreds of fraud cases referred to him each year. Very rarely does he ever prosecute, on the grounds he has all of these rapists and murderers and arsonists, why should he go after some lady who beat the system for \$2,000?

Even the Federal U.S. Attorney, who has been very successful in the Eastern District of Michigan, has a mechanism whereby if the fraud is under \$5,000 they will not go into court, unless it is a public employee, particularly a Federal employee. Then they go in for almost any money.

We have had several hundred people convicted under that.

But if a local prosecutor were told, in effect, that once he swore out a warrant, whether the case went to trial or led to some sort of an administrative reimbursement mechanism, he could keep a quarter of the savings of the resultant payback, I think you would find a lot more warrants issued and more fraud cases prosecuted.

That is the theory of the IV-D program and it has worked quite well.

Mr. AFFLECK. I would like to underscore Dr. Dempsey's observation. Fraud is a most difficult area to press successfully, but it is terribly important to do so, because any degree of fraud, whether it be \$200 or \$2,000 does, indeed, undermine public confidence in the system that we are administering.

But it is very difficult to get prosecutors and court systems to address the issue. In Rhode Island, for example, our attorney general speaks of a 7,000 case backlog. We have stepped up our efforts with him and with his assistance have had a fair degree of success, but the judges are not terribly excited, frankly, over some of the cases that are brought in for a relatively few dollars.

And as Dr. Dempsey suggests, unless it is, if you will, almost made worthwhile in a "bounty" sense, so to speak, you have not got very much going for you, sir.

Senator LONG. Well, where someone is beating us out of money—they are not entitled to be drawing anything and they are beating us out of \$6,000 a year, let us say—somebody ought to sue them.

Mr. AFFLECK. Yes, sir, and we do.

Senator LONG. Now, if the local district attorney will not handle it, then we ought to have somebody who will. If you people would give some thought to it and make your suggestions, I would like to have them.

[The following was subsequently supplied for the record:]

**PROPOSAL FOR RECOVERY OF AFDC FUNDS FRAUDULENTLY PAID TO
PROGRAM RECIPIENTS**

I. PROBLEM

A. There has been and will continue to be a large increase of welfare fraud referrals.

B. At present, there exists a lack of investigative resources for State Social Service Agencies and County Prosecutors to spend the needed effort to successfully recover fraudulently obtained funds.

C. Large amounts of monies are not recovered and the belief exists that nothing will be done to fraud perpetrators even if they are caught.

**II. PROPOSED SOLUTION SIMILAR TO IV-D PROGRAM UNDER ADMINISTRATION OF
STATE DEPARTMENT OF SOCIAL SERVICES**

A. "Diversion Program", developed by many county prosecutors, takes first offenders in non-aggravated criminal violations and obtains a written promise to make restitution in lieu of prosecution.

1. Reduces court system case load.
2. Prosecutors office keeps track if payments are made and routes them to proper agencies.
3. The new approach has been used most successfully with those off welfare who have jobs or who are in a position to be rehabilitated.

B. County Prosecutor staff needed for the new program would be funded by 50/50 Federal/State matching funds with the investigative function maintained by existing State Department of Social Services, Office of Inspector General staffs.

C. Advantages of Diversion Program are twofold.

1. The amount and percentage of funds recovered can be dramatically increased because of effective prosecutorial supervision.
2. Resultant deterrent "chilling" effect felt by actual and potential abusers.

WAYNE COUNTY DIVERSION PROGRAM STATISTICS

Case No.	Date ordered	Amount ordered	Collections to date
1	Mar. 20, 1977	\$5,051.00	225.00
2	June 9, 1977	1,827.00	227.00
3	June 8, 1977	2,239.50	2,239.50
4	June 7, 1977	685.00	300.00
5	June 7, 1977	1,530.00	840.00
6	June 7, 1977	2,876.74	2,876.74
7	June 20, 1977	1,383.50	5.00
8	June 27, 1977	370.47	0.00
9	June 8, 1977	555.00	555.00
10	July 8, 1977	5,940.00	1,700.00
11	July 21, 1977	3,784.00	1,855.00
12	July 12, 1977	6,093.50	6,093.50
13	July 18, 1977	5,271.50	4,700.00
14	July 12, 1977	1,524.92	610.00
15	July 12, 1977	3,895.00	1,350.00
16	July 1, 1977	578.00	378.00
17	Aug. 12, 1977	454.00	454.00
18	Aug. 17, 1977	2,681.20	2,681.20
19	Aug. 12, 1977	1,210.50	1,210.50
20	Aug. 1, 1977	1,368.00	1,368.00
21	Aug. 11, 1977	2,766.00	750.00
22	Aug. 19, 1977	812.00	170.00
23	Aug. 18, 1977	2,405.00	1,510.00
24	Sept. 1, 1977	1,808.30	602.00
25	Sept. 30, 1977	1,138.50	500.00
26	Sept. 30, 1977	3,514.00	1,250.00
27	Sept. 15, 1977	2,184.00	2,184.00
28	Sept. 22, 1977	4,146.00	1,395.00
29	Oct. 10, 1977	1,860.00	570.00
30	Oct. 20, 1977	2,436.00	2,436.00
31	Oct. 4, 1977	3,174.50	900.00
32	Oct. 3, 1977	1,897.00	900.00
33	Oct. 19, 1977	1,960.00	800.00
34	Nov. 30, 1977	2,396.50	2,396.50
35	Nov. 8, 1977	2,854.00	900.00
36	Jan. 3, 1978	2,237.09	700.00
37	Jan. 6, 1978	3,305.00	900.00

Note: This table represents the results of a pilot study comprised of a small sample in one metropolitan Michigan county.

Mr. AFFLECK. I might make an observation, if I might, Senator. We have had a very fine degree of success in our child support area with our own Rhode Island family court by the introduction of a special master of the court who exclusively handles child support areas. This may be, in my judgment, an approach that could be used for addressing fraud.

Senator LONG. Secretary Califano in the beginning did not see that the Federal Government ought to provide aid to the State judiciary.

He is beginning to change that view after meetings he has had with these IV-D sections. He is beginning to see that that is where the big hangup is at this moment in making the IV-D section effective. We provide some help in the cost of personnel but we have not yet gotten around to helping to bear the judicial load. Maybe we can make some progress there.

Thank you very much, Mr. Chairman.

Senator MOYNIHAN. Mr. Affleck, I wonder if on behalf of the committee, you could send us a proposal in writing on this? You know, you refer to doing this in the sense of a bounty, which is maybe not the most elegant way to put it, but a very correct way.

One of the great problems of public administration is to be able to identify incentives to carry out public purposes. Dr. Charley Schultz, the chairman of the Council on Economic Advisers, gave the Godkin lectures at Harvard a few years ago on the question of how to build incentives into public functions.

One of the best known incentives of bureaucrats is to increase the size of their bureau, and if you allow them to do that by virtue of carrying out these other purposes, fine. At least their performance in carrying out the functions of the bureau is predictable.

I do not think this idea is in any of the current legislation before us. Senator Danforth does have his own bill.

Mr. AFFLECK. I do not believe it is, sir. My use of the word "bounty" may have been very direct, and indeed, it was. Perhaps a kinder term is incentive or motivation, but the reality is—

Senator MOYNIHAN. More kind of effort.

Mr. AFFLECK. And we have seen it in IV-D and why not try to adapt that same kind of reward, if you will, motivation, incentive, to this particular area.

We would be very pleased, sir, to share our views with you.

Senator MOYNIHAN. Thank you.

Senator Danforth?

Senator DANFORTH. Thank you, Mr. Chairman.

I am going to have to leave in about 5 minutes, and so what I would like to do is to expeditiously as possible get the views of the panel on the fundamental differences between the two major approaches that are before us, namely the administration's approach and the so-called Baker-Bellmon approach.

I think that what I will do is to just ask the question maybe to Dr. Dempsey and then if anybody else disagrees, chime in. And if you do agree, silence will be construed as agreement, okay?

First of all, with respect to Federal administration versus State administration. Is it fair to say, Dr. Dempsey, that your view is that Federal administrators do not hold any monopoly of confidence, ability, and that you think that it would be appropriate to keep administration at the State level?

Dr. DEMPSEY. Definitely, yes, but I would go a step further. Public welfare has been a function of Government in this country since 1935, formally. For 43 years, in effect, you know, State and local administrations have been running the program.

When you get Federal administrators into it who have never had a hands-on relationship with a client, they tend to think esoterically and

they come up with broad generalities that just do not meet the real world. So they do not only not have a monopoly on intelligence or knowledge, they have a paucity of experience, and I think that we should not lose the experience at the local and State level.

Senator DANFORTH. Does everybody else agree with that?

Mr. BAUER. Yes, sir.

Senator DANFORTH. All right.

Second, it is said that the administration's program is a comprehensive program and that Baker-Bellmon is not comprehensive but is incremental. I have never been exactly sure what the definition of comprehensive is and incremental is, but I take it it has something to do with whether or not food stamps are cashed out across the board or whether it is done on a pilot basis.

Do you favor the comprehensive or the incremental approach?

Dr. DEMPSEY. I think that theoretically as well as practically we all favor the comprehensive approach but we are familiar with what happened the last time that a comprehensive approach was tried, the family assistance plan. The end result was nothing, really.

So I guess we would prefer comprehensive—

Senator MOYNIHAN. No, the end result was the supplemental security income program.

Dr. DEMPSEY. Yes, sir, plus substantial expansion of food stamps, and so on. Dick Nathan has made the point that we have been incrementally reforming for the last decade. I guess, you know, if we had our druthers, we would prefer comprehensive reform. And so, as Mr. Affleck did indicate, we would like a comprehensive scheme, but move toward it incrementally, by phasing the provisions in, over a period of, say, 5 years.

Senator DANFORTH. Would the Baker-Bellmon bill accomplish that objective?

Dr. DEMPSEY. In my own judgment, and not necessarily the judgment of the council, it would, but it does not take the last step, which is the cashing out of food stamps.

Senator DANFORTH. No, of course not, but would the Baker-Bellmon approach accomplish the objective that you see?

Dr. DEMPSEY. Again, in my own view, it would accomplish almost all of it.

Mr. AFFLECK. I think, in our use of the word comprehensive, Senator, we use it largely in terms of the degree of coverage that is proposed in the legislation, the individuals—

Senator MOYNIHAN. If you had been so fortunate to be present at the first day of hearings of this session, you would have heard the chairman of the subcommittee describe the Danforth-Bellmon-Baker-Ribicoff bill as a comprehensive—incremental approach.

Senator DANFORTH. The coverage is, of course, different under the two bills.

Mr. AFFLECK. I would think that is an apt description, if I might say so, Mr. Chairman. I did not hear you say it, but I have been reading of it considerably.

Senator DANFORTH. You think Baker-Bellmon is a definite step forward and something to be pursued?

Mr. AFFLECK. Yes, we do, Senator. As a council we have not endorsed a specific piece of legislation. Rather, we have identified what we believe to be eight essential principles that must be incorporated in any bill.

But yes, we do recognize individually, and I think collectively, that the newly presented Baker-Bellmon-Danforth-Ribicoff proposal is a significant move in the right direction.

Senator MOYNIHAN. I wonder if we could not ask if you might give us, for the record, any thoughts you had on it.

Mr. AFFLECK. We would be very pleased to, Senator, and we have had some analysis of it. Our staff as well as ourselves are very close to this and we would be very pleased to share observations with you concerning it.

In fact, there is a chart comparing the four major pieces of legislation that are now before the Congress. We would be very pleased to share such information as it relates to the principles which have been adopted by the council.

Senator DANFORTH. All right.

Just one other question, and then I am sorry, I am going to have to leave.

There are two basic approaches to providing jobs. One is the philosophy of the administration's bill, which is a substantial increase in CETA jobs; the other is the Baker-Bellmon approach which would phase down the number of CETA jobs and provide tax credits and vouchers for private jobs.

Which of those two approaches do you think would be the most effective if you had to select between them?

Dr. DEMPSEY. Speaking for myself, and not necessarily for the council, I would very much like to see the Baker-Bellmon approach. I would like to see the job voucher idea tested.

One of the things I have noticed is that there is increasing problems in small business. One of the reasons that supermarkets seem to be taking over the food industry, that large restaurants are driving out small restaurants, and so on, is the difficulty of the small employer to add to his work force.

I think a job voucher such as suggested in the Danforth-Baker-Bellmon bill is certainly a noble experiment and should be tried, because I think it could lead, perhaps, not only to jobs for the people that require them, but it might give a boost in the arm to small business. It is limited, as you know, in terms of the volume that could be used, so it would not benefit Ford, General Motors, and Chrysler, but it certainly would benefit the Oriental Chop-Suey Garden down the street from my house and so on and so forth.

I think it would be very well worth trying.

Senator MOYNIHAN. That is an invitation to say that they are proposing coolie labor.

Dr. DEMPSEY. I did not say it, sir.

Senator DANFORTH. Do the other two agree with that?

Mr. BAUER. Mr. Chairman and Mr. Danforth, I think the concern that I would have would be that we not leave any prospects for job development unattended. I would suspect that a combination approach might be as fruitful as anything.

Senator DANFORTH. That is what it is. Of course, Baker-Bellmon is a combination.

Mr. BAUER. And the emphasis on public-service type jobs, the emphasis on the development of tax credits for private industry, anything which can develop something substantially beyond even 1.4 million jobs would likely be very beneficial and I would like to see all of them attempted and tried.

I think our success in finding and creating jobs for the poor, at this point, has been inadequate and new methods would be well received.

Mr. AFFLECK. Yes, I concur with this. I think if it were an either/or situation, we would prefer private-sector jobs to "government" created jobs as a piece of the welfare program. Certainly, however, not to contradict myself in any way, public service jobs also play an important role. But if I were to come down on the side of either/or, it would clearly be in the private sector, the private economy.

Senator DANFORTH. The theory, of course, is that the voucher system or the tax credit system offsets part of the cost of hiring people.

At the time last summer when we were considering an increase in the minimum wage, Secretary Marshall indicated that that bill would result in 90,000 less jobs. Other people said up to 230,000.

Do you know of any way of quantifying the—or judging the relationship between the increased costs of employment and the availability of jobs?

Dr. DEMPSEY. I am not quite sure I understand the question, Senator.

Senator DANFORTH. Well, the theory is that—the theory of the Baker-Bellmon voucher type system is that if the cost per hour of an additional job is less than it would otherwise be by virtue of the voucher, there will be more people employed.

Conversely, the theory is that to the extent that either minimum wage or social security increases artificially increase the cost per hour of employment, there is less employment.

Is that just a theory, or is there some analysis of the basis of the theory?

Dr. DEMPSEY. I think it is more than a theory. I think it is a demonstrated fact that, as labor costs go up, the tendency on an employer's part is twofold. First is to work a portion of its labor force overtime, because it costs less per hour to work someone overtime than it does to qualify a brand new person; and the second is that you tend to automate more heavily and therefore the types of people who wind up on public assistance are the least skilled and least educated, have increasing difficulty getting jobs.

So I think that an approach that does reduce the hourly wage costs does inevitably stimulate job creation.

Senator DANFORTH. Thank you very much.

Senator MOYNIHAN. Well, we would very much appreciate hearing from you about the Baker-Bellmon-Danforth-Ribicoff proposal and also about the question of an incentive system with respect to fraud.

As you know, the Inspector General at HEW has put out an annual report on the extent of fraud in HEW departmental programs. It is pretty discouraging with between \$6.3 billion and \$7.3 billion in misspent funds. It suggests levels of collusion, I mean, that cannot just happen.

I would like to be clear, however, that AFDC errors do not occur at anything like that rate. Perhaps 10 percent of AFDC expenditure is lost to fraud, whereas almost a third of medicaid is lost. I do not think that medicaid money ends up in the pockets of poor people. I think a lot of it ends up in the pockets of very well-to-do people.

Dr. DEMPSEY. Senator, it would be my guess—let me add this—the 10 percent is a very high figure for AFDC fraud. I would say it is probably more on the level of 2 percent.

If they speak 10 percent, they are probably speaking of misspent funds.

Senator MOYNIHAN. Misspent funds.

Dr. DEMPSEY. Right. Frequently, that is the——

Senator MOYNIHAN. Lost is the term.

Dr. DEMPSEY. If we pay a family \$6 a month more than we are supposed to, that is a loss. That is misspent.

Senator MOYNIHAN. Yes, and loss is the term on all of these matters. But I think AFDC would prove in these terms to be rather the least inefficient of these programs, partly because we have been paying attention to it a bit longer and the idea of great losses in medicare and medicaid is rather new.

We do thank you, gentlemen, very much, and we look forward to both of those things you promised.

Mr. AFFLECK. It is a very real pleasure to be here, Mr. Chairman. Thank you.

[The prepared statements of the preceding panel follows:]

PREPARED STATEMENT OF JOHN J. AFFLECK, DIRECTOR, RHODE ISLAND DEPARTMENT OF SOCIAL AND REHABILITATIVE SERVICES, AND CHAIRMAN, NATIONAL COUNCIL OF STATE PUBLIC WELFARE ADMINISTRATORS

Mr. Chairman, members of the Subcommittee, good morning. My name is John J. Affleck, and I am Director of the Rhode Island Department of Social and Rehabilitative Services, and the Chairman of the National Council of State Public Welfare Administrators (NCSPWA) of the American Public Welfare Association (APWA).

With me today are Dr. John T. Dempsey and Mr. Samuel P. Bauer. Dr. Dempsey is the Director of the Michigan Department of Social Services and serves as the Chairman of the State Council's Income Maintenance Committee. Dr. Dempsey joins me in representing the views of the NCSPWA on reforming our welfare system. Mr. Bauer is Director of the Cuyahoga County Department of Public Welfare in Cleveland, Ohio, and serves as Chairman of the National Council of Local Public Welfare Administrators (NCLPWA), also an affiliate of the APWA. We very much appreciate the opportunity to share our views with you on this important issue.

The NCSPWA is composed of officials in each state, the three territories, and the District of Columbia who are responsible for administering myriad income maintenance and social service programs which provide assistance to millions of vulnerable, low-income individuals and families. These programs include, among others, Aid to Families with Dependent Children (AFDC), Food Stamps, and General Assistance. In addition, until a few years ago, we were responsible for programs for the aged, blind, and disabled. Many of us continue to be involved with the Supplemental Security Income (SSI) program either through contract with the Social Security Administration or through direct state administration of the state supplement.

Over the years, we have watched this network of public welfare programs grow and become increasingly complex. As administrators, we kept stride with program growth, developing sophisticated technologies and creative management

systems to cope with burgeoning demands. And in spite of frustrating fiscal constraints, oftentimes baffling legal constraints, and burdensome, bureaucratic red-tape, we care about the people we serve. We are proud of what we have accomplished, yet we are cognizant of the problems and inequities that permeate our current welfare system. In fact, next to applicants and recipients, we probably know these problems better than anyone else.

It is precisely because of our unique insight into the strengths and weaknesses of the current welfare system and our first-hand experience with running the programs on a day-to-day basis, that we believe we can assist this Subcommittee in developing and refining legislation to substantially overhaul and improve our welfare system.

Pending before this Subcommittee are two major welfare reform bills. The first, S. 2084, the Program for Better Jobs and Income (PBJI), is an extensive bill put forth by President Carter and introduced in the Senate by the honorable Chairman of this Subcommittee. Attached, for the record, is a technical position paper analyzing certain provisions of the PBJI (H.R. 9030) and detailing the Council's concerns with these provisions.

The second, S. 2777, the Job Opportunities and Family Security Act, is an alternative approach offered by the Minority Leader, Senator Baker, and co-sponsored by Senator Bellmon and two members of the Senate Finance Committee, Senators Danforth and Ribicoff, among others.

In the House, Mr. Corman's special Subcommittee on Welfare Reform has amended the PBJI and the clean bill, H.R. 10950, is now awaiting further action from the Committees on Ways and Means, Education and Labor, and Agriculture. In addition, the Chairman of the Ways and Means Committee, Mr. Ullman, has introduced his own welfare reform alternative, H.R. 10711, the Welfare Reform Act.

The NCSPPA has often praised the Carter Administration for launching a meaningful welfare reform initiative. We commend Mr. Corman and his colleagues on the special Subcommittee for their herculean efforts in constructively amending and, in our view, substantially improving the PBJI as a vehicle for welfare reform. Finally, the Council applauds the widespread Congressional interest in reforming the welfare system—as evidenced by the introduction of alternative welfare reform bills in both the House and the Senate. We are especially heartened by the bipartisan support in the Senate.

Mr. Chairman, we are confident that a strong, coherent, comprehensive welfare reform bill can be forged out of the several interesting alternatives now before the Congress. We respectfully urge that the Congress move speedily to pass such a bill before the end of this session and we hope that this Subcommittee, under your able leadership, will do its part to move a bill expeditiously through the Senate.

Having stressed the importance of enacting a welfare reform measure in this session of Congress, Mr. Chairman, I will now briefly describe those features of welfare reform which the Council believes must be included in any worthwhile bill. I might add that the Council's position is the result of two years of thoughtful deliberation. My colleagues, Mr. Bauer and Dr. Dempsey, will further elaborate on the following points:

To begin with, as administrators, we are of the firm conviction that any welfare reform measure must have, as its cornerstone, these two objectives: First, to be responsive and sensitive to the needs of welfare applicants and recipients; and, second, to meet those needs as effectively and efficiently as possible. And, Mr. Chairman, we assert most emphatically that these two objectives are not, and need not be, mutually exclusive.

In order to achieve these two objectives, the Council—with its collective knowledge, experience, and sensitivity—believes the following eight principles must be enacted as part of welfare reform:

1. *Expand coverage to include all families, childless couples, and single adults.*—Such comprehensive coverage should be conditional on meeting three requirements—income, assets, and willingness to work. In addition, there must be a mechanism to safeguard against high-income individuals receiving benefits.

2. *Establish a national minimum benefit level.*—This minimum benefit level—including the worth of Food Stamps and the cash payment—should be 100 percent federally funded, adjusted automatically to reflect increases in the cost-of-living, and should equal the poverty level within five years of implementation.

3. *Permit state supplementation at the state's option.*—The state should be allowed to supplement the basic federal benefit—with federal financial participation—up to the Lower Consumption Budget, established by the Bureau of Labor Statistics. Any supplemental payment beyond that level should be funded 100 percent by the states.

4. *Establish strong work requirements.*—As a condition of income-support eligibility, employable participants should be required to accept a bona-fide job or training slot in either the private or public sectors. Of course, any work requirement must be accompanied by sufficient job opportunities. Welfare recipients must have priority placement in any national jobs program. The Governors should have the option to locate responsibility for the jobs component in whatever state agency or agencies they feel will be most effective in creating jobs, placing individuals into jobs, and coordinating with the agency administering the cash component of the program. To make working more attractive than not working, program participants must be subject to reasonable benefit reduction rates. Further, to assist the working poor, the Earned Income Tax Credit must be expanded and phased out at a progressive rate.

5. *Expand the emergency needs program.*—The emergency assistance program should be expanded to include single adults and childless couples. States should continue to have the option to participate, the current funding formula should be preserved, and the states should be responsible for program administration.

6. *Simplify administration.*—By providing uniform, simplified program requirements and definitions, administration will become more efficient and less error prone. Wherever possible, definitions of "income," "assets," and "disability" should be streamlined and made uniform. In addition, income disregards should be simplified and standardized. Finally, initial eligibility should be based on current need.

7. *Provide fiscal relief.*—Increased federal participation in providing the basic cash benefit will significantly unburden financially hard pressed states. Simplified, standardized administrative definitions and procedures will cut the costs of operating the programs and will reduce error rates. States should be held harmless for costs beyond a fixed percentage of their current expenditures for welfare programs.

8. *Permit non-federal administration directly through the state and, at state option, through local subdivisions.*—States should administer the entire cash assistance and jobs program. State and local administrators have invaluable expertise and experience in running current programs. States and local subdivisions have the complex structural network, necessary to administer income maintenance programs, in place and working. But most important, state and local administrators are closer to the people they serve and, for that reason, are likely to be far more accessible, sensitive, and responsive to their clients than will be a massive federal computer located in Baltimore.

Mr. Chairman, the Council is pleased to note that all of the major welfare reform bills before the Congress would, at the very least, expand coverage, provide a national minimum benefit level, expand the Earned Income Tax Credit, seek to provide jobs for welfare recipients, and address the issue of fiscal relief. At this time, however, the Program for Better Jobs and Income—particularly as it was amended by Mr. Corman's special Subcommittee—comes closest to addressing the Council's concerns as expressed in these eight principles. Again, we urge that such a bill be enacted in this session of Congress.

The Council is extremely concerned, however, that enactment of such a bill may be unnecessarily delayed—not because it lacks consensus for broad reforms—but because the initial costs of conversion are high and policymakers face unavoidable fiscal limitations. As a result, Mr. Chairman, we urge that this Subcommittee seriously consider legislation that will implement gradually—that is, phase-in over a period of years—all of the far-reaching provisions we have identified. Using expanded coverage as one example, the legislation could extend coverage to all families with unemployed parents in 1980, add childless couples by 1982, and single adults by 1985. Other provisions, such as raising the national minimum benefit level to the poverty line, are also conducive to this "phased-in" approach.

The Council subscribes to this "phased-in" approach because it permits the Congress to act now on these long-awaited, sorely-needed reforms; spreads the cost of conversion over a number of years—thereby reducing the fiscal impact in any one year; and provides sufficient lead time for implementing new and expanded provisions.

Mr. Chairman, we wish to commend you and the Subcommittee for scheduling these hearings and for your continued efforts to develop responsive and workable welfare reform legislation. We realize that developing such legislation poses great difficulties, but we are confident that it can and must be done. Toward that end, we stand ready to assist you in any way that we can.

At this time, Mr. Chairman, I ask that Mr. Bauer and Dr. Dempsey be permitted to make their statements. Thereafter, we will all be happy to respond to any questions you may have.

TECHNICAL PAPER

(H.R. 9030)

[To accompany testimony of the National Council of State Public Welfare Administrators before the Subcommittee on Welfare Reform, United States House of Representatives, November 1, 1977.]

This paper provides detailed analysis of and proposed solutions for the many issues raised by H.R. 9030. It is intended to address problems the National Council of State Public Welfare Administrators (NCSPWA) has found in that proposed legislation. At the outset, it should be stated that the paper is not intended as a negative commentary on the bill. The bill's provision for universal coverage, minimum Federal benefits, consolidation of programs, and work opportunities are extremely important and positive steps toward reform of the welfare system. These principles are consistent with the Council's long-standing position on welfare reform.

This paper was developed as a result of the Council's intensive work over the past few months on the subject of welfare reform. The Council actively monitored and contributed to the development of the welfare reform bill of the Carter Administration. Early last summer, the Council presented rather detailed suggestions to the Administration in reaction to its tentative proposal (see attachment).

Since the introduction of H.R. 9030 in September, 1977, the Council has sponsored several meetings of state officials from across the country to analyze the impact of that bill. This paper summarizes the major concerns and suggestions of the state officials who participated in that process.

COORDINATION WITH MEDICAID

Problem

The welfare proposal, in effect, highlights the need for national health insurance and fails to adequately address the problem of coordination with Medicaid. The present proposal is for Medicaid to remain just as it is now, which would require a separate eligibility determination for every client based on categorical eligibility requirements in the pre-reform programs. States would have to maintain virtually all of their present administrative structures in order to determine who would have been eligible for the pre-reform AFDC and SSI programs by using those outdated and complicated policies and procedures for AFDC and SSI to determine eligibility for MA, while the new cash assistance policies and procedures are used to determine eligibility for the new cash assistance program. This would be a terribly complicated eligibility process and is unacceptable. The issue of Medicaid must be addressed as part of welfare reform.

Increased participation in the income maintenance program probably will result in increased demand for equity by providing Medicaid services for others (besides those who meet AFDC and SSI requirements) who are in similar circumstances. There is potential for an explosive growth in the cost of MA due to an increased rate of participation and expanded coverage in the cash assistance program.

Another aspect which needs to be examined and clarified is the impact of the Jobs program on MA eligibility. Will minimum wage jobs raise people to an income level in some states where they no longer can receive MA? If so, could there be a situation where some families are better off in cash terms, but would be losing medical services which could more than offset the gain in cash? The potential loss of MA could continue to be a major work disincentive for those required to work and those who are not required to work but would like to work.

Solution and justification

1. States should have discretion as to who is eligible for Medicaid among the recipients of cash assistance, and the Federal government should hold states harmless for any additional Medicaid costs that might be imposed by judicial or Federal regulatory action or statutes.

If the development and implementation of national health insurance progresses and is timed to *absolutely* coordinate with welfare reform, there would be no need for so much concern with Medicaid now. However, reality is that such well laid plans seldom proceed on schedule. The health care for the nation's poor cannot be left to such an unsure future. Now is the time to write into the law a means to cover these health needs under the existing Medicaid program in a manner that can be administered consistently with the new welfare program without completely breaking the states financially. The added growth of the Medicaid program, with accelerated Federal expenditures, should be sufficient to maintain the pressure for action on national health insurance which may or may not be timed to perfectly coincide with welfare reform.

COORDINATION WITH SOCIAL SERVICES

Problem

The issue of coordination of social services with welfare reform is not sufficiently addressed in the welfare proposal, but it must be. The current cash assistance programs and Title XX social services are interrelated in a way similar to the cash assistance and Medicaid interrelationships. What happens in one program affects the other, with impacts on recipients and administration and costs.

A national policy on social services began to emerge several years ago with passage of Title XX of the Social Security Act. The emphasis in that policy is on meeting national goals through services to a wide range of individuals and families. It maintains an emphasis on meeting the services needs of the poor who are recipients of AFDC, SSI, and Medicaid by requiring that at least 50 percent of the Federal funds be used for that purpose.

Welfare reform will add individuals and families who will be new recipients of cash assistance.

Solutions and justifications

1. The anticipated cost of meeting the increased demands should be estimated, with a resultant increase in the Title XX ceiling.

Additional funding for social services will be needed to satisfy the increased demands for services to new welfare recipients as well as the increased demands due to the expanded jobs program. Some adjustment should also be made for the anticipated loss of WIN services money.

OVERALL ADMINISTRATION

Problem

The proposal will remove from the states the right to administer the new cash assistance program. It reserves to the Federal government the right to determine final eligibility and issue checks. The states have an option to choose to perform the "intake" functions only (client contact functions).

The proposal would require the Federal government to create a large administrative structure to handle the new program. States already have administrative structures to administer most of the programs being consolidated into the new program (AFDC, Food Stamps, and GA) and will have to continue such structures to administer residual financial programs for temporary and emergency needs, Medicaid, and social services. The structures already in place include not only staffs and offices in all or almost all counties in the country (with many offices in large cities), but also include a wide range and volume of computers, check writing equipment, and other sophisticated hardware and procedures developed over many years of county, state, and Federal efforts and funding.

The states also have many years of experience in administering these programs which could provide invaluable assistance in planning and implementing any new program. It is our belief that state mechanisms are more sensitive and responsive to human needs and should be utilized.

Solution

1. The preferred method of administration, as a national aim, should be full state administration under Federal laws and regulations developed with a formal mechanism for state input.

2. The bill should require states to accept one of three options—full administration, partial administration, or no administration of the new program. The state may then delegate the accepted administration to the local level, at state option.

Justification

There are many compelling reasons for state administration. The primary one is maximum responsiveness to human needs.

The current state structures are accessible and responsive to the people where they live. With a Federally issued check, it might require a minimum of one to two weeks to initially issue it, replace it, or correct it when it is wrong. Some state systems are able to do this in one day, and others are approaching this standard.

States should have operational responsibility for intake, eligibility determination, check writing and accountability, including any emergency assistance program. The Federal government should establish policy in conjunction with a formal mechanism for state input and should also perform certain computerized oversight functions.

In view of the state structures already operating, and require to keep operating, it is duplicative and wasteful to set up a new or greatly expanded Federal structure to administer the new program.

There is no way that a Federal structure, as demonstrated by the Social Security Administration, can be developed and maintained to respond to special and emergent financial needs and social services needs. It will be necessary for the states to maintain administrative structures indefinitely to meet these needs, regardless of what decisions are made later regarding Medicaid and national health insurance.

The states will, for an indefinite period, invest money for administration and benefits into the new program. This investment will maintain state interest in program integrity and accountability. The states also have a self-interest in the existence of a humane welfare system which is sensitive and responsive to the needs of its citizens and voters.

Many states will not be willing to opt for partial administration, as proposed in the bill, since it gives the state only minimum responsibility for a visible, intake function. This would place them in a vulnerable position to take the brunt of criticism for any program failures. All the complaints, political flack, and frustrations could be blamed on the states which, in fact, would have no responsibility or authority to correct anything. Who would be willing to be the front man for the Federal government if it reserves all the responsibility and authority to itself? The minor incentive in the bill related to administrative cost is not sufficient to buy such volunteers! Consider also that the cost allocation policies and formulas for sorting out such administrative costs will be fully determined by the Federal government, and may or may not cover the fair share of actual costs in a system where the state is administering a range of programs in addition to the new program.

However, on an interim basis, some states might not be able to fully administer the new program due to lack of computer capability or other mechanical problems. In such situations, the state might have to temporarily opt for partial or no administration. The Federal government could help to improve the computer capability by such assistance as provided in H.R. 7200 for increased Federal participation in the cost of state computerizing.

The new, elaborate computer network proposed to be established at the national level related to Federal administration heightens questions of privacy, as well as excessive and duplicative administrative costs.

EMERGENCY NEEDS PROGRAM

Problem

The Emergency Needs program is proposed to meet the living expenses of needy families and individuals not met under the new cash assistance program. A state plan for meeting such needs must be approved by DHEW, and then the Federal government will pay the total expenditures for the first year up to a Federally set ceiling which is a portion of the total \$600 million authorization. The first year's portion is based on the state's pre-program effort. In each successive year, the allocation attributable to current effort drops and the allocation is increasingly based on the states relative population, until the fifth year when population is the only determinant for the state portion.

The new Emergency Needs program is much needed as a backup to the new welfare program and it is to be administered by the states, similar to the current Emergency Assistance program.

The allocation formula and ceiling have been arbitrarily set, in the absence of data regarding projected needs and with inadequate supporting rationale. The formula will disadvantage states, after the first year, which have developed and supported Emergency Assistance programs to adequately meet the needs of the population. The State of Michigan, for example, will suffer a loss of \$14 million over a five-year period due to a transition from a formula based on current effort to one based on population.

If the state chooses to continue meeting emergency needs at the level they were met in the preceding years, with its own money in spite of the diminishing Federal funds due to the allocation by population or the overall ceiling, the proposal does not permit the extra state funds for such purposes to be included in the "hold harmless" provisions. Thus, the state could be truly left alone to meet these expenses which may be greatly increased due to the new welfare program.

The effects of various features of the reform proposal lead us to the belief that the \$600 million provided by the Federal government to states for EN will not be enough money unless other changes are made. We are concerned about people who may be in a hardship situation, with no source for help. We are also concerned about both the fiscal and programmatic implications of this situation. If the \$600 million is insufficient, the additional state money used to meet unmet needs will erode fiscal relief for the states. If much more money is needed to cover emergency needs, the size of the program becomes an issue. If states and localities will have to engage in the disbursement of a billion or more dollars to meet emergency needs, it indicates something wrong with the basic program. It would become a duplicative system of "interim assistance" which should really be largely included in the basic cash assistance program.

The needs we identify in the current proposal to be met from EN funds are (1) the temporary living expenses of *eligible* families and individuals while they are waiting for benefits from the new welfare program, (2) living expenses of families and individuals not eligible for the regular welfare program due to the retrospective accounting and the six-month accountable period, (3) living expenses for expected-to-work families during the eight-week job search period (could be 10 weeks or more due to time needed for administrative procedures) during which they must live on an inadequate lower tier benefit, (4) true emergency and special needs for families and individuals due to such circumstances as evictions, burnouts, thefts, loss of checks, necessary moves for employment, other unusual family circumstances, and (5) natural disasters which affect a whole community or area. There is some provision for the President to permit extra funds to be used to repay states for meeting natural disaster expenses. However, the relationship of EN to other existing programs to care for persons in disaster areas is not clear.

The new EN program is added to the Social Security Act as a part of Title XX, the social services title, and is burdened with a complicated annual planning process as is currently used in Title XX for social services. The location in the Act and the annual planning process are both inappropriate for the Emergency Needs program which is a cash assistance program for living expenses.

A particular restriction in the proposed EN program is also a problem. It limits help to individuals and families whose gross income does not exceed twice the amount of the MPA in the state. Due to the length of the proposed accountable period, this could exclude many individuals currently in need.

Solutions and justifications

In order for states and localities to be able to accept the \$600 million ceiling on the EN program, the following changes should be made in the proposal:

1. Any assistance paid by states to individuals who are eligible for Title XXI but who are waiting payment (for whatever reason—lags in check delivery, replacement of lost checks, etc.), should be reimbursed 100 percent by the Federal government to the states.

There are many situations (illustrated very well by the SSI experience) where eligible persons may have to go to state offices for immediate help. Since they are eligible for Federal benefits but are not receiving them, the state should not have to bear the cost of meeting their immediate needs.

2. The Emergency Needs costs created by retrospective accounting and a six-month accountable period cannot be met by the \$600 million. If these features are maintained, the \$600 million must be expanded. We suggest that initial eligibility for assistance be based upon current need and that the six-month accountable period and retrospective accounting not be used at application.

The savings achieved by applying the long accounting period and retrospective accounting at the time of initial application are not real savings. When the states try to meet the human needs not met by the new program due to these administrative provisions, state costs will escalate.

3. Federally declared natural disasters should be covered by a separate Federal aid program and costs should be reimbursed 100 percent to the states.

4. Those costs legitimately under the \$600 million EN program should be defined only as (1) living expenses for expected-to-work families during the eight-week job search program, (2) true emergency and special needs for families and individuals, and (3) natural disasters which are not Federally declared natural disasters.

5. Make the EN program a part of Title XXI or a separate title, rather than part of Title XX, and eliminate the requirement for an annual planning process.

Justification includes the fact that injecting the EN cash assistance program into Title XX may distract attention and resources from the social services programs. It also would result in the use of a complicated annual social services planning process in a way that makes no sense for a cash program meant primarily to meet unforeseen and unplannable emergencies. Such an administrative process would use money for administration which could be used to directly meet people's needs. There is also the potential that the two parts of Title XX would be mingled at some time in the future under one ceiling, with the resulting confusion of goals and the competition between using money for living expenses or social services.

6. The proposal should be revised to refer clearly to *current* gross income in determining eligibility for emergency assistance.

Justification is that those individuals and families who had income several months ago cannot live on it now if it no longer exists. Therefore, there must be a provision for their real emergency needs to be met, regardless of the level of income they previously had.

7. The EN program should be reviewed at the end of the first year to assure necessary changes for proper use and adequate funding.

The justification is primarily due to the enormous number of unknowns. There must be a provision from the outset to assure adequate ongoing funding of this new program. The programs being replaced currently provide open-ended Federal matching funds. The new EN program must meet needs currently being met by other programs, but also must cover new needs and fallouts from the new major cash assistance program. There is no known rationale or justification for the \$600 million limit. If Federal backup fails in this area of needs, the fiscal relief for all states promised in the overall welfare reform proposal will not be realized.

STATE SUPPLEMENTATION

Problems

The proposal permits optional state supplementation, which is good, but also causes several concerns. There is concern over the proposal's rules on state supplementation. Several rules would appear to unnecessarily "hamstring" states in their payment of adequate benefits. The overall proposal appears to be designed to discourage high supplementation. This would affect client's well-being and the fiscal situations in the states, due to the possibility of sanctions and withdrawal of Federal participation if the supplements do not follow the rules exactly. (See discussion of 52 percent benefit reduction requirement in section on benefit reduction rates.)

A major problem with the issue of state supplementation is the complexity and lack of clarity in some of the rules. Essentially, the Federal government will pay 90 percent of a basic benefit determined by the Federal maximum payable amount (MPA) and the Federal benefit reduction rate and, for families, 75 percent of a portion of a supplemental benefit equal to 12.32 percent of the basic benefit. This means that the portion of the supplemental grant reimbursable at 75 percent shrinks as income eats into the basic benefit, but the states nevertheless do quite well in the case of *earned* income. The reason is that the basic benefit, calculated at a 50 percent benefit reduction rate for earned income,

shrinks much less rapidly than the total benefit, calculated at up to a 70 percent benefit reduction rate for earned income.

However, state should be aware that for cases with a substantial amount of *unearned* income (such as unemployment compensation), the state share may be well over half of the total benefit.

In addition, the Federal government will pay 25 percent of the supplemental benefit above the 75 percent share and up to several variously defined caps.

The Federal government appears willing to administer supplements which break certain Federal guidelines (break even point) but not others (benefit reduction rate, filing unit, accountable period). Any non-matching supplements would be fully a state responsibility for administration and financing.

In this complex situation related to state supplementation and Federal cost sharing, it is not clear that the options which the state does have will continue indefinitely if the experience in Supplemental Security Income should be repeated.

The proposal may result in grandfathering persons, for at least three years, who are eligible under previous programs. This is a troublesome possibility. Grandfathering has been a mess in SSI and in the various special classes of eligibles under the Medicaid program. The proposal also appears to require, in relation to Medicaid, the grandfathering not only of families that received benefits under old laws but of families that could have received such benefits, which further confuses the administration of the program.

An important problem, in the September 12 version of the proposal, is that the "hold harmless" provision for the states does not count state supplementation of expenditures for benefit levels above the previous AFDC and SSI benefit levels to the extent needed to compensate for the elimination of Food Stamps. If a state chooses a not-expected-to-work benefit level equivalent to the AFDC cash plus Food Stamp benefit level, that state will not be guaranteed the full 10 percent fiscal relief. (We have been advised that the failure to include Food Stamp benefits was a drafting error.) In addition, no incentive is offered to states to increase benefits in absolute terms to compensate for historical underpayment.

Note.—Also see problem discussed in Job Components part of this paper regarding state supplementation of the PSE jobs (concern No. 5).

Solutions and justifications

1. There needs to be greater clarification of and protection for the state and Federal roles in supplementation after implementation of the program. Supplementation should be viewed as a temporary provision until the Federal payments can be at an adequate level.

In SSI, supplementation started out to be optional with the states but has deteriorated to be mandated by Federal "pass through" requirements. It should be understood that future changes at the Federal level would only be to increase the Federal payment and not to require an increase in the total payment which includes a state supplement.

2. As an alternative to "grandfathering," and to protect pre-reform recipients as to benefit levels rather than payment amounts, the following is suggested: Upon passage of welfare reform, appropriate sections of Title IV-A and Title XVI be amended to incorporate the same benefit reduction rates and child care deductions.

The alternate method for determining the state maintenance effort [216(b)(1)(C)] seems to require a state to maintain the pre-reform income levels for AFDC and SSI recipients. Of necessity the state would have to maintain an administrative structure for determining grandfathered supplements based upon AFDC (and SSI) income disregard ($\$30+1/3$), open ended work expenses and day care costs.

This requirement works against simplification of administration and increases state costs. Such costs are not now included in hold harmless expenditure calculations [2127(C)].

The proposed solution would assure a smooth transition to the post-reform program. Also, there is ample evidence that present high benefit states will supplement at appropriate levels, without being forced to do so by Federal legislation.

The states acknowledge a general responsibility to insure that recipients do not suffer a loss in benefits with the implementation of the new program. States

should be given flexibility to determine the method by which recipients are held even, without necessarily getting involved in case-by-case grandfathering.

3. There should be Federal participation of 75 percent in the mandatory wage supplementation.

States should not have to bear the full financial burden of wage supplementation for PSE jobs.

4. Hold states "harmless" for expenditures based on previous benefit levels, including Food Stamps.

BENEFIT REDUCTION RATE

Problem

The maximum benefit reduction rate for state supplemented lower tier cases is 52 percent. This could create problems for both lower tier clients and the state.

In order to retain a break even point of \$9072 (the same as an upper tier family of four), the maximum payable amount (MPA) for a lower tier family of four not placed in a PSE job would be \$4717. This compares to an MPA of \$6350 for a comparable upper tier family, due to the difference in benefit reduction rates. The maximum benefit reduction rate is 70 percent for the upper tier as opposed to 52 percent for the lower tier. In essence, benefits would be reduced by \$1600 to families who are not placed into "guaranteed" PSE jobs.

Only two alternatives are available to the state under the proposed bill. First, supplementation for lower tier families to \$6350 would be allowed if the 52 percent benefit reduction rate is retained. However, this would raise the break even point to over \$12,000, a level that would be costly and probably not politically feasible. Secondly, a state could supplement to \$6350 and impose a benefit reduction rate in excess of 52 percent. However, this supplement would be considered non-congruent and consequently would not be administered by DHEW. Further, the state would be subject to a sanction of unspecified severity.

Similar problems exist with regard to singles and childless couples. Several states will be unable to supplement to current General Assistance plus Food Stamp levels without creating high break even points and incurring great additional costs. Supplementing such persons to present SSI levels, as Michigan intends to do in the near future, would mean an MPA of \$2500 for singles and \$3750 for childless couples. To supplement to these levels with a benefit reduction rate of 52 percent would increase the eligible population to incomes of \$4808 for singles and \$7212 for childless couples. This would constitute a major increase in the scope of this program.

No needy single individuals or childless couples are included in the jobs program. Such persons will be paid at a level clearly below subsistence without providing them a reasonable chance to get jobs. Those who are temporarily incapacitated may not, in fact, be currently expected to work, yet they are barred from the higher level benefits which are reserved for aged, blind, disabled, and other persons not expected to work. The incapacity may be such as a broken leg, or sustenance abuse without severe disability which would not qualify a person as disabled under Title II of the Social Security Act.

Solutions

1. Benefit reduction rate for singles and couples. Allow a benefit reduction rate of up to 70 percent for singles and couples. This would result in a break even point of \$3570 and \$5390 respectively, assuming benefits of \$2500 for singles and \$3750 for couples.

2. Benefit reduction rate for lower tier families. Define all lower tier families who receive neither private sector nor PSE jobs to be upper tier families following the eight-week job search. As such, they will qualify for the higher benefit level (up to \$6350) for upper tier families. However, once they became employed they would revert to a 52 percent benefit reduction rate, with the 52 percent computed against the lower tier benefit.

3. Individuals over age 25 and childless couples should be included in the jobs program. Those persons who are temporarily incapacitated should be treated as aged, blind, and disabled (ABD) persons and placed in the upper tier. The temporarily incapacitated should be moved back into the lower tier when the incapacity is removed.

An alternative for such handling of temporary incapacity would be to liberalize the disability definition so that persons unemployable due to temporary inca-

capacity who are not now included under the disability definition of Titles II and XVI would be included in the cash assistance program as disabled persons. However, this may have the disadvantage of labeling as disabled persons who are only temporarily incapacitated and this may be harmful in the long run to persons such as the mentally ill who may not recover from such a label even though they might recover from their illness.

4. The required agreements for states which supplement should be separate agreements for each category of households (ETW families; non-ETW families; singles and childless couples; the aged, blind, and disabled). A state should be free not to sign such agreements for all categories, but it would suffer Federal sanctions *only* in those categories left out.

FISCAL RELIEF

Problems

There is a concern that fiscal relief for states may not be as high as preliminary DHEW estimates indicate. The likelihood of state supplementation of GA participants beyond DHEW expectations, as well as the cost of the Emergency Needs outstripping the block grants to the states, will eat away at the fiscal relief initially projected for states.

Fiscal relief at the price of frozen benefits, in the face of rising costs, could mean great hardships to clients, particularly in states with a history of underpayments.

The proposal does not adjust benefits for cost of living increases after the program is put into effect. States may face additional pressures to supplement if the Federal government does not increase benefits at least to cover cost of living changes.

Solutions

1. Assure adequate Federal funding of the Emergency Needs program, and provide that all EN benefits be part of the "hold harmless." (See other section of this paper on EN program.)

2. Permit state supplementation to remedy historical underpayment to be included in the "hold harmless" for the state. States paying less than \$4200 when the law is passed, which wish to raise benefits to more than \$4200, should be able to do so and supplement without being penalized. The base year for MPA for states paying less than \$4200 should be the year after the law is passed, while for other states it will be the same year the law is passed.

3. Provide for a Federal cost of living escalator in the basic benefit amount.

4. States should have discretion as to who is eligible for Medicaid among the recipients of cash assistance, and the Federal government should hold states harmless for any additional MA costs that might be imposed by judicial or Federal regulatory action or statutes.

FILING UNIT

Problem

The filing unit in the proposal is largely acceptable and will have a positive impact on people and program administration. It has been improved from earlier drafts in response to specific problems identified by state administrators. However, some problems remain related to large families, and children in foster care.

Another area needs clarification, i.e., that the income of stepparents is to be available to stepchildren.

Solutions and justifications

1. The flat benefit level limit should be removed, and an increment should be added for each filing unit member regardless of the unit's size.

The flat benefit level limit for families of seven or more in the new program seems both capricious and harsh. There is always an increased cost of feeding and clothing an additional person, although increments for additional persons should clearly decrease to reflect economies of scale. The current AFDC program has no flat upper limit on benefits based on family size. Currently, almost 10 percent of the AFDC case load in Michigan consists of families with more than seven eligible members. All of these cases would be hurt under the proposed limitation and it is not clear how the state could supplement these families. On the surface, it would appear that any supplementation would have

to be through a state administered, non-congruent payment or through the Emergency Needs program.

2. Care of children in foster care homes and institutions, as currently covered by Section 408 of the Social Security Act (AFDC-Foster Care) is *not* covered in the reform proposal. Funding for these vital needs must be considered and resolved.

3. Stepparent income and assets should be considered available to meet needs of stepchildren. This can be read into the bill language, but it is a change in current practice and should be stated forthrightly.

ACCOUNTABLE PERIOD

Problem

The six-month accountable period is an integral part of the reform proposal. However, it is such a radical departure from current practice that no data exists on which to base an estimate of its potential impact. Even the micro-simulation models which have been used by DHEW and the Department of Labor to estimate program costs have not been able to simulate the impact of this policy.

There is a general fear that the long accountable period and retrospective accounting period are going to result in huge costs under the EN program to assure that persons in need are not harmed by the new welfare program.

For administrative purposes, the filing unit will be presumed to have had the same composition during the six-month accountable period that it has on the application date. While this type of arbitrary definition is essential for program administration—to handle situations involving births, deaths, separations, divorces, marriages, etc.—it must also be recognized that this procedure builds a certain degree of inequity into the system.

The six-month accountable period combined with the mix of eligibility questions and mechanical problems in the retrospective accounting feature could result in need to verify income factors over a period of time from six to eight months prior to application, and determination of eligibility and amount of benefits based on such information. The potential for harm to individuals, added state cost, errors, audit exceptions, and poor quality control are evident if this is not done.

Solutions and justifications

1. As a basic principle, eligibility and the amount of the grant, should be determined as close to a change in client circumstances as possible. Unless DHEW can prove that the long accountable period will not cost the states more and will not cause undue harm to people, we cannot accept it.

2. If the decision remains to use the six-month framework, there must be assurance of adequate Federal funding of the Emergency Needs program to avoid hardship on recipients and a dumping of expenses onto the states.

3. See solution #2 under Emergency Needs Program. The suggestion there is that initial eligibility for assistance be based upon current need and that the six-month accountable period and retrospective accounting not be used at application.

If a family is ineligible for a period of weeks or months due to the accountable period, but currently is in need and without income or resources, some assistance must be provided. The state is the unit of government that will be required to provide such assistance. It is, in part, to cover these needs that DHEW has proposed a \$600 million Emergency Needs Program. Yet, without data it is impossible to determine if this amount will be sufficient to cover current emergencies as well as temporary and emergent needs of those who will be ineligible for cash assistance due to such features as the accountable period.

Although the fiscal ramifications of the accountable period and retrospective accounting are unclear, the administrative difficulties are readily apparent. Verification of income and child care expenses, and other deductions over the past six to eight months, could be a major burden for applicants and intake workers alike. How much documentation will applicants be required to produce? What type of documentation? What additional problems will arise due to the increased complexity of the monthly recalculations of the recipient's benefit checks, particularly during the first few months of assistance? If this is done by computer, the recalculation itself should not be difficult, but it may well generate a lot of confusion among recipients and a lot of calls to case workers.

If the state elects to administer the intake process, what are the implications of errors in this verification process?

If a portion of assets must be imputed as income, will resources also have to be verified over the past six months? Such imputation further complicates the situation and is unnecessary if the asset ceiling is lowered and imputation removed as recommended elsewhere in this paper.

ASSETS TEST

Problem

The proposal is for an asset ceiling of \$5000 plus imputation of income from non-business assets in the \$500 to \$5000 range.

The assets level of \$5000 is too high. The new provision to impute income based on the level of assets held is complicated and burdensome. It will involve administrators in the subjective and time-consuming process of placing a value on all non-excludable assets worth over \$500.

For the average family, income would be imputed from non-business assets to the extent their total value exceeds \$500 up to the \$5000 cutoff. The income imputed would be 1.25 percent a month. The rationale for this proposal is to avoid the situation where the assets test is an all or nothing proposition. Under current programs, it is theoretically possible for assistance to be cut off completely if the value of one's assets increases by one dollar. With imputation, eligibility is retained, but with a lower grant.

All of this adds up to extra administrative burdens and unnecessary program costs.

Solution and justifications

1. The limits in liquid assets should be calculated as follows:

\$1,000 for the first adult;

\$750 for the second adult;

\$250 for each child; and

\$500 in addition to any payment unit including an elderly member.

There should be no imputation of income from non-business or business assets.

We should not pauperize applicants as a condition of eligibility; neither should we provide public assistance to those who are not really in need of it.

The programs replaced by the new program have asset levels ranging from only a few dollars in General Assistance to \$2250 in SSI. They have no imputation of income from non-business assets. There is no need for a \$5000 ceiling in the new program.

For reasons of both equity and administrative convenience, the asset ceiling should be lower and there should be no imputation of income from assets as proposed in the bill. It is reasonable to ask applicants who have several thousands of dollars in assets to spend some of it before receiving assistance. Excess liquid assets do not result in the troublesome notch problem that excess ongoing income does. Any amount of liquid assets above an asset ceiling is available and can be spent by the applicant prior to receiving assistance.

An asset ceiling similar to current ceilings is more justifiable. This should include manageable and objective variations for family composition and size, and recognition of the extra asset needs of the elderly.

WORK REQUIREMENTS AND JOBS COMPONENT

Problem

There is an attempt to build strong work requirements and incentives into the proposal. That effort is urgently needed and is applauded. Employable participants should be required to accept a bonafide offer of employment or training. We stress the importance of work, and support the provision of work opportunities for all people able to work.

Yet, in the haste for change, we do not want to replace one ailing system with another that, by its internal contradictions, would be doomed to failure.

General concerns, for which there may be no early or easy solutions are:

Will there be sufficient jobs found or created in the public and private sectors to meet the demand for jobs for those persons expected to work? The number created depends in large part on the amount appropriated rather than on legislation itself.

Will the government subsidized jobs contribute to the skills and training of the individuals so they will be of some use in providing the labor force with skills necessary to compete for regular jobs in today's labor market?

Will the respective roles of the local, state, and Federal governments in the employment program planning and implementation process be clarified to dispel the current confusions in these areas? The legislation requires increased involvement of the Governor and the State Manpower Services Council in reviewing prime sponsor plans. Unfortunately, the bill does not specify what authority the Governor and Council will have in rectifying problems that may arise at the local level. Does all this mean that the Governor or the Council are being given responsibility for identifying poor program performance, but no authority to correct deficiencies? It would appear that it does.

The provisions for job search require a close working relationship between the employment service and prime sponsors of government subsidized jobs. These relationships and agreements on division of responsibility and authority have often been hazy at best. What mechanisms and incentives are proposed to improve them? Coordination of job search with the cash assistance program is also critical.

There is considerable concern about the capacity of the Department of Labor to administer a jobs program which involves cash assistance recipients in large part. Coordination of the cash and jobs components is a central and very necessary function. The two parts must work smoothly together to ease the transition between welfare and work for each individual.

States need to be given the option through their Governors to place job program responsibility within the state in the agency and overall structure which is seen as most effective in that particular state.

Economic development needs are not well addressed in H.R. 9030. The success of moving persons into private employment depends upon favorable economic and business conditions which require special efforts to achieve, especially in urban areas.

Training and educational efforts are not stressed as needed in H.R. 9030.

Wage inconsistencies between programs proposed under H.R. 9030 and such programs as CETA and the recently created Youth Employment Program are problematic. It is quite conceivable to have a situation in which the head of the household is being paid minimum wages as specified under the welfare reform proposal while the son or daughter of the same household is receiving prevailing wages through the Youth Employment Program. From a psychological point of view at least, this is not a promising situation.

The relationship of the jobs component in this proposal to broader Jobs bills, such as the Wagner-Peyser bill, needs to be further analyzed.

Other, more specific concerns are:

No needy single individuals or childless couples are included in the jobs program. Such persons will be paid at a level clearly below subsistence without providing them a reasonable chance to get jobs. Those who are temporarily incapacitated may not, in fact, be currently expected to work, yet they are barred from the higher level benefits which are reserved for aged, blind, disabled, and other persons not expected to work. The incapacity may be such as a broken leg, or substance abuse without severe disability, which would not qualify a person as disabled under Title II of the Social Security Act.

There is no priority or preference system for PSE jobs. In spite of the fact that single individuals and childless couples who receive cash assistance are not offered such jobs in the proposal, they would be available to other unemployed primary wage earners on a "first come" basis, with no means test.

It is not clear in the proposal that "expected-to-work" families move down to the lower tier only when they refuse a *bonafide* job offer.

Families expected to work, but for whom there is no job available, are currently in the lower tier even though no job is available through no fault of their own.

Due to the method of computing the federal match, lower tier families which are placed in PSE jobs may cost the state more than unemployed lower tier families that "flip up" to the higher tier. This is due to the requirement that states supplementing the cash assistance program must also supplement the PSE jobs by up to 10 percent of the minimum wage. However, no Federal participation is available for the wage supplementation. Thus, the states' share of the supplemented MPA (\$4717) for a lower tier family of four with no PSE job would be \$549. If a PSE job is found, the state share of cash assistance (of \$1559) would drop to \$342, but the wage supplementation of 10 percent of the minimum wage would cost an additional \$562. In other words, the total state expenditures increase from \$549 per case to \$904 per case if the family finds a PSE job.

Recipients in states which supplement the wages for PSE jobs are allowed to refuse private sector jobs that pay less than the supplemented PSE wages.

Solutions and justifications

1. The Governor of each state should be given the option to place the job component within the state and arrange the interface between jobs and cash assistance in a way which makes most sense for adequate operation of the jobs program and coordination between the cash and jobs programs.

2. Provision should be made for several different pilot projects after the bill is passed to explore the use of public works, further subsidies to the private sector, and cash grants used as wage supplementation at state discretion.

Among the pilot projects permitted, the states should be authorized to establish programs which would encourage the development of more private sector jobs, and others which would convert authorized cash assistance into wages which would be earned by recipients doing public service work.

3. An automatic trigger or other mechanism for establishing more jobs in the case of an unemployment rate above the 5.4 percent projected for 1981 is one provision which might help to insure the availability of an adequate number of jobs.

4. Individuals over age 25 and childless couples should be included in the jobs program. Those persons who are temporarily incapacitated should be treated as aged, blind, or disabled (ABD) persons and placed in the upper tier. The temporarily incapacitated should be moved back into the lower tier when the incapacity is removed.

An alternative for such handling of temporary incapacity would be to liberalize the disability definition so that persons unemployable due to temporary incapacity who are not now included under the disability definition of Titles II and XVI would be included in the cash assistance program as disabled persons. However, this may have the disadvantage of labeling as disabled, persons who are only temporarily incapacitated and this may be harmful in the long run to persons such as the mentally ill who may not recover from such a label even though they might recover from their illness.

5. States should be allowed to establish priorities for categories of persons in terms of PSE job placement.

6. It should be clarified that "expected-to-work" families move down to the lower tier only when they refuse a bonafide job offer.

We are informed this was the intent of DHEW in developing the current proposal.

7. All lower tier families who receive neither private sector nor PSE jobs should be redefined as upper tier families. As such, they will qualify for the higher benefit level (up to \$6350) for upper tier families following the eight-week job search. However, once they become employed they should revert to a 52 percent benefit reduction rate, with the 52 percent computed against the lower tier benefit.

The family should not be forced to live on less than subsistence standards when they have no job through no fault of their own.

8. There should be Federal participation of 75 percent in the mandatory wage supplementation.

Federal sharing of the cost would weaken the disincentive for states to find private jobs or make PSE jobs available to lower tier families. States should not have to bear this full financial burden when people go to work.

9. Principal earners in "expected to work" families should be required to take private sector minimum wage jobs at least in cases where the new package of wages, cash benefit, and Earned Income Tax Credit would not represent a loss compared to the previous package of PSE wages and cash benefit.

The intent of the reform proposal is to move people into private sector jobs and that intent would be served by this solution.

STATE EMPLOYEES

Problem

The proposal "envision[s] a total Nation-wide staff of 100,000 to 120,000 State and Federal employees to administer Cash Assistance" according to the DHEW summary, compared with 143,000 state and Federal employees now said to be involved in the administration of welfare programs. It is not clear if the hypothetical reduced figures are for the total cash benefits, including the Emergency Needs program or not, or if any consideration is given in these figures to the

remaining state administrative functions related to other programs, such as Medicaid and social services.

There would appear to be no rationale for predicting a reduction of total staff dealing with these welfare programs; the proposal is for a program which serves more people than currently served and permits, even encourages, the creation and maintenance of dual administrative structures, which should mean not only more total front line and technical staff, but more planners, supervisors, computer operators, auditors, and offices.

What the "mix" of Federal and state employees will be depends largely on the unresolved issue of administrative responsibility. If the solution regarding administration is accepted as proposed in another part of this paper to give states the options to fully or partially administer the new program or not to administer it at all, then each state will need to make its decision and calculate the effect on state employees.

The bill contains some provisions for Federal hiring of state employees on a priority basis. It fails to address the conversion rights of state employees adequately, however, and pension rights are not covered at all.

If the Federal opportunities are particularly attractive and numerous, this could deplete state staff at a time when states will need to retain competent staff to accomplish the transition and to administer the states' ongoing welfare programs (at a minimum, Emergency Needs, Medicaid, social services, and other special or temporary programs such as Housing Assistance, energy projects, etc.).

The bill does not contain any provisions for Federal staff in Social Security Administration offices who may be displaced if states opt to perform intake functions for the new program, which replaces the Federally administered SSI program as well as several state administered programs. The final benefit computation and check writing responsibility may not require as many staff as the front-end intake (client contact) activities. In addition, if states are permitted to opt for full administration of the program, there could be larger numbers of Federal employees displaced.

Solutions

1. The law should be written to protect current employees so no one is arbitrarily laid off and replaced by someone else. Any jobs eliminated should be handled through attrition.

2. In case of Federal administration, state employees must have the option of going into the Federal structure if they are doing the kind of work taken over by the Federal government, and the Federal government must pick up and continue their pension rights. States should continue to bear the portion of pension costs which they owe at the time of transfer.

3. A more careful study must be made of this issue about the future of Federal and state employees after decisions are made regarding the administration options which will be in the final bill.

4. Prior to that, an analysis should be made and published by DHEW regarding the nature and volume of the actual functions anticipated to be performed in the new welfare program, as a basis for a reliable prediction of the number of total employees who may be needed to administer it.

Justification

Current employees should be protected, and they have valuable skills to offer in the new program. In the Federal takeover of SSI there was a failure to take over an adequate number of state staff to properly implement SSI.

The decisions regarding the administration alternatives are a prerequisite to predicting the mix in number of Federal and state employees.

It is probably not the intent of Congress to create a large, duplicative Federal bureaucracy to administer the new program, so the final outcome on administration needs to be considered before a more thorough plan is made for what is to happen to currently employed persons in the state and Federal systems.

Additional data and more information about Federal assumptions upon which to base predictions about the work to be done in the new program is also needed.

It may well be that states, if given the option, could fully administer this expanded and reformed welfare program without any substantial increases in staff, in which case there might be some savings due to reduction in Federal

staff now engaged in the SSI program. This would depend upon maximum simplification and clarification of the program clear through—from the initial legislation, through the Federal regulations, through the state rule and policy manuals and forms, right down to the level of interaction between the front line worker and the client. If there are duplicate Federal and state structures, surplus staff in either system, added layers of administrators, then more unnecessary complexity and costs can be expected.

CHILD SUPPORT (IV-D)

Problem

The Child Support program under Title IV-D is not mentioned in the new proposal. Hence, it is not clear what is intended to happen to this program. If it is to continue, what is its relationship to the new cash assistance program? How will it be financed?

Solution and justification

1. Preserve the Child Support program maintaining state administration and the current level of Federal funding. The incentive payments for parent location and support enforcement and collection activities should be continued. There also needs to be coordination of this program with the new cash assistance program.

Federal funding should also continue to assist those who are not recipients of cash assistance.

This program is successful in locating parents and obtaining support for children and is dependent upon state and local relationships for its success. There should be no slow up or change in its activities. It should continue to serve all recipients of cash assistance, as well as others who are able to pay a full or partial fee for the service.

EXCLUSIONS FROM UNEARNED INCOME

Problem

There is a 20 percent exclusion (disregard) in the bill for all unearned income except for Federal means tested benefits. This would add an exclusion which does not exist now in the AFDC or Food Stamp program, and would apply to child support as well as social insurance sources such as Worker's Compensation and Social Security.

The cost of this provision could be very high considering the volume of unearned income received by low income families and individuals from these sources. Should a portion of income from all sources be excluded for all groups of recipients as currently contained in the proposal, or should this apply only to some sources or some recipients?

Solution

No solution is offered, but we request further consideration of this area of concern.

INCOME TAX REIMBURSEMENT

Problem

Under the proposal, families who receive welfare benefits but have earned income above the Federal income tax entry point are entitled to an additional 20 cents for every dollar they earn above that point to reimburse them for income tax liability. Families not receiving welfare, but with incomes only slightly above the break even point, are also eligible for a smaller tax reimbursement to phase them into the tax system. The tax entry point is calculated considering earned income only and assuming that households elect the standard deduction.

However, this approximation does not necessarily bear much relation to a family's actual tax liability. Tax liability includes unearned income, considers income earned over a full year, involves filing units that are not necessarily the same as the BJI filing units, and so forth. The most obvious inequity is that persons with high day care costs could get reimbursement for taxes they need not, in fact, pay. A family of four which excludes the maximum \$300 per month for day care from its gross income under the BJI program, could earn up to about \$12,000 a year and receive a grant plus a tax reimbursement payment of 20 percent of all earnings above \$9100 (the standardized tax entry point for a family of four). However, this tax entry point based on the

standardized deduction might *not*, in fact, be the tax entry point for this family, which might not pay any taxes at all since, by itemizing deductions, it could deduct day care for tax purposes as well.

Solutions and justifications

1. Taxes should be reimbursed through the IRS system, not the welfare system.

The issue of using taxes to correct economic deficiencies belongs in tax reform, not welfare reform.

Elements of the tax reimbursement provisions are not consistent with the cash assistance provisions and result in extremely complex administrative requirements on the welfare system.

PREPARED STATEMENT OF JOHN T. DEMPSEY, PH.D., DIRECTOR, MICHIGAN DEPARTMENT OF SOCIAL SERVICES

Mr. Chairman, and members of the Subcommittee, I am John Dempsey, Director of the Michigan Department of Social Services. I emphasize that Mr. Affleck and I speak today not for our individual states, but rather for the National Council of State Public Welfare Administrators whose membership includes all 50 states, the District of Columbia, and three other jurisdictions. Because we are speaking for all administrators, we believe we are speaking in the national interest, not in the interest of only two states. We strongly believe that there is an urgent need for welfare reform, or for welfare improvement. We believe that now is the time for the Congress to act. We strongly believe that such reform, or improvement, must incorporate several clear principles:

(1) Welfare reform must include comprehensive coverage of all families, childless couples and single individuals. The major reason for this is, of course, the needs of the individuals concerned. But a second reason is the fact that at least half of the states do provide such coverage today, even though they do this without any federal assistance.

The national interest requires that all such people who are truly needy be assisted, and this should be done with both federal and state participation in the costs. However, all recipients should have to meet three major tests—income, assets, and willingness to work, if able.

(2) There must be a national minimum federally guaranteed benefit level. Today, benefit levels vary much too widely.

In September 1977, according to this committee's staff report on Public Welfare Programs, monthly AFDC payments for a family of four varied from \$47.23 in Mississippi, to \$370.47 in New York. Cost of living differences don't justify this extreme spread.

Important as the difference between one state in one part of the country and another state in another part of the country is, variations between adjacent states are even more significant: Michigan, for example, paid \$277.03 to the average family in September 1977. Indiana paid \$178.98 to the average family. A \$100 a month difference for moving across the road.

A family of four in Kansas City, Kansas got \$234.55 last September; the same family in Kansas City, Missouri got \$160.30.

There may be some logic and some explanation for some differences between the deep south and the north. But there is no reason nor explanation for differences between families located only a mile or two apart. A river, or a line on a map separating two families should not produce substantially different results as the cases above indicated is done today.

I grant you, food stamps do ameliorate these gross differences. Let, food stamps present their own problem. When any state increases its grant levels, at partial state cost, the food stamp bonus value decreases with total federal savings. Thus, when states increase their standards of payment and their actual grant, the net effect is to subsidize the United States Department of Agriculture.

(3) There must be an allowance for state supplementation above the nationally established minimum, and the federal government should pay a substantial share of such supplementation. Any other course would either reduce benefits to many, or would increase state costs significantly. Neither of these alternatives is acceptable.

(4) There should be a firm work requirement. Anyone who is able to work should be expected to work and required to work, if work is available.

However, there is substantial misunderstanding in this area. The Michigan caseload demonstrates this well:

We presently have 192,000 AFDC cases.

11,166 are AFDC-U able to work, no job available.

6,395 are AFDC-I. People in this category are unable to work for medical reasons.

12,790 are children living with a self-supporting relative. The grant is made only to the child.

9,110 are children living with a step-parent. The step-parent is not legally liable for their support, therefore the children receive the grant.

105,229 are families with children under 7 years of age.

38,952 are families with no children under age 7.

8,914 are families with no children under age 14.

How many of these people should be expected to work? Using the Administration's work requirements, as in the Corman bill which was reported by the select Subcommittee in the House, the following breakdown would occur for Michigan:

Fifty-five percent of our caseload of families have children under age 7. They would be exempted from work requirements.

Fifteen percent are either children or incapacitated adults. They would be excused from the work requirements under the Corman bill.

Accordingly, 70 percent of my caseload is not expected to work even by the rather rigid requirements of the Corman bill.

Twenty percent of my caseload would be expected to work part-time, since they have children under age 14, but not under age 7.

Ten percent (8,914 with no children under 14; 11,166 AFDC-U cases) would be expected to work full-time.

I am sure the situation is similar for most other states.

Still, because of public attitudes, and in the interests of the integrity of the program as well as of the needs of the individuals concerned, there should be a meaningful work requirement. To make it meaningful, job opportunities must be provided. CETA or PSE jobs should be provided with a priority for public assistance recipients. The number of jobs, however, would not need to be as large as some people have suggested, at least not initially.

(5) An emergency needs program is required in any welfare reform program, because of the true emergencies that do arise for individuals and families. There are people who simply cannot meet eligibility standards immediately. Families do suffer burn-outs, natural disasters, and malfunctioning of appliances, etc. Some provision must be made for this.

In 1977, the State of Michigan spent approximately \$20 million for all types of emergencies. Because of the stringent requirements of the federal program, only \$3.5 million of this was federal in origin.

(6) Welfare programs must be simplified, standardized, and coordinated. All the elaborate and complicated programs adopted by Congress and directed by Cabinet Secretaries, and federal and state officials, ultimately come together at the local level in the challenge facing the Intake Worker. Usually a person with a high-school education, paid \$11,000-\$13,000 annually, expected to deal with at least three case openings each 8-hour day, the task facing such a person is literally mind-boggling.

Each applicant may be eligible for two, three, or even more different programs, each of which has unique eligibility criteria, a distinct and unique standard for determining assets, resources, and income. Processing one case may require three or more different applications using different criteria, different standards of eligibility, but using the same set of facts.

This is the point where errors occur, and usually it is not the fault of the worker; it is the fault of the program requirements. Because Congress acts at different times, through different committees, to enact or to change program requirements for different programs, we have today a complicated system of conflicting and contradictory requirements. But the task of the intake worker is to apply all of those conflicting and contradictory requirements to the same set of circumstances—the circumstances involving the individual family. Accordingly, we urge you to standardize and simplify all assistance programs.

(7) Some fiscal relief for states is essential. There are several reasons for this. The first is that states are heavily burdened today, and it is increasingly difficult for them to bear welfare costs. Related to this is the fact that rising costs have made it difficult for states to increase grants. And even where states have done so the rate of increase has not necessarily kept up with inflation.

For example, in the last seven years Michigan is one of the few states to have raised the grant level each year. In those seven years AFDC grants have increased a total of 47 percent. At the same time the Consumer Price Index increased 53 percent. As a result, public assistant recipients in Michigan are now worse off in dollar terms than they were in 1971. I must point out, of course, that food stamps do help.

Many other states have not been able to raise grants at all regularly. For example, I am told in New York they have not increased grants in more than four years.

So, from the standpoint of state fiscal problems as well as from the standpoint of the clients themselves, there should be some fiscal relief to states. In addition, any welfare improvement program should have a built-in cost of living index so that grant levels do not lag behind the cost of inflation.

I will also point out, on behalf of the National Council, that we deeply appreciate the limited fiscal relief which has been afforded to the states this year. The leadership of Senator Moynihan, Senator Long, and members of this committee is deeply appreciated. We urge you to continue it and increase it.

(8) Finally, welfare programs must be administered at the state and/or local level. The federal government cannot administer these programs. The circumstances of the people we serve usually require very fast response. Most of the people who come to us for help wait until help is needed immediately. Only a local office, staffed by local people, can and will give such a response. The SSI experience proves this clearly.

State administrations have been dealing with welfare programs and welfare problems for over 40 years. We have the knowledge and the commitment which the system requires absolutely.

In conclusion, the National Council of State Public Welfare Administrators strongly supports welfare reform, welfare improvement. We believe that the time is here to move, and we urge this committee to lead that movement. The demonstrated commitment by the President and the Executive branch of government, the activity already occurring in the House in connection with the Corman bill, the leadership and initiative shown recently by Chairman Ullman of the House Ways and Means Committee, and by Senators Baker, Bellmon, and Ribicoff in the Senate, all symbolize a growing, bicameral, bipartisan awareness that important welfare reform and welfare improvement is needed now.

The members of the Council have felt for the last several years that such reform is needed, and have been working actively to develop such a program. We would be glad to be of assistance in any way we can, either to this committee or to other members of Congress, as welfare reform is discussed, and hopefully will move forward.

PREPARED STATEMENT OF SAMUEL P. BAUER, DIRECTOR, CUYAHOGA COUNTY DEPARTMENT OF PUBLIC WELFARE, CLEVELAND, OHIO AND CHAIRMAN, NATIONAL COUNCIL OF LOCAL PUBLIC WELFARE ADMINISTRATORS

Mr. Chairperson, and members of the Subcommittee, my name is Samuel P. Bauer; I am the Director of the Cuyahoga County Department of Public Welfare in Cleveland, Ohio. Today I have the honor of appearing before you in my capacity as Chairperson of the National Council of Local Public Welfare Administrators, a companion organization of the Council of State Administrators within the American Public Welfare Association. On behalf of my associates on the Local Administrators Council, I thank you for this opportunity to testify on a subject of critical importance to us all—*welfare reform*.

Reforming this nation's multi-billion dollar welfare system is one of the highest priorities of the National Council of Local Public Welfare Administrators. Our particular interest in this goal stems from the fact that we are the people working in counties, municipalities, and other local jurisdictions across the country who are responsible for the actual provision of welfare assistance and services. It is our job to see to it that the help available from programs such as Aid to Families with Dependent Children and Food Stamps, as well as our own programs of general assistance, is delivered efficiently and effectively to those who need it. Needless to say, as the welfare system has grown in expense and complexity, this task of the local administrator—the delivery of benefits—has become increasingly difficult to perform. It is from this vantage point of first-hand knowledge of the workings of this system and the people it serves,

that I come before you today as the Council's representative to share our views on welfare reform.

Our organization has closely studied the development of the various welfare reform proposals currently under consideration in this Congress. Beginning with the formulation of the Carter Administration proposal last year, we have witnessed with optimism, the resurgence of federal interest in this complicated and sometimes intimidating issue. The amending of the Carter plan by the House Special Subcommittee on Welfare Reform chaired by Representative Corman, the introduction of Representative Ullman's "Welfare Reform Act of 1978," and the "Job Opportunities and Family Security Act" developed by Senators Baker and Bellmon, and these very hearings—all stand as firm evidence of Congressional commitment to welfare reform. With support from both the Legislative and Executive branches of the federal government and from both political parties, we—the local administrators of public welfare—believe an acceptable reform measure can and should be enacted in 1978. In our view, such a measure should incorporate the following goals:

The establishment of a minimum national benefit which will reduce the broad disparities in payment levels that currently exist among the states and which will begin to assure all recipients some degree of adequacy in the cash assistance available to them.

The expansion of coverage—which will bring into the program groups of people that are now excluded in whole or in part from federal financial assistance—should be based on financial need and willingness to work.

The consolidation of programs, which will significantly simplify administration.

The creation of an enlarged jobs program to provide many recipients with employment opportunities they currently do not have.

Taken together, these principles will serve as a valuable framework for developing a welfare reform program that is administratively, fiscally, and politically feasible.

While we are enthusiastic about the prospects for reform, there are a number of issues in the current deliberations which specifically concern us and which we hope will be appropriately dealt with by the Congress. In the time I have remaining, I will briefly identify these issues and our suggestions for resolving them:

Categorization

One of the greatest sources of complexity and inequity in the present welfare system is that federal funds are available only to help people who fall into certain categories unrelated to financial need. That is, besides being poor, one must be either aged, blind, disabled, or a dependent child. Not only does this arrangement preclude other groups of people from obtaining federally funded benefits, but it also leads to unnecessary program fragmentation.

It is this fragmentation which promotes excessive administrative complexity and undermines the development of a welfare system that is understandable to both the recipients who depend on it and the public who support it. To lessen this problem, we believe that whatever welfare reform legislation is enacted, it should include provisions requiring the development of a national uniform benefit schedule for all needy people, with benefits varied only by family size. Lower benefits should only be paid to families in which an employable person refuses to comply with a requirement to work.

Emergency needs

People often have immediate needs when applying for welfare assistance. For a variety of reasons, however, they may not be fully eligible at that point and, as a consequence, they must turn to other sources of aid. State emergency assistance programs, partially funded by the federal government, have been of some help in this regard. Welfare reform should assure that these emergency needs continue to be met with sufficient federal financial participation.

Interrelationships with medicaid and social services

One of the most significant obstacles to bringing about welfare reform is the interrelationships of income assistance with other public welfare programs, such as Medicaid and Title XX Social Services. We believe that serious consideration should be given to protecting states and localities against any increases in their costs for these programs attributable to welfare reform.

Jobs

One of the greatest shortcomings of current welfare policy is that it requires work but does little to provide employment. Thus, we suggest that a jobs program be enacted as part of welfare reform and that it: (1) be put in place before the cash assistance component is fully implemented, (2) emphasize job development consistent with the needs of our economy, (3) include safeguards against the displacement of current workers, and (4) mesh administratively with cash assistance. Properly designed, such a program would greatly enhance the overall functioning of the welfare system.

Impact on recipients

Perhaps the most critical issue in welfare reform is how it will affect recipients. Will eligible individuals and families fare better under a new system than they do now? Providing higher levels of cash assistance in states where current levels are low, expanding job opportunities, and simplifying the administration—as we have suggested above—should significantly improve the lot of many recipients.

Mr. Chairperson, in this testimony I have touched upon only a few of the more important concerns of our organization. Within the next two weeks, we will be compiling a more detailed analysis of the various reform proposals based on a survey of our members. With your permission, we will be happy to submit this analysis for the record when it is ready.

Thank you for this opportunity to convey the views of the National Council of Local Public Welfare Administrators.

Senator MOYNIHAN. The committee is now going to have to declare a 45-minute recess. As you have seen Senator Long disappear and Senator Danforth disappear, you are now going to see me disappear. I am supposed to be in two committee meetings simultaneously. I have no choice in this matter. There are urgent concerns that drag me to the Committee on Environment and Public Works.

I will be back at 12:15 sharp. We have obtained permission to continue hearings in the afternoon, and we will stay right through until we do.

I am sorry that this is to be the case. It is judged that most Senators are supposed to be in two places at once; lately it has been three places at once.

[A brief recess was taken.]

Senator MOYNIHAN. Well, hello again, everyone.

Is Mr. Bishop here? Would you please come forward, Mr. Bishop.

We would be happy to wait for you to get your papers, tables, charts, and other data in order.

Mr. BISHOP. Thank you, Mr. Chairman. I would appreciate a moment to get my things in order.

[Pause.]

Senator MOYNIHAN. The committee is pleased to welcome Dr. John Bishop, a research associate at the Institute for Research on Poverty of Madison, Wis.

We know that the Institute for Research on Poverty is part of the University of Wisconsin.

Mr. BISHOP. That is right.

Senator MOYNIHAN. I had something to do with getting that established some years ago.

Dr. Bishop, we welcome you to this hearing as the first scholar in this field that I believe we have heard. One of the things that has characterized the whole approach to the income maintenance systems of this country in the last decade has been a quite unusual and, I

think, unprecedented interest in experimentation, in demonstration, and in analysis. This started with the New Jersey negative income tax experiment, as it was known.

One of the aspects of this kind of innovation in social policy is that it introduces the very large question of translation, of how you find out what really happened. The language of the analysts is now about as inaccessible to the Congress and to the executive branch as is the language of the physicist. Translators are needed and degrees of confidence and clarity are much in order. We hope that you might be one of those persons, Dr. Bishop, and we welcome you to this hearing.

STATEMENT OF JOHN BISHOP, RESEARCH ASSOCIATE, INSTITUTE FOR RESEARCH ON POVERTY, MADISON, WIS.

Mr. BISHOP. Thank you, Mr. Chairman. I hope so, too.

Let me begin by thanking you, Chairman Moynihan, for this opportunity to testify. I am going to focus on the effect that might be expected of welfare reform on marriage and will also talk about a few other things.

In the short time that I have, I will not be able to offer all of the details and scholarly qualifications that I would like, so I would refer you to my written testimony if you do not find satisfaction from my verbal testimony.

Senator MOYNIHAN. Please take your time. We have held you up, so you take your time. We have all the time that you need.

Mr. BISHOP. Thank you.

A major objective of welfare reform is, and I quote from the HEW press release of a year ago,

to provide strong incentives to keep families together rather than to tear them apart, by offering the dignity of useful work to family heads, and ending rules which prohibit assistance when the father of a family remains within a household.

Recent social science research on marital stability supports the first proposition, the proposition that providing jobs and reducing unemployment will strengthen marriages.

Unemployment of the head of the household, of the husband, is a major factor in many marital dissolutions. If the head of a low income family experiences prolonged unemployment, the chances his marriage will dissolve rise from 8 to 24 percent, if he is white, and from 12 to 30 percent if he is black.

This could be due to a selection process in which people who have difficulties getting along with bosses also have difficulties getting along with wives. One way to test whether this is an artifact of such a selection process is to compare cities with different unemployment rates to see whether the rates of female headship in the different cities vary with the unemployment rates, controlling for the other determinants of female headship.

There have been a number of studies of that type. You do find that cities with higher rates of unemployment have higher rates of female headship.

Senator MOYNIHAN. Might I ask you to give us some numbers. What studies have been done? How significantly higher are these rates?

In the early 1960's, I did studies of correlations between unemployment rates for males and the rate of husband absence in married families, and with a 9 month lag we found a correlation of around .7. For the period 1947 to 1959, I found a correlation between male unemployment rates and new AFDC case rates of 0.89. This is pretty striking. But then it all started going "blooey" in the early 1960's and had quite disappeared by 1963. In fact, it then became an inverse correlation. Every time the unemployment rate dropped, the rate of new AFDC cases went up.

So, just what are the data here?

Mr. BISHOP. I have not been referring to time series studies.

In the late 1960's, we have had a great increase in the proportion of eligible female-headed families that became recipients of AFDC. There was a strong outreach effort on the part of the organizations who represented the interests of welfare mothers or female-headed families, and as a consequence, the relationship that may have existed earlier shifted.

I am afraid that I don't have an explanation of the puzzle that you brought to our attention about 10 years ago.

Senator MOYNIHAN. No one has ever studied it, and I often wonder why.

Mr. BISHOP. The studies to which I referred used 1970 census data and compare cities in different locations or across States. They at least refer to the period after this shift that you noticed in the 1960's, so that a relationship in the cross section, anyway, continues to be observed.

The numbers I quoted to you for individuals, the rise from 8 to 24 percent for whites, and from 12 to 30 percent for blacks, are based on the longitudinal panel survey conducted by the University of Michigan's Survey Research Center, which started in 1968, and has only ended a year or so ago.

It is interesting that these statistics which I quoted for the increase in the likelihood of a split of low income families. You start out with a sample, of say, the bottom half or so of the income distribution.

Senator MOYNIHAN. By low income, then, you mean the bottom half of the income distribution?

Mr. BISHOP. I said half to be safe. Their definition of low income was being below twice the poverty line. That means the low income sample represented the bottom third of the income distribution.

There were large increases in both the white and black split rates if there was a prolonged period of unemployment. In upper middle class white families—there were enough middle income white families to test for the same relationship—there is not nearly as large a relationship between unemployment and that family's splitting up as there is among lower income families.

Senator MOYNIHAN. What does this mean—8 to 24 percent?

Mr. BISHOP. The typical low income white family's probability of dissolution over a 4-year period rose from 7.6 to 24 percent. The typical low income black family's dissolution rate rose from 12 to 30 percent.

Senator MOYNIHAN. Right.

Mr. BISHOP. There have been a number of more recent studies using other data sets, the National Longitudinal Survey, for instance, and

they also find that families where the husband has experienced unemployment are more likely to split up.

I discuss this in my extended remarks. When you are comparing individuals, some of the reasons why the person is unemployed are simply the vagaries of the labor market. In other cases, it may be the inability of the individual to get along with his boss.

You never know which is which. So you may be picking up a spurious relationship between unemployment and marital instability when you compare individuals.

But when you compare groups from one city to another, there is no reason to expect that people in one city have different basic personalities than those in another city. Therefore, to find this relationship at the city level or to find it, as in Caldwell's study, in which in individual data high unemployment rates in the community were associated with an increased likelihood of marriages dissolving whether or not that particular individual experienced unemployment or not—suggests that the unemployment is causing the increase in splitting.

Senator MOYNIHAN. How strong were these relationships?

Excuse me for a moment. I'm sorry, Mr. Bishop, but I am informed that I have to take a call from the White House. I will recess this hearing but will be back in just a moment.

Would you work on that question, please. How strong are these relations? I am still interested in the fact that as the unemployment rates declined sharply in the 1960's, female-headed households increased sharply. So there are obviously a lot of things going on here.

[A brief recess was taken.]

Senator MOYNIHAN. Mr. Bishop, I'm sorry to keep you waiting.

Would you respond to my question, please.

Mr. BISHOP. To respond to your question, Senator, if I had to, I think the best study that might be able to provide an estimate of what happens when aggregate unemployment changes, is the study by Caldwell using National Longitudinal Survey data. He included the local unemployment rate in the model, including a lot of personal characteristics of the individual. So it gets away from the problem of a potential selection bias.

A 2-point increase in the local unemployment rate was associated with an increase in the split rate, from 6.7 percent to 7.7 percent, or about a 1 percentage point increase in the rate of splitting per year, from a 2-point increase in the unemployment rate.

Senator MOYNIHAN. But my question to you referred to a period when unemployment went down and the number of father-absent households went up. A 2-percent increase in unemployment is associated with a 6-percent increase in the family split rate, and a 2-percent decrease in unemployment is associated with a 9-percent increase in that split rate.

Mr. BISHOP. In the late 1960's—and in fact we are still in the midst of it—there were a lot of social changes occurring in society that tended to cause marriages to be unstable. One of the studies that has been done has suggested that the pill is partly responsible. It has also been attributed partially to increases in the number of women working, and to a variety of social changes including divorce law reform in a number of States.

So, the change over time and the increase that we saw in the 1960's and 1970's in the marital split rate reflect a whole variety of forces, unemployment being only one.

I focus on unemployment primarily as a contrast to the effects of income maintenance programs, because it is another policy instrument under the control of the Federal Government, and if one wants to have an impact on marital instability, it is something one might try to do something about.

Senator MOYNIHAN. I just point out to you that in the early 1960's I did some research which was counterintuitive which sort of surprised me, too. But, being counterintuitive and being potentially nonprogressive, the lead has just been dropped. What can account for the changes in the illegitimacy ratio? You can't say that the pill accounts for it, or at least it would be difficult to say that the pill accounts for it.

Mr. BISHOP. The other explanations that came up at that time were that improvements in the level of AFDC benefits and changes in eligibility rules—

Senator MOYNIHAN. But they had not occurred when the changes I am talking about commenced.

Mr. BISHOP. Well, it has been blamed for it since then.

Senator MOYNIHAN. No, it has not been blamed for it. People have taken credit for it. People who began interventions around 1969, are saying we are responsible for those things that happened in 1961, to the degree that they identify them as good.

Mr. BISHOP. I am afraid that we don't have an answer.

Senator MOYNIHAN. Neither do I.

Mr. BISHOP. It is a puzzle.

In the process of writing this paper I have gone to the literature and looked at it. It is amazing, given the concerns that exist in Government about this issue, how little work has been done. The rate of growth is very great from a very small base.

If you ask, at the end I provide a list of studies that should be done. It is of intellectual concern to those of us regardless of whether the Government is concerned. There are a lot of things we can do to find out more about what is going on and what might be done about it.

Senator MOYNIHAN. I would like to say, and I wish you would take this back to the Institute for Research on Poverty, that we have put an awful lot of money into that center for almost 15 years, now, millions of dollars. It has never come up with 5 cents worth of information that I have found particularly useful, until perhaps today, and has always seemed to avoid questions to which there might be embarrassing answers. Or, if you have found answers, you have written them in Sanskrit. [General laughter.]

Mr. BISHOP. I hope that my writings will undo this image that you have, because I do consider these results embarrassing.

Senator MOYNIHAN. Well, I hope so.

These were things very much on my mind at the time and what little data we had was the data I dug up in the Labor Department.

The Wisconsin center went off and took our money and never gave us back a single answer that was not going to be approved by certain reference groups, which had a very narrow and very conventional imagination about the range of social possibilities.

Mr. BISHOP. Well, I wouldn't want to characterize what my colleagues do.

Senator MOYNIHAN. No, of course not. That is the privilege of being a Senator.

Mr. BISHOP. We all have our own views as to what is a good policy, and we don't necessarily agree on our interpretation of data.

Senator MOYNIHAN. But in the main you let this extraordinary phenomenon of the 1960's just sit there as something you didn't want to find out about because if you did, you might find out something that wouldn't be approved of. That is a bit of a caricature of what might have been the case.

Mr. BISHOP. Well, sir, I don't know.

Senator MOYNIHAN. You are not really supposed to.

Partly it is because of the dominance of economic models from the beginning in Wisconsin.

Mr. BISHOP. There have been a number of people working on marital issues, but from a demographic point of view, and so they have not typically focused on the policy questions of income maintenance and the effects of unemployment. They did the basic research upon which we are now building.

Senator MOYNIHAN. What I am thinking is this. Every Secretary of HEW for the last 15 years has come up and routinely intoned in this committee room that AFDC breaks up families and that jobs are the answer. But if you look at the data, you will find that the more jobs you had, the more AFDC you had. Therefore, obviously, the solution to the problem of welfare dependency was to reduce the number of jobs.

Now, you see, if the data were just as clear in the other direction, people would absolutely have insisted on the self-evident properties of this thing.

Mr. BISHOP. I think the data does support the proposition that jobs will help save marriages.

Senator MOYNIHAN. It had better because you have been saying this for the past 15 years.

Mr. BISHOP. But I think the other half of that, that AFDC is breaking up marriages, that there is very little evidence for that. There have been a number of studies done, some by people at the institute. Results are inconclusive. Some studies find a positive relationship between the payment level in a State and the proportion of women in the State who are heading families, and others find that it goes the other way.

So, it does not seem that if there is an effect, it is so robust and strong that we need to reevaluate all of our policy with regard to AFDC because of this particular problem.

What you do find, regularly, is that States with higher unemployment rates have higher split rates; States with low wage rates for men have higher split rates; and States with high wage rates for women have higher split rates.

Senator MOYNIHAN. High rates for women?

Mr. BISHOP. Yes—holding constant the other two, basically when a woman has more options to support herself if the family were to split up, there is the greater likelihood that that will occur.

You also find in cross section data comparing individuals that women who are working while married are more likely to split from their husbands than women who are not working.

Senator MOYNIHAN. Some general theories are developing about income alternatives here, aren't they?

Let me stop interrupting you and go on with your statement.

Mr. BISHOP. OK.

The evidence for the assertions that AFDC was splitting families was not very strong. Even if it were strong, it does not logically follow that extending cash assistance to two-parent families will keep families together.

There is no empirical support for this assertion, and the best existing evidence suggests that exactly the opposite will occur.

The evidence to which I refer is from the income maintenance experiments. In these experiments, negative income tax programs similar to the cash assistance component of the program for better jobs and income in most respects, except the work requirement and the fact that administration was with a somewhat lighter hand than I assume welfare programs would be administered, were tried out.

Analyses of marital stability have been published for four of these experiments now.

Senator MOYNIHAN. You say three of the four here—indicating—but you mean all four?

Mr. BISHOP. Well, a dissertation has recently been completed which I have not gone over thoroughly and which I am told by the author suggests that there was no effect in the Gary experiment. However, there is a very small sample of two-parent families in the Gary experiment.

Senator MOYNIHAN. Would you name these experiments for us.

Mr. BISHOP. The first experiment was in New Jersey. There was an experiment in rural areas of North Carolina and Iowa. There was a Seattle-Denver experiment. Those three are the ones I have reviewed in detail.

The fourth, the Gary experiment, was started rather early and it has been much more delayed in publication of its results. I am told that there was essentially no relationship there.

In the other three experiments, though, we have a consistent set of findings. In all three experiments, the measured rates of marital dissolution were larger in the experimental group that was receiving cash assistance than in the control group.

In all three experiments, no increase occurred in marital splitting in the most generous plan, while very large increases in splitting occurred in the least generous plans. Since the generosity of the low- and medium-support plans is similar to the cash assistance component of the program for better jobs and income, this is especially troublesome.

Compared to a control group that was eligible for the current set of income maintenance programs—AFDC and food stamps—those on the low- and medium-support plans dissolved their marriages at a 70-percent higher rate in the Seattle-Denver experiment.

Senator MOYNIHAN. Your testimony here is a little confused.

On page 2 you say "at a 70 percent higher rate" and then you added Seattle-Denver. I thought you had been talking about all three.

Mr. BISHOP. That generalization characterizes all of them.

Senator MOYNIHAN. All three?

Mr. BISHOP. Yes, all three. In fact, it is higher in the other experiments.

The Seattle-Denver experiment is a better done study and has a much larger data base. So I think it must carry more weight than the others. The others were much smaller.

Senator MOYNIHAN. Right.

Mr. BISHOP. In the Seattle-Denver study, the first three sets of bars on this poster—indicating—are from the Seattle-Denver experiment. The blue bars are the control group; the red bars are the low-support-plan group, which in Seattle-Denver meant a guarantee of approximately 75 percent of the poverty line; the brown bars are a medium-generosity support plan, which meant in Seattle-Denver approximately the poverty line for the guarantee; the high-support group was 125 percent of the poverty line.

So, the President's proposal is—

Senator MOYNIHAN. It is about 65 percent.

Mr. BISHOP [continuing]. In the range between low and medium.

It is down at the bottom end.

Senator MOYNIHAN. Let's be precise. I am just trying to get the record clear.

I believe the program for better jobs and income sets a rate of 65 percent.

Mr. BISHOP. That is the national minimum.

Senator MOYNIHAN. Of the poverty line, yes.

Mr. BISHOP. Which States would supplement, which would get it up to somewhere around 75 percent, which would put it around the red bar.

Senator MOYNIHAN. 75 percent then is your red bar.

Mr. BISHOP. Approximately.

Senator MOYNIHAN. Your medium rate is what?

Mr. BISHOP. The brown one?

Senator MOYNIHAN. Yes.

Mr. BISHOP. It was at 100 percent.

Senator MOYNIHAN. So, it is 75 percent, 100 percent, and 125 percent. We could think of that first as the administration proposal and be roughly in the right frame.

Mr. BISHOP. In the control group for whites, about 14 percent—this is over 2½ years in Seattle-Denver, which is the longest period of data available now.

Senator MOYNIHAN. Two and one-half years?

Mr. BISHOP. Yes. In the control group 14 percent—13.6 percent split, whereas 25.7 percent of the members of the lower plan experimental group split.

Senator MOYNIHAN. That comes out to almost twice the rate.

Mr. BISHOP. Yes.

For blacks it goes from 19 to 30 percent; for Chicanos, from 16.5 percent to 25.9 percent.

The control group is comparable to the three experimental groups in total, but not necessarily comparable to each individual part of the

experimental group. So the best way to test for the effect of the program is to control the background characteristics of the individuals and to do a comprehensive statistical analysis.

But we need to have these kinds of numbers to know what the order of magnitude is.

For families with children, there is a 77-percent—a representative coefficient that they get is a 77-percent increase in the split rate for the low plan and a 75-percent increase in the split rate for the medium plan for whites; for blacks it turns out to be about a 67-percent or 69-percent increase in the split rate. For Chicanos it is somewhat smaller because the controls reduce the differential that is observed here.

These effects are quite large. We have looked at the other experiments to see whether this has been replicated in other experiments.

I had space on my poster for one other experiment, the rural experiment. This was a small sample, and also, people in rural areas have a much lower overall divorce or split rate. So consequently the number of events that occurred are small and these results were not statistically significant.

But the pattern was the same. In the low-support plan, there was a big increase in split rates. In the other support plans, there was nothing much observable. But that is not statistically significant.

The reason why it took us so long to discover that the negative income tax experiments were increasing marital instability was partly that the rural experiment was such a small sample that you couldn't conclude anything on the basis of it.

Senator MOYNIHAN. That is the North Carolina-Iowa group.

Mr. BISHOP. Right.

Senator MOYNIHAN. Regarding this experiment in New Jersey—when I was India I didn't hear anything about this at all.

Mr. BISHOP. In New Jersey, the experiment was originally not designed for this purpose. It was decided afterwards at the last moment when the study was already underway to try to look at this question. But the Seattle-Denver experiment had this as one of its major objectives to look at. They did collect their data in a better way.

In the New Jersey experiment, you got basically this pattern of results. There was no statistically significant increase for the experiment versus the control group as a whole; but for the two lower support plans, there was an increase that was statistically significant in Sawhill's analysis of the data.

The people who did the original analysis did not use a methodology that provided them with a test of statistical significance, and there was a lot of criticism about the way they conducted their study. There was disagreement by people that they didn't have sufficient controls and so there was some doubt as to that finding.

Finally, the major problem with all of the early research and why I say that this finding is 2 years old—is that it has always been understood that there is a potential attrition bias occurring; that a family on the experiment, if the family breaks apart, the woman is eligible for a rather generous payment from the experiment. So, if the family breaks apart, there is a very strong incentive for that family to remain in contact with the experimental program. However, in the control group, there is not nearly as strong an incentive for

people to remain in contact with the researchers. So consequently, the attrition rates in the control groups are typically higher than in the experimental groups. Since you would expect the attrition rate to be related to whether or not you split, there was a fear that the observation of the increase of split rates in the experimental group was basically a result of—the people who were splitting apart were remaining in contact with the program, whereas in the control group that wasn't happening.

So, because of this fear, there was a lot of doubt about the increased split rate finding. It wasn't until the analysts working on the Seattle-Denver study did a sensitivity analysis of their results to test for attrition bias, making the worst possible assumption that you could make about attrition bias and then redid the analysis—and you still had these effects and they were still statistically significant, though they were maybe about half the size. A 70-percent increase might now have become a 35-percent increase in the split rates. It was only once you had done that that you could believe that you had a real result.

So then we started getting convinced that something was going on.

In the New Jersey experiment—the raw data in the low support group of the New Jersey experiment—

Senator MOYNIHAN. Dr. Bishop, I'm sorry, but I have to interrupt you to attend to another matter. This is just the way our day is going. I will be back in just a moment. Please bear with us.

[A brief recess was taken.]

Senator MOYNIHAN. Dr. Bishop, I'm sorry. Please continue.

Mr. BISHOP. To just review the gross data in the New Jersey experiment, split rates in the control group were 12 percent; for blacks in the low-support plan it was 23 percent; for whites in the control group it was 8 percent; for whites in the low-support experimental plan it was 14 percent. For Spanish speaking Americans, mainly Puerto Ricans and Cubans in the New Jersey experiment, the split rates rose from 14 to 25 percent in the low-support plan.

These results are consistent with—but because they weren't statistically significant in the initial looks at them, and we were worried about the attrition bias problem, not as conclusive as the Seattle-Denver results.

Senator MOYNIHAN. Right.

Mr. BISHOP. Another type of evidence that is consistent, but not conclusive, and that is why, again, the Seattle-Denver findings were critical, is from a Weissman study of the AFDC-U program in Alameda County, California, found very, very high proportions of the AFDC-U—

Senator MOYNIHAN. Who is that?

Mr. BISHOP. Weissman.

Senator MOYNIHAN. Where are you on your summary statement?

Mr. BISHOP. On page 3.

Senator MOYNIHAN. That study was Weissman, where you said, "Within 1 year 20 percent of the AFDC-U recipients," and so on.

Mr. BISHOP. Right. That is a 20-percent split rate in 1 year, as measured by going on to AFDC. Some people might have split and not gone on to AFDC. In 2 years, it was an even higher split rate, approaching 40 percent.

These findings suggest that if strengthening marriages is an objective of public policy, expansions of welfare coverage to include two-parent families should be approached with real caution.

Also, studies which include using aggregate data have a dummy in the model for—the State has an AFDC-U program, there is no consistent pattern to what you get. In fact, the only statistically significant coefficient suggests that a State having an AFDC-U program is associated with higher rates of female headship.

Senator MOYNIHAN. Higher rates of what?

Mr. BISHOP. Higher rates of female headship, instead of the lower ones which we hoped would occur as a result of having the AFDC-U program.

So, these results are really a puzzle because they are counter-theoretical, counter to what people expected when they went into this research. So, they suggest that our theories were not very good.

Senator MOYNIHAN. Might I ask you not to skip that paragraph which begins, "Cashing out food stamps."

Mr. BISHOP. No, sir, I am not going to.

Cashing out food stamps is not unlike the experiments. So consequently it is possible that the cashing out of food stamps would also tend to destabilize families. But we don't know.

Here again, we are operating in an area of great uncertainty and I am somewhat leery about any changes that tend to place two-parent families on a welfare-type program, a program with a guarantee and a tax rate.

How then can Government improve the financial circumstances of low-income, two-parent families without stimulating marital breakups?

The answer would seem to be to focus on jobs rather than on cash assistance for them. Reducing unemployment should get the No. 1 priority.

I will come back to that.

The second thing is that reform of the welfare system should leave intact the obligation of the father to support his children.

To a certain extent, one of the potential differences between the experiments and a real-world welfare program and why it is possible that we won't have in the real world what happened in the experiments is that because it wasn't a governmental institution, it could not chase after people, as to a certain extent we do with AFDC, chase after the husband if he deserts the family. That characteristic of the experiments might be partially responsible for the difference. But we don't know. There are a number of possible reasons why, a number of hypotheses, as to why the experiments did have this effect.

I think we can be pretty sure that the experiments did have this effect, because they were well designed, well done studies. What we don't know is why these things are happening.

So, my general recommendations would be programs that aid two-parent families should be as different from and as segregated from programs that aid single-parent families as possible.

Two-parent families should be aided in a way that is not perceived as charity and that requires no contact with the welfare bureaucracy. If possible, the family should be unaware that it is being

aided. Aid should arrive as part of the paychecks of the family's working members.

A modified and liberalized earned income tax credit built into the withholding system is one very attractive way of accomplishing this objective. The modification I propose is to base the earned income tax credit on the number of hours worked as well as earnings.

If an individual worked at the minimum wage, the refundable credit might be a dollar an hour. If he worked at \$4.65 an hour, the credit could be reduced to 50 cents, or it could be reduced even further, depending upon how much money you were willing to commit in this way.

This could be integrated with the rest of the tax system and used as a substitute for the standard deduction and basically as an offset against all itemized deductions, if one wanted to integrate it into the regular positive tax system. Alternatively one can treat it as a special program that phases out wage rates of \$5 or so dollars an hour.

The size of the earned income tax credit would decline as the nominal wage rises. This type of proposal has already been considered favorably by your committee once before. It was part of the Senate Finance Committee's substitute for President Nixon's family assistance plan.

Compared to an earned income tax credit based on earnings alone, it has the advantage of stimulating, rather than decreasing, work effort.

Like an NIT, a generous earned income tax credit based on earnings alone causes a \$30 to \$60 decline in earnings for every \$100 of cost. I refer you here to simulations done using Seattle-Denver coefficients that are appearing in the "Journal of Human Resources" and in their publications.

This is for a program that does not have a work requirement.

The work requirement reduces this reduction in earnings that occurs by maybe a third to a half.

Senator MOYNIHAN. Wait a minute. I don't follow you in your testimony. Where are you?

Mr. BISHOP. I am putting in some of the scholarly qualifications now, Senator.

Senator MOYNIHAN. You said, "Like an NIT, a generous EITC based on earnings causes a \$30 to \$60 decline in earnings for every \$100 of cost."

Mr. BISHOP. That's because—

Senator MOYNIHAN. I understand why. Then what do you think?

Mr. BISHOP. The earned income tax credit over a certain range, up to \$4,000, increases the payoff to work. But most families earn more than \$4,000. For the people above \$4,000, it increases the marginal tax rate.

If you were to go with a very strong earned income tax credit of the current design, you would have to raise marginal tax rates in the range from \$6,000 to \$12,000 of income, where a lot of families are, by a large amount.

If our models are correct, a big increase in marginal tax rate will tend to reduce work effort. That is one of the costs that you are going to get from helping out people at the bottom.

Senator MOYNIHAN. I don't fully follow you.

Is it the marginal rate that we increase or is it that sort of medium point? We now—let's see, the current earned income tax credit is a full one up to an income of \$4,000, and then it declines to \$8,000, right?

Mr. BISHOP. If we were really going to help out families in the \$5,000, \$6,000, and \$7,000 range, we would have to increase the maximum EITC from \$400 to \$1,000 or \$2,000. It has to be phased out. We face the same kind of dilemma we do with the negative income tax in the upper ranges, and you inevitably will end up with high marginal tax rates on the range from \$6,000 to \$12,000.

Senator MOYNIHAN. But you could simply shift that curve to the right and have the same tax rates at all points, but just have your point of exit much higher.

Mr. BISHOP. Right, and keep the marginal tax rate low but then you spend more money. Then it is more costly.

Senator MOYNIHAN. Right.

Mr. BISHOP. Whenever you are dealing with a program that is based upon earnings and doesn't take any other information into account—such as—the number of hours worked or family characteristics, you face the basic dilemma of the tradeoff between how general you can be—and—the marginal tax rate.

There is a way out, and that is to make your earned income tax credit payment per hour of work and to base it on the wage rate, instead of phasing out at a certain level of income.

So consequently, it is possible to subsidize on the margin extra hours of work over the entire range of potential work effort and not have a high marginal tax rate.

Senator MOYNIHAN. Right.

Mr. BISHOP. The only piece of information you need for that is the number of hours the person worked. That is the only extra piece of information that you need than you have now, and we already keep those records for the minimum wage and maximum hours legislation. Businesses keep records on this and so it should be possible for them to provide information on this on the W-2 form and to build it into the tax system, if you like, or have a separate measurement; or depend upon, as we do now for all the other elements of the tax system, peoples' honest reporting of the number of hours they work. There would be limits on total hours and you would have to be paid the minimum wage to receive the credit. There would be ways of administratively controlling this.

So that, I think, is the most attractive——

Senator MOYNIHAN. Now, Dr. Bishop, you are wandering off into telling us what we might do, and that is a very elegant proposition. But we are still absorbed in your basic assertion that the President's proposal is wrong.

Mr. BISHOP. It is a mind-boggling idea.

Senator MOYNIHAN. Now let's pursue this.

Shall we just start talking for a minute or did you have something additional?

Mr. BISHOP. Oh, sure. I am now on the solution part as opposed to the problems part, and I think you want to talk about problems.

Senator MOYNIHAN. What is your explanation of this pattern—that of the three levels of support, the lowest level, which is a high level—it is about 75 percent roughly—is so destructive of peoples' arrangements?

Mr. BISHOP. It is a small amount of money. I mean, the puzzle goes further in that the amount of money you get on AFDC is about the same as what you get from the experimental plan. So, it is especially puzzling for that reason because you do not seem in monetary terms to making the woman better off if the split occurs.

The reason why we think there is essentially no effect on the high support plans is that basically, if families have more money, they are less likely to split. You can buy with more money things which help the relationship between the man and woman. So, it is basically an income effect that we think is the reason for the declining pattern, but it is still hard to understand why there should be such a big effect in the low support plan.

Senator MOYNIHAN. Have we picked just exactly the wrong place, between doing nothing and doing something?

Mr. BISHOP. A generous plan is very expensive. The reason why the President didn't propose something much more generous is the budget constraint. A generous plan of the type of the Seattle-Denver experiment would cost a lot of money.

Senator MOYNIHAN. Would you want to make an estimate?

Mr. BISHOP. No.

Senator MOYNIHAN. The President's proposal is talking about \$25 billion, as it is.

Mr. BISHOP. No, sir, I would not venture a guess.

There are really four hypothesis as to why the increase in the split rate occurred in the experiment. One, as I have already mentioned, is that the experiments have a smaller administrative process for checking up on and going after husbands. So it was different in that respect. If that is the case, then maybe we won't have what we have seen in the experiments happen if we go with welfare reform.

Senator MOYNIHAN. Let me just say that these experiments took place in very fixed locations. Do Seattle and Denver have very active IV-D programs?

Mr. BISHOP. I don't know.

In any case, isn't that a recent program? The starting date of the Seattle-Denver experiments is now 5 years ago.

Senator MOYNIHAN. Well, in that case there was no effort of any kind to go after fathers.

Mr. BISHOP. The New Jersey experiment was even before that.

Senator MOYNIHAN. The effort to seek support from fathers was very much contrary to social welfare practice, if not policy and doctrine, and it is a rather recent innovation.

Mr. BISHOP. Yes. I think it could possibly have an effect. But here again, it requires research to establish that.

A second hypothesis for the increase in splits is that many working class families may feel there is a stigma attached to being an AFDC, and therefore people who would have split if it weren't for the stigma attached to being an AFDC didn't, and now the experiment comes along, and the experiment is a nonstigmatizing way for a

woman to receive support, and so they split. A third hypothesis is that people didn't know what was available to them on AFDC and it was really the information provided by the experiments—the knowledge that I am eligible and I will get x amount of dollars—that did it.

Senator MOYNIHAN. That still leaves you with AFDC as an incentive to split.

Mr. BISHOP. Right, but if people make the decision of whether or not to split without taking AFDC into account, it is possible that many people are doing that. It doesn't mean that everyone does, but it is possible that there are a lot of people who don't even consider that, and it is only after the split has occurred that they worry about, oh, how am I going to support myself, and then they go and look for support and they go to a social worker and are directed to the welfare office. But they are not aware—they might think it is actually much less generous than it really is.

If we go with a national program, this kind of information will be provided to two-parent families. The information available to two-parent families would increase and the stigma effect would also tend to equalize. These two explanations, imply that the same thing may happen in a national program.

The final reason that this might be happening is one that people analyzing the experience of the Depression suggest. I am not sure whether we, as a society, still have the same set of values and views on things as the people of the Depression did. But let me quote to you from a sociologist's writing, based upon participant observation of about 30 or 40 families that experienced long-term unemployment during the Depression. His name is Bakke, but there is no relationship to the recent Bakke case before the Supreme Court.

Senator MOYNIHAN. The only monograph in the whole field from the 1930's is Bakke's.

Mr. BISHOP. There is also a paper by Komarovsky.

Senator MOYNIHAN. Yes, and there is one other work of that period. I went through the whole Department of Labor library, and I remember only one other work.

Mr. BISHOP. In Bakke's words, and this is speaking of a family going on—

Senator MOYNIHAN. Lazarsfeld has a research memorandum on the family during the Depression.

Mr. BISHOP. Speaking of the process of a family going onto welfare during the 1930's and the husband's view of this, he says:

Every goal he seeks to reach as a normal worker recedes further from realization when he turns to relief. Until that moment, he could in a measure realize that even without current earnings, the efforts he made in the past in the role of producer, 'a good provider or a good father' were still contributing to the support of his family. But now he has made a public declaration of his failure and no rationalization can quite cover up the fact that a reliefer is not among the roles his associates respect.

Now, if that view of welfare and of the man's role exists in large numbers of people now, then putting a two-parent family on a welfare program is no benefit psychologically to him and to his sense of role in the family. That might be the thing that breaks the family up.

So, we don't know what it is. There are things that we can do to attempt to figure out this thing. It is just that I suggest caution in the interim.

Senator MOYNIHAN. Just for numbers, Leslie Lenkowsky has done the arithmetic here. The part about the generous level, about which you are talking here in these experiments, is 125 percent. That is called the 125-percent level. The poverty level for a family of four, is now \$6,200. With benefits at 125 percent, that means a family of four would make \$7,750, and with a 50-percent marginal rate of taxation, a family would cut out at \$15,000. That means that half the families of the United States would be in the system which is a lot.

Mr. BISHOP. Yes.

Senator MOYNIHAN. I used to be a great advocate of the children's allowance. I first got into this business under President Kennedy and it seems to me that the experience with it in Canada, shows that it is in no way associated with dependency. It is associated with having children.

Mr. BISHOP. Yes.

There are a number of ways of helping low-income families that I think would avoid this effect. The principles you want to follow are to keep the two-parent family away from the welfare office and make the process of receiving the money automatic, and if possible have it come in as part of the paycheck, build it into withholding, which you could do easily with a children's allowance. So, you can do it with a children's allowance, a jobs program in the public sector, private sector jobs, either by subsidies to employers to provide jobs or the kinds of earned income tax credits which increase the effective wage rates received from jobs. There is a whole raft of ways of slotting supports to two-parent families that will not be likely to have this kind of effect.

But here again, we can't be absolutely certain because we are not sure of why it is that this is happening.

Senator MOYNIHAN. Dr. Bishop, you have given us extraordinary testimony. It is among the most important testimony we have had in a year and a half.

Let me ask you a few questions and then I will go on to something much larger.

You state, as have others, but not before this committee, that the empirical evidence indicates that extending cash assistance to two-parent families does not help keep families together and, indeed, may have the opposite effect, even by comparison to AFDC, which aides only one-parent families.

It seems to me that expanding public service jobs would help preserve family stability only if those jobs were perceived as having a degree of permanence leading to jobs in the private economy.

Do you have any evidence, or is there any evidence that this is the case? In particular, do we have any information about the impact of the CETA program on family stability?

Mr. BISHOP. It should be done. At least, one could look at what the associations are—though seeing causal relationships there would be hard.

I make the suggestion and very much agree that jobs programs must be nonstigmatizing in order to have beneficial effects.

Senator MOYNIHAN. Nonstigmatizing.

Mr. BISHOP. Yes.

Senator MOYNIHAN. But in the Bakke work—the argument is made that it is no longer 1936 and we are not all—

Mr. BISHOP. The experience from the Depression, I guess—and we have evidence from participant observation research done during the Depression—they asserted in no uncertain terms that the whole ballgame in the family changed when they received a WPA job.

Senator MOYNIHAN. Right, the whole male-female relationship.

Mr. BISHOP. Also, that WPA effectively reestablished the man's role in the family and tended to solidify the relationship.

Let's go back to what WPA was like. WPA paid reasonably good wages, and yet it was supposedly stigmatizing in the sense that, as is asserted in the literature, that leaf raking and so forth is demeaning. But in fact, when they paid good wages, they were attractive from that perspective, though unattractive from the perspective of permanence and unattractive from the perspective that they were considered by some to have a "make-work" element.

So, I think that a CETA program that pays reasonable wage levels, which I think in the south can be the minimum wage, but in the north, where costs of living are higher, it would have to be somewhat higher and key the wage to cost of living or something like that, would be desirable. You want to both pay reasonable wages from this perspective. Secondly, you want as much as possible to integrate the jobs into existing positions in Government, rather than having a very segregated program in which people are identifiable.

Now there are other reasons for wanting to worry about high wage rates in CETA in a welfare-type program because it ends up making it harder and harder to provide a job guarantee, which I think is a very attractive thing for this society to do. It would be desirable to be able to say that anyone with children who wants to work will be provided a job. I think that is the best thing about the President's proposal. I think he has put something on the agenda for us as a Nation that we are capable of doing. But we can't do it if we offer \$6 an hour jobs. We can't even do it if we offer \$5 an hour jobs.

We just have to decide about this. It is a tradeoff between offering a job guarantee and how attractive those jobs are.

So, the best way out, I think, is to see that a public sector job guarantee is a sort of last resort, but not see it as the major method of creating new jobs, and to stimulate the private sector to create jobs by partial subsidies of increased employment either—

Senator MOYNIHAN. We may not have as much of an unemployment problem in the mid 1980's as is expected. The demography works with us. For a long period it worked against us. Eight years ago I wrote that the dependency problem would drop off in the early 1980's, just as a function of demography and of the population at risk.

Would you think that the program for better jobs and income, as it is now drafted, and with its negative income tax, is a good idea?

Mr. BISHOP. I am afraid that I don't support the negative income tax component of it.

Senator MOYNIHAN. You have made clear your view on the employment side, though.

Mr. BISHOP. On the employment side I think it is good. So I go more in the direction of the Baker-Bellmon and Ullman proposals have. I think to a certain extent those later proposals reflect not so much different views but a longer time to think about things. Even there, I am not sure what should be done for two parent families of a guaranteed type. I am not sure—for instance, Baker-Bellmon proposed mandating AFDC-U. I am not sure that is a good idea.

Senator MOYNIHAN. I think that is quite right.

Mr. BISHOP. Cashing out food stamps is not such a good idea, I think.

So, I am very uncertain. I just don't know what are the likely consequences for families. Therefore the thing I am pretty sure is not going to have bad effects for marriages but will help out a lot of poor people is a jobs oriented and earned income tax credit oriented approach to helping two parent families. What you do for single parent families—I think that decision can be made with regard to mainly how generous you want to be for them. I don't think the evidence is strong enough that being generous in AFDC causes families to break up, that we need to hold that as a very, very strong consideration when we decide how generous AFDC should be.

Senator MOYNIHAN. Now wait a minute. Would you say that over again from the beginning? What should we think about when we decide how generous AFDC should be?

Mr. BISHOP. How generous AFDC is is basically a choice between the interests of the children in splitup families. The more you pay, the better off those kids are. On one side you have that. On the other side there is the fear that you may be causing some women to work less and some marriages to break up.

I am saying that the evidence for a generous AFDC breaking up marriages is not so strong that it needs to be a terrifically major consideration.

Senator MOYNIHAN. Is it strong at all?

Mr. BISHOP. It is inconclusive in my view.

There is one study that got a big effect and that was statistically significant. All the other studies got either negative effects, effects that go the wrong way, or else they were rather small and barely significant.

Senator MOYNIHAN. Which is the study that got a strong effect?

Mr. BISHOP. The study using—and as always, all studies have problems—a study using the Michigan data, in which dummies were included in the model for whether or not you were in a State with high or low AFDC payment level. States with high payment levels had a higher split rate.

I would say that the burden of the evidence is that there is an increase in split rate. But it is not all that large. It is not of the magnitude that we get from the experiments. These are really big increases in split rates, whereas the size of the effects in these other studies are rather small—except for the one study by Hoffman and Holmes, in

which dissolution rates rose from 3.8 percent to 10.6 percent. That is the only one that gets anything really large.

The study by Marjorie Honig found that if you doubled the AFDC payment level in 1970, you would increase the split rate by only about 7 percent—not 7 percentage points, but by about 7 percent.

Senator MOYNIHAN. Let me ask you this. You say that you would not support the income maintenance aspects of the President's program. You don't feel they are supported by evidence.

Mr. BISHOP. Yes.

Senator MOYNIHAN. The things claimed for them do not seem to be so.

Mr. BISHOP. But the earned income tax credit portion is good.

Senator MOYNIHAN. Yes, I understand.

Why do you suppose the administration then made this proposal? It certainly was aware of this research.

Mr. BISHOP. I think you would have to ask administration witnesses that.

To be philosophical about this question, I think we tend to make policy based upon a conventional wisdom as to what is the case about the world. I think it has been part of the conventional wisdom to—

Senator MOYNIHAN. But that's not why we asked Dr. Aaron to come from the Brookings Institution. He is a smart fellow. He wrote a book about this.

Mr. BISHOP. Well, when I talked to staff people from this committee a year ago, they were surprised. They hadn't heard of it.

Senator MOYNIHAN. Dr. Bishop—

Mr. BISHOP [continuing]. And when I talked to him—

Senator MOYNIHAN. Dr. Bishop, please. We want to have a transcript today. Please slow down. I will listen to you.

A year ago this data was clear, as you have demonstrated it today, is that so? When did it become available? Did the American Journal of Sociology have a paper about this?

Mr. BISHOP. Yes. It came out about a year ago now. The key report from the Stanford Research Institute, I think, is the one which tested for attrition bias, and that was completed in March or May, 2 years ago.

So, the key report came out 2 years ago. So it was available during the process of decision. But, you know, people perhaps disagree with my interpretation of it, I don't know. There are reasons why you can say that the experiments are unique and they don't really replicate the way we run a national welfare program.

Other people might feel that it is not undesirable to increase the split rate.

Senator MOYNIHAN. That's right. That was a very fashionable view in the 1960's, I think.

Well, you don't have to comment, but had the data been wholly confirming of the proposal, you may be sure that there would have been nothing the matter with the experiment. That is a familiar phenomenon.

This leaves us in a bit of a fix, doesn't it?

Mr. BISHOP. Well, it does in the sense that it means that a proposal, into which a lot of work was put, is a bad idea and we should go an-

other route. But I don't think that we are without policy options. In fact, I think that attempting to push a negative income tax has really been swimming against the stream of American views on things, and it may not, as a political decision, have been a wise choice when one wanted to help poor people.

I think a policy of the kind that Humphrey proposed in the debates with the Senator from South Dakota—

Senator MOYNIHAN. Senator McGovern?

Mr. BISHOP [continuing]. Which was more concerned with jobs was easier to sell politically and I think may have been a better way to go.

The kind of proposal about which I have been talking in terms of an hourly wage supplement, a modification of the earned income tax credit, has not received nearly the study and analysis that negative income tax has. But there have been articles published in the economics literature showing, using sophisticated models, that it is a better way to go.

On the frontiers of economic theory it has been shown that we can get closer to a nondistorting tax or subsidy by basing it upon hours worked. But it is not something that has permeated out into the entire population. It has not become something that the editorial writers of *The New York Times* and *The Washington Post* know about. This is an education process that takes many, many years.

Keynesianism wasn't sold to the American people until around 30 years after it was sold to the economics profession.

Senator MOYNIHAN. Until after it stopped working. [General laughter.]

Mr. BISHOP. Well, it worked for a while, from around 1962 to 1969.

Senator MOYNIHAN. And that is about the time everybody started agreeing with it. As a matter of fact, a Republican administration came in and was Keynesian.

There is a problem of the migration of awareness, and you have a pretty good example of it right now. About 15 years ago, the proposition began to be put forward by people like me that something was breaking up families, that some kind of institutional forces were beginning to lead to family dissolution, and that there must be some evidence there. It sort of settled on the welfare program as the thing that did it.

But nobody believed that at the time. This was a pretty absurd notion, and so, for 15 years, it was merely an argument. Now we have reached the point where everybody knows it is true. But just at the moment that everybody knows it is true, it turns out not to be so.

These ideas move more quickly now; but I can't imagine that it will take more than 5 years for the point you have been making here today to be accepted on its face value, and not to be assumed to have some hidden agenda—or that there is a reason you are saying this which you are not telling us, or that you are telling us something which is not so for some reason which is important to a particular body.

Is there some general theory of family structure coming out of this about alternate sources of income? Are there people working in that field?

Mr. BISHOP. Until about a year ago I did not do any work in this area. The institute was asked by HEW to write a report on family

effects from what we have learned from the experiments and other studies. They wanted a review paper. I was asked to participate in a group to work on it.

It was through that process that I got interested and involved in this.

At the university was a social psychologist named Elaine [Walster] and her husband, who wrote a memo for the group. They made the argument from their perspective that jobs would work better for marriages than would cash assistance. It was along the Bakke lines. It considered that most families have traditional views as to what is the man's role, that is, to be the provider; that having the Government step in and become the provider of last resort in a family takes away that role, and that is not considered equitable by the family members; that it changes the relative power distribution in the family and results in him not being perceived as living up to the expectations that were had for him when the couple originally got married.

Now, that kind of perspective comes naturally out of social psychology and out of the literature of the Depression and out of social work, maybe, and sociology. But it is not the kind of perspective that normally comes to an economist. It took the interaction with other people, you know, on my part that started convincing me that that way of looking at things was perhaps quite important. That way of looking at things is actually consistent with the data, but it is not proved. It is possible that there are other explanations for these results.

But that way of looking at things does suggest and would immediately lead one to expect that a cash assistance program that came as part of welfare would tend to destabilize the marriage of working class people.

Senator MOYNIHAN. Let me say that my original research on this—my first research, how original it was no one need say—was done in 1963-64, when I was Assistant Secretary of Labor under President Kennedy. The exact situation is worth recording for this record. Unemployment had been a major concern of the administration in the first 2 years and the Labor Department's concerns were very high on the President's agenda. Then economic growth began to pick up, and unemployment did not respond. But the interest in our problem dropped off, and it became quite clear that unemployment had been a surrogate for low economic growth. When economic growth picked up, people stopped worrying about us.

Well, I set out to establish some other reasons for being interested in unemployment besides GNP. I ran into this by a series of things. Starting out with the presumption that Bakke was right, and some hints in Lazarsfeld's research memorandum and then Komarovskiy, I began to look to see if I couldn't find a correlation between unemployment rates and various rates of dependency and other social difficulties.

As a matter of fact, I not only found them, but I found them at extraordinarily levels of correlation.

But then I found them also to break up and disappear in the early 1960's, and that made me feel that my initial conviction about unemployment was going to be interrupted. Clearly unemployment was

getting better and dependency was getting worse, and I believed that there was some sort of time problem.

But then we set up the Institute for Research on Poverty in Madison, and I would have thought that my original sort of "social sciency" concerns would appear there, and they never did.

You just said something to me which I was trying to explain to you earlier—that we never got any answers to the questions we posed. I guess if you ask the same questions 10 years in a row and nothing happens, you stop asking. Economists just didn't deal with that line of concern, I guess.

Mr. BISHOP. That is the way an academic institution operates. Every academic does his own thing. That is a great thing, really, because it allowed me to be able to air my views despite the fact that there are a lot of other people disagree.

Senator MOYNIHAN. How how many people would—

Mr. BISHOP. People set their own agenda as to what they are going to do their own research on.

Senator MOYNIHAN. How idiosyncratic is your view about what we have learned on these matters in these experiments?

Mr. BISHOP. Well, it is hard to characterize that. I think I am slowly convincing people. I think most people agree that something happened in the experiments, and there are some potential biases—in fact, I was the one who found one of the biases. But basically the quality of the research done by the people at SRI is very high. There are arguments that can be made; for instance, against extrapolating these results to a national program. Seattle-Denver's definition of being married does not necessarily coincide with having a legal document declaring you are married. It was determined by a response to a question about whether you are living together and intend to live together perpetually. So, it is a self-definition of marriage which covers common law situations. But those common law situations may be more easy to disrupt than a formal institutionalized marriage.

So, there are ways that you can say maybe they haven't done this yet. You can always say that it is not totally conclusive.

I agree that it is not totally conclusive. As a scientist I would continue to remain a skeptic and say that I am not sure. However, if we are considering making decisions that are going to put people, 40 million people, on a program similar to the experiment, then I start getting very nervous.

An experiment provides so much better evidence than any other way of studying a question. These experiments randomly assign families to experimental and to control groups. This allows one to feel that it was being on the experiment that caused the difference between the two groups, whereas in all other types of research, you always fear that your attempts to control for the other influences were imperfect. So, while we will assert in our articles that I have demonstrated this or demonstrated that, there is a much higher level of uncertainty about that kind of research than there is about this, and that you have an effect that is there in the raw data and that is not an artifact of the way we have analyzed it.

Senator MOYNIHAN. That is a very impressive and persuasive statement, Doctor Bishop.

[The prepared statement of Dr. Bishop follows:]

STATEMENT OF DR. JOHN BISHOP

My name is John Bishop. I am an economist at the Institute for Research on Poverty and co-principal investigator of a study on the Potential of Wage Subsidies funded by the Employment and Training Administration of the Department of Labor. My testimony, however, does not necessarily reflect the views of either of these organizations.

Let me begin by thanking Chairman Moynihan and the members of the subcommittee for this opportunity to testify on the impact of welfare reform on marriages.

In the short time I have I will not be able to offer all the details and scholarly qualifications I would like. I refer you to my written testimony for a more extensive discussion.

A major objective of welfare reform is, and I quote from the HEW Press release of a year ago, to "provide strong incentives to keep families together rather than tear them apart, by 1) offering the dignity of useful work to family heads, and 2) ending rules which prohibit assistance when the father of a family remains within a household."

The recent social science research on marital stability supports the proposition that providing jobs and reducing unemployment will strengthen marriages. Unemployment of the husband is a major factor in many marital dissolutions. If the head of a low income family experiences prolonged unemployment, the chances his marriage will dissolve rise from 8 to 24 percent if he is white and from 12 to 30 percent if he is black. Cities with high rates of unemployment have greater than average numbers of female headed families.

For many years AFDC has been accused of causing marriages to dissolve. It has been said that some men desert their wives in order to make their families eligible for welfare. The evidence for these assertions is not very strong. But even if it were, it does not logically follow that "extending cash assistance to two parent families" will "keep families together." There is no empirical support for this assertion. The best existing evidence suggests exactly the opposite will occur.

The evidence I refer to is from the income maintenance experiments. In these experiments, negative income tax programs similar to the Cash Assistance Component of the Program for Better Jobs and Income in every respect except the work requirement were actually tried out. Analyses of marital stability have been published for three of the four experiments. In all three experiments, the measured rates of marital dissolution were larger in the experimental group that was receiving cash assistance than in the control group. In all three experiments, no increase occurred in marital splitting in the most generous plan, while very large increases in splitting occurred in the least generous plans. Since the generosity of the low and medium support plans is similar to the cash assistance component of the Program for Better Jobs and Income, this is especially troublesome.

Compared to a control group that was eligible for the current set of income maintenance programs—AFDC and Food Stamps—those on low and medium support plans dissolved their marriages at a 70% higher rate. In the Seattle-Denver experiment 30% of the black and 26% of the white experimental families on the low support plan had split up within 2½ years. The corresponding rates of marital dissolution in the control group were 19% for blacks and 14% for whites. The statistics I have just quoted have been available for only two years, so have not been subjected to the full scrutiny of the research community. However, I have examined the work of the team which is analyzing this data and have found it to be of high quality. The team has tested the sensitivity of its results to various biases, and while the effects are smaller under some assumptions, they do not disappear.

Support for these Seattle-Denver findings is provided by the other experiments. In the Rural experiment conducted in North Carolina and Iowa, 12% of the low support plan families split up while only 5% of the control group split up. In the low support group of the New Jersey experiment, split rates rose from 12 to 23% for blacks, from 8 to 14% for whites and 14 to 25% for Spanish speaking Americans. Also consistent with the Seattle-Denver findings is a recent study of AFDC-U recipients in Alameda county, California. Within one year 20% of the AFDC-U cases had become AFDC cases by the dissolution of the family. These findings suggest that if strengthening marriages is an objective of public policy, expansions of welfare coverage to include two-parent families should be approached with real caution.

Cashing-out Food Stamps is likely to substantially increase the participation of two-parent families in that program. Since cashing-out Food Stamps makes it very much like the NIT plans used in the experiments, this seemingly innocuous reform may cause a substantial increase in rates of marital dissolution.

How then can government improve the financial circumstances of low-income two-parent families without stimulating marital breakups? The answer would seem to be to focus on jobs rather than cash assistance. Reducing unemployment should get number one priority.

Reform of the welfare system should leave intact the obligation of a father to support his children.

Programs that aid two-parent families should be as different from and as segregated from programs that aid single-parent families as possible. Two-parent families should be aided in a way that is not perceived as charity and that requires no contact with the welfare bureaucracy. If possible the family should be unaware it is being aided. Aid should arrive as part of the paychecks of the family's working members.

A modified and liberalized earned income tax credit built into withholding is one very attractive way of accomplishing this objective. The modification I propose is to base the EITC on the number of hours worked as well as earnings. If an individual worked at the minimum wage the refundable credit might be \$1.00 an hour. If he worked at \$4.65 an hour the credit would be reduced to 50c an hour. The size of the EITC would decline as the nominal wage rises. This type of proposal has already been considered favorably by your committee once before. It was part of the Senate Finance Committee's substitute for President Nixon's Family Assistance Plan. Compared to an EITC based on earnings alone it has the advantage of stimulating rather than decreasing work effort. Like an NIT, a generous EITC based on earnings alone causes a \$30 to \$60 decline in earnings for every \$100 of cost. An EITC based on hours worked that was limited to primary earners would not alter the current labor supply. Extending it to include wives might raise before subsidy earnings by \$10 or \$20 for every \$100 of cost.

A second way to solidify marriages is to generate a major reduction in unemployment and raise the wage rates paid to the men and women who do not have the protection of skills and a union card. Expansion of public service jobs is one way to do this. The number of jobs required is in the millions not the hundreds of thousands so the private sector must be enlisted as well. Targeted employment incentives, like the one that is part of the President's urban initiative and the one in the Baker-Bellmon bill, are highly desirable. Coverage however should not be limited to youth. Adults meeting the CETA income tests should also be eligible. Marginal employment incentives like the New Jobs Tax Credit are also attractive tools.

Despite the fact that most of the firms eligible for a NJTC had not heard of it before the end of 1977, enough firms had heard and reacted to cause a two to five percent increase in employment in personal, business, repair and professional service industries. Econometric work I have been doing suggests that wholesaling may have responded as well. For retailing the results are inconclusive. The new jobs tax credit seems to have been a major stimulus to the formation of new firms. The number of people starting small businesses (both corporations and proprietorships) has been unusually high recently and employment in these newly formed businesses has been rising rapidly.

In choosing and designing programs we must never forget that it is the dignity of the individual that is our ultimate objective. The role of provider for those they love is a fundamental part of the self-concept of most adults, males and increasingly of women as well. Government policy should have as its first priority helping the individual to achieve success in this self-defined role.

JOBS, CASH TRANSFERS, AND MARITAL INSTABILITY: A REVIEW OF THE EVIDENCE

--(By John Bishop)

A major objective of the executive branch's welfare reform package is to "provide strong incentives to keep families together rather than tear them apart, (1) by offering the dignity of useful work to family heads and (2) by ending rules which prohibit assistance when the father of the family remains within the household." (White House Message, August 7, 1977)

To what extent are the claims that welfare reform will stabilize marriages supported by the results of recent social science research on marital stability? The conclusion is that while there is strong empirical support for the first claim—that providing jobs will reduce instability—there is none for the second. In fact, the best available evidence is that expanding eligibility for welfare to include two-parent families will increase marital splits rather than decrease them. This evidence has been available for only 18 months and, therefore, has not yet been subject to the full scrutiny of the research community. However, decisions about income maintenance policy are being made now. Consequently Congress and the public must be made aware of the current state of the social scientific knowledge about the likely effects of universal income maintenance on marital stability.

If keeping families together is an objective, the policy implications of these findings are that President Carter's emphasis on providing jobs rather than stipends is correct and needs to be carried further. Intact families with an able-bodied worker should be aided by providing jobs and by raising their after tax earnings not by putting them on welfare.

The jobs component of the Program for Better Jobs and Income (PBJI) is designed to provide an effective guarantee of employment to heads of families with children. This is to be accomplished by creating 1.4 million public service jobs and assigning heads of families with children priority in any queue that may develop in the application for these jobs. Tax relief would be extended to families with low earnings by liberalizing the earned income tax credit. Workers in private and nonsubsidized public employment would continue to receive the current 10% credit on earnings up to \$4000 a year and would, in addition, receive a 5% credit on earnings between \$4000 and the family's tax threshold (roughly \$9000 for a family of four). If implemented, these components of PBJI will accomplish the double purpose of eliminating involuntary unemployment and raising the take-home pay of workers in low and middle income families with children. The results of half a century of social science research support the proposition that accomplishing these objectives will help keep families together.

1. EVIDENCE ON THE EFFECT OF UNEMPLOYMENT AND THE EARNINGS OF HUSBANDS ON MARITAL STABILITY

The classic studies of the impact of unemployment on marriages are the studies of adjustment to long-term unemployment during the 1930s done by Bakke (1940) and Komarovskiy (1940). A pattern of progressive deterioration in the husband's authority and involvement in family ritual was common.¹ When family heads were able to obtain work relief, the process of disintegration was arrested. Bakke concluded, "The job of the head of the family provides not only an income but a social role for which there is no adequate substitute in a working class culture [Quoted in Stone et al., 1975, p. 148]."

One of the best ways to study marital disruption is to follow a large sample of couples over a long period of time and examine how characteristics measured early in the marriage relate to later disruption. Two large nationally representative data sets of this type currently exist: the Panel Study of Income Dynamics (PSID) and the National Longitudinal Survey (NLS). Hoffman and Holmes (1976) found that in the PSID when no other variables are controlled marital dissolution measured over a 7-year period is negatively associated with the husband's hourly wage and average hours of work per week. When, however, a great number of demographic and other economic variables were controlled (in

¹ Numerous studies have also found an inverse relationship between the occupational status of a male and his probability of becoming or having been divorced. The Duncan SES score of the husband's occupation at time of marriage has a strong negative relationship with marital instability (Bumpass and Sweet, 1977). Holding age at marriage, education and religious of both spouses, whether wife's parental family was intact, wife's residence (region and farm) while growing up, previous marriage, and time since first marriage constant at their means, a decrease in SES of the husband's job at marriage from the top to the bottom quintile raised the probability of a split from .07 to .17 for whites and from .17 to .37 for blacks. While studies that relate marital instability to the occupational status of the husband are consistent with the hypothesis that raising the husbands' after tax earnings will encourage stability, they do not prove it. Evidence is needed from studies that relate husbands' income to marital stability while occupation is controlled. Evidence on this issue is provided by Cutright (1971). He found that the likelihood that an evermarried male is not living with his first wife has a strong inverse relation to income and is unrelated to occupation when income is controlled.

cluding home ownership, savings, hours worked and unemployment), the wage rate no longer had a consistent effect. Hours worked had an important though curvilinear effect. Husbands working 48 hours per week were found to have the lowest split rate with significant increases in splitting occurring for those working more than 60 or less than 40 hours a week. Husbands who had recently been experiencing unemployment or high job turnover were more likely to experience a marital dissolution. Owning a home and having substantial savings lowered the probability of separation. These results suggest that it may be the stable life style (as reflected by owning a home and having substantial savings) made possible by a husband's high wage rate that contributes to stable marriages.

The Sawhill et al. (1975) analysis of PSID data obtained similar results. If the husband in a poor or near-poor family had experienced serious unemployment problems, the probability of a separation over the next 4 years rose by more than 16 percentage points. A typical low-income white family's probability of dissolution rose from 7.6% to 24%. The typical low-income black family's probability of dissolution rose from 12% to 30%. Declines in income also caused statistically significant increases in marital dissolution.

Cherlin's (1978) study of marital separations of 30- to 44-year-old women in the National Longitudinal Survey also found that marriages were more stable when the husband worked throughout the year and/or had a high wage rate. Moore's (1977, p. 80) study of marital splits over a four-year period using the National Longitudinal Survey's sample of young women (14 to 24% in 1968) also found the likelihood of a marital separation was higher when the husband's earnings were low.

The evidence for the proposition that families whose head experiences unemployment are more likely to split seems quite strong. Will a reduction in unemployment caused by an economic boom or government created jobs reduce rates of marital dissolution as well? The doubter may argue that the correlation of unemployment and marital splits across individuals is due to some third factor (for example, a violent temper) which is not controlled in the studies cited above. For example, if violent tempers are the cause of the observed association, giving jobs to the unemployed will not save their marriages. One way to test this omitted factor hypothesis is to examine whether there is an association between the unemployment rates and male earnings opportunities in the community and indicators of marital disruption in that community. Presumably the incidence of men with the key omitted characteristics (such as a temper) is not the cause of or highly correlated with variations across cities in the unemployment rate. Therefore, an association at the community level of higher unemployment rates and lower male wage rates, with higher rates of marital dissolution would provide strong evidence for the existence of a causal relationship.

Three studies of rates of female headship for large geographic areas are available and all find that unemployment, and the ratio of male to female wages, are quite important. Rates of marital dissolution are not available by geographic area, however, so we must work with the best proxy available. It is not necessarily a disadvantage to analyze variations in rates of female headship because they are of great intrinsic interest. Besides reflecting differences in marital dissolution rates of families with children, they reflect differences in remarriage rates, differences in the likelihood of having a child out-of-wedlock and keeping the child, and differences in the likelihood for the mother to live with her own parents.

Honig's studies (1974, 1976) of rates of female headship in 44 metropolitan areas found that, controlling for the characteristics of the AFDC program, rates of female headship of whites and blacks in 1960 and 1970 fell when males earned more. Higher unemployment rates increased the female headship rates of whites in 1970 and of both races in 1960. Using states as observations, Minarik and Goldfarb (1976) obtained similar results for male wage rates. The unemployment rate had a positive coefficient but it was not statistically significant.

Strong impacts of unemployment rates and male wage rates on marital instability have been found in Ross's study (1975, p. 216) of female headship rates in the low-income areas of 41 cities in 1970. Holding the male/female wage ratio and AFDC program characteristics constant, she found that a doubling of the median weeks of male unemployment raised white female headship rates by 55%. Rates of female headship for black women did not respond to the unemployment variable. A 10% rise in the median income of intact families lowered rates of female headship by 7%.

The final piece of evidence on the impact of local unemployment rates is provided by Caldwell's (1977, p. 303) study of dissolutions using the young NLS women. He found that living in an area with high unemployment caused a statistically significant rise in the marital split rate. The yearly rate of marital disruption, which averaged 6.7% in this sample, was predicted to rise to 7.7% if the local unemployment rate was 2 points higher than average.

What then will be the impact of the jobs component of the welfare reform package? The jobs component will assure all families with children a job that will yield a minimum income 13% above the poverty line of a family of four. Since these jobs will carry low wage rates, their primary impact will be on unemployment not on wage levels. All the studies which entered a local unemployment rate into the analysis (Caldwell, 1977; Honig, 1974; Ross, 1975; and Minarik and Goldfarb, 1976) have found that generally tight labor markets were associated with fewer marital dissolutions or lower rates of female headship.

The stabilizing effect of a general reduction in unemployment will be accentuated by the fact that "if there is more than one adult in the family, this job or training slot will go to the family's principal wage earner. The principal wage earner will be the adult who had the highest earnings or worked the most hours in the previous year." (HEW News Release, August 6, 1977.) In two-parent families this will typically mean that the husband will be provided the job. Priority is given to providing principal wage earners a job because it is felt that families whose principal wage earner is unemployed have the greatest need of help. There is only a limited number of job slots; therefore, giving all wives a similar priority in the queue would result in some of the neediest families not receiving any job offer. By giving priority to ending the unemployment of family breadwinners, the jobs program will have the additional effect of stabilizing marital relationships. The impact of the liberalized earned income tax credit on marital stability is harder to predict. This issue will be discussed at the end of the section on cash assistance.

2. THE EFFECT OF MAKING WELFARE PAYMENTS TO INTACT FAMILIES

The second aspect of welfare reform that is supposed to encourage families to stay together is the expansion of coverage to include intact families with able-bodied adults. Currently, most low-income two-parent families are ineligible for the Medicaid and AFDC support that similarly situated one-parent families receive. It is not unusual for the earnings of a father to be less than the value of the Food Stamps, AFDC, and Medicaid his family would become eligible for if he were to desert them.

While it may seem only logical that these perverse incentives should increase marital instability, the empirical evidence for the proposition is by no means secure. Ronig (1974, 1976) found a positive relationship between the level of the AFDC payment and rates of female headship for blacks and whites in both 1960 and 1970. The effect is not statistically significant for blacks in 1970, however, and its size is small. A doubling of the AFDC payment increased the number of female heads by only 6%. Ross's (1975) study of female headship in low-income neighborhoods has also found positive and statistically significant impacts of AFDC payment level on blacks but not on whites. Studies that use states rather than metropolitan areas as observations (Minarik and Goldfarb, 1976; MacDonald et al., 1977) have found nonsignificant negative effects of higher AFDC payments on female headship.

Analysis of PSID data has also failed to produce conclusive results. Hoffman and Holmes (1976) found that in states with high benefit levels the dissolution rates of low-income couples rose from 3.8% to 10.6%. This effect is substantially larger than those found by anyone else. Sawhill et al.'s (1975) logit analysis of disruption during the first 4 years of the PSID found a statistically significant but small effect of AFDC payment level.³ While two-thirds of the studies found

³The linear probability models estimated using OLS get nonsignificant positive coefficients. Logit models are better for testing hypothesis, however, so the statistical significance of the coefficient in the logit model is given greater weight. Part of the reason for the smaller effect in Sawhill et al.'s (1975) analysis is the addition of a set of four regional dummies for each race. This reduces the independent variation of the AFDC payment variable and therefore the statistical significance of coefficients that will be obtained on the AFDC variable. It would be desirable to control for other characteristics of location like wage rates. Entering dummies for region, however, gives no clue as to what it is about the region that causes observed differentials.

a positive effect of AFDC payment level on marital instability indicators, only one of these studies found the effect to be large using recent data. Thus, while there is some support for high AFDC payment levels being a marriage destabilizer, there is very little support for its being a powerful destabilizer.

Even if providing female-headed families with an adequate level of support does cause an increase in marital instability, it does not follow that "ending rules which prohibit assistance when the father of a family remains within the household . . . [will] . . . keep families together." (HEW News Release, August 8, 1977) There is no empirical support for this assertion. The best existing evidence suggests the opposite will occur.

In many states two-parent families with an unemployed head are already eligible for cash assistance from the AFDC-UP program. The primary purpose of this program is to reduce the incentive for families to split up in order to get AFDC. There is, however, no evidence that this program has reduced marital instability. A study of the AFDC caseload in Alameda County, California (Wiseman, 1977) found that 22% of a 1972 sample of mothers in two-parent families receiving AFDC-UP assistance were on AFDC for absent or disabled fathers before the end of a year. Wiseman reports that almost all these transfers from AFDC-UP to AFDC status were due to a desertion.³ These rates of dissolution are substantially higher than those experienced by two-parent low-income families that are not on AFDC-UP. The yearly rates of dissolution in the control groups of the Income Maintenance Experiments were 4% in New Jersey and 5-10% in Seattle/Denver. The 4-year dissolution rates for poor and near-poor couples in the PSID were 7.8% for whites and 12.1% for nonwhites.⁴ Since the families that apply for AFDC-UP are not a random sample of all low-income families, this data does not prove that AFDC-UP caused the higher disruption rates. These results are, however, consistent with the findings of other research (to be presented shortly) that extending welfare to include two-parent families will increase rather than decrease marital instability.

Since many states do not have an AFDC-UP program, another way of examining the effect of AFDC-UP is to enter a dummy variable for the presence in the state of an AFDC-UP program in models predicting aggregate indicators of marital disruption. Three studies of female headship rates (Ross, 1975; Minarik and Goldfarb, 1976; Honig, 1976) have done this. Since the number of families receiving AFDC-UP aid is small even in the most liberal state, large impact is not to be expected. Where estimated separately by race, impacts are positive for blacks and negative for whites. The Minarik and Goldfarb estimate of AFDC-UP impact for both races combined is positive. In the three studies only one of the coefficients is statistically significant, however. This coefficient (Honig, 1976) implies that female headship among blacks increases by 15% where there is an AFDC-UP program. As expected, the results are not conclusive.

3. EVIDENCE FROM THE NEGATIVE INCOME TAX EXPERIMENTS

The best evidence on the likely impact of extending cash assistance to two-parent families on marital stability is provided by the negative income tax experiments. In these experiments negative income tax programs that are very similar to the cash assistance component of the Program for Better Jobs and Income were actually tried out. Families were randomly assigned to experimental and control groups. This is a major advantage. It means that if statistically significant non-artifactual differences are found between the experimental and control groups, it is possible to make the inference that being placed on the plan *caused* the difference. While better than any other kind of evidence, the experiments are not perfect. Ambiguities of interpretation may arise from small sample size, differential attrition of families from the experiment, and

³ Some transfers from AFDC-UP to AFDC occur because one of the parents develops a disability. This source of overestimating the split rate is likely to be more than counterbalanced by the failure to measure splits occurring among the 46% of AFDC-UP families whose cases close within the year. Also, a separation that does not result in a mother returning to the welfare rolls somewhere in California does not get counted.

⁴ Adjusting for the higher split rates that are typical of California would not eliminate the discrepancy. The proportion of white 35- to 44-year-old ever married women who are separated or have at one time been divorced is 39% greater (.203/.189) in the San Francisco SMSA (which includes Alameda County) than nationally. For blacks this proportion is 28% greater (.407/.388) than nationally. Raising the PSID four-year split rates by these percentages would still leave the predicted four-year split rate for low income couples at 10.5% for whites and 15.5% for nonwhites. About 44% of Wiseman's, (1977) AFDC-UP sample was black.

imperfect methods of measuring marital dissolutions. The families are promised only 3-5 years of payments and are studied only for that period of time. Consequently, predictions about the short- and long-term effects of a permanent program are necessarily extrapolations. After the basic findings of these experiments are presented, the likely direction and size of the biases created by these and other problems will be assessed.

TABLE 1.—MARITAL DISSOLUTION RATES IN THE NEGATIVE INCOME TAX EXPERIMENTS

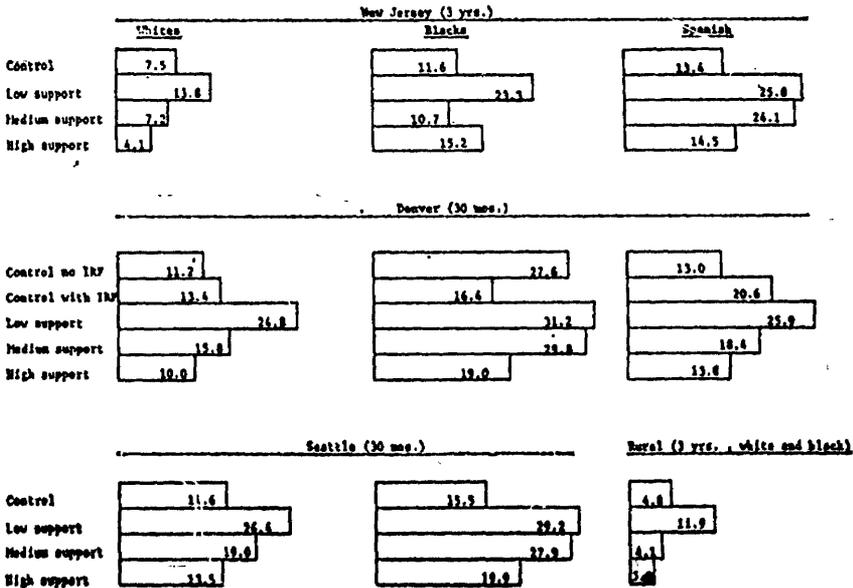
	(in percent)		
	Whites	Blacks	Spanish
New Jersey (3 yr)¹:			
Control	7.5	11.6	13.9
All financial	6.7	14.5	20.1
Low support	13.8	23.3	25.0
Medium support	7.2	10.7	24.1
High support	4.1	15.2	14.5
Number of control objectives	159	155	108
Number of financial objectives	209	193	144
Denver (30 mos.)²:			
Control no income report form	11.2	26.7	13.0
Control with income report form	13.4	16.4	20.6
Low support	24.8	31.2	25.9
Medium support	15.8	29.8	18.4
High support	10.0	19.0	13.8
Number of control with income report form	119	98	92
Number of financial objectives	333	247	335
Seattle (30 mo)³:			
			Rural (3 yr)³
Control	14.6	15.5	4.8
Low support	26.4	29.2	11.9
Medium support	19.0	27.9	4.1
High support	13.5	19.9	3.0
Number of control objectives	351	296	336
Number of financial objectives	359	256	280

¹ Sawhill et al. (1975).

² Private communication from Lyle Groveld at the Stanford Research Institute. The author wants to thank the people at SRI for their cooperation.

³ Middleton and Haas (1977).

Figure 1. Marital Dissolution Rates in the Negative Income Tax Experiments



Note: Percent splitting is given at the top of the bar.

TABLE 2.—MULTIPLIERS FOR DISSOLUTION AND REMARRIAGE RATES

Support level	Seattle/Denver 24 mo					New Jersey 36 mo, all		Rural* 36 mo, all
	Whites		Blacks			Sawhill et al. ⁴	Knudson et al. ⁵	
	All	With children	All	With children	Chicanos, all			
Dissolution of marriages in- tact at enrollment: ¹								
Low.....	*2.27	*1.77	*1.69	1.67	1.37	*1.9	1.79	3.0
Medium.....	*2.00	*1.75	*1.85	1.69	.81	1.3	1.64	1.14
High.....	1.32	1.03	1.45	1.43	.85	1.0	1.02	.85
Remarriage of those enrolled as female heads: ²								
Low.....	.85		.99		*.18			
Medium.....	.81		1.23		*.22			
High.....	.54		.81		*.11			
Remarriage of all female heads: ²								
Low.....	1.30		1.29		*.51			
Medium.....	1.10		1.71		*.42			
High.....	.80		1.17		*.22			
Expected proportion of women in a population like SIME/ DIME that will be married living with spouse: ³								
Control.....	.65		.34		.66			
Low.....	.55		.31		.35			
Medium.....	.54		.33		.48			
High.....	.53		.30		.36			

¹ Marital dissolution equations contain controls for: Normal income (6 categories), city, log of marriage duration, wife's age, wife's education splined at 12 years, wife's wage, husband's age, husband's education, husband's wage, wife/husband wage ratio, number of children of different ages, family on AFDC prior to beginning of experiment.

² Remarriage equations contain all of the above variables except those that refer to the husband's characteristic.

³ The steady state equilibrium proportion married is $m/m+d$ where m is the marriage rate and d is the dissolution rate. It assumes that the impact effect of going on the program occurs in the first 6 months and that the next 18 months provide an estimate of the long run change in rates of dissolution. Taken from table 3 of "Variation Over Time in the Impact of SIME/DIME on the Making and Breaking of Marriages" by Tuma, Hannan, and Groenveid, February 1977.

⁴ The multipliers for New Jersey combine the effects of support level dummies and the payment variable in the linear probability model of the full sample in table XII, p. 68 of Sawhill et al., 1975. Average weekly payments were \$34, \$15.30 and \$7.70 for high, medium, and low guaranteed levels respectively.

⁵ The multipliers are derived from table 11.8 of Knudson, Scott, and Shore's analysis of transitions from nuclear to female headed status using 3 years of quarterly data from the New Jersey experiment (Rees and Watts, 1978). The model used is the one that controls ethnic group and income prior to enrollment and ignores interaction between plan and ethnic group. Logit coefficients for no plan, low through high plans were $-.318$, $.358$, $.256$, and $-.297$ respectively.

⁶ These multipliers are derived from the adjusted dissolution rates given in table 1 of Middleton and Haas's analysis of the rural income maintenance experiment. Linear regression analysis was used to control for race, State, education, length of most recent job, 1969 family income, family size, welfare status at pre, farm occupation of head, age, nights in hospital, disability, net equity, and work at pre.

*.10 $\geq p \geq .05$.

*.05 $\geq p \geq .01$.

*.01 $\geq p$.

Analyses of marital splitting have been published for three of the four experiments. In all three the measured rates of marital dissolution were larger in the experimental group than the control group. The unadjusted dissolution rates for the control and experimental groups of each of these experiments are presented in Table 1 and Figure 1. For whites in the Seattle/Denver experiment, for instance, 10% of the control group and 17% of the experimental group's marriages had dissolved within 2 years—an increase of 70%. Among black families, 15.6% of the control group and 23.3% of the experimental group's marriages had dissolved within 2 years, also a 70% increase. Families on the most generous plans apparently did not experience an increase in the rate of marital dissolution. The cash assistance component of the Program for Better Jobs and Income has a low guarantee, however, so it is the effect of the low support plans in the NIT experiments that hold the greatest immediate policy interest. In all three experiments, it was the group of families on the least generous support plans that experienced the largest increases in the rate of marital dissolution. Except for Chicanos, families on the low support plan appear to have doubled their dissolution rate. These generalizations are based on the support level multipliers presented in Table 2, which provide estimates of the proportionate response of dissolution rates when the pre-experimental characteristics of the family are controlled. For the low payment plan the

increases in marital split rates are statistically significant in both the urban experiments. They are not statistically significant in the Rural Income Maintenance Experiment because the low incidence of marital disruption in rural areas and the small sample size combined to produce only a limited number of splits to study.

Could these increases in the incidence of marital splitting for people on an NIT be produced by some bias in the mode of analysis? Longitudinal studies always find that some proportion of the families originally chosen for study disappear or refuse to cooperate with later interviews. Women who have separated from their husbands have a stronger incentive to remain in touch with the program if they are eligible for negative income tax payments. It has been argued that as a result, attrition from the sample may be disproportionately high for controls who change their marital status. If this occurs, rates of marital dissolution in the control group will be understated and the increase in marital splits due to the negative income tax experiment will be overstated.

Examination of data on attriters from the New Jersey Experiment, however, does not support the hypothesis of an interaction between attrition, marital dissolution, and being in the control group. A special follow-up interview of the families that had attrited found no special tendency for control group attriters to have a higher dissolution rate.⁵ Even if there is a strong interaction, attrition alone cannot be responsible for the large experimental effects being observed in the Seattle/Denver Experiment. Hannan, Tuma, and Groenfeld (1976) have tested the sensitivity of the Seattle/Denver results to attrition. Even under the worst case—the unrealistic assumption that *all* controls who leave the experiment are dissolving their marriage and *only a few* of the experimentals who leave the experiment are breaking up—significant positive experimental impacts remain for whites and blacks. The decline in the support multiplier produced by even these extreme assumptions imply that, in the low support plans, instead of there being a 100% increase there is a 50% increase in rates of marital dissolution.

The fact that all of the experimental group and only some of the control group were filling out Income Report Forms (IRF) is another potential source of bias. In Seattle/Denver the financial report form was one of three sources of information used to keep track of changes in marital status. It is, therefore, possible that some of the separations that last for only a few months might be counted only when the financial report form is being filed. If this is the case, rates of marital dissolution and remarriage in the control group will be understated. This would cause the impact of the experiment on dissolutions to be overstated and its impact on remarriages to be understated.

The Denver results presented in Table 1 and Figure 1 allow us to examine whether there is a tendency for more marital status changes to be measured when a family is filing an IRF. The average for all ethnic groups suggests that while not having to file an IRF may undercount remarriages, it has no effect on the likelihood of counting splits. If only families filing the IRF are used to derive the effect of the experiment on marital dissolution, the measured impact declines slightly for whites and rises substantially for blacks. The impact of the experiment on rates of marital dissolution of Chicanos—which has never been statistically significant—is further reduced. The average of the point estimates of experimental effects on splitting does not change. However, because the effective size of the sample has been reduced, the statistical significance of the result falls.

Knowing what happened in the experiments does not mean we know what will happen if a similar change is made in the nation's welfare system. A revision of the welfare system would be viewed as a permanent change; the

⁵ The follow-up survey interviewed 36% of control group attriters and 45% of experimental group attriters. The proportion of the women attriting from the low and medium experimental plans who were no longer living with their husband when interviewed was 29%. The corresponding percentage for the control group was also 24% (Poirier, 1977). While there is no evidence for an interaction, attrition rates are higher in the control group and where attrition rates are generally high (as in Sawhill et al.'s (1975) examination of the New Jersey data, some bias may occur. Knudsen, et al.'s (1977) methodology for analyzing the New Jersey data produces smaller attrition rates and is therefore less likely to result in biased estimates of marital splitting differentials. Each family is included in the analysis of quarterly changes in family structure for as long as there is data. A confounding of splitting and attrition occurs only if it occurs in the same quarter and if both adults desert at the same time.

experiments were known by the participants to be temporary. One would expect a permanent program to have a larger impact on marital stability than a temporary one. Evidence for this hypothesis is provided by the fact that in Seattle/Denver the impacts of the experiment on both white and black families promised 5 years of payments are consistently (though nonsignificant) greater than those on the plan for three years.

A second result of the short-term nature of the experiment is that we do not know whether the effects observed over the first 3 years will continue in the 4th, 5th, etc. years of a permanent program. It is possible that for families that remain in the program, long-term effects will be much smaller than the initial response. Over the first 24 months of the Seattle/Denver experiment such a pattern was observed for whites. The opposite pattern—effects increasing over time—was observed for blacks and Chicanos (Tuma et al., 1977). Even if the impact of the program were to decline after 3 years, the turnover in the population affected by the program (newly formed families, and families experiencing a severe decline in income due to unemployment or sickness) will insure that the induced rise in marital instability would not gradually disappear.

The final difficulty with using the experiment to predict the results of a national program is that the experiments occurred within the context of an exogenously determined general climate of opinion and customs about marriage. Over time, a national program might change the customs and the climate. The fact that something is more common may tend to lead us to believe it is more acceptable. The possibility that a negative income tax might have community effects that lead to changes in the work ethic has been discussed by Masters and Garfinkel (1978). If a NIT were to have a large initial impact on marital stability, similar changes in the community's attitude toward marriage might follow.

4. WHY MARITAL SPLITTING INCREASED

Having dealt with the potential biases in the estimates of experimental effects, let me turn to the interpretation of the results. Here one is on shakier ground because while the experiments provide a hard to refute answer to the question "Will marital dissolution rates go up or down," they only provide us clues as to "Why."

The standard analysis of the marital stability response to a universal cash assistance program suggests that there should be two contrasting effects. The fact that the family is made better off while it remains together should reduce marital instability. This income effect, as it is called, should be strongest in the most generous plans. Split rates are lowest in the most generous plans so it appears that at least across plans an income effect is operating. The second effect results from the fact that the program also increases the income of one-parent families. By improving the financial situation of the wife if there is a split and reducing the need for child support, the program may induce some families to split. This female independence effect, as it is called, is also presumed to be the reason why women who work and earn good wages are more likely to dissolve their marriages. Evidence for the proposition that a female independence effect is operating is provided by the high split rates of families on a NIT plan but earning too much to receive a payment. The only way these above "breakeven" families can receive significant payments from the program is by reducing market work or splitting up. Splitting up seems to be one of the responses.

The most puzzling thing about the experimental results is that women on the low support plan are dissolving their marriages at a very high rate (relative to controls) despite the fact that AFDC and Food Stamps combined (the payment option for controls who split) will pay almost as much or more in the event of a split. Hannan, Tuma, and Groenveld (1977) suggest that transaction costs involved in applying for AFDC and the stigma attached to receiving AFDC and food stamps may result in these programs having much smaller female independence effects than the NIT experiment. In the New Jersey experiment, however, Garfinkel found that when AFDC payments exceeded experimental support, more than half of the splitting families chose to be on AFDC and not the experiment (Garfinkel, 1974). This suggests that at least some of the splitting women did not consider the stigma of AFDC sufficiently large to outweigh the small financial gain involved in being on AFDC.

Hannan et al.'s (1977) other explanations of the puzzle focus on the information impact of receiving income maintenance:

"Presumably some women with no welfare experience are unaware either of the fact they would be eligible for welfare were their marriage to end or of the levels of support available. . . .

"We took pains to explain that income-maintenance guarantees apply outside marriage." [p. 1189]

This information may substantially reduce the perceived costs of a marital separation. This information may "shock" the preexperimental equilibrium of an unfilling marriage and "focus attention on the current situation and heighten their sense of dissatisfaction." A second way in which the information environment of experimental families was different from controls was they were actually on a plan and gaining real-life experience with its rules. Making monthly reports of income and receiving monthly checks (whose amounts vary inversely with the earnings of the primary worker) may quickly make family members "welfare wise." This experience with the high marginal tax rate may lead the family to consider sheltering the primary earner's income by having him split off from the rest of the family.

The third possible source of the high split rates of the experimental families on the low support plans is that the receipt of income tested cash transfers may lead to dissatisfaction with the husband's performance of his role and this may accentuate marital instability. The role performance interpretation asserts that most working and middle class families have traditional views about the role the husband is to perform. The husband is expected to be the breadwinner. If he is not able to fulfill his role, marital tension results. The male role performance explanation of marital instability is one of the major themes of the sociological literature on the subject. It is supported by the nonexperimental research reviewed at the beginning of the paper. Families with an unemployed husband or a wife who is providing a major share of the income are more likely to be unstable. The Hoffman-Holmes (1976) finding that men working 48 hours a week had the lowest split rates suggests that the husband's wage rate matters less than how hard he tries.

The role performance explanation of the rise in marital instability in the income maintenance experiments is that the receipt of an income tested cash transfer is viewed by some families as a signal that the husband is a failure. In Bakke's (1940) words:

"Every goal he seeks to reach as a normal worker recedes further from realization when he turns to relief. Until that moment he could in a measure realize that even without current earnings the efforts he made in the past in the role of a "producer," a "good provider," a "good father," were still contributing to the support of his family. But now he has made a public declaration of his failure, and no rationalization can quite cover up the fact that a "relief" is not among the roles his associates respect" [p. 255].

A second variant of this explanation suggests that since the program increases the number and length of spells of unemployment, friction produced by having the man around the house builds up into a split (Robins and Tuma, 1977).

The evidence for choosing the role performance explanation over the reduced stigma or "learning how the system works" interpretation is rather sketchy. Families where the husband's role performance is already threatened seem to be the ones most affected by being on the experiment. The proportionate increase in marital splitting seems to be greatest when the family's pre-experiment earnings are low and when the wife is well educated and is able to command a good wage rate.⁶

At present the three explanations—stigma, information, and male role performance—of the unexpectedly high split rates in the low support plan have

⁶ The measures of role differentiation preferences and behavior in the Seattle/Denver experiment should make it possible to examine some aspects of the role performance explanation. The signal of failure hypothesis suggests there should be positive interaction between traditional views of the male's role on the part of the husband and wife at pre-enrollment, being on the experiment, and splitting. The interaction should be strongest in families where the male's role performance is already threatened. The measure of traditional views of the husband's role must, however, be separated from the general set of conventional views about the importance of marriage. The "increased unemployment" hypothesis suggests that the effect of the experiment on marital dissolution should be mediated by the husband's unemployment and reductions in hours worked per week.

the status only of hypotheses that are not yet contradicted by evidence.⁷ They do not conflict with each other. It is likely that to some degree all three effects are operating.

The weight assigned to each is important, however, because it influences how seriously we view the splits that universal cash assistance may cause. Some might view splits caused by a reduction of the stigma of being on AFDC or greater awareness of opportunities for aid as giving the husband and wife the option to sever an already bad relationship. In this view, the experiments are not changing the basic quality of marital relationships, they are merely tipping a few of the worst marriages into the divorce court.

An alternative view is that marital partners on the margin of dissolution are already aware of the availability of AFDC, and that the impact of the experiment is on marital interaction. Providing a convenient alternative to working out the problems that arise may in some families induce one or both parties to reduce their investment in the relationship. Most marriages have their good times and their bad times. Adjusting to shocks to the marriage's equilibrium requires effort and forbearance on the part of both husband and wife. If either the husband or wife stops making the effort to communicate their needs and to adjust to the changing needs of the other, their relationship will tend to deteriorate and may eventually dissolve. The evidence that is available to us now does not allow us to choose between these two views.⁸

The role performance interpretation implies that in some families cash assistance disturbs a previously existing equilibrium and starts in motion a chain of events that leads to a dissolution. Some families will reject the notion that cash assistance is a sign of the husband's failure, others will respond to cash assistance by adopting a less traditional view of the husband's role in the family. Still other families will split apart. How seriously one views a government policy that might have as a side effect promoting such a chain of events depends on one's values.

The consequences for the children of an income maintenance induced divorce are hard to assess. Holding constant race, family origin, parent's education and occupation, the average child who grows up in single parent or step parent families spends roughly seven-tenths of a year less in school and obtains jobs that pay about 10% less (Featherman and Hauser, 1978). The experience of the marginal child may be different, however. It has been argued that a marital dissolution induced by reducing the stigma of AFDC will not hurt the children nearly as much as the averages quoted above. It might, in fact, help children. Social science does not know the extent to which children are hurt by this type of marital split and is unlikely to be able to find out, for we will never do the controlled experiment that would be necessary.

⁷ A fourth explanation that a male independence effect might be operating if the men who split from their families receive substantial payments from the program while living singly or as heads of a new family. When a man in the experiment remarries (or starts living with another woman and reports it is permanent) his new wife and her children become eligible to receive payments as well. This might seem to create a strong incentive for men who split from their first wife to quickly marry another woman, but this does not seem to be happening. In the first 24 months of the experiment, only 13.6% of the splitting men in the experimental group were observed to have entered a new marriage. An almost identical 17.7% of the control group's splitting husbands were observed to have entered a new marriage. Attrition rates are higher in the control group, so correcting for imperfect measurement will raise the control group's new marriage rate relative to the experimental group's rate. Further evidence for the absence of a male independence effect is the high attrition rates of splitting husbands. Attrition from the study means one is ineligible for payments. Despite this, the attrition rate of men for whom a remarriage or reconciliation were not observed was 53% in the experimental group on the low support plan and 51% for the experimental group as a whole. (Groenfeld et al., 1977 and personal communication).

⁸ Questions on marital happiness and adjustment were asked in the Rural and Seattle/Denver Income Maintenance Experiments. Only the data from the Rural experiment have been analyzed so far. Middleton and Haas (1977) found no statistically significant association between being on the experiment and the mean changes of these scales. Income effects should improve marital adjustment while reduced investments in the relationship should worsen it at least for a few of the families. The net effect of the experiment on the mean of these variables is indeterminate. If these scales do measure what they purport to measure, the reduced investment interpretations of the marital split results predicts that in the low and medium support groups there should be a few families that suffered a severe decline in marital adjustment and there should be a tendency for some of these families to split apart later. The "tipping the worst marriages" interpretation implies that in the experimental group there should be an especially strong tendency for the marriages with the worst marital adjustment at pre-enrollment to split apart.

5. POLICY IMPLICATIONS OF FINDING INCREASES IN MARITAL INSTABILITY IN THE NEGATIVE INCOME TAX

A finding that universal cash assistance will increase the rate at which marriages dissolve has policy implications only if society decides that such an outcome would be desirable or undesirable. The discussion that follows assumes that society views as undesirable either the fact of the increase in marital dissolutions or the increase in the cost of welfare that would result from an increase in the number of female-headed families.

Which interpretation one gives to the high rates of marital dissolution in the low support plans of the experiments also affects how one might modify the welfare reform package to reduce the number of marital dissolutions caused by the program. If increased knowledge of the availability of income support for the family if a dissolution occurs is the cause, segregating the programs that aid two-parent families from the ones that aid single-parent families is indicated. An earned income tax credit or wage rate subsidy would accomplish this. If stigma is the major explanation, we face a truly intractable dilemma. There would appear to be no way to make single-parent families better off without creating more of them.

If the role performance explanation is a major cause, aiding the family through jobs- and earnings-related transfers is the solution. The key is to aid the family in a way that does not signal the husband as a failure or create incentives for him to extend his periods of unemployment. The work requirement in the proposed program will tend to do the latter. The proposed program could have an unfortunate signaling effect, however. One way to avoid the chance that some may view the receipt of aid as a signal that the husband is a failure is to construct the system so that the payments are received as part of the worker's paycheck.

Two methods of subsidizing a worker's wages are available: earned income tax credit (EITC) and wage rate subsidies (WRS). Both would raise the average after tax earnings of low-income families and both can be implemented in an unobtrusive way by making the system a part of the withholding. A 10% EITC of the first \$4000 of earnings of families with children is already a part of the tax code. By raising the EITC subsidy rate to 50% or more, varying the amount of income that can receive subsidy according to family size, and increasing the marginal tax rate in the cash assistance program, almost all the two-parent families that would receive cash assistance payments under the current proposal would instead be receiving the same dollars of increased income in the form of a higher paycheck. An example of how such an EITC oriented program would work for single- and two-parent four-person families is provided by Tables 3 and 4. (For a comprehensive description and analysis of EITC's see Haveman et al., 1973.)

TABLE 3.—A COMPARISON OF WELFARE REFORM ALTERNATIVES FOR 4-PERSON FAMILIES WITH 1 MEMBER EXPECTED TO WORK

Earnings	Administration welfare reform			Alternative I			Alternative II		
	Cash assistance	EITC	Total income	Earnings plus EITC	Cash assistance	Total income	Earnings plus EITC	Cash assistance	Total income
\$0.....	\$2,300	\$0	\$2,300	\$0	\$2,300	\$2,300	\$0	\$2,300	\$2,300
1,000.....	2,300	100	3,400	2,000	1,400	3,400	1,500	1,800	3,300
2,000.....	2,300	200	4,500	4,000	500	4,500	3,000	1,300	4,300
2,300.....	2,300	230	4,830	4,600	230	4,830	3,450	1,150	4,600
3,000.....	2,300	300	5,600	5,400	0	5,440	4,500	800	5,300
4,000.....	2,200	400	6,600	6,640	0	6,640	6,000	300	6,300
5,000.....	1,700	450	7,150	7,240	0	7,240	7,140	0	7,140
6,000.....	1,200	500	7,700	7,840	0	7,840	7,740	0	7,740
7,000.....	700	550	8,250	8,440	0	8,440	8,340	0	8,340
8,000.....	200	600	8,800	9,040	0	9,040	8,940	0	8,930
9,000.....	0	650	9,650	9,640	0	9,640	9,540	0	9,540
10,000.....	0	562	10,562	10,480	0	10,480	10,380	0	10,380
11,000.....	0	462	11,462	11,380	0	11,380	11,280	0	11,280

NOTE.—Alternative I: EITC matches earnings dollar for dollar up to cash assistance guarantee for family expected to work (CAG). Above this level EITC=20 pct of the next \$1,700. Above this the EITC is taxed at 40 pct up to 4 times the CAG, at which point the tax rate drops to 10 pct. Both earnings and the EITC are taxed by the cash assistance program. The tax rate in the cash assistance program is 45 pct for those expected to work and 70 pct for those not.

Alternative II: The EITC is 50 pct up to twice the CAG above which it is taxed at a 40 pct tax rate. Above 4 times the CAG, the EITC tax rate is 10 pct. The tax rate in the cash assistance program is 33 pct for those expected to work and 60 pct for those not expected to work.

TABLE 4.—A COMPARISON OF WELFARE REFORM ALTERNATIVES FOR 4-PERSON FAMILIES WITH NO ONE EXPECTED TO WORK

Earnings	Administration welfare reform			Alternative I			Alternative II		
	Cash Assistance	EITC	Total	Earnings and EITC	Cash assistance	Total	Earnings and EITC	Cash assistance	Total
\$0.....	\$4,200	\$0	\$4,200	\$0	\$4,200	\$4,200	\$0	\$4,200	\$4,200
\$1,000.....	3,700	100	4,800	2,000	2,800	4,800	1,500	3,300	4,800
\$2,000.....	3,200	200	5,400	4,000	1,400	5,400	3,000	2,400	5,400
\$3,000.....	2,700	300	6,000	5,440	392	5,832	4,500	1,500	6,000
\$4,000.....	2,200	400	6,600	6,640	0	6,640	6,000	600	6,600
\$5,000.....	1,700	450	7,150	7,240	0	7,240	7,140	0	7,140
\$6,000.....	1,200	500	7,700	7,840	0	7,840	7,740	0	7,740
\$7,000.....	700	550	8,250	8,440	0	8,440	8,340	0	8,340
\$8,000.....	200	600	8,800	9,040	0	9,040	9,940	0	9,940
\$9,000.....	0	650	9,650	9,640	0	9,640	9,540	0	9,540

Note.—See title 3 for descriptive for alternative I and II.

A Wage Rate supplement (WRS) is a government payment per hour of work over and above the standard wage for a job. To be eligible for a supplement a job's standard wage would have to be equal to or greater than the minimum wage. There would be an upper limit on the number of hours of work that could be subsidized. (The limit would be somewhere between 180 and 210 hours per month.) In a WRS the per hour payment is equal to some percentage (say 50%) of the difference between a target wage (TW) and the workers actual wage (W). The general formula is $WRS \text{ Payment} = .5 (TW - W) (\text{Hours Worked})$. To take a simple example, a worker in a minimum wage job ($W = \$2.65$) who has a target wage of $\$4.65$ would be eligible for a supplement of $\$1.00$ an hour. If he works 160 hours in a month, he would receive $\$424$ in normal wages and $\$160$ extra $[.5(4.65 - 2.65) \cdot 160]$ of wage supplement. If the worker were to obtain a job with a higher wage rate of $\$3.45$ the supplement falls to $\$.60$ an hour. His monthly supplement falls to $\$96$ but his total earnings including the supplement rise from $\$584$ to $\$648$ ($\$96 + \552). Like the EITC the wage rate supplement can be designed to integrate well with guarantee-type programs like Food Stamps, AFDC and the Cash Assistance component of the administration's welfare reform proposal.*

Compared to an earnings subsidy, a WRS has the advantage of stimulating rather than decreasing work effort, because it increases the monetary benefits of working longer hours. Like an NIT, an EITC causes a $\$25$ to $\$60$ decline in a family's earnings for every $\$100$ of cost. Using the labor supply function estimated for the Seattle/Denver experiment, Keeley et al. (1977, Table 12) have calculated that a program costing $\$8$ billion extra in 1974 would, because of labor supply reductions, increase the income of target families by only $\$3.4$ billion. Masters and Garfinkel's (1978) simulation of labor supply responses to NIT's and generous EITC's imply that for every $\$100$ spent family incomes go up only $\$60$ to $\$75$.

A wage rate supplement has very different impacts on labor supply. If it is limited to primary earners it will leave labor supply unchanged. Extending it to include wives will raise before subsidy earnings by 10-20% of the amount paid out in supplements. As a result an $\$8$ billion WRS program would (depending on coverage) raise the income of targeted individuals by $\$8$ to $\$9.6$ billion rather than $\$3.4$ billion.

So far, all that has been claimed for earned income tax credits and wage rate subsidies for families with children is that they can transfer an equal amount of income to a family with a working head without having marital destabilizing effects as serious as welfare or cash assistance. Is the benefit only the disruption of fewer families than the administration's cash assistance proposal or can it be claimed that introducing an EITC or WRS into the current environment will reduce marital instability below current levels? In

* How a WRS would integrate with other income maintenance programs is discussed by Lerman (1974) and Bishop and Lerman (1977). Its impact on labor supply in both partial and general equilibrium models has been discussed in Kesselman (1969), Lerman et al. (1974), Bishop (1977a) and Masters and Garfinkel (1978). Its administrative advantages are discussed in Bishop (1977b).

order to make predictions we need to make assumptions. We have argued above that if eligibility determination is handled outside the welfare bureaucracy and payments made through modifications in the withholding system, there will be no announcement effects from receiving the subsidy and the extra income will be treated as if it came from a tax cut or wage increase. The argument of the next two paragraphs assumes that the EITC or WRS does have this character and that, consequently, by equating its effect with an equivalent wage change we may use nonexperimental research on marital stability to predict its effect.

The EITC and WRS raise the earnings of both single- and two-parent families. It is, therefore, conceivable that the female independence effect arising from the improved circumstances of female-headed families would outweigh the income effect of raising the intact family's earnings and cause a net increase in marital instability. Cross-section studies find that states and metropolitan areas with higher wage rates for women tend *ceteris paribus* to have higher rates of female headship. These same studies, however, find that a proportionate rise in both male and female wage rates are associated with fewer female-headed families. Holding the male/female wage ratio constant, Ross and Sawhill (1975) found that a 10% rise in the median income of intact families lowered rates of female headship in poverty areas of cities by 7%. In the Minarik and Goldfarb (1976) study a percent-in-poverty variable captures the effect of a general rise in wage rates.¹⁰ Reductions in poverty reduce the incidence of female headship though not to a statistically significant degree. In Honig's (1974) study a 10% rise in all wage rates is predicted to increase the number of black female heads by 6.3% and reduce the number of white female heads by 4.4%.

Except for Honig's (1974) results for blacks, the evidence suggests that a general rise in wages will tend to keep families together. This does not, however, necessarily imply that an EITC or WRS will have the same effect for these programs may increase the female headed family's earnings by a larger percentage than it increases the earnings of the comparable two-parent family. On the other hand, since the man loses his eligibility if he leaves his family, the EITC and WRS for families with children builds in stronger incentives for the man to stay with the marriage than does a general increase in wages. After netting out these counteracting effects the direction of the effect of employment related subsidies on marital stability must remain indeterminate. Whatever the direction, however, the size of the impact will be small and substantially more supportive of stable marriages than universal income maintenance.

6. CONCLUDING REFLECTIONS

For many years it was thought that one of the primary ways in which public policy might be designed to strengthen families was to expand eligibility for welfare benefits to include two-parent families. When this policy was implemented experimentally, we discovered that the opposite happened. Two-parent families on a payment plan very similar to the administration's cash assistance program experienced marital dissolution rates that were 70% higher than the control group that was eligible for the current set of income maintenance programs—AFDC and Food Stamps. These findings suggest that if strengthening marriages is an objective of public policy, expansions of welfare coverage to include two-parent families should be approached with real caution.

Cashing-out Food Stamps is likely to substantially increase the participation of two-parent families in that program. Since cashing-out Food Stamps makes it very much like the NIT plans used in the experiments, this seemingly innocuous reform may cause a substantial increase in rates of marital dissolution.

How then can government improve the financial circumstances of low-income two-parent families without stimulating marital breakups? The answer would seem to be to focus on jobs rather than cash assistance. Reducing unemployment should get number one priority. Reflecting on why his marriage failed a young man recently told a reporter "she lost respect for me as a man because I could not support us." (*New York Times*, September 9, 1977). Nevertheless he

¹⁰ The male and female wage variables have coefficients of opposite sign but almost identical magnitude.

had turned down jobs saying "I'm worth more than \$2.00 an hour as a human being." A jobs strategy must simultaneously provide more jobs for the unskilled and drive up the wage rates for these jobs.

Programs that aid two-parent families should be as different from and as segregated from programs that aid single-parent families as possible. Two-parent families should be aided in a way that is not perceived as charity and that requires no contact with the welfare bureaucracy. If possible the family should be unaware it is being aided. Aid should arrive as part of the paychecks of the family's working members. Subsidizing low wage workers who have family responsibilities is one way to accomplish this. Creating nonstigmatizing jobs and targeting them on family heads is another. Other less targeted and more costly approaches are available—national health insurance, a refundable tax credit for children, training programs, higher minimum wages combined with employment subsidies.

In choosing and designing programs we must never forget that it is the dignity of individual that is our ultimate objective. The role of provider for those they love is a fundamental part of the self-concept of most adults, males and increasingly of women as well. Government policy should have as its first priority helping the individual to achieve success in this self-defined role.

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Senator MOYNIHAN. I am afraid I am going to have to leave now as we are having a vote on the Senate floor. The time that we have been allowed to continue this hearing this afternoon has expired.

I will resume today's hearing at the time that the Senate goes out of session tonight, whenever that is. We may be out by 7:30 or 8.

I am sorry that this is the way it has worked out for us, but this is the way our days are sometimes.

Mr. Alexander, Ms. Kokinda, Mr. Hacking, Mr. Borsodi, and Ms. Flori, we will see you back at that time.

I appreciate very much your coming, Dr. Bishop. Please leave us your original draft for the record. You have given us a great deal to think about, Dr. Bishop, and now we had better do our thinking.

This subcommittee will recess until the unstated hour of whenever the Senate goes out. We will resume this hearing at that time.

[Because of a conflict with the meeting of the Senate, the subcommittee was unable to receive oral testimony from several organizations which had been scheduled to testify. The written statements presented on behalf of those organizations are printed below:]

NATIONAL ASSOCIATION OF SOCIAL WORKERS, INC.,
Washington, D.C.

Mr. Chairman, members of the Committee, I am Chauncey Alexander, Executive Director of the National Association of Social Workers. Approximately 6-8 percent of our professional membership is involved directly through their work in trying to administer, at every level of management, an irrational, public welfare system in a humane manner. For this reason and for more than a year now, NASW has been working with the Administration and the Congress to achieve genuine welfare reform. For us, among the cutting issues of a suitable welfare reform package are: a national, minimum income floor; an adequate benefit level; universal coverage; eligibility based on current need; uniform and standardized administration, entirely state or federal, but not both; supportive services for those who work and those who cannot; incentives to work; which target the structurally unemployed, especially AFDC recipients, with skill training opportunities, and, no work requirement without a job guarantee.

While the proposal which embodies most of our concerns is the House Subcommittee version, H.R. 10950, we find the package proposed by Senators Baker, Bellmon, and Ribicoff, S. 2777, a considered and feasible plan. Because the rationale and facts which advance these plans and the above issues have been detailed by the Administration and before various Congressional committees, we would like to focus our remarks on why passage of a reform bill is essential now. For a year of ground-work and a number of reasonable proposals, there still remains an unreadiness among many of the interested parties. Why?

WELFARE REFORM NOW

First, the work strategy embodied in the various proposals is in the process of being implemented through related legislation: CETA reauthorization is producing a revision of Title II which targets the structurally unemployed.

A bill (S. 2779) to authorize additional appropriations for the work incentive program (WIN) was passed by the Senate on April 4th. The new food stamp reform which became effective on October 1st calls for 15 experimental work projects. And, the Secretary of DHEW has authorized several waivers reinstating a limited Community Work and Training Program. The overall effect has been to take the edge off the need for reforms on the cash assistance side. Yet nothing has changed. Intact families are still not covered in all states. Eligibility criteria inconsistencies continue among the States.

Complexity, duplication of paperwork and inequities abound. If anything, the realization of a work strategy should provide the impetus for meshing with the cash assistance portion. It is an opportunity to do justice to both the working poor and non-working poor. To do so in an efficient and understandable manner requires at a minimum: national eligibility standards; national minimum benefit levels; improved coordination, if not consolidation, among the major income transfer programs; and, expansion of coverage to, at least, all intact families.

The second reason for the reluctance to confront an overall welfare plan now is cost considerations. This argument fails to support the absence of action on the income maintenance side. Estimates of the cost of the various proposals, depending on varying factors, range from approximately \$8 to \$20 billion. Yet, in every

instance, a substantial portion of the high costs stem from the job program proposals and related efforts (e.g. EITC).

In H.R. 10960 (Subcommittee), the public service employment and EITC estimated costs to the Federal Government by 1982 are \$7.81 billion and \$1.62 billion respectively. In H.R. 9030/S. 2084, the Federal share for public service employment and EITC are, respectively, \$8.47 billion and \$2.63 billion. S. 2777 (Baker-Bellmon) calls for \$3 billion for public service employment, \$3.12 billion for EITC and another \$1.04 billion for a job voucher program. In effect, the impact of the employment programs on program costs are considerable. We believe these costs due to expansion of employment programs are necessary and worthwhile.

Yet, the cost of any job program also depends on the state of the economy. Still, to not attend to the cash assistance side of welfare reform is to acquiesce to the proliferation of current programs which result in error, waste, fraud and higher costs to the taxpayer. To pass the job programs without restructuring the cash assistance components is not cost-effective. Continuing the basic federal public assistance (AFDC, SSI and food stamps) programs without change will add billions in subsequent fiscal years.

Third, there is a need to separate those non-germane issues, such as fiscal relief, which do not go to the heart of welfare reform and only confuse matters. We value and appreciate the share of public assistance costs of state and local governments. Many of our own members are dependent for employment on these local and state funds. But, passage of welfare reform cannot be dependent on an interlocking fiscal relief measure. Last year, this comm'ttee approved a small fiscal relief measure tied to state AFDC expenditures. It can do so again. We believe that the way to aid hard-pressed states and localities without jeopardizing welfare reform is through separate enabling legislation and we urge Senate action again.

Finally, public attitudes toward welfare reform show neither strong support nor antipathy. The lack of public feeling for welfare reform is more likely an expression of general dissatisfaction with government rather than with welfare programs per se. In a paper on the politics of welfare reform, employing national survey data gathered by the University of Michigan Center for Political Studies, Professor Arthur H. Miller examined attitudes toward public welfare. In one revealing paragraph, he states,

"One might conclude . . . that negative reactions to public welfare express the taxpayers image of an incompetent public welfare bureaucracy. . . . Such an influence however, might be in error for it may be an expression of general dissatisfaction with government and not with the administration of welfare programs specifically. Indeed, in 1976 three-fourths of the survey respondents disagreed with the statement that the government should spend less even if it means cutting back on programs like health and education."¹

These provocative observations should provide solace for proponents of welfare reform now; and for the House and Senate, an opportunity to dispell this political cynicism with respect to public welfare.

For clearly, the various proposals in their respective ways do help in rationalizing the current ramshackle bureaucracy.

In sum, the very obstacles to welfare reforms should instead provide the impetus for leadership.

POINTS OF AGREEMENT

What change is possible given the cross-grained nature of the beast and the little time that is left?

In a sense, although the time constraint presents a serious obstacle, what is emerging among Republicans and Democrats in the leadership and key committees of the House and Senate is an agreement on many features of welfare reform rather than principles. Agreement on these features by the key parties in Congress and the Administration could mean relatively fast movement. The consensus seems to be building up around expansion of certain programs and mechanisms. To date, these appear to be—

- Targeting PSE jobs through CETA for the economically disadvantaged;
- Expansion of WIN;
- Expansion of EITC;
- Standardization of eligibility and rules for AFDC;

¹ Miller, Arthur H., "The Politics of Welfare Reform: Attitudes Toward Public Welfare," April 1978.

Retaining food stamps (the new food stamps reform act goes into effect in October 1978);

Mandating AFDC-UP in all states;

Reducing the SSI eligibility age;

Increasing the federal matching rate for AFDC to provide a measure of fiscal relief;

Calling for pilot studies of certain comprehensive reforms; and,

Increasing funding for social services for use as work-related support services.

We support these efforts and hope that regardless of the piecemeal legislation, this committee and its counterpart in the House will not ignore the need for overall cohesion. Thank you, Mr. Chairman, for the opportunity to present our views. I look forward to answering your questions.

NATIONAL ASSOCIATION OF SOCIAL WORKERS, INC.,
Washington, D.C., May 10, 1978.

Hon. DANIEL P. MOYNIHAN,
U.S. Senate, Dirksen Senate Office Building,
Washington, D.C.

DEAR SENATOR MOYNIHAN: I appreciate your continued concern and your cogent questions. In order to respond directly, I am taking each question in order.

1. *Work Requirement and Welfare.*—The National Association of Social Workers (NASW) favors a work requirement as a politically expedient measure, but only if it is coupled with a guaranteed job requirement. I do not believe this is a change inasmuch as NASW has always supported work opportunity for persons receiving public welfare support. We have opposed arbitrary work requirements not linked to employment opportunity and continue to do so.

We consider that the so-called "work requirement" should be developed as a work opportunity program, including mothers with pre-school children, if they have adequate social protections, such as day care, training opportunities, etc. As for penalties, we consider the ineligibility for support is penalty enough. The experience of other countries is that a climate established that provides work opportunity tends to eliminate the need for penalties. Following is the general rationale we advocate:

NASW approaches the issue of imposition of a work requirement in the context of our policies which stress the importance of work and the obligation of a modern democratic government to guarantee employment opportunities.

The belief in the importance of work as a principal source of economic, personal and social well-being has led us to advocate a national economic policy of full employment. To the extent that the labor market fails to provide adequate employment opportunities, we believe a humane government should address the employment needs of unemployed individuals by a job creation program which provides a meaningful work experience. It should not rely on stigmatizing and often inappropriate coercive measures. Such devices perpetuate the myth that people on public assistance will not work unless forced to do so. Further, there is a lack of a proven necessity for a work requirement and a demonstrated expense and inefficiency of administration.

Nor do we support make-work projects. Subsidized jobs should provide needed goods and services and an opportunity to gain the skills and experience needed for employment in the non-subsidized labor market.

We recognize that political and philosophical considerations may make a work requirement necessary. As such, we favor the following principles:

No work requirement should be imposed without the guarantee of a work opportunity.

In order to strengthen the meaningful work experience aspects of a subsidized jobs program—the education and job training components must be expanded; and, the potential for a stable employment history should be maximized by expanding the 12 month time limit on public service jobs to 18-24 months.

Mechanisms should be developed to facilitate a public service employee's entry into the private sector labor force.

Finally, because of unique personal work histories and the competitiveness of the private labor market, some individuals may never be able to maintain a job in the regular market. Public service employment can offer these individuals the work experience they seek in the supportive environment they need. Many

supportive employment programs are operating successfully in major American cities. These programs use a combination of job market development activities and personal counselling and training to maximize work potential. These manpower programs should be carefully examined, and that their successful strategies incorporated in job programs.

In sum, we question the necessity of a work requirement. We believe a definite guarantee of a job is a fair trade-off for the imposition of the requirement. Parents with supervisory responsibility for children should not be forced to work, but high quality child care should be available for those who choose to work. Part-time and flexi-time work schedules should be available to all. And, supportive employment programs should be created for the least qualified workers.

2. *Social Work and Welfare Administration.*—Unfortunately, professionally trained social workers have not shaped and administered these programs. The programs have been shaped by Federal and State legislation which approaches the problems of economic sustenance of people as a problem of individual failure rather than an economic system liability. The public welfare group represents a marginal labor pool which is related to the labor market conditions. Social workers have had little influence on these larger economic factors and have generally been placed in the position of having to be advocates for people adversely affected by the social conditions.

In our present fragmented welfare system, there are more than 100 federally funded programs that transfer income. In addition to these programs, there are a myriad of programs which provide jobs, training, day care, medical care, rehabilitation, personal and job counseling. As a consequence there is no single agency, public or private, that has either the responsibility or the capacity to design and manage as a coherent system. Certainly, the social work profession cannot be held responsible for what are essentially political decisions establishing the maze of programs.

Indeed, a major criticism within the profession is the few well-trained front line workers within public welfare departments generally. Approximately 8 percent of the membership of NASW work in public welfare directly. Of the several hundred thousand persons involved in the delivery of public assistance, a minuscule number are properly trained workers. In addition, the consistent problem has been the Federal and State declassification of positions to hire political administrators and untrained line workers.

For this reason, the social work profession developed standards of performance and supervision for workers hired to perform human service activities. The NASW goal of assuring trained personnel has been frustrated by the complexity of the system. The fact is that state and county governments have more to say about the administration of public welfare than professional personnel. The result is the waste, complexity and idiosyncracies which characterize our present system.

Regardless of who finances or administers the welfare program(s), we believe that certain principles should govern the design and management of any welfare reform:

The interface of the major income transfer programs—AFDC, SSI and food stamps—must lead to a cohesive program plan in a way that mitigates any disruptive impact on both states/localities and recipients.

Program consolidation is crucial and could be undertaken in two steps: first, the same kinds of assistance programs should be made available in all states, and efforts should be made to standardize eligibility criteria between programs. Simultaneously, federal participation in financing assistance programs should be standardized between the states. Second, after achieving a sufficient degree of uniformity in the availability and financing of programs in the eligibility criteria between programs, all income assistance programs should be consolidated into a single, uniform, federally financed program.

Personnel should be appropriately trained in problem assessment, knowledge of community resources and given the authority and responsibility to initiate and follow-up on recipient referrals;

Data systems should be designed which reduce paper work, and preserve client confidentiality; and,

Ample incentive and encouragement should be given to the identification of new ideas and practices which might improve the performance of the program.

Welfare reform demonstration projects and studies represent a sensible way to pre-test large scale jobs programs. Useful information can be obtained through

these studies on the relationship of services and training to job placement, what kind of delivery system increases transition to private sector employment and the different approaches to public job creation. Because of the importance of these studies, the vulnerability of the target group and the need for accurate information upon which to base future legislation, we recommend to the Senate Human Resources Committee on CETA welfare pilot projects that—

A clear, fully developed, publicly available, research design be approved by the Secretary before undertaken;

The design be adhered to and not altered to meet the exigencies of unforeseen problems;

The study be designed so that its results are transferable to a broad-based population;

The client's rights be protected, privacy respected and coercion not an element of the design and implementation;

There be an impartial, independent evaluation of the results; and that,

Support services be provided to project participants in the same manner as non-tested participants.

All the above will require constant, on-going evaluations by the DOL to insure not only fairness to project participants but to assure receptivity of participants.

3. Fiscal Relief.—We believe the goal of welfare reform is to address the question of poverty. The paths to reform are many, but the issue of reforming our public welfare non-system must address the central issue—poverty.

Fiscal relief has a tight, narrow focus and an equally narrow regional impact. The fact is that states which pay high benefits want more fiscal relief. States which pay low benefits already have a very high federal cost sharing. Why do we allow this to go on rather than insist on balancing what states should pay?

Unhappily, the states and localities continue to offer the view that welfare reform should be used as an instrument of general fiscal relief. The problem is that when fiscal relief is introduced as a prime objective, new elements are injected which complicate and change the order of difficulty of an already difficult system.

As a result, maintenance of effort provisions, income ceilings and intricate transfer devices become major concerns.

These fiscal relief concerns should not be allowed to bend programs which serve the vulnerable in order to achieve secondary purposes. If significant fiscal relief is desirable, a better and clever method exists: Federalized Medicaid. We would eliminate the existing interstate differences in benefits and eligibility.

And, the savings to the states would be more than double the highest expected relief from current welfare proposals—approximately \$6.9 billion in fiscal year 1978.

Our position on the role of fiscal relief in welfare reform was cogently articulated by Edward K. Hamilton and Francine F. Rabinovitz in their Duke University study, "Whose Ox Would Be Healed."

Our preference, therefore, would be to see welfare federalization enacted as a matter of social justice, not primarily as a device to effect fiscal relief. Its fiscal effects could then be compensated for, offset, enhanced or otherwise managed through the use of general and categorical instruments of federal and state policy that are not so riven with conflicting systems of burden sharing. Far better than trying to design and enact a welfare federalization scheme that would in itself achieve fiscal equity would be to enact one that accomplishes social equity for recipients, and then to adjust Revenue Sharing, block grants, categorical grants and other devices to deal with the current fiscal problem of the cities in the light of whatever changes in that problem prove to be caused by this major step in welfare.

The current welfare "system" is a poor instrument for every purpose to which it is now addressed. It promises to be an even poorer one if used as an organizing principle for the nation's approach to the chronic financial problems of cities. If we are serious about either the problems of the poor or those of the cities, we ought to be able to develop a better vehicle. There are not many more important tasks on our national agenda.¹

4. Critical Issues For Welfare Reform.—The critical issues for welfare revolve around assuring economic security for all citizens through a combination of in-

¹ Welfare Policy Project, The Institute of Policy Sciences and Public Affairs of Duke University, the Ford Foundation, pp. 68-69.

come maintenance and work. While we do not agree "that the impact of welfare on family stability is the single, most important issue of welfare reform," we believe that a fundamental underpinning of the family structure in this country is a stable economic floor that will provide the necessities for independent living.

During the past decade, families headed by single parents have grown ten times as fast as 2-parent families and now exceed 15 percent, compared to 9 percent in 1960. The number of these families is expanding in all income classes. To condition welfare reform on prospects for family stability is to burden the welfare system with another unreasonable expectation. If anything as families on public assistance gain economic security, it should be expected that their lifestyles will more and more reflect the disruptive patterns of the middle-class. Our society ought to value individuals regardless of family status. And, welfare reform should establish a national income floor for those in need regardless of family status.

The demography of female-headed families will not be changed solely because 2-parent families become eligible for cash assistance. Today, 40 percent of all black children and 12 percent of all white children live in families headed by women. With respect to births, teen-age mothers accounted for about half of all the out-of-wedlock children born to both blacks and whites in 1976. (Washington Post, May 3, 1978).

It is tempting to infer that the present AFDC program is responsible for these social trends. But, the rise in marital dissolution, female-headed households and out-of-wedlock births has occurred in all economic classes of our society. The forces leading to these social phenomena are more likely the increased consciousness and independence spurred by the women's movement, the rising income of women, liberalized divorce laws, lower birth rates and less stigma attaching to unmarried mothers. For female-headed households, we recommend:

Full-time and part-time employment opportunities in public service employment;

High quality child care services for working parents;

Special programs directed at training and skill development of displaced homemakers regardless of economic status;

A cash income maintenance with a benefit level which is not unfair to female-headed households; and,

Programs directed at prevention of teen-age pregnancy which are adequately funded to meet the need.

5. *Work-Related Social and Support Services.*—Social and support services are necessary and complimentary to manpower programs. Support services of a work-related nature include child day care, homemaker services, job and career counseling, individual and family counseling, health related services and information and referral.

Without these services many individuals cannot become potential CETA participants and if they do gain entrance into a program they cannot continue because of the lack of support services. The individuals who most need these services are the hard-core structurally unemployed who have been unemployed for long periods of time. We are talking about those who are not a part of the labor force due to lack of skills, education, or work experience. Without viable alternatives, these are frequently the same people who remain on welfare rolls. NASW has urged the policy that all people should have ready and equal access to employment. To the extent that the labor market fails to provide adequate employment opportunities, welfare programs are needed to assure that all individuals have food, clothing, shelter, and health care.

Support services play a crucial role in the total functioning of work incentive (WIN) and Comprehensive Employment and Training Act (CETA) participants. The WIN training program is provided to Aid to Families with Dependent Children (AFDC) applicants and recipients. WIN's purpose is that of helping individuals to obtain and retain employment, and of "restoring the families of such individuals to independent and useful roles in their communities." (The Social Security Act, Title IV, Part C, Sec. 430.) In the 8 years of its operation the employment tactics have changed, but the importance of social services has remained. In fiscal year 1977 WIN purchased \$118 million worth of child care and other supportive services. (Public Welfare Programs, prepared for the Subcommittee on Public Assistance, Committee on Finance, U.S. Senate,

April, 1978.) When certification for participation is requested, WIN assumes the responsibility and arranges necessary Title XX services when available and WIN services when not available. Such services focus on child care, family planning homemaker, housing, transportation, employment and training and health-related aid. There are separate administrative units (SAU) in local welfare offices to provide or arrange for these supportive services. The WIN administration has confirmed that without these supportive services WIN registrants would be unable to enter employment. And, that because of the absence of support services in many localities, WIN registrants are denied job opportunities.

CETA has also noted the importance of support services, but their programs are not as well established. Under current law, Title III, there has always been the provision for the Department of Labor to seek advice and consultation with the Department of Health, Education and Welfare. This year CETA is up for reauthorization and the new bill mentions and includes supportive and social services as a part of the total functioning of the program. The purpose of CETA is still to provide "job training and employment opportunities for economically disadvantaged persons, unemployed or underemployed persons which will result in an increase in their earned income . . ." With the new bill there is added emphasis on "coordination of plans, programs, and activities under this Act with economic development, community development, and related activities such as vocational education, vocational rehabilitation, and social service programs." (emphasis added) Also, the DHEW consultation clause has been removed from Title III and put under Title I's general provisions for all of the Titles.

Our informal contacts with CETA prime sponsors with high AFDC participation rates for public service employment indicate a "creaming" effect on WIN. This results from the absence of provisions for support services in CETA, particularly child care, resulting in a self-selection system by job ready participants who can make arrangements for themselves. The impact on WIN could be extremely deleterious. We would not like to see WIN become the repository for the least job ready participants with the most social and support needs.

For this reason, CETA still has to strengthen and formalize links with social service programs and/or further develop their own programs. Social and supportive services are finally being recognized as necessary work-related services for certain populations.

Thank you for this opportunity to clarify our position on this timely issue.

Sincerely,

CHAUNCEY A. ALEXANDER,
Executive Director.

STATEMENT OF SUSAN KOKINDA, CONGRESSIONAL RELATIONS, U.S. LABOR PARTY,
APRIL 25, 1978

The U.S. Labor Party opposes the Better Jobs and Incomes Act (S. 2084) on two major fronts.

Firstly, the program must be opposed on the basis of its demerits alone—namely, that it provides the means for the forced "recycling" of America's skilled and semiskilled workforce into lower and lower paying "jobs". The welfare program cannot be taken out of the context of the accelerating devolution of the productive base of the U.S. economy, e.g., the steel industry.

Secondly, and perhaps more practically (since the House seems well on its way to chopping this act to pieces), the Senate must continue to send President Carter loud and clear messages about the unacceptability of program which originate from the no-growth faction in his Administration, as this bill does. It has been obvious to us for some time now—and is now front-page news—that the Administration is violently factionalized between those individuals who are trying to solve the current world economic (and foreign policy) crisis through a hard dollar-backed, high technology export boom; and those who accept, propagate and are trying to socially engineer the current collapse through energy austerity, Humphrey-Hawkins-type legislation, and this welfare reform bill. In overly simple terms, one could label the factions respectively Strauss vs. Blumenthal. I would like to suggest that the scrapping of this legislation could very usefully go hand-in-hand with vociferous calls for the resignation of Messrs. Blumenthal, Schlesinger, Andrus, etc.

But before developing either of these two fundamental objections, it is necessary to step back and take a broader look at the "welfare problem." It is probably an accepted observation that the so-called welfare problem became the problem that it is in the post-1957 recession period. Data on the shifting composition of the labor force, particularly the proportion of full-time operatives in manufacturing, construction, transportation and mining in relation to the rest of the work force is especially revealing. From the low point of manufacturing employment of operatives at the close of the Korean War, this employment rose modestly until the close of 1956, and was aborted by the downturn toward the end of the 57-58 recession. From that point until 1961, the general trend in the employment RATIO of operatives was downward until the beginning of the "Kennedy boom" in 1961. However, from 1957 on, the level of employment of productive operatives never significantly exceeded that of 1953.

This stagnation and decay in manufacturing, mining, etc., most viciously affected the so-called poor, notably the more visible poor of the black and Hispanic minorities. The pathway to assimilation into the mainstream of the productive working class—through the factory gate—was not entirely closed but the net effect was to relegate a large segment of this population to a virtual human scrapheap of semi-employment or welfare. Hence, the significant emergence of the "welfare problem."

Today, we are seeing a further devolution of that situation. No longer are we talking of the mere stagnation of productive operative employment, but as the collapsing steel industry daily attests, actual skilled and semi-skilled employment is shrinking. Today the lay-offs are in steel, tomorrow it will be steel users and suppliers. The new class of welfare recipient is America's precious technology-proud workforce.

The solution is not to force our skilled workforce into leaf-raking jobs for their welfare or unemployment checks.

The solution is to go to the source of the now-accelerating downturn in productive operative employment. Following the surge of the '50s, based on the rebuilding of Europe, our economy maintained essential stability in the '60s, predicated on marginal growth rates in the less developed countries (albeit not sufficient for the assimilation of the poor). The shutdown of Third World markets, due to lack of credit and lack of nuclear energy development, now threatens this rapid downturn in productive employment.

The solution is simple—exports. The stabilization of the dollar with gold backing, and the extension of billions of dollars to the Third World as *credit* tied solely to massive capital inflows (flowed to nuclear energy development) into these countries can create a demand on the U.S. economy which can change our welfare problem into a substantive labor shortage overnight. The Export-Import Bank is an institution imminently capable of financing this export explosion.

This is the American approach to "welfare reform." Such reform as is necessary can be done within the assured context of the rapid private sector assimilation of what are now marginal populations. The philosophy of such reform can then be to provide the necessary income support for those in need in order to protect the most precious resource in America—defined by our first Treasury Secretary, Alexander Hamilton, as "the productive powers of labor."

Instead we are presented with a welfare reform bill whose ideology is distinctly British. Much as the British accept a permanent class of heroin addicts through heroin maintenance, they accept a permanent welfare population which can be socially engineered at will. This bill assumes such a permanent class which must be fed into an ever growing pool of low-pay, low-skill public service.

According to a Labor Department spokesman commenting just prior to the release of this bill, the welfare package is part of a "total overhaul of the transfer of payments system which includes unemployment insurance, social security," as well as relocation assistance and welfare. "The goal is to make every able-bodied person now on the government dole, work."

This is the crux of the welfare reform program, to centralize various work benefits and income support programs—Aid to Families with Dependent Children, Supplementary Security Income, and the food stamp program—into a single program with a single grant. Thus stream-lined, all able-bodied men and women will be forced into public works jobs or their equivalent in the private sector at cut-rate wages. The penalty for noncompliance, no matter how low the wages, is immediate cutoff of benefits.

Events occurring just prior to the announcement of the welfare reform indicate that it is especially aimed at the newly-unemployed skilled worker. The

week before the welfare program was unveiled, Labor Secretary Ray Marshall tipped the Administration's intent by quietly announcing that workers in 37 states now receiving unemployment benefits were to lose them immediately because of a supposed increase in employment rates (one of the states so cut was Ohio!). That meant that 218,000 jobless workers will be dropped and forced onto welfare. At the same time Marshall announced a new federal regulation specifying that workers eligible for extended unemployment benefits must take ANY job available—so long as it doesn't pay less than their weekly unemployment allotment. The New York Times of July 25 gleefully reported on these new regulations, citing the example of a skilled master carpenter in Kentucky who usually made \$10 per hour, was forced to take a job at \$3.50.

Ell Ginzberg, a seminal influence in the development of manpower and welfare programs for the past years, and said to be the author of the Administration's proposal has stated that the only way to achieve a full employment economy is to implement a continuous recycling of workers to lower and lower skill levels. "We will have to de-skill a large number of American workers to achieve a full employment," Ginzberg said last year. He added that "whatever else you say about Hitler, his manpower programs worked."

This is the impact of the Administration welfare proposal. The de-skilling of our workforce.

As has been mentioned several times, the current welfare program proposal is fundamentally British in nature. The British have never learned that real wealth is a function of the productivity of one's labor—productivity measured in terms of a population's ability to create and assimilate higher and higher levels of new technologies. Hence, they are willing to sacrifice the skill level of a population or the technological base of an economy, to maintain the nominal value of a piece of paper. There is no room in this economy for that fundamentally anti-industrial capitalist ideology. We can do President Carter a favor by aiding in the elimination of such British-system advocates in his cabinet as Blumenthal, Schlesinger and Harris by putting this legislation aside.

STATEMENT OF JAMES HACKING, ASSISTANT LEGISLATIVE COUNSEL, NATIONAL RETIRED TEACHERS ASSOCIATION AND AMERICAN ASSOCIATION OF RETIRED PERSONS

SUMMARY

Our Associations are pleased the Administration is making an attempt to rationalize and reform the welfare system and hope the legislative hearings and debate will lead to some improvements. We are concerned, however, with proposals to abolish the Supplemental Security Income and Food Stamp Programs and replace them with a new structure.

SSI payments, supplemented by food stamps, already provide the elderly poor with a national minimum income guarantee and lift an overwhelming number of elderly out of poverty. It has taken us several years to shape and mold these programs and we do not believe they should be abolished in the name of reform.

Our Associations believe the SSI and Food Stamp Programs should remain intact while liberalizations in benefit levels and eligibility rules are made. By continuing present programs and making them more responsive to the elderly's needs, we would not run the risk of losing the gains we have already made since transitional problems created by sweeping changes would be minimized.

NRTA/AARP have serious reservations about specific provisions of the four pending reform proposals and make the following recommendations:

Benefit Levels.—Federal basic benefit levels for the SSI Program should be raised to at least the officially defined poverty level; SSI recipients should not be denied eligibility for food stamp benefits unless payment levels are raised enough to compensate for that loss; and annual automatic cost-of-living adjustments should be made in benefit levels.

State Supplementation.—The federal government should share in the costs of state supplementation of federal benefits; and more specific instructions for state supplementation and maintenance of effort should be required to protect current SSI recipients.

Jobs Program.—Opportunities for job training and placement should be equally available to older persons under any welfare scheme which creates jobs; and

an earned income disregard should be provided to aged recipients who choose to work.

Assets Test.—The assets limits currently used to determine eligibility for the SSI Program are overly restrictive and should be substantially increased.

Accounting Period.—Benefit eligibility should be determined on a prospective, not retrospective, basis with only annual redeterminations required for the elderly.

INTRODUCTION

My name is James M. Hacking, Assistant Legislative Counsel for the 11 million member American Association for Retired Persons and the National Retired Teachers Association. With me today is Laurie Fiori, of our legislative staff and Ralph W. Borsodi, an economic consultant to the Association.

Our membership has a deep concern with pending welfare reform proposals because they directly affect two major income support programs on which the elderly depend, the Supplementary Security Income Program (SSI) and the Food Stamp Program. Furthermore, broad reforms of what is commonly thought of as our welfare system cannot really be understood out of context of the social security system, because it lifts millions of elderly persons out of poverty.¹

I would like to emphasize that we are not here to direct this Subcommittee as to how the welfare system should be reformed in detail. The whole subject of welfare has become incredibly complex; we lack a crystal ball with which to predict all of the interactions and consequences of major moves in welfare. However, we are deeply concerned and we must express the opinion that those who would profoundly alter the present welfare structure have the burden of proving that their innovations are on the whole beneficial, not just to our own constituents, but to all who depend on welfare.

The present welfare system in the United States has been labeled with every pejorative adjective in the dictionary. It has been called wasteful and inefficient; a happy hunting ground for chiselers and cheats. It is said the system is overlapping, but still has gaps and poor coverage. The system has brought our cities and states to the edge of bankruptcy and has encouraged the migration of unskilled workers from rural areas to the cities. The system discourages work effort and the propensity to save. It is said that the system encourages family breakup and promotes illegitimacy. The system has been pronounced to be so bad that it is unworkable and needs to be totally reformed.

Nevertheless, significant gains in the war on poverty have been made since the system has been in effect. Because there have been gains, especially for the elderly, our Associations are reluctant to endorse sweeping innovations whose consequences simply cannot be gauged. A complete reorganization of welfare administration will surely disrupt the present federalized mechanism for supporting the elderly poor. The nominal increases in payment levels that are being proposed for the elderly would not offset this loss and furthermore these increases would be swept away by inflation unless automatic cost-of-living adjustments are included in any reform effort. We must also ask why the elderly are included in a welfare reform package which is labelled better jobs and income, when no thought is given to providing the elderly with jobs.

We are more inclined to endorse innovations which are designed to redress specific defects in the present income maintenance structure, rather than to endorse changes which are based on some dramatic formula, that will hopefully bring about perfection. Our approach to welfare reform is an incremental one, because it adds to or subtracts from the present system, all the while observing the effects of changing the system.

THE DATA VACUUM

A great difficulty with radical reform is the lack of reliable information on the income support structure. There are some one hundred programs in this structure including public assistance, social security, veterans benefits, unemployment compensation and many programs offering aid in the forms of food, health care, housing, child care and services. They are administered by a patchwork of federal

¹ The Brookings Institute reports that in 1976 an estimated one-third of all cash social insurance benefits went to the lowest quintile of income distribution. (The 1978 Budget: Setting National Priorities", p. 252)

departments and numerous state and local agencies. In a book on "A Guaranteed Income," the author, Daniel P. Moynihan, cites a statement by a former Assistant to President Johnson on the state of knowledge on social programs: "The disturbing truth is that the basis of recommendations by an American Cabinet officer on whether to begin, eliminate, or expand vast social programs, nearly resembles the intuitive judgment of a benevolent tribal chief in remote Africa." Today Mr. Joseph A. Califano, who made this statement seems to be confident that he has the facts.

Perhaps we now know much more than we did, but a staff study¹ in 1973 on public welfare benefits, prepared for the Subcommittee on Fiscal Policy of the Joint Economic Committee refers to the situation in 1973 as a "data vacuum". The staff went on to say:

"Little is known about the combined incidence of all public welfare programs, although facts on the characteristics of beneficiaries and the amount and type of benefits they receive are essential to intelligent welfare reform." This study, "How Public Welfare Benefits are Distributed in Low-Income Areas", found that the majority of the households on welfare received more than one type of benefit, with many households receiving benefits from five or more programs. Compounding the problem of assessing the incidence of benefits on households is the difficulty of assigning a cash value to various benefits granted in-kind. The opinion given in this study was that households receiving five or more benefits would have income well in excess of Federal poverty standards, whereas some living in poverty received no benefits. The study concluded that "For almost anything one could want to say for or against welfare programs, a fact can be found which illustrates the point."

PUBLIC INCOME ASSISTANCE IN BUDGETARY PERSPECTIVE

The importance of steadily improving the efficiency of government spending for income assistance programs has been highlighted by studies made for the Senate Committee on the Budget. A 1975 study concluded that the growth of federal, state and local spending from 26 percent of GNP in 1955 to 32 percent in 1975 can be attributed almost entirely to the growth in public assistance spending—excluding public assistance, government spending remained almost constant at 23 percent of GNP.

Public assistance spending grew over these two decades at twice the rate of increase in GNP. In 1955, it was only 3.4 percent of GNP; by 1975 it had risen to 9.3 percent.² The growth in this spending can be accredited to four factors: first, the creation of new programs; second, higher benefit levels and lower eligibility requirements for existing programs; third, increasing utilization by those eligible; and finally, increasing numbers of persons eligible as a function of population growth.

Federal, state and local spending for fiscal 1977 on major welfare and social insurance programs totaled some \$185.5 billion. Eighty-eight percent (or \$163.8 billion) of this spending was federal. State and local spending, for which more federal relief is sought, amounted to \$21.7 billion, or 12 percent of total spending. Federal spending for welfare and social insurance programs is 40 percent of the fiscal 1978 federal budget and the largest item in the budget.³

The President's welfare reform proposals call for consolidation of three major welfare programs and expanded use of the earned income tax credit. The three programs to be consolidated are Aid to Families with Dependent Children (AFDC), Supplementary Security Income (SSI), and Food Stamps. Budget outlays for these three programs and the earned income tax credit for fiscal 1977 amounted to \$15.8 billion, or some 40 percent of federal outlays for welfare.⁴

¹ "The Politics of a Guaranteed Income. The Nixon Administration and the Family Assistance Plan," by Daniel P. Moynihan, page 240.

² "Studies in Public Welfare Paper No. 6, "How Public Welfare Benefits Are Distributed in Low-Income Areas", A Staff Study, March 26, 1973 for the Joint Economic Committee.

³ "Studies in Public Welfare, Paper No. 6, "How Public Welfare Benefits Are Distributed in Low-Income Areas", a Staff Study for the Subcommittee on Fiscal Policy of the Joint Economic Committee.

⁴ Refer to Appendix and to pages 41-253, "The 1978 Budget, Setting National Priorities," The Brookings Institute.

⁵ Refer to Appendix and to Pages 41-253, "The 1978 Budget, Setting National Priorities," The Brookings Institute.

DEMOGRAPHICS AND LABOR FORCE PARTICIPATION OF THE ELDERLY POPULATION

The proportion of elderly persons in our population has been rising throughout this century. The elderly population itself has been aging. Those 60 years of age and over were 13.2 percent of the population in 1960 but were 14.6 percent in 1975. Those 65 years of age and over went from 9.2 percent to 10.5 percent between 1960 and 1975. Those 75 years of age and over went from 3.1 percent to 4.0 percent between 1960 and 1975. No startling changes in these proportions are expected between now and the end of the century. The proportion of persons aged 65 years and over may reach a peak of 11.7 percent in 1990 and stay at this level until the year 2000. Because birth rates cannot be predicted these figures may be expected to vary. As for the immediate years ahead, the 1980 population of those 65 years of age and older will be close to 25 million persons.

Although the nation has been spending increasing amounts on improving the health status of older persons, the labor force participation rate by elderly males has been steadily dropping. In 1950, half of the men over 65 years of age were in the work force. By 1960, this figure dropped to one out of three. Today only about one man in five (22 percent) is in the work force.⁷ This trend makes for difficult national economics as fewer workers attempt to support more retirees.

Our Associations have consistently urged that public policy "barriers" to continued employment of older persons (such as mandatory retirement) be abolished along with the many "disincentives" (such as social security earnings limitation) existing in our present income maintenance structure. These barriers and disincentives should be replaced by incentives for older persons to remain employed.

Our Associations are optimistic that this approach coupled with certain tax incentives and employment programs specifically targeted for elderly workers will significantly improve their labor force participation.

The Age Discrimination in Employment Act Amendments of 1977 and the 1977 Social Security Financing Amendments have improved the possibilities for employing older workers, both in eliminating forced retirement at least to the age of 70, and in easing the social security earnings limitation. Much more remains to be done in the way of removing financial disincentives imposed on the working elderly and in eliminating prejudice against their employment. For the sake of improving the productivity of the country and for reducing the burden of supporting retirees, we should continue to encourage labor force participation by the elderly, including those who are supported by welfare.

POVERTY AND THE ELDERLY

The elderly population, as compared to the non-elderly, in the United States has long been associated with poverty. The stability once found in homes, children and savings has all but disappeared. Money as a standard of value has been undermined. Measured by the Consumer Price Index, money has lost purchasing power over the last decade at an average yearly rate of 6.6 percent. The elderly, most of whom are not skilled in hedging funds in commodities, have had great difficulty in keeping their capital intact at recent rates of inflation—much less realizing any earnings on their savings to meet living expenses. Taxes on real estate in many areas have forced the elderly out of their homes.

Our Associations are grateful to Congress for taking many legislative steps in recent years to alleviate poverty among the elderly. Census reports of persons 65 years of age and older clearly show that over the past several decades the incidence of poverty among the elderly has been greatly reduced.

In 1959, a shocking 35.2 percent of the elderly were living in poverty. By 1966, this number dropped to 28.5 percent. By 1974 this percentage had declined to 15.7 percent. These numbers failed to take into consideration benefits received in-kind under various other programs.

According to a CBO study released in January 1977 ("Poverty Status of Families Under Alternative Definitions of Income") 59.9 percent of all elderly family units in this country would have fallen below the subsistence-based, official

⁷ Pages 6, 7, & 49, 50. "Demographic Aspects of Aging and the Older Population in the United States," Current Population Reports, Special Studies, Series P-23, No. 59, issued May 1976.

poverty level in fiscal 1976 had they not received assistance from cash and in-kind public transfer systems such as social security, medicare, SSI, food stamps, veterans pensions and medicaid. However, after counting all cash and in-kind benefits and allowing for taxes, only 6.1 percent of all elderly family units remained in the "poor" category.⁸ Of significance is the finding that social insurance programs, dominated by social security, were responsible for lifting an overwhelming 70 percent of the aged out of poverty.

Although the poverty standards used in this study are extremely low, these statistics should be kept in mind when considering sweeping welfare reforms. They indicate that our complex structure of income maintenance systems is bringing us closer to the goal of eliminating poverty in this country, especially with respect to the elderly. They further indicate that the elderly benefit a great deal from and are extremely dependent on the present income maintenance structure.

PENDING WELFARE REFORM PROPOSALS AND THEIR IMPACT ON THE ELDERLY

Several major welfare reform proposals are currently receiving serious consideration in Congress. These proposals offer this Subcommittee a variety of policy choices with respect to both the general approach to reform that could be taken (either incremental or comprehensive) and specific changes in existing programs that could be made.

It may be that the welfare system we already have, especially when combined with many of our social insurance programs, is simply so massive that sweeping reform is simply not available to us as a viable course of action. If so, then only incremental changes can be made in the welfare structure.

The primary consideration in weighing the merits of any welfare reform proposal is whether or not it would reverse past gains made in reducing poverty among the elderly. These gains have been slow in coming and are already threatened by the forces of inflation. Because most of the elderly do not work, they cannot look to employment income in current dollars to offset inflation losses.

The Administration's reform program (S. 2084) and the House Welfare Reform Subcommittee bill (H.R. 10950) are appealing in that they propose a single, federally-financed program that would employ cash payments only and would sort out and rationalize the roles of federal, state and local governments in the welfare area. All payments would be in cash, rather than in-kind, so that the individual would have the maximum amount of freedom of choice. We wish there were such a magic formula, which would promise a uniform treatment of all low-income persons, subjecting all to the same basic program and set of benefits.

The possibility must be considered, however, that placing a variety of persons, who have fallen into poverty for different reasons, into the same collective basket might well be inequitable, excessively costly for all governments concerned, and bad government policy.

The SSI program already exists for the elderly and provides them with a national minimum income guarantee. This program removes most of the severe state-to-state benefit inequities which existed under the old federal/state welfare programs for the aged. Therefore, in our opinion, the elderly would probably be better off if SSI were kept intact and improved. In continuing the present system and in gradually improving that system, transitional problems created by sweeping changes would be minimized.

Legislation utilizing the incremental reform approach has been introduced in the House by Rep. Al Ullman (H.R. 10711) and in the Senate by Senators Baker, Bellmon and Ribicoff (S. 2777). Although these bills would make substantial improvements in programs serving low-income persons under age 65 and AFDC recipients, they do comparatively little for the SSI population. S. 2777 does lower the age for SSI eligibility to age 62 by 1982; that, of course, has our support.

Our Associations offer the following comments on how each of these four pending proposals address specific reform items which we consider to be important to the elderly poor.

(1) Benefit levels

Since the inception of SSI, our Associations have repeatedly urged Congress to raise SSI payment levels to at least the officially defined poverty level. (In 1977,

⁸ See Appendix and also Table No. 6 of "Poverty Status of Families under Alternative Definitions of Income", Congressional Budget Office, revised June 1977.

official poverty levels were \$2,900 for an elderly individual and \$3,640 for an elderly couple.) The high cost of this reform coupled with federal budgetary constraints have thwarted our efforts.

Under current SSI law, the federal government guarantees eligible individuals an annual income of \$2,134 and eligible couples an income of \$3,200. The cash value of food stamps available to SSI recipients increases these benefit levels to \$2,334 for individuals (or \$2,604, assuming the individual claims a maximum shelter/dependent care deduction) and \$3,608 annually for couples (or \$3,878, assuming a maximum shelter/dependent care deduction).⁹ The chart on the following page compares the combined federal SSI and food stamp benefits available under current law to those federal benefits that would be provided under pending reform proposals.

As illustrated by the chart, both the Administration's plan and the House Welfare Reform Subcommittee's proposal would guarantee entitlement to slightly higher payment levels than those guaranteed under current law for most SSI recipients. The only SSI recipients who would lose benefits under these two proposals are those individuals who could qualify for maximum food stamp benefits because of high shelter and dependent care deductions. However, on balance, and assuming states would continue to supplement federal benefits at current levels, most SSI recipients would realize a modest gain in overall income under S. 2084 and H.R. 10950.

COMBINED FEDERAL CASH AND FOOD STAMP BENEFITS AVAILABLE TO SSI RECIPIENTS UNDER CURRENT LAW AND PENDING REFORM PROPOSALS

(Benefit levels are expressed in annual and 1978 dollar terms)

	SSI individuals	SSI couples
Current law.....	\$2,334 to \$2,604 ¹	\$3,608 to \$3,878. ¹
S. 2084.....	\$2,500.....	\$3,750.
H.R. 10950.....	\$2,500.....	\$3,750.
H.R. 10711.....	\$2,314.....	\$3,560.
S. 2777.....	\$2,334 to \$2,604 ¹	\$3,608 to \$3,878. ¹

¹ Food stamp allotments are calculated under provisions of the 1977 Food and Agriculture Act, January through June 1978 benefit levels. Figures show the possible range of SSI plus food stamp benefits, the lower amount being for recipients taking no shelter/dependent care deduction, the higher benefit being for those taking the maximum shelter/dependent care deduction.

The Congressional Budget Office has given us an idea of the number of elderly individuals who would experience a drop in income under the most liberal payment levels as contained in S. 2084. Their initial study done in October 1977, entitled "Preliminary Analysis of the Distributional Impacts of the Administration's Welfare Reform Proposal," reveals that roughly 21 percent of families headed by someone over age 65 would gain income under the Administration's proposal, while 8 percent would lose.¹⁰ Considering the possible disruption to the system that would occur under S. 2084, our Associations do not consider this marginal trade-off between gainers and losers to be sufficient.

The Ullman reform proposal (H.R. 10711) ostensibly would raise income guarantees for the elderly by increasing annual federal SSI amounts by \$180 for an individual and \$360 for a couple (beginning in 1980). This bill, however, would make SSI recipients ineligible for food stamps and deny them any additional benefits to which they would be entitled under that program. Most SSI recipients who presently take advantage of their eligibility for food stamps would lose even more income under this proposal than under S. 2084 and H.R. 10950. Our Associations cannot endorse the Ullman proposal because it does not raise SSI payment levels enough to compensate recipients for loss of their food stamp benefits.

The SSI recipients who would gain under the Ullman bill fall into two categories: (1) those persons who presently are eligible for food stamps but do not

⁹ The potential food stamp values are calculated under provisions of the Food and Agriculture Act of 1977 at January through June 1977 benefit levels and assume the SSI benefit is the recipient's only income. House Agriculture, Education and Labor, and Ways and Means Committee Print "Explanatory Material to Accompany H.R. 10950, Comparison of Title I with Present Law" (Feb. 28, 1978).

¹⁰ The Congressional Budget Office has stated that the preliminary estimates contained in this study underestimate the amount of food stamp benefits provided to recipients in 1975. Therefore, their estimates may overstate the number of gainers and understate the number of losers for those who receive food stamps under the current program.

participate in the program, and (2) those persons who live in states that provide a supplementary payment that is substantial enough to cause a reduction in their food stamp benefit to a level below the increases provided by the Ullman bill (\$180 and \$360 per year for individual's and couples, respectively). Only 21 states currently supplement federal benefits to such a degree that SSI/food stamp recipients living in those states would gain income under H.R. 10711. The elderly SSI population residing in those 21 states constitutes only one-quarter of the entire elderly SSI population. Furthermore, for these individuals to gain income under the Ullman bill, the 21 states would have to maintain their current level of supplementation while passing-through the increased federal payment level to recipients.

In our opinion, neither the Ullman plan nor the Administration's proposal would raise federal payment levels enough to justify denial of food stamp benefits for SSI recipients. We recognize that participation in the food stamp program by the elderly is extremely low (only one-quarter of eligible elderly receive food stamp benefits) and all those who do not participate would realize an income gain under a cashed-out system. Nevertheless, Congress should recognize that attempting to combine cash benefits and food stamps into a single payment and, at the same time denying food stamp eligibility, will inevitably hurt certain SSI recipients who currently qualify for the maximum amount of assistance under the food stamp program. Unfortunately the particular SSI recipients who would be most hurt under this scheme are the most impoverished—they are likely to have no income other than SSI and live in states which do not offer any supplement to the federal SSI payment.

We recognize that cashing-out the value of food stamps will ultimately benefit the majority of SSI recipients and, therefore, our Associations support that objective. However, cash-out must be done in such a manner that the current value of food stamp benefits is preserved. These values cannot be preserved in a reform effort which combines SSI and food stamp benefits into a single cash payment that falls below the poverty level.

Rather than cashing-out food stamps at this time, we believe it would be more in the interest of the elderly to substantially increase SSI payment levels while encouraging elderly participation in the food stamp program. Recently enacted food stamp reforms which are to be implemented this fall (such as elimination of the purchase requirement and food stamp certification of SSI recipients at social security offices) are predicted to increase elderly participation rates. An emphasis should be placed on implementing these reforms as rapidly as possible so that we may observe their impact.

Before leaving the topic of payment levels, our Associations would like to point out the critical need to preserve the automatic cost-of-living adjustment mechanism which exists under current SSI law. Although the Administration's bill omitted this provision, we are encouraged by the House Welfare Reform Subcommittee's decision to include it in their reform proposal. Our Associations urge this Subcommittee to do the same in order to prevent the inevitable and rapid deterioration of benefit purchasing power that would result from high rates of inflation.

(2) State supplementation

The Administration's welfare reform plan proposes that the federal government share 25 percent of a state's cost of supplementing the federal payment level for aged, blind and disabled recipients. This federal cost-sharing would be permitted for benefit levels up to 150 percent of the poverty level (i.e.—\$3,780 for singles and \$5,670 for couples).

Our Associations consider this section to be an important reform item because it provides one method for a national welfare system to compensate recipients for regional cost-of-living differentials. The House Welfare Reform Subcommittee's version retains this provision, but limits it to either current benefit levels or the poverty level, whichever is higher. We urge this Subcommittee to adopt the more liberal provision contained in the Administration's proposal.

During the first three years of the program proposed by S. 2084, states would be required to spend on public assistance a certain percentage of the total amount they previously spent on AFDC, SSI, emergency assistance and general assistance. The current SSI recipient receives no guarantee under this provision that his supplemental benefit will not be reduced because the state, although maintaining its overall effort, is not required to allocate a specific proportion of its welfare budget to SSI supplementary payments.

Furthermore, the three year transition period was selected by the Administration on the basis that AFDC caseloads turn over approximately one-third each year so that all current recipients would be protected. There seems to be no consideration of the fact that SSI caseloads probably have a much lower turnover rate. It is clear that current SSI recipients need more adequate and specific protection under the maintenance of effort provisions contained in S. 2084.

(3) *Treatment of income*

The Associations are concerned with the treatment of earned and unearned income of the over age-65 recipient under various reform proposals. In general, unearned income would be treated more favorably under the Administration's proposal and the House Subcommittee bill than under current SSI law. S. 2084 and H.R. 10950 would disregard 20 percent of most types of unearned income (such as social security). The 20 percent disregard is far better than the flat monthly \$20 disregard for unearned income which exists under present law. In the past, our Associations have recommended that the present \$20 disregard be increased and cost-indexed. We therefore urge this Subcommittee to accept the Administration's proposal to apply a progressive rate to the unearned income disregard.

Our Associations consider the treatment of earned income for the aged individual under S. 2084 to be harsh and a strong disincentive to work. The Administration's plan would immediately reduce the federal benefit payment for older persons by 50 cents for each dollar of earned income. This is a larger reduction in benefits than occurs under existing law wherein an individual or couple is permitted to disregard the first \$65 of monthly earned income before taking a 50 percent reduction in their SSI benefit. (This \$65 disregard when added to present SSI payment levels exceeds the higher payment levels proposed by S. 2084 for both individuals and couples.)

The House Welfare Reform Subcommittee voted to at least retain the present \$65 disregard. However, our Association believe this figure, which was set over four years ago, is outdated and needs to be indexed up to current wage levels. Once updated, an automatic mechanism that would annually increase the disregard should be put in place.

With respect to the treatment of in-kind income, our Associations oppose the one-third reduction in payment levels which occurs when an elderly person lives in the household of another. This is a disincentive for families or other persons to care for the elderly in their homes. Similarly elderly persons living alone who receive in-kind assistance (such as rent assistance, food, etc. from other persons) should not be forced to take such a penalizing reduction in their payment levels.

(4) *Assets Limits*

Although provisions governing the treatment of assets under the Administration's bill tend to be more liberal than under current SSI law, application of the necessary rules and formulas contained in S. 2084 would complicate the eligibility determination process. In response to this problem, the House Welfare Subcommittee voted to retain the present asset limits used in the SSI Program—\$1,500 for individuals and \$2,250 for couples. These limits were established over four years ago and, in our opinion, are overly restrictive. Assets limits serve to exclude many otherwise needy individuals from the SSI Program.

It has been estimated that 12 percent of elderly families whose incomes fell below SSI payment standards were made ineligible for SSI strictly as a result of the assets test.¹¹ Our Associations urge this Subcommittee to increase the assets limits to more realistic levels.

(5) *Accounting period and redetermination*

Eligibility for SSI payments is determined on a three-month prospective basis. S. 2084 prescribes a six-month retrospective accounting period and H.R. 10950 proposes a one-month retrospective period. To protect current recipients, eligibility for this program should continue on a prospective, rather than a retrospective basis. If a retrospective basis is adopted for all recipients, a special emergency aid plan is needed for vulnerable older persons who may suddenly find themselves unemployed and not eligible for unemployment insurance and otherwise ineligible for welfare for up to six months.

¹¹ Moon, Marilyn. "Treatment of Assets in Cash Benefit Programs for the Aged and Disabled". Technical paper prepared for the Federal Council on Aging study entitled, "The Treatment of Assets and Income for Assets in Income-Conditioned Government Benefit Programs" (Sept. 1, 1977).

Furthermore, because the elderly's income tends to be more fixed, it is recommended that they not be required to be redetermined for eligibility more than once a year.

(6) *Jobs program*

The Associations are dissatisfied with the provision made in S. 2084 for the employment of 1.4 million workers in public service jobs for principal earners in families with children. The new program of job search and job creation would be administered by CETA prime sponsors and the existing local state employment offices. While this initiative is important, it does nothing for the employment of older workers. The older worker is not required or expected to work under this proposal and therefore is not eligible for a job. Opportunities, in the past, for older workers under CETA have been extremely limited and it seems that this discriminatory administration of the Act is to be perpetuated.

The creation of 1.4 million jobs for welfare recipients threatens to absorb all or nearly all of the current public service jobs open to Title IX participants. Title IX of the Older Americans Act provides part-time community service employment opportunities to many unemployed, low-income elderly persons who have poor employment prospects. We fear the thrust of the new welfare proposal could divert opportunities away from this important program.

Our Associations believe it is highly discriminatory to exclude the elderly from training and working opportunities under the new welfare program. An appropriate portion of these opportunities and slots should be made available to them.

ESTIMATED BENEFIT EXPENDITURES FOR MAJOR WELFARE AND SOCIAL INSURANCE PROGRAMS FOR FISCAL YEAR 1977

[In billions of dollars]

Program	Federal	State and local	Total
Welfare	36.7	15.0	51.7
Cash benefits:			
Aid to families with dependent children.....	5.7	4.6	10.3
Supplemental security income.....	4.7	11.6	6.3
Veterans' and survivors' non-service-connected pensions.....	3.1		3.1
Earned income tax credit.....	.9		.9
General assistance.....		1.3	1.3
Total	14.4	7.5	21.9
In-kind benefits:			
Food stamps.....	4.5		4.5
Child nutrition and other Department of Agriculture food assistance.....	3.3		3.3
Medicaid.....	9.7	7.5	17.2
Housing assistance.....	3.0		3.0
Basic educational opportunity grants.....	1.8		1.8
Total	22.3	7.5	29.8
Social insurance	127.1	6.7	133.8
Cash benefits:			
Old age, survivors, and disability insurance and railroad retirement.....	84.1		84.1
Special compensation for disabled coal miners.....	.9		.9
Unemployment compensation ¹	15.2		15.2
Veterans' and survivors' service-connected compensation.....	5.7		5.7
Workmen's compensation ²		6.7	6.7
Total	105.9	6.7	112.6
In-kind benefits: Medicare	21.2		21.2
Total, welfare and social insurance⁴	163.8	21.7	185.5

¹ Excludes State administered supplements.

² Benefits are paid from a Federal trust fund and are financed by Federal and State taxes.

³ Programs are administered by States and usually financed by employers.

⁴ Lists of Federal income security programs often include Federal civil service pensions. Pension programs are excluded here since they are qualitatively different from the other income security programs.

Sources: Federal expenditures, "The Budget of the United States Government, Fiscal Year 1978—Appendix": State and local expenditures, U.S. Department of Health, Education, and Welfare, Office of the Assistant Secretary for Planning and Evaluation, "An Overview of the Income Security System," paper I (draft), Welfare Reform Analysis Series (Office of the Assistant Secretary for Planning and Evaluation, n.d.; processed). (Reproduced from table 8-1, p. 253, chapter "Welfare Reform," "The 1978 Budget, Setting National Priorities," The Brookings Institute.)

WELFARE PROGRAMS DIRECTLY CONCERNED IN PRESIDENT CARTER'S WELFARE REFORM PROPOSALS, FISCAL YEAR 1977

[In billions of dollars]

Program	Budgeted outlays		
	Federal	State and local	Total
AFDC.....	5.7	4.6	10.3
SSI.....	4.7	1.6	6.3
Food stamps.....	4.5	-----	4.5
Earned income tax credit.....	.9	-----	.9
Total.....	15.8	6.2	22.0

Note: Abstracted from table 8-1, p. 253, "The 1978 Budget, Setting National Priorities," the Brookings Institute.

THE WAR ON POVERTY FOR THE ELDERLY—THE DECLINE OF THOSE LIVING BELOW THE POVERTY LEVEL
TABLE 6-9.—FAMILY STATUS AND RACE OF PERSONS 65 YEARS OLD AND OVER BELOW THE POVERTY LEVEL, 1959-74
[Numbers in thousands, persons as of March 1975, March 1971, March 1967, and April 1960]

Family status and race	Number below poverty level				Percent below poverty level			
	1974	1970	1966	1959	1974	1970	1960	1959
All persons 65 years old and over.....	3,308	4,793	5,114	5,481	15.7	24.6	28.2	35.2
In families.....	1,243	2,013	2,507	3,187	8.5	14.8	19.2	20.0
Head.....	760	1,188	1,450	1,787	9.5	15.5	20.0	29.1
Male.....	616	980	1,218	1,507	8.9	15.9	26.9	29.1
Female.....	144	209	231	280	13.0	20.4	26.4	28.8
Other family members.....	483	825	1,057	1,400	7.3	13.0	17.2	24.6
Unrelated individuals.....	2,065	2,779	2,607	2,294	31.8	47.2	53.8	65.9
Male.....	390	549	563	703	26.8	38.9	44.5	59.0
Female.....	1,675	2,230	2,044	1,591	33.2	49.8	57.6	63.3
White.....	2,642	4,011	4,357	4,744	13.8	22.6	26.4	33.1
Black.....	626	735	722	711	36.4	47.7	55.1	53.5

Source: "Current Population Reports," Series p-60, Nos. 86, 91, and 99, and unpublished data for 1966.

MIDYEAR 1977 STUDIES OF ELDERLY LIVING IN POVERTY TAKING IN-KIND INCOME INTO CONSIDERATION
TABLE 6.—FAMILIES BY AGE BELOW THE POVERTY LEVEL UNDER ALTERNATIVE INCOME DEFINITIONS, FISCAL YEAR 1976

Families in Poverty	Pretax/ pretransfer income	Pretax/ postsocial insurance income	Pretax/ postsocial transfer income	Pretax/post-in-kind transfer income ¹		Posttax/ posttotal transfer income ¹	
				I	II	I	II
(A) Under 65:							
Number (thousands).....	11,789	8,994	8,029	6,710	5,463	6,886	5,615
Percent of under 65.....	18.6	14.2	12.7	10.6	8.6	10.9	8.9
(B) 65 and over:							
Number (thousands).....	9,647	3,459	2,686	2,268	977	2,279	982
Percent of 65 and over.....	59.9	21.5	16.7	14.1	6.1	14.1	6.1

¹ Col. I excludes medicare and medicaid benefits received by families participating in those programs; col. II includes medicare and medicaid benefits.

Note: Table No. 6, "Poverty Status of Families under Alternative Definitions of Income," Congressional Budget Office, Revised June 1977.

Source: Appendix table A-8.

TABLE 2.—MAJOR INCOME ASSISTANCE PROGRAMS

Program	Date enacted	Recipients ¹ (millions)	Fiscal year 1977 expenditures	
			State and local	Federal
General assistance.....	NA	0.9	\$1.3	0
Veterans pensions.....	1933	2.3	0	\$3.1
Aid to families with dependent children.....	1935	11.4	4.6	5.7
Housing assistance.....	1937	3.0	NA	3.0
Food stamps.....	1964	17.7	NA	4.5
Medicaid.....	1965	24.7	7.5	9.7
Basic opportunity grants.....	1972	1.9	0	1.8
Supplemental security income.....	1972	4.4	1.6	4.7
Earned income tax credit.....	1975	6.3	0	1.3
Total.....			15.0	33.8
Total (Federal, State, and local).....				48.8

¹ The total number of recipients is not the simple sum of the recipients of each program, because many persons receive benefits from more than 1 program.

Source: "The Budget of the United States Government, Fiscal Year 1978," appendix, January 1977. Fiscal year 1977 expenditures are estimated.

STUDIES IN PUBLIC WELFARE—THE MULTIPLICITY OF FEDERAL GOVERNMENT PROGRAMS

TABLE 1.—Agencies contacted and programs reviewed

Department/Agency	Program
Health, Education, and Welfare: Social and Rehabilitation Service.	Aid to families with dependent children (AFDC). Old age assistance (OAA). Aid to the permanently and totally disabled (APTD). Aid to the blind (AB). Emergency welfare assistance. Medical assistance program (Medicaid). Work incentive program (WIN)—child care. Rehabilitation services and facilities—basic support.
Office of Education.....	Refugee assistance—welfare assistance and services (Cuban refugee program). Child development—child welfare research and demonstration grants. Educational opportunity grants. Educationally deprived children—local educational agencies (title I, ESEA—Part A). Follow-through.
Office of the Secretary..... Health Services and Mental Health Administration.	Child development—Headstart. Communicable diseases—venereal disease control. Maternal and child health services. Family planning project. Health care for children and youth (children and youth projects). Dental health for children (dental care projects). Mental health—staffing of comprehensive alcoholism service. Comprehensive public health services—formula grant. Communicable diseases—tuberculosis control.

NOTE. From Supplement A, Paper No. 6, Studies in Public Welfare "How Public Welfare Benefits are Distributed in Low-Income Areas," A Staff Study, March 28, 1973. Subcommittee on Fiscal Policy, Joint Economic Committee.

TABLE 1. *Agencies contacted and programs reviewed*—Continued

<i>Department/Agency</i>	<i>Program</i>
Health, Education, & Welfare—Con. Social Security Administration.	Health insurance for the aged—hospital insurance (HI) (medicare). Health insurance for the aged—supplementary medical insurance (SMI) (medicare). Social security—old age insurance (OAI). Social security—survivors insurance (SI). Social security—disability insurance (DI). Social security benefits for persons aged 72 and over. Special benefits for disabled coal miners (black lung benefits). (103)
Agriculture:	
Food and Nutrition Service---	Food stamps. National school lunch program. School breakfast. Food distribution (surplus commodities program). Special milk program for children.
Farmers Home Administration.	Low- to moderate-income housing loans (rural housing loans). Rural rental housing loans. Very low-income housing repair loans (section 504 housing loans).
Agriculture Stabilization and Conservation Service.	Rural environmental assistance program (REAP). Feed grain production stabilization (feed grain direct payments). Wheat production stabilization (wheat direct payments). Shorn wool and unshorn lamb (pulled wool) and mohair payments.
Extension Service-----	Extension programs for improved nutrition.
Labor:	
Manpower Administration-----	Work incentive program—training and allowance (WIN). Operation mainstream. Manpower development and training (MDTA)—institutional training. Concentrated employment program (CEP). Neighborhood youth corps (NYC). Emergency employment assistance (EEA). Unemployment insurance (UI)—grants to States. Job corps. Job opportunities in the business sector (JOBS). Job opportunities in the business sector—optional program (JOBS optional).

NOTE. From Supplement A, Paper No. 6, Studies in Public Welfare "How Public Welfare Benefits are Distributed in Low-Income Areas," A Staff Study, March 26, 1973. Subcommittee on Fiscal Policy, Joint Economic Committee.

TABLE 1. *Agencies contacted and programs reviewed*—Continued

<i>Department/Agency</i>	<i>Program</i>
Housing and Urban Development: Housing Production and Mortgage Credit/Federal Housing Administration.	Public housing acquisition (with or without rehabilitation) and construction. Mortgage insurance—rental housing for low- and moderate-income families, market interest rate (221(d)(3) market rate). Interest subsidy—homes for low-income families (235i). Interest reduction payments—rental and cooperative housing for lower-income families (236). Rent supplement—rental housing for lower-income families (rent supplement program). Public housing—leased (leased housing, (section 23 and section 10(c)).)
Community Development-----	Housing rehabilitation loans and grants. Urban renewal projects.
Model Cities-----	Homemaker service. Health manpower supplement. Mental health. Child care. Health manpower development. Housing improvement program. Community adjustment services and treatment. Higher education assistance program. Loans and grants program. Comprehensive neighborhood health service program. Family planning. Legal services. Emergency food and medical service. Comprehensive health services (neighborhood health center). Community action.
Office of Economic Opportunity-----	
Interior: Bureau of Indian Affairs-----	Indian employment assistance.
Veterans' Administration: Department of Veterans' Benefits.	Compensation for service-connected deaths for veterans' dependents. Pension for nonservice-connected disability for veterans (pension). Pension to veterans' widows and children (widows pension). Veterans compensation for service-connected disability (compensation). Veterans educational assistance (GI bill). Vocational rehabilitation for disabled veterans (vocational rehabilitation). War orphans and widows educational assistance.
Department of Medicine and Surgery.	Veterans' hospitalization (VA hospitalization). Veterans outpatient care. Veterans prescription service (medicine for veterans). Veterans prosthetic appliances (prosthetic services).

NOTE. From Supplement A, Paper No. 6, Studies in Public Welfare "How Public Welfare Benefits are Distributed in Low-Income Areas." A Staff Study, March 26, 1973. Subcommittee on Fiscal Policy, Joint Economic Committee.

TABLE 1. *Agencies contacted and programs reviewed*—Continued

<i>Department/Agency</i>	<i>Program</i>
Railroad Retirement Board-----	Railroad retirement. Railroad unemployment insurance.
Civil Service Commission-----	Federal employment for disadvantaged youths—summer (summer aids). Federal employment for disadvantaged youths—part time (stay-in-school campaign). Federal summer employment (summer jobs in Federal agencies).
STUDIES IN PUBLIC WELFARE—THE MULTIPLICITY OF STATE GOVERNMENT PROGRAMS	
State-Operated Programs-----	General Assistance (GA). Family planning. Workmen's compensation. Medical assistance under general assistance program. Foster care. Extension service camp for low-income families. Child care center. Payment of medicare premium by State welfare departments.

NOTE. From Supplement A, Paper No. 6, Studies in Public Welfare "How Public Welfare Benefits are Distributed in Low-Income Areas," A Staff Study, March 26, 1973. Subcommittee on Fiscal Policy, Joint Economic Committee.

[Whereupon, at 2:09 p.m., the subcommittee recessed, to reconvene upon the call of the Chair.]

