

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,
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APRIL 26 AND MAY 1, 1978



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WELFARE REFORM PROPOSALS

WEDNESDAY, APRIL 26, 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 Dole.

Senator MOYNIHAN. A very pleasant good morning to you all and especially to Governor Dukakis of Massachusetts who is our first witness and a most distinguished and welcome one.

Governor, if you would come forward, we are very much awaiting your views on these matters. Governor Dukakis.

STATEMENT OF HON. MICHAEL S. DUKAKIS, GOVERNOR, STATE OF MASSACHUSETTS

Governor DUKAKIS. Thank you very much, Senator. It is a pleasure to appear before you and to speak with you about an issue that you and I have worked on together in other fora and you have worked on a lot longer than I have.

Senator MOYNIHAN. May I just say that the Democratic platform of 1976 was frequently invoked in these hearings—

Governor DUKAKIS. Well, I am going to invoke it again, with your indulgence.

Let me also say that I have submitted for the hearing record the written statement of other Governors who are interested in this legislation. When I testified before the Corman committee this past year, Governor Carey and Governor Straub joined me and we all discussed the bill with that committee. They cannot be here today but their testimony will be submitted and I also have statements of Governor Boren of Oklahoma and Governor Askew of Florida, both of whom have been deeply involved in this effort with the National Governor's Association.

In addition, I would like to submit the text of a recent resolution by the Coalition of Northeast Governors on the subject from the perspective of all of our Northeastern States.

I have tried to reduce the scope of my prepared testimony, Mr. Chairman, so let me see if I can do that, and my full statement will be submitted for the record.

Senator MOYNIHAN. Well, take your time, Governor. You have come a lot further than we have with this case.

Governor DUKAKIS. Thank you.

Senator MOYNIHAN. And I will put the statements of the other Governors in the record.

Governor DUKAKIS. I appreciate that.

First, I want to begin my testimony this morning by thanking you for your efforts to bring meaningful fiscal relief to State governments which, like my own, are running very hard just to keep up with increasing medicaid and welfare costs. I think all of the Governors appreciate what you have done and we look forward to working with you to assure that that continues in the fiscal 1979 budget.

I also want to recall, as you have this morning, the long evenings that we spent together on the platform committee of the Democratic National Convention in the summer of 1976 hammering out the principles on which the present legislation is based. Those principles, you will recall, included a requirement that people able to work be provided with jobs and job training and be expected to work; an income floor for poor people who are working, as well as for those who are not; equal treatment for stable and broken families; and a simple schedule of work incentives to guarantee fair levels of assistance to the working poor.

These principles are as important today as they were then and I, for one, feel that a Democratic Congress has a responsibility to move more quickly on vital legislation which embodies those principles than it has over the past 7 months.

We are all aware by now of how important welfare reform is for the future of this country. And we all know as well now, as we did 7 months ago, and 2 years ago, that the states cannot deal individually with national issues of poverty and unemployment. Those are national problems and they are national problems which urgently require national solutions.

We are closer now to genuine reform of our welfare system than we have ever been and we cannot let this opportunity to slip by. We cannot afford further delays, piecemeal solutions and "incremental approaches." We have a chance to change the way America thinks about and deals with work and welfare and we must seize that opportunity.

To apply patchwork to the present programs, an increase here in SSI, an improvement there in AFDC, but do not touch food stamps -- such an approach might make the system work a little better, but it does not attack the root causes of our problems.

Our system of democracy is based on principles of equity and justice but the manner in which we now treat our neediest citizens denies those principles, for there is little justice and less equity in the way we help those who are unable to provide for their own basic needs.

Every American pays dearly for this failure--the taxpayer who is supporting a wasteful program that does not work; the unemployed father who should be entitled to a job, not a welfare check; and the elderly citizen who needs help and is not getting it.

The President's program, on which, as you know, Senator, the Governor's Association and many others worked very hard, to reform

this system offers humane and logical answers to the welfare mess that we have all denounced for years.

The key to the plan is jobs. This legislation deals with work in a way that is more sensible, and more acceptable, in my opinion, than any previous effort at reform. People want to work, they want the dignity that self-sufficiency brings with it. People who want work and cannot find a job are caught in a system that can lead to a series of defeats which can destroy lives. Self-respect erodes, dreams and aspirations fade, families suffer and children, deprived of example, and also of education, cannot break the pattern.

The success of welfare reform will rise or fall on our ability to help people move from welfare to work.

Now, the President's program addresses these three fundamental issues. It provides jobs. It provides training and work experience for people who have special problems entering the labor force, and it provides changes in the present system so that people who are able to find work are not penalized for it.

In Massachusetts, we have been trying to develop a range of efforts to achieve similar goals. We have improved the system for finding private sector jobs for welfare recipients. We have made welfare recipients a priority for CETA positions. We have developed a means of investing transfer payments in the creation of permanent private sector jobs. And we have established a work experience program to help that small portion of employable fathers on AFDC which need special assistance to find and hold a job.

Our experience in Massachusetts has graphically demonstrated that welfare recipients indeed want to work. In the last Federal fiscal year, the Massachusetts WIN program helped 9,000 people find private sector jobs—those 9,000 people made up about 13 percent of the present welfare recipients in Massachusetts. Some 6,000 of them were welfare fathers who found their way out of the welfare system and we are running somewhat ahead of last year's record in the first 6 months of this Federal fiscal year with more than 5,000 welfare recipients entering employment in the private sector.

But while jobs are the key to this program's ultimate success, its income support provisions also bring a rational measure of security to the fragmented, categorical, overly bureaucratic methods now used to provide cash assistance.

Principles we hammered out in the National Governors' Association are part of this legislation. Those principles promise a unified program for all eligible people below minimum income levels. They assure a national minimum benefit and they simplify and consolidate income maintenance. The result is a program that will be both fairer and more manageable.

A system of cash grants with combined Federal and State supplements is logical and allows for some regional differences where States want to be more generous. The increases in the earned income tax credit enhance the incentives to find work in the private sector and I support them.

Many of us have been working toward the goals embodied in the legislation before you now for the past 3 years. In that time, I have seen a consensus building that recognizes the urgency of the need for

reform. The positive emphasis on work has already won broad popular, political, and editorial support for the concept of welfare reform.

Everyone loses under the present patchwork—everyone from the citizen who can barely get by on inadequate benefits, to the Nation's taxpayers who have to wonder just what it is they are buying with their \$60 billion welfare bill.

In short, Mr. Chairman, I think the time is ripe, and an overwhelming majority of the Nation's Governors agree, that it is time to make the changes which will give all Americans the confidence that our system of work and welfare is both just and fair.

We cannot do that without rebuilding the present system from the ground up. Governors who have to work within the bureaucratic nightmare of the present categorical programs know what we need and incremental additions and changes are not going to give us a system that is unified and clear.

It has been 7 long months now since the Congress received the President's proposals to reform our welfare system. Representative Corman and the House Subcommittee on Welfare Reform worked hard to improve on that legislation. I think they have done so.

I urge you to accept their challenge and to move as quickly as possible to see that welfare reform becomes law this year.

The President's proposals and the work of the Corman committee can get us out of the welfare quagmire. The program stresses jobs and social justice and nothing could be more different from the present system.

Jobs and social justice. There is very little on the national agenda that can be more important than that.

I would be happy to answer any questions that you may have, Senator.

Senator MOYNIHAN. Well, sir, that is a good start for the day.

One of the things that needs to be said, and here is a good place to say it, is that the degree to which we have got some strong political movement toward welfare reform here in the Congress is very much a measure of your performance up in Massachusetts.

I do not have to tell you this is an intensely emotional issue in which feelings are often dominant and in which there is often not a very great deal of attention to fact, but a great deal of disguising of facts. One of the reasons people have distrusted welfare reform, I think, in the Congress, is the feeling that the persons who wanted it were not particularly tough-minded and that they did, in fact, have very soft ideas like, life is best if you do not have to work, and you do not have to account for yourself. But you came along in Massachusetts, a Governor of impeccable liberal background, but tough-minded. It may have something to do with being Greek. I mean, early in life you assumed that if you work for a living, it is better than not working for a living.

Governor DUKAKIS. Yes.

Senator MOYNIHAN. And you have made it clear that welfare reform is on the top of the agenda of people who, in the end, would like a system in which there was very little welfare and who do not see it as a preferable alternative, but as a transition, and one which should be made.

Governor DUKAKIS. Yes.

Senator MOYNIHAN. You have really been very successful. You, and, I guess, we have been saying with one other very large group which is, obviously, the women's movement, that work is not something punitive. Most people, most women, do work.

Governor DUKAKIS. Yes.

Senator MOYNIHAN. You have been very successful in Massachusetts, and you have not had the best economic climate in the past 3 years in which to do it. Would you tell us a little more, because it is so important. It is the one thing that has really been added to the President's program, and you are absolutely right, it is the key to the program.

Governor DUKAKIS. Well, I wish I could say to you that we have been as successful as I would like to report to you, but we still, as you know, are facing caseloads that continue to creep up despite a great many things that we have been able to do.

And the work experience program about which my impeccable liberal credentials have been questioned in my own State rather vociferously over the past year or two is moving more slowly than I would have hoped, because we have faced almost daily court challenges from people in our State who do not want to see a work requirement in effect as part of our unemployed fathers program.

But with all of that, I think I can say to you that the combination of a much-improved work incentive program; the pulling together of the various pieces of our manpower efforts—CETA, our Division of Employment Security and our Welfare Department who are really working very closely and very effectively together for the first time in a long time; and the effort to create or graft on, really, the present system in a not very satisfactory way a transitional work program for unemployed fathers in intact families—has had, at least in my opinion, a salutary effect on people's perception of the system, on what it means, and has helped to encourage what I think is a healthy view. That view is, as you put it, that those of us who are working for welfare reform are not working for it because we are soft or we think that everybody ought to have a handout. Quite the contrary.

What we feel very strongly is that the most dignified kind of existence is one in which people are engaged in productive employment, whether in the public or the private sector. And we have been able, as the figures that I gave you and others in my prepared statement indicate, to help a great many people get back into productive employment—in some cases in public service employment, but increasingly in the private sector, using both training and transitional programs to do that.

How have we done it? Well, we have gone ahead and tried to do it. I think the effort has broad public support. I think everybody agrees that Government has a responsibility to people who cannot be expected to work and help themselves whether it is SSI where, incidentally, we have the highest SSI benefit for single, elderly people in the Nation and I think we are fifth or sixth when it comes to AFDC. We have tried to be as generous as we possibly could under what have been very difficult fiscal and economic circumstances.

But the notion that, if we are going to make a guarantee, Senator—and I think we should—to people who, for one reason or another find themselves unemployed, that that guarantee ought to be a job

and not a check, is one that has very broad public support, as you know. And it is not difficult, as a Governor, to win broad public support for that kind of a program providing it is done well and sensible and it is viewed as what it is supposed to be, which is not a permanent kind of a dead end existence on some kind of a grasscutting job, but a transition into the world of work, particularly for people who, in many cases, have not been employed—and, as you know, it is very difficult to place somebody in the private sector when he comes in with a work record which consists of 3 years of welfare.

Employers are very skeptical about his ability to work. And one of the things that we are trying to do through this work experience program is to help that person develop a work record that he can then take to that private sector job and use as a means for reentering the job market.

So it is beginning to work. We are facing constant court challenges and we will be back in the courts, I suspect, once again within a few days, but I think it is working and it has been a combination of a lot of things that have made it happen.

Senator MOYNIHAN. I do not want to press you, but let me just ask, is it not a curious kind of upper middle class disdain for the experiences of other people that insists that nobody should have to work? It devalues the only experience available to most people, which is to earn a modest living, raise their family and be part of a community. This is the life that most of us live, and I do not think the class bias in all of this has ever really been, as the Marxists might say, demystified. If you come from the leisure class you should naturally feel nobody should have to work. If they had to work, they might make you work. It is something that you were not necessarily entirely interested in.

Do you have some of that feeling?

Governor DUKAKIS. Well, to some extent. There is, I think, a reasonable apprehension on the part of the people who, by no means could be considered upper middle class people, at the lower end of the scale, particularly among minorities that—

Senator MOYNIHAN. I mean the places in Harvard Square where these initiatives come from.

Governor DUKAKIS. Well, in those places, I am inclined to agree with you. As I say, I think there is a reasonable concern that we have to be sensitive to among others, minorities and people who are at the lower end of the economic scale. The concern is that mothers will be forced to do domestic work for the rest of their lives, and that is, for many, what a work program means when we talk about it—I think that places on us a special responsibility to make sure that, when designing work programs and training opportunities, we are doing so for good jobs and permanent jobs and jobs which, I hope increasingly, we can bring to our urban communities. And that sentiment is one that I think we have to be sensitive to and we try to.

But I am as puzzled as you are by the other response, which I confess I have heard more of in the past year, year and a half, in Massachusetts—and that is that there is something demeaning about working. I do not understand it, and frankly, I think it is demeaning to a great many people who are working, and working oftentimes in jobs which are not the greatest jobs in the world, but which they

believe are worthwhile and which bring with them dignity and income and a feeling of self-respect.

Senator MOYNIHAN. I will not detain you on this point, but I will offer you an old professor's observation of what the Marxists refer to when they talk about demystification. To demystify is to reveal the class interests behind otherwise inexplicable activity. It seems to me that most of this disdaining of work comes from a group of people who are not exactly of the leisure class but are of a social class where work is not entirely necessary.

And to disdain the work in others means to exempt yourself from the same demands. It is a very easily biased kind of social class action, and it demeans one of the most meaningful experiences most people have, and people ought to be ashamed of it.

I am happy to see that the chairman of our committee is here. Governor Dukakis has just given us a very straightforward statement in which he talks about the success in Massachusetts of the work orientation in their welfare program. He invoked that famous Democratic Platform of 1976, which you have heard before, Senator Long.

Would you like to ask some questions?

Senator LONG. Governor, please pardon me for being late. Some years ago, someone instructed me that if you want to remain in this body you ought to be sure to make a little TV program once in awhile and send it home so that the home folks know what you are doing and that you are here on the job. That is what made me late.

I have been reading your statement while I have been hearing your discussion. Let me just congratulate you for the imaginative work that you are doing in your State to improve on your program. I notice that in the child support enforcement program that, by some standards, your State heads the list of people who are putting the pressures on fathers to do the right thing by their children.

We in Louisiana do not measure up that well, but we have ambitious plans. I talked to Governor Edwards about it and, after this session of the legislature, we hope to profit by your experience. If we can get fathers to do what they ought to be doing for their children, and if we can assure everybody an opportunity to work and then make the work effort more attractive than just sitting there drawing a welfare check, I believe that we have a chance to do something for the people of this country.

I really think we cannot applaud too much the Governors like yourself who do not just sit there and let a bad situation get worse, but who take ahold of a situation, put some good people into it and proceed to see what can be done to improve on it. We ought to be partners in that and while I may have some differences of opinion as to just exactly how it should be done, I am willing to let you do it however you think it should be done, provided you show us the same consideration in Louisiana and let us do it the way we think it ought to be done.

Because if you can prove that you are right, then I would be willing to move in that direction, providing you offer me the same consideration. I do not think any of us are perfect, but it has been my experience that even a blind hog can find an acorn now and then. I think we can all try to improve on what we have.

I thank you for your statement.

Senator MOYNIHAN. Governor, I would just like to report that what the chairman was referring to is that in this little blue book called staff data and materials on public welfare programs, there is a table, No. 20, which ranks the child support enforcement in terms of the ratio of expenditures to collections, and Massachusetts comes out first in the Nation.

I have said in this hearing, and probably much to the distress of some people, that I often wonder why it is not deemed to be a legitimate right of women to have the men who father their children be required to help in their support. Among all the elemental claims of the social bond, that parents should share in providing for their children, seems to me most important.

One last point I would like to make to you, sir, is to say that you very properly urge us to accept the challenge of Representative Corman and the House subcommittee, and to move as quickly as possible to see that welfare reform becomes law this year.

Well, as you know, we are still waiting on the House, and we cannot accept a challenge which has not been presented to us. We have had a very important independent development here in the Senate which is that Senators Baker, Bellmon, Danforth, and Ribicoff have come forward with a program of their own which is a very attractive one. You might want to comment on it.

But I guess I want to ask you, do you have any feeling what the situation over on the House side is?

Governor DUKAKIS. Well, Senator, I am very loathe to try to suggest or make recommendations. I have enough problems in my own legislature, let alone trying to advise the Congress of the United States.

Senator MOYNIHAN. We are trying to give you a day off. You can come down to Washington and just complain to your heart's content and nobody—

Governor DUKAKIS. I am not quite sure I know what is going on back there in my absence, but there we are.

But I would say this, very respectfully—I am speaking to two Members of the Senate whom I have a great deal of respect for and whom I think are strong and thoughtful and very strongminded people. Every once in a while, I find, at least at the State level, that the niceties and the courtesies have to be dispensed with and that sometimes I have to encourage my upper branch to go to work on things because the lower branch is not moving, and sometimes it is the other way around.

I had a very sweeping court reform bill which was my major legislative priority last year and I am still waiting for it. But if it had not been for my senate, which began to get very impatient at the delay over on the house side on that bill, which was probably the key legislative issue that year, we would not be as close to passage as I think we are today.

I guess the only thing I can say to you, particularly since, I think, both of you were monitoring and, to some extent, involved in the process that led up to the President's bill, that there has to be some way whereby this Alphonse and Gaston act can be broken. And if that means that the Senate has to take things into its own hands a

little bit and has to go to work with like-minded people on the House side, then it seems to me that would be highly desirable.

The Baker-Bellmon bill does not satisfy what I think are the criteria that we set for ourselves as Governors, although it is a step in that direction. But each of us, I suppose, in the privacy of our own office could come up with our own version of welfare reform.

I guess that what I am saying to you is that I think we know what is needed. I think we agree that it has to be comprehensive, however one defines that, and I would just strongly urge you to exercise some initiative here and give the House a sense of your own sense of urgency about grappling with this problem. And I think that one can do that without violating whatever traditions or rules that there may be between the branches.

Senator MOYNIHAN. Well, certainly, it is more than a tradition. It is the Constitution. This bill is supposed to originate in the House of Representatives. It is essentially a revenue measure.

We are holding these hearings precisely for the reason of telling the House that we are here, and we are ready, and men like Michael Dukakis are watching us both. I want to thank you very much for coming down.

Senator LOXE. Senator, could I just make one more comment about the situation that we have?

You like the idea of a comprehensive plan, and I do not know of anybody who does not favor a comprehensive bill, provided he agrees with everything in it. That is just like I find the same thing on this taxwriting committee. I do not know of any Senator who would not be willing to vote for a tax if you spent the money the way he wants to spend the money.

There are some things about the President's recommendation that some of us are not going to be able to buy, at least not now, on an overall basis. For example, I cannot buy the idea that where a mother has only one child and you are able to provide her with an opportunity to work in a day care center, let's say, and take the child to the day care center with her, that she should not be expected to work, that she ought to be offered the option to sit there in the home with \$300 a month and do nothing.

Now to me, and also to the welfare administrator of my State, and to at least a dozen welfare administrators with whom I have talked, they feel that this mother is going to have to go to work to do something to help support that little family, and the sooner she is at it and forms the right kind of habits, the better off she is going to be.

We just do not buy the idea that a mother should not work until the child is in school. We think that she ought to be trying to find a place in the mainstream for herself as soon as possible.

We cannot agree with that part of the administration recommendation. But on the other hand, we would be willing to vote to find the jobs, or to find the tax credits or incentives, and I believe the House is going to send something like that over to us on their tax bill.

If you can take 10 different things, all of which would have to be part of a good welfare program, and if you can get about 5 of them now and see how those work, if you think that we can agree on that much, and then give people the option to experiment and to try the rest of it and see how it works.

For example, I would have no objection, just from my point of view, to let you try to apply the recommendation of the President in Massachusetts—provided we have the option to try something that we think would work better with an equal amount of money in some other States. Then we could judge by the experience we had as to which we think would work best.

That is one way we might resolve this matter. But a lot of us do not want to get locked in in a situation where we think it would be a mistake. We would find ourselves in a trap that we might have difficulty getting out of. The best way to get out of a trap is to stay out of it at the beginning. So some of us feel that insofar as this plan leaves something to be desired, we ought to go forward with the parts that we believe would be good for the country and allow those who have a difference in opinion to experiment with some of the other approaches.

Now, thus far, the experience on this guaranteed income approach in Denver and Seattle has shown an alarming rate of family break-up and also it has shown a work disincentive.

If I were in the Department and this were my pet program and I were going to try it somewhere, I would pick the two cities, or a city at a minimum, where I thought it had the best chance. Mr. Veneman was advocating a similar program, the family assistance plan, and I challenged him to try it in Washington, D.C. right under the nose of Congress to see how it worked out. He said that is the last place he would try it was here in Washington.

Well, they picked the two cities where they thought it would work best, and the results are not at all encouraging on the idea of guaranteeing someone an income for doing nothing and then trying to get the person to go to work.

It just makes a lot better sense, in my judgment, to tell somebody that we are not going to order you to go to work, we are just not going to pay you for doing nothing or, if you do nothing, all you are going to get is x amount. You are not going to get twice that much, because if you make it too attractive, the people who do nothing will find ways either to do nothing or to beat the system. That happens where mama is drawing the check and she says she does not know where papa is—but she spends every night in the same bedroom with him and when somebody comes around asking the first question about it, they raise the dickens about it violating their right of privacy. —

What I want, and I think you want the same thing, is something that will work. Just to hand people money is not going to solve the problem unless you see that it is used in ways that encourage them to do the right thing.

Governor DUKAKIS. Senator, we, as you know, have had a discussion about this, and while we may differ somewhat in just what is appropriate in the case of that individual mother with a very young child, let me make my own view clear, and I think I represent and reflect the views of the vast majority of Governors. As I said before you arrived, if we are going to talk about a guarantee, it ought to be a job, not a check. And we hope that this Congress will write a welfare reform bill with that guarantee in it—and, again, I want to

emphasize where the requirement to work begins and under what circumstances is something where, I suspect, we might disagree.

Assuming that can be resolved, it seems to me that that is critical to the success of this program, and it is critical to the success of a lot of transfer programs in this country, not just welfare. And that is where it seems to me we all agree, and if we can write a bill together centered around that principle, so that what we end up with ultimately is a welfare system, if you want to call it that, or an income maintenance system for those who cannot be expected to help themselves and a job guarantee system for those who can, then I think we are well on our way toward something.

I do not want to suggest, or to conclude, Mr. Chairman, that the Senate violate any constitutional prohibition on its right to act, but a certain amount of moral suasion at this point would be very much in order.

Senator MOYNIHAN. Well, you have helped us in that objective. We thank you, Governor, and we much appreciate your coming.

Governor DUKAKIS. Thank you, Mr. Chairman.

[The prepared statements of Governors Dukakis, Carey, Straub, Boren and Askew follow:]

STATEMENT OF GOVERNOR MICHAEL S. DUKAKIS OF MASSACHUSETTS

Senator Moynihan and Members of the Subcommittee:

I want to begin my testimony this morning by thanking you, Senator Moynihan, for your efforts to bring meaningful fiscal relief to state governments which are running hard just to keep up with increasing Medicaid and welfare costs. I think all the governors appreciate what you have done and we look forward to working with you to ensure that that relief continues in the 1979 budget.

I also want to remind you of the long evenings we spent together on the platform committee of the Democratic National Convention in the summer of 1976, hammering out the basic principles on which the present legislation stands.

Those principles included:

A requirement that people able to work be provided with jobs and job training;

An income floor for poor people who are working as well as those who are not;

Equal treatment for stable and broken families;

And a simple schedule of work incentives to guarantee fair levels of assistance to the working poor.

These principles are as important today as they were then. And I for one feel that a Democratic Congress has a responsibility to move more quickly on vital legislation which embodies those principles than it has over the past seven months.

We are all aware by now of how important welfare reform is for the future of this country. And we all know as well now, as we did seven months ago, and two years ago, that the states cannot deal individually with national issues of poverty and unemployment. Those are national problems; and they are national problems which urgently require national solutions.

We are closer now to genuine reform of our welfare system than we have ever been. And we cannot let this opportunity slip by. We cannot afford further delays, piecemeal solutions, or "incremental approaches." We have a chance to change the way America thinks about and deal with work and welfare, and we must seize that opportunity.

To apply patchwork to the present programs—an increase here in SSI, an improvement there in AFDC, but don't touch Food Stamps—such an approach might make the system work a little better, but it does not attack the causes of our problems.

Our system of democracy is based on principles of equity and justice. But the manner in which we now treat our neediest citizens denies those principles, for there is little justice and less equity in the way we help those who are unable to provide for their own basic needs.

Every American pays dearly for this failure—the taxpayer who is supporting a wasteful program that doesn't work; the unemployed father who is entitled to a job, not a welfare check; and the elderly citizen who needs help and isn't getting it.

The President's program to reform this system offers humane and logical answers to the welfare mess we have all denounced for years.

The key to the plan is jobs. This legislation deals with work in a way that is more sensible and more acceptable than any previous effort at reform.

People want to work. They want the dignity that self-sufficiency brings with it. People who want work and can't find a job are caught in a system that can lead to a series of defeats which can destroy lives. Self-respect erodes; dreams and aspirations fade. Families suffer and children, deprived of example and often of education, cannot break the pattern.

The success of welfare reform will rise or fall on our ability to help more people move from welfare to work.

The President's program addresses three fundamental issues. It provides jobs. It provides training and work experience for people who have special problems entering the labor force. And it provides changes in the present system so that people who are able to find work are not penalized for it.

In Massachusetts, we have developed a range of efforts to achieve similar goals. We have improved the system for finding private sector jobs for welfare recipients. We have made welfare recipients a priority for CETA positions. We have developed a means of investing transfer payments in the creation of permanent private sector jobs. And we have established a Work Experience Program to help that small portion of the employable welfare population which needs special assistance to find and hold a job.

Our experience in Massachusetts has graphically demonstrated that welfare recipients indeed *want* to work. In the last federal fiscal year the Massachusetts WIN program helped 9,000 people find private sector jobs—those 9,000 people made up about 13 percent of the 70,000 employable welfare recipients in Massachusetts. Some 6,000 of them were welfare fathers who found their way out of the Welfare system. And we're running somewhat ahead of last year's record in the first six months of this federal fiscal year with more than 5,000 welfare recipients entering employment in the private sector.

But that kind of thing doesn't happen by accident. You have to make jobs for welfare recipients a priority. And you must have a state network that can work to get results.

In Massachusetts we have such a network. CETA prime sponsors, and the state's Division of Employment Security and Welfare Department are now working together to see that people on welfare have a real chance to return to jobs in the private sector.

This job-placement network is proving invaluable in helping people move into unsubsidized employment. But if we are going to make sure that the three crucial actors on this scene—CETA, Employment Security and Welfare—continue to work together, they need leadership and direction. The Massachusetts experience argues strongly for enlarging the states' role in the administration of the jobs program in accordance with federal performance standards. The bill reported out of the Corman Committee recognizes that principle, and I hope you will support it.

Our experience in Massachusetts also emphasizes the importance of creating jobs that last. The Corman Committee has voted to guarantee a job for those who are expected to work. I wholeheartedly support that change, but I also feel strongly that we have to find ways to make these jobs self-sustaining.

I would like to see a much greater commitment to experiments with real job creation—jobs that can continue *without* government subsidies. In Massachusetts we have developed this concept of job creation very carefully.

We are working to establish non-profit corporations which will combine transfer payments and contract income to perform such tasks as rehabilitating public housing, weatherizing low-income housing, providing home care for the elderly, and removing lead paint from public and private buildings. The income generated by these projects will be reinvested to make the jobs completely self-sustaining. The transfer payments are then phased out.

This kind of project offers a dual benefit. It creates long-term jobs—private sector jobs with a future. It also meets some urgent social needs. In the words of Secretary Marshall—"a fully implemented welfare reform jobs program has the potential for providing local communities the equivalent of a \$1.2 billion child care program; a \$1.6 billion program of home services for the elderly and

ill; a \$200 million program to build facilities for the handicapped; a \$2.4 billion program to aid public schools; and a \$900 million public safety program."

While jobs are the key to this program's ultimate success, its income support provisions also bring a rational measure of security to the fragmented, categorical, overly bureaucratic methods now used to provide cash assistance.

The principles which we hammered out in the National Governors' Association are part of this legislation. Those principles promise a unified program for all eligible people below minimum income levels. They assure a national minimum benefit. And they simplify and consolidate income maintenance. The result is a program that will be both fairer and more manageable.

A system of cash grants with combined federal and state supplements is logical and allows for some regional differences where states want to be more generous. The increases in the Earned Income Tax Credit enhance the incentives to find work in the private sector and I support them.

Many of us have been working toward the goals embodied in the legislation before you now for the past three years. In that time I have seen a consensus building that recognizes the urgency of the need for reform. The positive emphasis on work has already won broad popular, political, and editorial support for the concept of welfare reform.

Everyone loses under the present patchwork of jerry-built programs; everyone—from the citizen who can barely get by on inadequate benefits, to the nation's taxpayers who have to wonder just what it is they're buying with their \$80 billion welfare bill.

In short, the time is right to make the changes which will give all Americans the confidence that our system of work and welfare is both just and fair. We cannot do that without rebuilding the present system from the ground up. Governors, who have to work within the bureaucratic nightmare of the present categorical programs, know what we need—and incremental additions and changes are not going to give us a system that is unified and fair.

It's been seven long months now since Congress received the President's proposals to reform our welfare system. Representative Corman and the House Subcommittee on Welfare Reform worked hard to improve that legislation. I urge you to accept their challenge and move as quickly as possible to see that welfare reform becomes law this year.

The President's proposals and the additions of the Corman Committee will get us out of the welfare quagmire. Their program stresses jobs and social justice and nothing could be more different from the present system.

Jobs and social justice. There is very little on the national agenda more important than that.

THE COMMONWEALTH OF MASSACHUSETTS,
EXECUTIVE DEPARTMENT,
Boston, March 6, 1978

HON. RUSSELL B. LONG,
Chairman, Committee on Finance,
Russell Senate Office Building,
Washington, D.C.

DEAR SENATOR LONG: At its most recent meeting on February 28, the Coalition of Northeastern Governors unanimously adopted the following policy statement:

The Coalition of Northeastern Governors supports the Better Jobs and Income Program, H.R. 9030, as amended by the Special House Committee on Welfare Reform. The Committee's changes will promote regional equity, aid recipients and provide fiscal relief for the Northeast.

The Coneg Governors consider welfare reform one of the highest legislative priorities. In November, 1976, at the Saratoga Conference, we endorsed several key principles that must form the foundation of any comprehensive revision of the welfare system: consolidation of existing programs, establishment of a national minimum benefit, provision of a decent income for those who need support, provide jobs and a series of financial incentives to seek regular employment and to provide fiscal relief to state and local governments.

H.R. 9030, as amended by the House Committee, goes a long way toward accomplishing these goals. A total of \$3.2 billion in fiscal relief would be allocated to the states to relieve the strain caused by welfare expenditures. The Northeastern states will benefit by the provision to index the basic federal benefit schedule and federally subsidized state supplements according to the Consumer Price Index. This provision will protect individuals in the Northeast from

a gradual erosion of purchasing power. It will also protect states from incurring added costs of maintaining actual benefit levels.

Several additional amendments will allow federal cost sharing of benefits to groups that Coneg states most likely would have covered at state expense under the Administration bill:

Federal benefits will be provided to families with more than seven members

Federal participation will be available for state supplements to single adults and childless couples

Step-parents income will be excluded in determining cash benefit levels

HEW estimates that 3.3 million more households will be eligible for cash assistance because of the reduction in the accountable period from 6 to 1 month. However, the amendment to provide a job to all cash assistance families expected to work will reduce the increase in caseloads. The shortened accountable period will also reduce emergency needs expenditures for those in financial need, but who would not have received federal benefits. The actual cost of the 1 month accountable period is difficult to estimate.

The Committee amendments also protect states from the increased cost of determining medical eligibility. While this is a step in the right direction, a simpler, more feasible basis must be found to determine eligibility.

The Committee has improved the jobs component of the bill by ensuring that sufficient jobs will be available, at an adequate wage, for all expected-to-work families receiving cash assistance.

Finally, the Administration has agreed to provide these jobs in addition to those that will be funded under CETA, which will remain an integral part of our effort in the Northeast to provide jobs and training during periods of high unemployment.

The Welfare Reform Bill embodies the basic principles endorsed by Coneg—

Therefore be it resolved, that the Coalition of Northeastern Governors supports H.R. 9030 as amended by the Committee and calls for its speedy passage by the Congress.

The Coalition of Northeastern Governors feels that this bill is sound, and urges prompt passage by the Congress.

Sincerely,

MICHAEL S. DUKAKIS,
Chairman, Coneg.

TESTIMONY OF HUGH L. CAREY, GOVERNOR OF THE STATE OF NEW YORK, AND CHAIRMAN OF THE SUBCOMMITTEE ON WELFARE REFORM OF THE NATIONAL GOVERNORS' ASSOCIATION

Mr. Chairman, members of the subcommittee, thank you for this opportunity to testify on the issue of welfare reform.

I am here today in two capacities. As Chairman of the Subcommittee on Welfare Reform of the National Governors' Association, I am presenting the position of the National Governors' Association. And as Governor of the State of New York, I will later address the views and needs of the people of my State.

As you know, the National Governors' Association has sought comprehensive welfare reform. In that context, we have maintained that certain principles must be incorporated into any welfare reform proposal. These principles include:

A unified program for all eligible people below minimum income levels;

A national minimum benefit to promote equity among recipients and states;

A strong work requirement;

Elimination of work disincentives;

Fiscal relief for state and local government; and

A more rational income maintenance system through program consolidation and streamlined administration.

President Carter's legislation for welfare reform, the Better Jobs and Income Act (S.2084), which we at the National Governors' Association worked with the Administration to shape, and which you, Mr. Chairman, introduced in the Senate last September, incorporates these principles.

Yet we all know, there are deficiencies in that proposed legislation. The National Governors' Association worked with members of the House to improve that proposal. The legislation was marked up and reported by the House

Ad Hoc Committee as H.R. 10950. And this, the Corman legislation, is better legislation. But it too continues to need modifications.

Now there are other pieces of legislation to address the issue of welfare reform. An alternative was introduced in the House by Congressman Ullman as the Welfare Reform Act of 1978. In the Senate in March, S. 2777, the Job Opportunities and Family Security Act of 1978, was introduced by Senators Baker, Bellmon, Danforth, Ribicoff, Mark Hatfield, Stevens, and Young.

The National Governors' Association is encouraged that there are other bills which provide new ideas and approaches for dealing with the problem of welfare. Yet we continue to believe that welfare reform must be comprehensive in nature. And the best basis from which to achieve such reform is through additional modifications of the Administration's proposal, beyond those already attained in the work of the House Ad Hoc Committee.

Yet I am concerned whether any more work will be done at all. These are the first hearings held in the Senate on the topic of welfare reform during this session of Congress. And the House has been silent on the issue of welfare reform since the Ad Hoc Committee completed its work in February.

I am concerned that we have lost momentum. And I am concerned lest, as you, Mr. Chairman, once so eloquently said, we let the best become the enemy of the good.

As I have said before, five years ago, we lost an opportunity for major welfare reform, in part because too many people who agreed with the goal of welfare reform refused to compromise on the details of the Family Assistance Plan. Let us not close our eyes to history; rather, let us learn from our mistakes.

I hope that the Senate, through this subcommittee, can recapture the momentum needed to enact meaningful welfare legislation this year. I commend you, Mr. Chairman, and members of the subcommittee, for holding these hearings.

Meaningful legislation must be comprehensive welfare reform. That must be our ultimate goal. If necessary, we must achieve such reform in stages, and use this year as the beginning of such reform efforts.

But one point must be made very clear. Reform this year must include true fiscal relief to all the states. We must be very blunt about this. If it is impossible to achieve any type of structural welfare reform soon, then the Congress and the President must give real fiscal relief to the States and localities.

In summary, the message I wish to leave with you from the National Governors' Association, is that comprehensive welfare reform must be our goal. And if such efforts must be undertaken on a phased basis, then so be it, but that stages approach must include immediate fiscal relief, this year.

On behalf of the National Governors' Association, I thank you for this opportunity to present our views, and urge you to make comprehensive welfare reform a reality, as soon as possible.

With the Chairman's permission, I now want to address the subcommittee concerning the perspective and particular concerns of New York State.

As I have stated numerous times, we from New York come before the Congress with proof that we can administer our public assistance program according to strict standards of accountability.

For the three years ending at the close of this State Fiscal Year, we are projecting an increase of only six percent in Medicaid expenditures. This is a dramatic achievement, since the average costs of the Medicaid program have escalated as much as 22 percent per year during the past ten years. In addition, we have to cut in half the ineligibility rate for the Aid to Families with Dependent Children program during the past several years.

Our success in reversing long-term trends of expansion is becoming known throughout the nation. Other states are contacting us to identify those management techniques and programs which are producing such dramatic results without jeopardizing necessary care and services.

We in New York are proud to take the lead in these efforts, but controlling the costs of existing programs will not solve our problems.

We need comprehensive welfare reform, and we need immediate fiscal relief for the State and local share of welfare costs.

Any comprehensive welfare reform proposal must contain certain elements to which we must strive:

1. *Universal coverage.*—We in New York have long maintained that we have an obligation to provide at least minimum support to all needy, including single persons and childless couples, the working poor, and all families without regard to the number of parents in the home.

2. *Benefit standards.*—We must have national minimum benefit standards to promote equity among the recipients and states. Those benefits must vary according to family size. To do otherwise is once again to develop ~~social policy~~ which does not recognize the importance of the family, and which forces us to face the dilemma of either advantaging small families at the expense of large ones or accepting increased costs to assure sufficient benefits for larger families. In addition, benefits must recognize the problems of regional variations in living costs and differing judgments as to the appropriate levels of benefits.

3. *Work requirements.*—Able-bodied persons should work. The integration of income maintenance and employment opportunity programs is the only way to break patterns of poverty which afflict generation after generation of our families. But there must be a sufficient number of such jobs; there must be ways to stimulate private sector creation of such jobs; and there must be recognition that the problem of welfare dependency cannot be solved until we deal with the massive unemployment of our youth, particularly minority youth in urban areas.

4. *Administration.*—Certain basic standards regarding administration should exist throughout the nation. But decisions regarding how programs will be administered within these parameters, should be the responsibility of the states. There must be such flexibility to ensure sensitivity to the needs of individual states, and to assure that those levels of government which have financial responsibility for cash assistance also can maintain some administrative responsibility and accountability if they so desire.

5. *Fiscal relief.*—We need fiscal relief, we need it now, and we need it on a permanent long-term basis. I was frankly quite disappointed to learn that the Senate Budget Committee failed to include this money during their deliberations on the Budget for Fiscal Year 1979 and thus demonstrated their unwillingness to face the reality of how much the states rely upon this money. I hope that reason will prevail and that this money will be restored before the budget is adopted by the Congress.

In addition, such fiscal relief must be based upon indicators which can be measured. Projected savings which are based upon assumptions concerning changes in caseload patterns, economic conditions, etc. are not reliable savings.

These are goals toward which we must be striving. They are goals which we should seek to achieve through modifications of the Administration's proposal. H.R. 10950 moves in that direction, but certainly additional changes are necessary.

But we in New York are also realistic. I served for 14 years in the House of Representatives, and I know how difficult it is to enact broad, far-reaching changes in our social programs. I do not want us to come away with nothing, as happened five years ago. We debated for three years, and in the end, despite everything we said about the inadequacies of the welfare system, we all held our ground, intractable and uncompromising. As a result, everything stayed the same.

If comprehensive welfare reform is not possible in this Congress, then I suggest that this subcommittee seek passage of those provisions in various bills which would provide the first steps toward our ultimate goal.

Many of my fellow governors are looking seriously at the Baker-Bellmon proposal as just such a vehicle. Our initial review leads us to the conclusion that there are several features which appear promising.

First, there is increased federal matching, beginning in October 1979. The federal match in New York State would increase from the current 50% of the existing AFDC grant levels, to 60% of the poverty level in 1979 up to 80% in October 1981. Such a provision would provide measurable fiscal relief.

Secondly, the bill would mandate AFDC coverage for two parent as well as single parent families. Currently, New York has such a program, but we believe that such a program is necessary throughout the nation as a means of encouraging family integrity, and providing equity in benefits among the states. In addition, this proposal would change the definition of unemployment from 100 hours per month to 30 hours per week times the federal minimum wage, thus linking eligibility to actual family income.

Another provision of the bill would permit up to three variations of the standard of need within a state, based on variations of cost of living. This is critical in states like New York which have wide variations in such costs between large cities, rural areas, and more moderate metropolitan areas. However, we would recommend that such a provision be timed to coincide with the provisions altering federal reimbursement.

Fourth, the legislation seeks to provide incentives for the private sector to create jobs through both a voucher program and a job creation tax credit program. Creation of private sector jobs is the only true long-range solution to the problem of unemployment. The concept of a voucher at \$1 an hour for 30-40 hours per week at prevailing wages is an intriguing idea. Certainly we need to examine the difficulties of program implementation which are being experienced in Philadelphia; but the idea has merit.

There are other provisions of the Baker-Bellmon legislation which we would oppose. For example, the bill creates a financial incentive for State administration of welfare programs, and therefore conversely, provides a fiscal penalty for any State which does not do so. I continue to believe that such a decision should be left to the states.

Secondly, the bill would modify existing earned income disregard provisions. New York State has traditionally sought modification of such provisions for two reasons; the theoretical breakeven point is very high; and the net income available to a working AFDC family is higher than that available to the working poor family who makes the same amount in wages. Both of these problems are addressed by the Baker-Bellmon provisions. However, a change in the disregard, when added to the already significant reduction in total income which will result from recent changes in Food Stamp eligibility, creates a double reduction. For this reason, New York opposes any changes in the current earned income disregard for at least one year. During that time, we can evaluate the effect of the new Food Stamp Act and determine an appropriate alternative proposal.

Although I haven't addressed all the segments of the Baker-Bellmon proposal, I just wanted to inform the Committee that there are portions of the proposal which we can support as a first step. Let me emphasize that I still am a strong supporter of the comprehensive approach to the welfare issue. However, if the political reality of the situation demands that we attempt to achieve welfare reform in stages, then we must begin the process this year. If nothing is done, we will probably have lost any chance for reform for several more years. I don't believe that those in need can afford to wait any longer.

Thank you.

TESTIMONY BY OREGON GOV. BOB STRAUB

Chairman Moynihan and members of the Public Assistance Subcommittee of the Senate Finance Committee:

I regret that due to the demands of my schedule, I am unable to address you today in person as I did six months ago on behalf of the State of Oregon and the National Governors' Association in support of President Carter's plan for achieving comprehensive welfare reform. I want, however, to express my sincere concern that the important goals of welfare reform be pursued vigorously toward enactment in this Congress.

It has been more than a year since I submitted to HEW my proposal for comprehensive welfare reform. The President, in his Program for Better Jobs and Income, offered us a comprehensive welfare reform plan which embodied most, if not all, of the principles called for by the National Governors' Association with respect to equity among the states, adequate benefits to those in need, fiscal relief for state and local governments, strong work requirements with an emphasis on job creation, consolidation of existing programs, elimination of categorical distinctions which limit assistance to special categories of the poor, and streamlining of administration.

Six months ago in my remarks before the Welfare Reform Subcommittee, I stated that President Carter and HEW Secretary Califano were deserving of high praise for producing a comprehensive welfare reform package which offers a carefully considered alternative to the present system of historically accumulated programs of categorical aid and its complicated administrative structure. Today I would add my sincere appreciation to the Welfare Reform Subcommittee itself and to Representative James Corman, under whose

leadership the subcommittee has patiently addressed the concerns of the states, while endorsing the principle of comprehensive welfare reform and preserving the basic structure of the Administration's proposal.

In HR 10950, the subcommittee has responded to most of Oregon's major concerns by removing the provision to limit payment to households of seven, by providing for cost-of-living adjustments in the basic benefit, by giving states the option to administer the eligibility and payment system, by reducing the proposed asset limitations to current SSI levels and eliminating imputation of income from assets, and by including a provision to hold states harmless from increased cost due to new eligible cases under Medicaid. Certainly, Oregon has some remaining concerns. But while we governors have identified enactment of comprehensive welfare reform during this Congress as being in the nation's vital interest, we have also recognized that if reform of the welfare system is to be accomplished, it will be born of constructive compromise. I believe we can be encouraged by the strong and sincere interest in passing welfare reform legislation during this Congress as evidenced not only by HR 10950, but by the introduction of additional welfare reform bills by Congressman Ullman and by Senators Baker and Bellmon. Each of these bills has some unique provisions which warrant serious consideration. Hopefully, the better provisions of all of these bills can be incorporated into one comprehensive welfare reform bill.

I am acutely aware of the fiscal ramifications of removing some of the inequities of the present welfare system in departing from the categorical approach to respond to the needs of all the poor, but I am hopeful that a comprehensive plan for welfare reform can remain relatively intact, and that if necessary, to reduce the immediate fiscal impact, this comprehensive plan can be implemented by phasing in its various components over a period of time.

Both Oregon and the National Governors' Association are pleased to have contributed staff assistance to the subcommittee. We remain hopeful that through a continued cooperative effort, Congress can build on the base established in the Better Jobs and Income Act and successfully enact effective welfare reform legislation this year.

STATEMENT ON WELFARE REFORM BY GOV. DAVID BOREN, OKLAHOMA

I join my colleagues in urging the Senate Finance Committee to produce a welfare reform bill for congressional action this year. It appears that a political consensus is emerging in favor of several important changes in our welfare system. Waiting until next year may be a serious mistake, as none of us can be sure how long a consensus will hold together or what other problems might push welfare reform into the background.

It is most encouraging that the two major welfare reform plans which have been put forth as alternatives to the Carter Administration's approach, share with each other and with the Administration's plan many common features. Bipartisan sponsorship of Senate Bill S. 2777 shows that support for welfare reform does exist on both sides of the political aisle in Congress. While this measure is far from perfect, it is a step in the right direction in several critical areas. It is definitely preferable to the Administration's proposal. I am hopeful that its costs can be reduced. To the taxpayer, welfare reform definitely does not mean greater welfare spending. Nor does it mean a federal bailout of one region of the Country at the expense of another. Increasing transfer payments are undermining capital investment and the productive side of our economy.

One of the most crucial ingredients in the consensus that I referred to earlier is the recognition that we ought to invest much more in jobs for welfare recipients and those who are in danger of falling into welfare than we have in the past. This includes, particularly under S. 2777, efforts to place present and potential welfare recipients in private sector jobs, with a smaller public service jobs program than some would advocate. I support these directions. By investing in private sector and public service jobs in the next few years, we will reduce the long-term cost of welfare substantially. We will also begin to break the vicious cycle of dependency in which too many of our citizens have become locked.

I also agree with the premise reflected in S. 2777 that "federalizing" the welfare system is an unnecessary step. While welfare administration will always be troublesome for whatever level of government is responsible, I sincerely believe that we have demonstrated in Oklahoma that welfare can be both efficient and humane when run at the state level. I would strongly oppose any effort to federalize administration of the system.

Again, I urge the Congress to proceed with welfare reform this year. You will be contributing to our nation's economy and to the health of our social systems by doing so.

STATEMENT BY GOV. REUBIN O'D. ASKEW, STATE OF FLORIDA

On behalf of the State of Florida and the National Governors' Association, I am pleased to supply the following statement for the record of the Senate committee on finance. Since it was not possible for me to come to Washington to present my thoughts personally, I have asked my distinguished colleague from Massachusetts to deliver them for me.

During my tenure as chairman of the National Governors' Association, I was particularly impressed with the broad-based interest and support expressed on the subject of welfare reform and the urgent need for a comprehensive National policy dealing with the treatment of the poor and disadvantaged. Governors from all over the country—from small States and large, from so-called high-benefit States and more conservative States like my own, and from rural and urban States—were virtually unanimous in their call for a more rational public assistance system:

A system of equitable and adequate benefits to those in need which, more important, provides jobs and incentives and training to make a work requirement meaningful.

A system which consolidates the patchwork of existing programs and eliminates the artificial and destructive categorical distinctions which tend to disrupt families and create welfare dependency.

A system which provides for simpler and streamlined administration and which removes some of the fiscal burden from the State and local tax base.

We worked closely with the administration in developing a proposal which meets these goals and continued to work with the special house subcommittee on welfare reform in refining that proposal.

It is interesting and, indeed, encouraging to see the same kind of broad-based and bi-partisan interest developing in the Congress. While there are clearly differences of opinion as to the scope and specific details, it is also clear that there is a growing recognition of the necessity to address the issues raised in the Carter proposal and the Corman bill.

Our hope is that this recognition and the tremendous amount of work already put into the various proposals by the Congress, the administration, the governors and their respective staffs will provide the impetus needed to assure passage of a workable, affordable program in this session of the Congress.

It is not enough simply to attempt to patch up the gaps in the current system. That type of piecemeal approach is precisely what has led us into the maze which is popularly called the "welfare mess". It is essential that the comprehensive complaints which we have all voiced and the review of the current situation which has been undertaken result in a comprehensive solution. That solution will no doubt be expensive—meeting the challenge of setting humane National public policy often is. It probably cannot all be accomplished at once. But neither of these facts should deter us from meeting the challenge that all of our constituencies are demanding. Let us set the framework of a comprehensive system now. If we must implement that system incrementally over the next several years instead of altogether, at least we will have charted the course and can present to the American public a National policy which preserves the dignity of the individual and the family unit, while providing work instead of welfare as often as possible.

Thank you for allowing me the opportunity to share my thoughts on this important subject. As always my staff and I stand ready to assist the committee as needed as you deliberate the specifics of the various proposals before you.

Senator MOYNIHAN. Next we will hear from Mr. Charles D. Hobbs who is president of Charles D. Hobbs, Inc. of Sacramento.

Mr. Hobbs, before you begin, may I just say that we are working under somewhat difficult constraints imposed by the endless Panama Canal debate. The Senate has begun coming in early in the morning, as against its normal practice of coming in at noon, and there is a restriction on committees meeting while the Senate is in session. Therefore, we will have to finish here at 11:30. We have plenty of time if we keep to the time limits which each of you was asked to abide by, which is 10 minutes for individual witnesses and 20 minutes for panels, and a bell will ring at the expiration.

Mr. Hobbs, good morning, and welcome.

Mr. HOBBS. Thank you, Mr. Chairman.

**STATEMENT OF CHARLES D. HOBBS, CONSULTANT,
SACRAMENTO, CALIF.**

Mr. HOBBS. Mr. Chairman, my name is Charles D. Hobbs and I am an independent public policy and management consultant from Sacramento, Calif. From 1970-72, I was chief deputy director of social welfare for California. I am not here to propound any specific welfare reform proposal, but rather to tell you about some research I have done in the past year and a half related to the welfare system which would indicate that that system is far larger than the reforms that are being proposed in the Carter plan and that perhaps those Carter reforms will not work in the context of this larger welfare system. That research has been published recently by the Heritage Foundation here in Washington in a book titled *The Welfare Industry*. I believe that copies have been distributed to all of the Members of Congress and, if not, it is available through the Heritage Foundation.

Senator MOYNIHAN. I do not have mine.

Senator LONG. I would like to see it.

Senator MOYNIHAN. Oh, yes. Here is one.

Mr. HOBBS. I would like to start by saying that it is my opinion that welfare reform is a political idea, created in response to public dissatisfaction with the welfare system. There are major gaps between the way the system operates and the way the public thinks it should operate. There have been opinion surveys that indicate public desire for reforms that would eliminate "cheaters"—cut costs, provide adequate aid to those who cannot work, require work of those who can, and simplify the distribution of benefits. The key issue of welfare reform to the public is the conflict between work and welfare, personified by the resentment of the taxpaying worker toward his welfare-collecting neighbor.

In order to assess the economic and social impacts of any welfare reform proposal, it is first necessary to understand the scope and development of the national welfare system. That system, in my definition, consists of all Government programs designed to alleviate poverty through wealth redistribution. When you look at the Carter welfare reform in the context of that system, it is like the cartoon I once saw of a couple of Greeks looking at a 3-foot high Trojan horse, and one says to the other, "It's a great concept, but it lacks scope."

I believe that that can be said of the Carter welfare reform program when looked at it in terms of the entire welfare system.

In the context of the welfare system, poverty and wealth are relative terms used to define conditions deemed by the Government appropriate for redistribution. While poverty refers to financial deprivation, wealth is ostensibly earned income that is subject to Federal and State wage and sales taxes. In fact, national welfare programs are essentially earnings redistribution programs in which the earned incomes of some workers are taxed to provide unearned incomes in cash and in kind to other workers and nonworkers.

My research has identified 44 major Government programs that make up the national welfare system. There are six food programs, seven housing programs, seven health programs, seven cash assistance programs and seven service and miscellaneous programs and a couple of major education programs. Between 1971 and 1976, the growth of these programs combined was 125.54 percent, an average annual rate of 25.1 percent.

By comparison in the same period, the Federal budget grew at an average annual rate of 15 percent, the GNP at 10 percent, the cost of living at 8.6 percent, and average gross hourly wages in private industry at 7.67 percent.

In other words, this welfare system during that period of time, 1971 to 1976, was growing $2\frac{1}{2}$ times the rate of the economy and three times the growth rate of wages.

The 1979 Federal budget shows continued growth at a slightly slower rate—the 1977 welfare expenditures for these programs are estimated to total more than \$210 billion and 1979 expenditures are projected, very conservatively, at \$250 billion.

Of the 44 programs that I examined, 21 had expenditures in 1976 in excess of \$1 billion each, and total expenditures for these 21 “billion dollar plus” programs was about 95.7 percent of total welfare expenditures. The programs have been created in principally two decades, the 1930’s and the 1960’s. Ten programs were enacted in the 1930’s and 20 more were enacted in the 1960’s.

In recent years, however, the legislation of welfare policies and programs has been accomplished principally through amendments to existing acts. Twenty-six of the forty-four programs, including all of the 10 most expensive, have been initially expanded in the last 10 years through amendments. There is a strong correlation between how old a welfare program is and how big its expenditures are; 13 of the 21 “billion dollar plus” programs and 8 of the 10 most expensive programs were enacted before 1960.

There is also an interesting correlation between the types of benefits and how old the programs are. You could characterize the benefits as either being cash, or services, or a combination. Of the 11 cash-only programs, 7 were enacted prior to 1960, whereas 17 of the 23 service-only programs have been enacted since 1960. In other words, there has been a tremendous impetus over the years toward more service programs instead of cash programs.

Coincident with the extraordinary growth of welfare expenditures has been the development of a national welfare industry which is

now composed of 5 million public and private workers, distributing goods and services to 50 million beneficiaries. The Federal Government, with its taxing power and authority to regulate the States, has controlled this industry since its inception in the 1930's and has established and imposed goals created for the industry on the development of the welfare system itself.

In my definition, these goals have had very little to do with helping people who need it on a welfare program. The goals are: First, that welfare expenditures grow at a faster pace than national economic growth; second, that welfare control and administration be eventually centralized here in Washington in the power of the Federal Government; third, that there be ever-increasing complexity of welfare programs in operation, and this is quite simply a protective mechanism for the industry—the more complex the system the less the Congress understands it and the less the Congress can affect it; and finally, that the welfare industry employment be continually expanded. This is best indicated by the fact that the tremendous increase is in the number of service programs.

These goals have been met to a remarkable degree. Expenditures are now growing at two to three times the pace of the economy. All but a handful of the 44 programs are controlled by the Federal Government. Interactions among these programs are so complex that the industry itself cannot calculate their benefits, and there have been many attempts, both by the Congress and by Federal agencies. Industry employment has expanded to the point where the Government is a monopsony to several welfare-related service trades, particularly those who provide health care.

These trends are not popular, as you well know. Public dissatisfaction with welfare policies and the size and cost of programs has made reform of the welfare "mess" a perennial political issue. Yet, every attempt at national reform either has not been enacted or has resulted in even faster growth and higher costs, because the welfare industry itself in controlling the program design and evaluation process through the Federal bureaucracy has altered reform concepts to meet its own expansionary goals.

In recent years the welfare industry has sought enactment of a national guaranteed income policy, and two concepts have been developed to implement that policy. The first is the concept of family allowances—payments based only on family size, and not determined by need. Family allowances were first conceived as a stimulant to population growth in France by 1932, as the chairman has indicated in one of his books, and currently Canada and several European nations have family allowance plans. As a means of implementing a guaranteed income policy, the concept of family allowances is simple and efficient, but as a means of redistributing wealth, the concept is politically unacceptable since it pays the same amounts to rich and poor alike.

The second concept is the negative income tax originally proposed by economist Milton Friedman in the 1940's. In this concept the Government takes taxes from people with incomes above a certain level, just as it does not, but pays taxes to people with incomes below that level.

Friedman envisioned the replacement of all existing welfare programs by the negative income tax. He also proposed transferring the administration of the negative income tax-based welfare system to the IRS, a move calculated to destroy existing Federal and State welfare bureaucracies.

In assessing these concepts, the industry was faced with a Hobson's choice: a family allowance program would greatly expand industry scope and power but was politically untenable, while a politically appealing negative income tax system would reduce the industry itself to a handful of tax accountants. The dilemma was solved by accepting the negative income tax concept and altering it to conform to industry goals in a massive application of the industry-controlled program design process. That process has produced a series of conceptually identical reform proposals: the first was proposed in the Johnson administration and rejected in 1967; the second, the Nixon family assistance plan and all its varieties; and finally, the Carter welfare reform plan which you are considering now.

The term reform implies a significant departure from past policies and practices—and I will finish up in the next 30 seconds here.

Senator MOYNIHAN. Take your time, sir. You are giving us careful testimony.

Mr. HOBBS. Thank you very much.

In this sense, the Carter welfare reform plan, like its conceptual parent, the Nixon family assistance plan, is not a reform at all. It covers only 5 of the 44 programs in the national welfare system and less than 20 percent of national welfare expenditures. Its single innovation—the negative income tax concept—has been altered to extend the policies and accelerate the practices which have in the past increased taxes and dependency and fostered public dissatisfaction. The Carter plan is simply another welfare industry plan designed to meet industry goals.

Welfare costs, in my opinion, cannot be controlled by reform of one or a few programs, even if the industry can be kept from influencing design of that reform, because of the way welfare programs overlap and interact. Adding new recipients to one program adds them almost automatically to a dozen others and, in fact, there are outreach programs that solicit people who have gone into one program to join others, while removing them from one program usually does not affect their eligibility for others. Moreover, what might seem to be a reasonably modest benefit package from a single program becomes part of an unexpectedly generous, and costly, benefit package when the combined effects of all programs are calculated.

For example, a single-parent family with 2 children is theoretically eligible for 23 of the 44 national welfare programs. I do not say that that is a common thing, but I think it is quite common for such a family to participate in 12 to 14 of those 44 welfare programs simultaneously.

Among the programs for which this family is eligible is medicaid, food stamps, free nutritional supplements for mothers and infants—the WIC program, which is being expanded rapidly—free summer and school meals for school-aged children, low-rent housing, free

child care, family planning and other "social" services, legal aid and job training and placement. If the parent gets a job, chances are the family will remain eligible for all, or almost all, of these programs, including AFDC payments, because the family program for single parents is nationwide in its scope.

Taking away the family's AFDC payments will usually not affect its eligibility for the other programs and, in some cases, will actually increase the benefits from them. For instance, a drop in income because of taking away the AFDC payment would raise the amount of food stamps available for that family.

The compounding of benefits through overlapping programs is the major cause of the high welfare cost growth rate. Many welfare families are better off financially by their participation in several programs than are the families of workers whose taxes pay for the welfare.

Forcing workers to subsidize welfare recipients at higher standards of living than their own is the ultimate absurdity of the wealth redistribution theory. The problem cannot be solved by adding welfare to the incomes of more workers, as President Carter has proposed, because as long as welfare costs grow faster than wages, the welfare burden on all workers, including those receiving welfare, is bound to increase.

The costs and inequities of the welfare system are products of the policies and programs of the federally controlled welfare industry. Welfare reform must encompass the entire system and must start with a restructuring industry to remove the incentives for growth, complexity, and centralization that have operated in the past.

I believe welfare reform is a worthy goal, not just politically, but socially and economically as well. The welfare system has failed those who need it and those who pay for it. Dependency and taxes have increased in concert. Only the welfare industry has benefited and it is the industry which must be reformed if welfare is ever to be refocused on its purpose—to help those who cannot help themselves.

Thank you.

Senator MOYNIHAN. I thank you very much, sir. That is powerful testimony.

Are the 44 national programs you mentioned listed in the book?

Mr. HOBBS. They are cataloged. A page is devoted to each one, with an explanation.

Senator MOYNIHAN. Fine. I wonder if you would submit with your testimony those pages, so we could make them part of the record? We would like our record here to be exact.

Mr. HOBBS. All right.

[The material to be furnished follows:]

PROGRAMS OF THE NATIONAL WELFARE SYSTEM

Program title	Control- ling agency ¹	Type of benefits ²	First year enacted	1976 recipients (in millions)	Expenditure source ³	1976 expenditures (dollars in billions)
Food programs:						
Child nutrition.....	DA	Service.....	1946	16.8	Shared.....	2.379
Elderly feeding.....	DA	do.....	1965	NA	Federal.....	.011
Food donations (commodities).....	DA	Cash.....	1935	.05	Shared.....	.008
Food stamps.....	DA	do.....	1964	18.7	do.....	5.773
Special supplemental food (WIC).....	DA	do.....	1966	.5	Federal.....	.155
Special milk.....	DA	Service.....	1966	NA	do.....	.144
Housing programs:						
Rural housing.....	DA	Multiple.....	1949	NA	do.....	.128
Lower income housing assistance.....	HUD	Service.....	1974	NA	do.....	4.269
Homeownership assistance.....	HUD	do.....	1968	NA	do.....	4.919
Rent supplements.....	HUD	do.....	1965	NA	do.....	4.219
Rental housing.....	HUD	do.....	1968	NA	do.....	4.464
Low-rent public housing.....	HUD	do.....	1937	NA	do.....	41.617
College housing g. ants.....	HUD	do.....	1950	NA	do.....	4.020
Health programs:						
Public health services.....	HEW	do.....	1946	5-8	do.....	.785
Medicaid.....	HEW	do.....	1966	23.9	Shared.....	14.666
Medicare (hospital).....	HEW	do.....	1965	6.1	Federal.....	12.574
Medicare (supplemental medical).....	HEW	do.....	1965	14.0	do.....	3.033
Community mental health.....	HEW	do.....	1963	NA	Shared.....	.752
Community drug abuse treatment.....	HEW	do.....	1966	NA	do.....	.474
Community alcoholism treatment.....	HEW	do.....	1970	NA	do.....	.303
Cash assistance programs:						
Social Security old age and sur- vivors insurance (OASI).....	HEW	Cash.....	1935	27.5	Federal.....	49.000
Social security disability insur- ance (DI).....	HEW	do.....	1956	4.4	do.....	47.350
Special benefits for disabled coal miners.....	HEW	do.....	1969	.5	do.....	1.004
Supplemental security income (SSI).....	HEW	do.....	1935	4.3	Shared.....	6.363
Public assistance grants (AFDC).....	HEW	do.....	1935	11.6	do.....	10.666
Refugee assistance.....	HEW	Multiple.....	1962	.1	Federal.....	.295
General assistance.....	States	do.....		1.3	States.....	41.400
Employment and work training programs:						
Work Incentive (WIN).....	HEW/DL	do.....	1967	.003	Shared.....	4.395
Comprehensive employment and training assistance (CETA).....	DL	do.....	1973	NA	Federal.....	4.982
Employment Service.....	DL	Service.....	1933	4.2	do.....	.532
Job Corps.....	DL	Multiple.....	1964	.06	do.....	.134
Community Service Employment for Older Americans.....	DL	Cash.....	1973	.02	do.....	.038
Unemployment compensation.....	DL	do.....	1935	3.5	Shared.....	20.501
Railroad unemployment insurance.....	DL	do.....	1938	.2	Federal.....	.267
Workers compensation.....	States	Multiple.....		NA	Shared.....	48.000
Education programs:						
Financial assistance for elemen- tary and secondary education.....	HEW	Service.....	1965	5-10	Federal.....	2.451
Financial assistance for higher education.....	HEW	do.....	1965	1.5-2	do.....	2.590
Service and miscellaneous programs:						
Public assistance services (AFDC).....	HEW	do.....	1935	12-15	Shared.....	3.702
Human development services.....	HEW	do.....	1964	1.5-2	do.....	1.846
ACTION domestic.....	ACTION	do.....	1964	NA	Federal.....	.100
Legal Services.....	LSC	do.....	1964	NA	do.....	.095
Veterans benefits.....	VA	Multiple.....	1917	7-9	do.....	18.415
Indian benefits.....	DI	do.....	1921	45-55	do.....	1.297
Community services.....	CSA	do.....	1964	NA	do.....	.650

¹ DA—U.S. Department of Agriculture, HUD—U.S. Department of Housing and Urban Development, HEW—U.S. Department of Health, Education, and Welfare, DL—U.S. Department of Labor, ACTION—U.S. Federal ACTION Agency, LSC—Federal Legal Services Corporation, VA—Federal Veterans Administration, DI—U.S. Department of Interior, CSA—Federal Community Services Administration.

² See text for definitions of cash and service benefits. Multiple benefits include both cash and service.

³ "Share" programs are those funded jointly by federal and state governments.

⁴ Estimated. See individual program descriptions in following chapter for explanations of estimates.

NA—Not available.

Senator MOYNIHAN. I would like to make a brief point of distinction, that a family allowance is not a guaranteed income. It is a family allowance, and nothing more. You can have no other income and get your family allowance since it is not wealth based at all.

The other thing I might take issue with, unless you have new information is the thought that Canada and several European nations have family allowances. I began speaking on their behalf when I was an Assistant Secretary of Labor under President Kennedy. At that time, the United States was the only major industrial democracy in the world which did not have family allowances.

I believe I see a lady in the audience nodding. I believe they are universal, save for the United States.

Senator Long?

Senator LONG. Thank you for your testimony. I am looking through your book. I think you have some very useful thoughts. Thank you.

Senator MOYNIHAN. Senator Dole?

Senator DOLE. I listened to the statement. I would appreciate having these 44 programs that were in the book.

What do you suggest, then, that we do? I think that is the one thing that I did not gain from the statement.

Mr. HOBBS. I started outside the context of my written statement by saying that I was not here to propound a specific reform. In this book I have indicated what I consider to be principles, and there are essentially four principles for reform which I think must be considered.

First of all, we have to reduce the number of welfare workers. I believe that reducing the number of workers and the influence they have had on the design of programs throughout the Nation is the first step for reform.

Senator DOLE. What is the ratio now of workers to recipients?

Mr. HOBBS. I think it is about 1 worker for every 10 who receive some form of welfare benefits. These workers are not all Government workers, they are in the public and private sector, because the Government is purchasing private services for welfare on a large scale.

I believe that the second step is to simplify the welfare system and I think that this must be done through bringing all of the programs into focus as being part of the welfare system, and then simplifying that system. Perhaps, as I have indicated here, the original negative income tax is a prototype for that simplification, which should eventually cash out all service programs and reduce the employees attendant on them.

Because it has been my experience with welfare recipients that most of them neither want, nor would pay for, the services, if they had the cash to do it, and many of those services simply are inappropriate to the intents of the legislation and the needs of the poor.

The third is to decentralize control of the welfare system, which I do not think can be done until the first two steps have been taken, but it seems to me, in the long run, the only way to determine need is not through the Federal Government but at the community level, specifically the neighborhood level, and until we are able to decentralize welfare, even if we are paying for it out of Washington,

and turn the money over to the neighborhood level, we are simply going to be perpetuating the bureaucracy and the bureaucratic control of a large part of the population that has gone on in the past.

Finally, to reduce welfare expenditure growth by a monitoring of Congress of welfare expenditures related to economic growth. As I have pointed out, one of the major goals of the industry is to grow economically faster than the Nation grows economically and I think that Congress needs to monitor that and, hopefully, to stop it through that monitoring.

Now, those are my principles for reform, but I do not advocate a specific program.

Senator DOLE. Well, I do not have any quarrel with the principles, but it is difficult, of course—we say reform and then we sometimes complicate what we already had. I do not suggest that we will do anything this year, although there are a number of proposals floating around. Some may have more merit than others and some may not have any. I will look forward to reading the book; maybe I can gain additional information.

Thank you, Mr. Chairman.

Senator MOYNIHAN. Thank you, Senator.

Thank you, Mr. Hobbs. We appreciate that not everybody comes bearing a book. I wanted to ask one last question.

Did I hear you to say that a simplified negative income tax would be, in your view, a sensible thing?

Mr. HOBBS. The original negative income tax—

Senator MOYNIHAN. As Milton Friedman proposed it, it was a replacement for the other programs, not in addition to them.

Mr. HOBBS. Yes, I believe that he said originally that it would be necessary for his program to work to cash out other programs, and what I have tried to indicate here is how many other programs there are and how big they are.

Senator MOYNIHAN. Well, that is much too complex an idea for the U.S. Senate, but we do appreciate your assistance.

Mr. HOBBS. That is why I did not come to advocate it, Senator.

Senator MOYNIHAN. We now have a panel of persons concerned with child welfare.

Mr. Richard Zeilinger, who is the executive director of the Children's Bureau of New Orleans; Mr. William Pierce, who is assistant executive director of the Child Welfare League; and Ms. Helen K. Blank, who is executive director of the American Parents Committee who is appearing on behalf, also, of the Child Welfare League of America, one of the oldest and most honored institutions of its kind in our country.

We welcome you. Mr. Zeilinger, do you wish to begin?

**STATEMENT OF RICHARD ZEILINGER, EXECUTIVE DIRECTOR,
CHILDREN'S BUREAU, NEW ORLEANS, LA.**

Mr. ZEILINGER. My name is Richard Zeilinger and I am executive director of the Children's Bureau of New Orleans. However, I appear today on behalf of the Child Welfare League of America and accompanying me are William Pierce, assistant executive director

of the league and Helen Blank, executive director of the American Parents Committee, a division of the league.

In the past, the league has appeared before Congress to seek an improvement in public welfare programs for children and their families because we believe that a family income sufficient to meet minimum standards of health and human decency is essential for the optimal growth and development of children and basic to any program of services for children.

The league believes that there should be a national policy, setting national standards, to assure that all people, including children, may have this minimum standard of living.

We are concerned about welfare reform because we believe the existing welfare system has caused irreparable damage to children by not meeting their basic or special needs.

More specifically, we are concerned about how the welfare system directly affects the lives of children and their families. We therefore suggest that any job or income policy under consideration should be carefully examined with a view towards its potential to help or harm children. We believe that work and income programs should encourage family stability, protect the welfare of children by providing proper care for them in their own homes and with their own families. Welfare is first, a children's issue, with almost 8 million out of 11 million AFDC recipients being children.

The situation of pending welfare reform legislation is complex. With respect to the President's welfare reform legislation, S. 2084, our testimony is approximately the same as that which we gave on its House counterpart, H.R. 9030. We feel we must take note of, and comment the bill, H.R. 10950 which incorporates the decision of the House welfare reform subcommittee.

In a recent letter, subcommittee chairman, James Corman expresses the hope that this bill will shortly be acted on by the three parent committees. If acted on favorably by the House, it will also be before the Senate Finance Committee. Since this bill corrects mostly deficiencies in the original proposal, we hope that this committee will give it favorable consideration. The structure and approach of this proposal offers the basis for a forward movement in welfare policy.

We also incorporate in our testimony some comments on the aspects of S. 2777 affecting the welfare of children. A number of the basic children's issues which concern us in S. 2777 are similar to those we note in S. 2084. To further complicate the picture, the foster care and adoption provisions of S. 2777 would replace provisions in H.R. 7200.

Our testimony must, therefore, touch on this testimony also.

Turning to the original Carter welfare reform proposal as incorporated in S. 2084, we support the basic thrust of the administration's welfare reform proposal. We agree strongly with the plan's recognition that mothers of young children are performing important work and should be exempted from the expected-to-work tract. We believe, however, that certain provisions of S. 2084 must be amended if the new plan is to offer a realistic opportunity for family stability and to alleviate familial pressures that increase the foster care caseload.

Basic benefit levels are inadequate. Food stamps should not be eliminated given the present structure of the bill. States should be required to supplement.

The maximum payable amount should not be limited to a household size of seven.

Mothers with children over the age of 7 should be the judge of when they are able to work outside the home.

A work exemption must be included for mothers with special-needs children of any age.

All mothers should receive comparable income disregards.

A social services approach to day care should be offered. If an earned income disregard is used, it must reflect actual costs of care.

Both the 6-month accounting period and the \$2,300 job search stipend will nurture family instability and are unacceptable.

The number of public service jobs are inadequate. Public service employment jobholders should be entitled to an earned income tax credit.

Emergency funds are insufficient and must not be included as a part of title XX.

Income earned by children under 18 who are in school at least part time should be exempted from family income.

Unlimited protective payments could interfere with parental rights.

Treatment of children receiving SSI must be clarified.

Finally, due process provisions are inadequate.

We have studied the alternative proposals for incremental changes incorporated in S. 2777 with some care. Some of these changes would move considerable distance in overcoming major deficiencies affecting children under our present programs. However, the bill fails to remedy a number of the basic inconsistencies inherent in the existing system.

We are very concerned by the inequities existing under the present AFDC program from State to State. Payments in some States are now so low as to make it impossible to rear children in decency and health. We therefore welcome the minimum requirements.

We have always favored the continuation of the food stamp program because of its special values in assuring an adequate nutritional diet for poor children. We do not, however, feel that it should serve as a substitute for adequate cash income.

We question the desirability of combining the two in establishing minimum and maximum limits for Federal financial sharing in AFDC cash payments. While low cash payments have typically resulted in higher food stamp allotments, we feel it is important to reverse the process and place the emphasis on an increase in money payments.

We are also concerned about the impact of a combined ceiling at the poverty level for the States now making higher cash payments. The reduction in Federal financial aid that this would bring about would create pressures on the States to reduce their cash payments to families with children. Since these are generally the higher living-cost States, the damage to children could be very great. We urge that the minimum apply only to cash payments and that the maximum be eliminated.

Under any bill, we support the determination of eligibility based upon current need as a maximum protection for children.

We strongly support the provisions of this bill to include the coverage of intact families in need because of the unemployment of a parent. The exclusion of such families in almost half the States, the narrow definition of unemployment and other measures of exclusion have created severe suffering for many-needy families. The fact that available unemployment compensation benefits, CETA wages, or other sources of income would, where they exist, be taken into account in determining eligibility precludes any problem of duplication. It would, of course, be more equitable to move to universal coverage, as in S. 2084.

We are always concerned about requirements on single mothers of young children to take work outside the home. A mother is the best judge of her children's need for her presence in the home and her ability to carry a double workload. The occurrence of a seventh birthday does not automatically reduce a child's need for its parent's care and supervision. This is especially true where a child is handicapped, has special needs, is part of a large family, or lives in the high tension world of our urban or suburban neighborhoods.

School-age children spend much time out of school owing to hours shorter than a working day, school holidays, illness, and such. This amounts to at least 80 days a year. We are paying a high price for latch-key children and forms of neglect of children of all ages in terms of delinquency, truancy, runaways, drug and alcohol abuse, excessive numbers in foster care, and other evidences of inadequacy in our child nurturing arrangements.

We view the present exemption of mothers and children under 7 as absolutely minimal and favor the provision of H.R. 10950 for exemption of mothers of children with special needs as a step in the right direction. The amendment reads as follows:

An adult member of an eligible household unit which includes a child over the age of 6 who requires (because of factors or conditions specified by the Secretary in regulations) special supervision or care, if such adult member is the only adult member of such household unit who can provide supervision or care of such child (or is the only adult member of such unit) capable of providing such supervision or care who has not been referred by the Secretary under this section.

When, however, mothers of children of any age choose to work outside the home, it is essential that high quality day care for pre-school children to cover the full period of the mother's absence from the home and afterschool care for schoolage children be available. We prefer that this care be furnished as a social service with a graduated fee schedule for mothers who can afford to pay something.

When, however, as in this bill, day care is financed by provision for a disregard of the mother's earnings, the amount must be sufficient to pay for good developmental care and not simply baby-sitting. High standards must be mandated. The \$100 a month authorized in this bill could only result in the kinds of horrors described in the report "Windows on Day Care" by the National Council of Jewish Women. An adequate disregard should be allowed for all children in a family requiring some day care arrangements.

We also feel it important that the small earnings of children under 18 be disregarded in calculating the family income as was done in H.R. 10950 and S. 2777. It is important to encourage growing self-reliance among young people. We are imposed to the inclusion in the family group for assistance purposes of an unrelated individual without legal responsibilities toward the family. This is a question which should be left to State law.

We have grave misgivings about the authority to set three assistance standards within a State. Cost-of-living differences can be taken care of now through the budgeting process. Any other basis for arbitrary differentials would seem to open the way for discrimination.

We are also concerned about the provision that places a ceiling on benefits, limiting them to the amount available to a 7-person family. This would be so inadequate for large families that it would seem to offer inducement for such families to break up, either to create two units, one with each parent, or to place one or more children in foster care. Either way is costly and contrary to keeping families together.

We favor an increase in the amount and applicability of the earned income tax credit for low-income families with children. This is a means of easing the burdens of child rearing for many of the working poor and, as such, constitutes our country's equivalent of the child allowance program in other industrialized countries.

The Child Welfare League is directly concerned with the foster care and subsidized adoption provisions in S. 2777. Subsidized adoption is an important step forward in assuring permanent families for children who are hard to place. The foster care provisions in S. 2777 are a modified equivalent of those contained in the Senate Finance Committee version of H.R. 7200.

The ceiling on foster care payments proposed in H.R. 7200 is eliminated. We strongly oppose a ceiling, believing it could result in damaging situations for children in need of care. We do support constructive measures to reduce reliance on foster care by making preventive and restorative services available to families. If this is to be done successfully, it requires an assurance for full funding for title IV-G child welfare services through an entitlement process, plus a maintenance-of-effort provision on the States.

These funds are important to provide the services necessary to improve the foster care system. We would also prefer that provisions be made for foster care provisions for children placed voluntarily, providing certain protections are mandated. Judicial action is not the best route in all cases.

Another concern of the league is that certain costs of administration and operation of a child placement or child care agency providing foster family home care or of a child care institution must be taken into account when determining foster care maintenance payments.

Indirect costs related to the foster care program such as administrative salaries, clerical costs, attorney fees, audit costs, office supplies, membership dues in local and national organizations, insurance, licenses, and permits are among the expenditures which should be

considered allowable when determining amounts of foster care maintenance payments.

The definition of "foster care maintenance payments" in S. 2777 must include the reasonable indirect costs of administration and operation of child placement or child care agencies or child care institutions.

In conclusion, we wish to commend the guarantee of a CETA public service job to one member of every two person family receiving aid and the preference given in such jobs to other family security recipients who wish and are able to work. We do not feel qualified to comment with any authority on the job subsidy proposal but would fear its impact on the regular job market and its potentiality for exploitation of young and other eligible workers.

We are also concerned about changes in the WIN program such as the elimination of the requirement for 60-day counseling before terminating assistance.

We do believe that the reform of the present welfare system is sorely needed. We urge this committee to seriously consider the issues we raise in our testimony. We would want any changes to move in the direction of administrative simplification and to offer parents the kind of support that would enable them to carry out their critical function in our society.

Thank you.

Senator MOYNIHAN. Well, sir, I do thank you. We do not have a lot of time left for the panel.

I wonder if Mr. Pierce and Ms. Blank would wish to speak?

Mr. PIERCE. We will be happy to respond to any questions that either you or Senator Dole have.

Senator MOYNIHAN. Senator Dole?

Senator DOLE. Well, as I understand it, you prefer that we not eliminate the food stamp program, is that correct?

Mr. PIERCE. That is correct.

Senator DOLE. What is the full impact of the statement "States would be required to supplement?"

Ms. BLANK. That whole package is related to the benefit level in H.R. 9030. H.R. 9030 would set a benefit level of \$4,200 and we feel that, at that point, you need a requirement that the State supplement, so that children in States paying more, do not lose. The reason we support the continuation of the food stamp program is that we feel that if you guarantee an amount of income that is inadequate, then there is not going to be enough money left over for food and we may reach a situation where we abolish food stamps and 5 years later down the pike find a need for food stamps, with the same kind of malnutrition that we find in the early sixties in Mississippi and in the South Bronx, we will find again.

We are not in favor of another layer of bureaucracy, but if there is not going to be an adequate income guarantee, we think that the food stamp program works very well now, and should be continued.

Senator DOLE. That is similar to the view that I share. It seems to me that it would be one thing to recommend we abolish the food stamp program, but if it is not replaced with an adequate program, then we have not accomplished anything.

I know that some of those who support that change make the classic argument that poor people spend their money as wisely as anyone else, but I think that that misses the point. You touched on the point, or the concern, that some of us have who have worked with the food stamp program for some time. I think we have finally made the necessary improvements in it where it is a more responsible and a more responsive program.

I think last year's food stamp reform is perhaps the biggest, most effective, and positive change in the welfare system during the past 15 or 20 years. Just to throw out food stamps under the name of reform is something that many of us will probably resist.

Senator MOYNIHAN. I have to interject at that point, Senator. A distinguished predecessor of mine, a Senator from New York State in the late 19th century named Roscoe Conkling, was the author of the dictum that when Dr. Johnson said that patriotism was the last refuge of a scoundrel, he underestimated the potential of reform.

That is Republicans; they never change.

Senator DOLE. I am joined in this effort by Senator McGovern who is another radical like myself.

If the States are required to subsidize at the level that you suggest, do you have any estimates on the total additional cost?

Mr. PIERCE. We can provide that for the record, Senator.

[The following was subsequently supplied for the record:]

RE: SENATOR DOLE'S QUESTION CONCERNING COSTS OF MANDATORY STATE
SUPPLEMENTATION

According to HEW, in order to maintain benefit levels for recipients who have zero income including those on AFDC, SSI, and General Assistance, it would cost states \$2.5 billion.

It would cost an additional \$1.3 billion to grandfather current AFDC recipients, to compensate for changes on eligibility rules. In order to similarly cover SSI recipients, states would have to provide another \$570 million.

Senator DOLE. Because, as I understand the total additional cost of the President's basic program is in the neighborhood of \$20 billion. I am not certain of the additional cost of the so-called middle-of-the-road approach introduced by Senators Baker and Bellmon and others, but I think it is around \$8 billion.

Senator MOYNIHAN. \$23 billion for the President's program.

I have just one question which I will put to you. For example, on page 9, you say that we are concerned about the provisions of H.R. 10950 and S. 2777 that place a limit on the amount available to the seven-person family, and you suggest that this would offer an inducement for families to break up.

Has the league got any data on that?

Mr. PIERCE. Basically we have a very simple position, and that is, so long as the family unit is larger than seven, we should provide enough of a benefit level to enable them to live decently. While we may have a policy of encouraging smaller families in this country, we still have a lot of big families, and if there are more than seven, treat them decently.

Ms. BLANK. The other thing is, you are talking about a very small percentage of the welfare population. So it would seem to be

awfully punitive for the very limited—the average welfare family is 3.5—

Senator MOYNIHAN. I could not more agree. But you do know, or you do if you have been following these hearings that we have been receiving testimony from some of the research people in the field, particularly from an economist at the Institute for Research on Poverty at the University of Wisconsin which we set up after we got the poverty programs started. This testimony argues that most of the things people know on this subject are not so, and that the number of what we call, for better or worse, counterintuitive findings is pretty devastating. His was quite devastating testimony. It will be 15 years before it makes its way into something concrete—if it is true, it will be 15 years before it will be something that “everybody knows,” and by that time it will probably not be true any more. That is one of the problems of research in this thing, but I have been interested in family policies for a long time and started writing about this while I was in the Kennedy administration. And I would like to put it to you that there is no organization more interested in this field than yours. You have been there since 1920.

I am sure you are familiar with the newest Census Bureau information on family structure in America, the P-23 series of the current population reports entitled “Characteristics of American Children and Youths: 1976.”

The report, for the first time in history, contends that now only 80 percent of children under 18 live with both parents in this country now—that is at one moment. So that, over time I would say 60 would not be too low a figure.

Among minority groups that are associated with, or that have the experience of, welfare, the figures are dramatically lower. They are the lowest in the history of American data. Never has there been such a small proportion of children living with both parents.

And the only thing that correlates with this decline is the rise in social welfare activity. And, as you would know, my sentiments are entirely different, but we have some responsibilities here. What we do know is that living in a two-parent family, the normal experience of nurturing, or what we thought of as normal, was never entirely normal. I mean, if you went back to 1883, a third of the parents of children then were either dead of cholera or snake bite or Apaches, but still, we have had a notion that it takes two parents to conceive the child and if you have two to raise them, that is probably better. Probably never in our modern history have so few children had this experience.

What do you think has happened?

Mr. ZEILINGER. It is difficult to answer a very complex question like that, Senator. I would say this, that if the correlation between what—and I know that you did not use that term, but I will—the breakup of the American family and the rise of the welfare system, if that appears to be a correlation, then I would not give it causal effect, and I think that perhaps we might be confusing cause and effect here.

I think that perhaps there is a correlation, but I do not believe that the attempts that Congress has made, that various levels of government have made, to alleviate the sufferings of children, to try

and provide jobs for those who need it, I do not believe that those really contribute to the breakup of families or to children living without one parent or both parents.

Senator MOYNIHAN. I know that, sir, but let me say to you that there is a very high correlation between fire engines and fires, and one does not necessarily cause the other, but, do you accept that the condition of American families has been deteriorating, in these structural terms?

Mr. ZEILINGER. Yes, I do, sir.

Senator MOYNIHAN. And do you accept that this is a large question of public policy, and that we really ought to have some more theory about it?

Mr. ZEILINGER. Yes, sir, I do. I would like to add something to that, sir.

I think perhaps one of the reasons why we find ourselves in the situation that we do, is that perhaps in the past we have paid some, not sufficient, attention to families, but in my view, not nearly sufficient attention to the importance of children. In our entire plethora of legislative acts, there is not nearly enough attention paid to the rights of children. There is not nearly enough attention paid to the importance of children for the future of everything—not just for the country, not just for the economy, not just for defense, but everything.

I think that this is where we have failed and these are the benefits that we now reap when we see a deterioration in the family—not because we have ignored the rights of parents, per se, because they have always been upheld, but because we have ignored the rights of children, and these children, in turn, become parents and become poorer parents because their rights were not sufficiently recognized when they were children.

Senator MOYNIHAN. Now, are you familiar with Alva Myrdal's book, "Nation and Family"?

Mr. ZEILINGER. Yes, sir.

Senator MOYNIHAN. I got it reprinted and wrote a long introduction in 1968. It puts that proposition very well.

With a certain subtle transition, the question of rights of children is sort of adversarial and argumentative, as against interests of children.

When you let lawyers take these things over, I wonder if you get the best results?

Well, we do not know the answer, but we do know that a very considerable effort, and maybe it is not enough, has nonetheless been associated with extraordinary changes in family structure in our times. This is the first time in the history of the world that the breaking up of nuclear families is associated with something other than traumatic experiences of disease and accidents. And you should know that, much to their discomfort, research scientists are beginning to think that there is a closer relationship between our efforts to preserve family structure and its decline than we might have thought.

This is the work of academicians at Wisconsin. It very much echoes the original thoughts of Nathan Glazer in his essays at City College in 1971 on the limits of social policy. He put forth the cen-

tral proposition that it seems to be inevitably the case that all efforts by governments to strengthen private institutions necessarily weaken them.

Senator LONG. Let me ask one question. I gained the impression from your testimony that you think that any family with children should be privileged to live comfortably without doing any work at all. Is that correct?

Mr. ZEILINGER. No, sir, I would not say that. I would say that—

Senator LONG. You suggest that a mother with children should not be expected to do any work unless she wants to do it, is that not right? That is the impression I gained.

Mr. ZEILINGER. Our proposal, Senator, is that a mother with children under seven is as gainfully employed as anyone in the Nation. She is raising children. I do not know of a job that is either more important or more difficult.

Now, if she wants to take an additional job outside the home, that should be her choice and she should be free to do so. We feel that she should not be forced to do so.

In addition to that, Senator, if she were to go to work, then someone would have to take care of these children. Now—

Senator LONG. All right. Now, let me ask you this. You think she ought to be privileged to live comfortably without taking a job if she prefers to stay in the home, right?

Mr. ZEILINGER. She ought to be able to live in decency, and so should her children.

Senator LONG. I think you could answer the question yes, that you think that she should be privileged to live comfortably in the home with the child without doing anything to earn any income for her own keep—not only the child, but herself as well.

Mr. PIERCE. Senator, one of the things that you have said year after year, and I think it is a recognition that you have of the value of providing day care, is that we ought to make it possible for welfare recipients who want to provide day care, to provide day care in their own home.

You recognize that that is a real job, and our tax laws, thanks to a lot of your efforts, recognize that if a family day care mother provides care for another person's family that that is real work, it is counted as real work, and that she should get paid for it.

All that Mr. Zeilinger is saying, and all that we are saying, is that if someone cares for someone else's three children and it is real work, and it is worth \$400 a month, for instance, if a mother cares for her own three children, that is real work. We may not be able to monetarize it, we may not be able to recognize it in the GNP, but caring for three kids is real work, whether it is your own three kids or somebody else's three kids.

Senator LONG. All right. Now, suppose we drop that down to where she has one child. You still take the view that the mother should be privileged to live comfortably if she looks after the one child without taking any other work on the outside, or doing any work for anybody else, such as looking after other people's children?

Mr. PIERCE. Most of our experience, Senator, is that if you offer most mothers with one child a very high-quality day care oppor-

tunity, they will indeed put that child in that high-quality day care center and seek employment.

Senator LONG. I am talking about the privilege that you would give that mother to live comfortably without doing any work, except for caring for her own child.

Mr. PIERCE. The key element is that there is no one, and particularly in the bureaucracy, there is no social worker who understands whether that child is physiologically ready to go somewhere else, in our society, we believe, other than a parent.

I have three children and they are in preschool. Two of those three children went to preschool and they went happily. One, it would have destroyed the child and so we, as parents, made a decision that that child should not go to day care.

There are some individual children who just should not go to day care because it will destroy them. They will be useless citizens later. They are not psychologically capable. We know that all children are not alike.

Senator LONG. You would give every mother the right to make that decision for herself?

Mr. PIERCE. We believe that the mother is the only choice. We cannot assign it to a bureaucrat, we cannot assign it to a social worker. It is the mother—she has that responsibility as the parent.

Senator LONG. If that is the case, you realize that others have to pay for that?

Mr. PIERCE. Yes, Senator.

Senator LONG. Their neighbors, or other people who are working, will have to pay for her staying in the home. Now, what would you do about the husband? Would he have the privilege of just abandoning that family, or pretending that he is not there, as the case may be, and therefore dump that family off on other workers to support?

Mr. PIERCE. When you introduced legislation to try and have fathers support their children adequately, Child Welfare League came and had others testify to some length, supporting that testimony with some very careful protections to the rights of the mother to make sure that she is not damaged. We supported your legislation saying that the father, if he is able, ought to contribute to the support of his children.

We certainly believe that, Senator.

Senator LONG. Well, it seems to me that my view is about the same as the majority of people in this country, that we tend to feel that everybody ought to do something to help earn their own keep. If we are not going to require that the mother do anything to earn any income for that family, and we are going to permit fathers to escape their burden of supporting that family, and you are going to support people comfortably without working, you are going to have a major increase in the number of people who would enjoy living that kind of existence, I would think.

Mr. PIERCE. We would not dare to quarrel with the experts on the other side, but I think that there is a lot of data, including one of the Brookings books by a man by the name of Goodwin, "Do the Poor Want To Work?" and one of the findings, at least apparently one of the findings of that book was, the answer is that basically

most do want to work, because the welfare onus is such and the benefits levels are so low that they indeed want to work.

This is a country that does, indeed, believe in the work ethic and that includes welfare recipients.

Senator Long. I cannot buy that in its entirety. It is my impression that people we are trying to benefit with this program are unfortunate people for a great number of reasons, but one of the facts is that they found themselves the least successful in school, and they have had misfortune along life's path. As a group, they tend to be more poorly adjusted to the society in which they are living and perhaps less talented than those who are earning their own way.

The kind of jobs that you would make available to people in this country would not the job of being President of the United States and it would not the job of being chairman of the board of a corporation, it would be down on the other end of the line. And those jobs are not a lot of fun. I regret to say it, but the kind of work that the average man does in this Nation is not fun at all.

Some people talk about the joy of work—well, there are not that many kinds of jobs that have that kind of joy. It can be a pain, to go out and report in every day for the average job. People work very hard for what they get in life. The people who tend to be the least successful in this society, if offered the opportunity just to sit there and get by without doing anything, I regret to say, would do so. The most poorly motivated people we have in the crowd tend to be that way.

I once had the privilege of being in charge of a Hobson's choice crew in the Navy. They had about 30 landing craft and they had about 10 men on each one of them. One of them broke in two and they said, well, we will put a crew on that one that broke in two. We will put it back together in due course.

Every man give this craft one man. You do not think they gave it the best one, do you? I am not sure they gave it the best officer; I wound up being in charge of that outfit.

And I am telling you that that crowd just about drove me insane. Every one of them had more problems than the average whole crew on an average ship.

Now, when you are confronted with people who for some reason just never seemed to make out very well at anything, somebody is going to have to push those people to turn to and do what they ought to do. A typical problem I had with the crew was that they felt that when they got up in the morning, if they washed their face and shaved off their whiskers, they had already done an hour's work before they turned to do some work on the boat. You almost felt that if they went to the bathroom to relieve themselves they ought to be paid for that.

To get that crowd to turn to and do the kind of hard work that needs to be done if you want to win a war, was a very, very difficult thing to do. But somebody had to push people to do things like that—and it does not make you popular, if you are the guy doing it. If you hear their conversations behind the scene, it would turn the air blue to hear what they say about you, because you are the guy pushing those people.

Somewhere along life's path, I think we have to recognize that the least successful people in our society need to be prodded, they need to be pushed. You can lead them, but you cannot always get them there just by pleading with them. Sometimes it occurs to me that the good Lord makes us get hungry for a reason. Did it ever occur to you that maybe He is trying to tell us something?

Ms. BLANK. What we are most concerned about in this whole issue is the children and the kind of support that they get and that they need to be capable, productive adults. And what we really fear—we believe that raising children is a job and we feel that some women can handle one job and some women can handle two jobs very well, but we really fear that the day-care system in this country is terribly, terribly inadequate and that millions of children now under 6 are in inadequate day-care arrangements that are not giving those children the attention they need to be ready to learn, to be ready to become productive, contributing adults, and that they are neglected children who are psychologically unable to relate to other people in many cases, and that a forced work requirement for mothers of children under 6 without the combination of a very good, decent, and what we admit, will be an expensive day-care system, will be very harmful.

Senator LONG. I share your objective, but it sounds to me that in considerable degree you would advocate that people who have never made the first wise decision in their lives continue to never make the first wise decision, and that is to turn to and do something for their own benefit, and that of their children.

Mr. PIERCE. We believe very strongly in encouraging people to change their lives, to improve their lives, because we know how important it is for a child to have a good model in their parent. Not everyone of any race or any income level is normally ambitious. My father is 79 years old and he is still working as a carpenter. He is a very ambitious man, and I came out of that family and it will be fair to say, Senator, that I hope when I am 79 I will not still have to be a carpenter. All of us have to learn role models and we know—and we believe in social workers. We believe that social workers can help some poor people learn the kinds of things that they need.

Senator LONG. You should think in terms of one thing that is wise and one thing that is not wise—or maybe you just ought to put it basically on what you think is right and what you think is wrong. Let's say you have a person whose conduct is moving down the wrong path. What he does is not good for him, it is not good for his children, it is not good for society. I gain the impression that you would permit him to continue to do that, and you would pay him money that you tax away from other citizens to let that person do what we just think is basically wrong.

It is something that is not good for society—not necessarily unlawful, but just not good for society. It seems to me it would be better to say, look, we are willing to help you if you are willing to move in the right direction and do what makes sense, but we are not willing to subsidize a course of action that we think is not good for you, not good for society and not good for your children.

Mr. ZEILINGER. Senator, there is hardly a week that goes by that I do not get a call from some woman—of all ages, incidentally—who says I am a widow, I am divorced, my husband has deserted me, I have two or three children, I have a job to go to. I cannot have a place to put these children. Will you take them into foster care?

Now, my agency does not provide that kind of foster care. The only agency that does is the department of public welfare. And I would not want to recommend to that poor woman that she place that child in foster care, first of all because of the terrible drain on the taxpayer, it is bad for the children and it is bad for her. But she is caught in an impossible situation. She wants to work. She has been offered a good, decent job, but there is no place.

Now, there are one or two places. If they take her children, it will cost her more than she can possibly earn. It is a losing proposition.

What we do not have is the proper backup system. There are lots of women who do want to work, but we do not have the backup system that will enable them to.

Senator LONG. Well, we ought to provide day care, but now when we try to do that, we should not be met with those who run the cost up so that that is out of sight. For example, at the time we were talking about day care when we were working on the family assistance plan, we were confronted with those who wanted to run the cost of day care up to \$3,500 a year for one child.

Well, now, in my office at that time I had a very good secretary making enough money to support two families very easily, or three. She had known what it was to have someone look after her children while she was working and fully understanding the problem and knowing many people working in this office building had parallel problems, she said to me, Senator, do you think we have to pay that much for day care? I can show you places where you can get good day care for a child for about \$125 a month and adequately take care of the child while the mother is working. This amount was less than half of what they wanted to charge us for day care.

What is the big difference? It is a matter of paying someone the wages that you would pay a college teacher or a high school teacher when basically all you need is someone that loves little children to supervise play on a playground and things of that sort. But if we are going to pay high wages I think you would be better to break those jobs up to where instead of paying one person \$12,000 a year for what is basically a job of watching children play on a playground, to pay two of them \$6,000. Assuming they each had one child, you would take the two families off of welfare and put them both to work instead of having them both sit there doing nothing.

Does that appeal to you?

Mr. PIERCE. In some instances you can make the economics of day care work very well, Senator. The problem is—and I wish there was some answer I could give you that would be other than the uncomfortable truth, as we see it, and that is good day care, the kind of day care where my children or your grandchildren should be, costs a lot more than we wish it did. It costs more than \$100 a month. It costs more here in the District, it costs more in New Orleans, it costs more everywhere. Because, unfortunately, food costs are high, space

costs are high, energy costs are high and the most important part of the cost is staff.

We cannot have a person in charge of children who does not have a certain amount of skill and who does not have a certain amount of training, who is not competent, because if they are not competent, if they make—the effect of their mistakes in a real bad day care center will be felt in the foster care system, and we will be paying extraordinarily higher costs over there.

We do not want to have day care be so expensive so that it keeps people from going to work. We want it to be just expensive enough so that children will benefit properly. We want them to be taxpayers like the rest of us when they grow up and unfortunately it costs more than any of the welfare bills that are now here, say, should allow. It costs more—I have gone to day care centers all over the country and the only way you can make the cost lower is either to get a lot of volunteers or to figure out some other way to make the economics different.

Senator LONG. Well, at the time we are looking at it, the figures we are talking about are probably outdated today because that was—we are talking about something that was 8 years ago. But at the time we were talking about, I gain the impression that if you let people have their own money and decide for themselves how much they are willing to pay for day care, what we are being asked to pay on their behalf greatly exceeds what they would pay if they had the money to pay for it themselves and had that decision to make.

Mr. PIERCE. The cost issue, for instance, in Senator Moynihan's State and in New York City, right now the real costs for a nonprofit center which is running pretty efficiently and where they are taking advantage of all of the cost cutting that they can, these are centers that have been in operation since World War II, Senator, the costs there are running \$70 per week per child. And the reason is that all of these other costs—not just the payroll costs, but all of the other costs that are related—and we wish that there was some way around that. We have been trying to figure out ways to make day care more cost-effective. It is very difficult.

Senator MOYNIHAN. So a woman would have to earn about \$20,000 a year to clear \$10,000, actually take \$10,000 home, if she had two children in day care.

Two comments. One, meant most seriously, and this is to the Chairman, and perhaps he has forgotten this, the real problem with the U.S. Navy is that in 1830 they abolished the rum rations and there was no incentive on board that LCTP. I mean there was nothing to look forward to at 5 o'clock.

Senator LONG. They did not abolish it as far as my crew was concerned, Senator.

Senator MOYNIHAN. In Sweden, homemaking is calculated as part of the GNP. It might well be here.

It is an honor to have the Child Welfare League testify. We obviously kept you longer than our time permits, because we are so much interested in what you had to say. We thank you all.

Mr. PIERCE. Thank you very much, Senator.

[The prepared statement of the preceding panel follows:]

TESTIMONY OF CHILD WELFARE LEAGUE OF AMERICA PRESENTED BY RICHARD ZEILINGER, EXECUTIVE DIRECTOR, CHILDREN'S BUREAU OF NEW ORLEANS

SUMMARY

The Child Welfare League of America is concerned that any income policy be carefully examined to see whether it would help or harm children. We think welfare reform should strengthen family stability by supporting proper care for children in their own homes and with their own families. We believe that the structure and approach of the Administration's welfare proposal, as amended by the House Welfare Reform Subcommittee, offers the basis for a major forward movement in welfare policy. Concerns we had with the initial bill's limitation on benefits for larger families, lack of work exemption for mothers of children with special needs, extended accounting period, unrealistic stipend during job search, and lack of exemption of earned income for children under age 18, were remedied by the Subcommittee in H.R. 10950.

We do believe that all cash benefit levels proposed in S. 2084 in S. 2777 are inadequate to assure a minimally decent standard of living.

S. 2777, although it continues some of the basic inconsistencies of our present welfare system, does offer some incremental changes that would provide increased supports for children and families. Most critical is coverage of intact families.

We are troubled that no bill before the Congress offers disregards for day care sufficient to pay for sound developmental care or recognizes the need to allow for day care arrangements for all children in a family.

Other weaknesses that we perceive in S. 2777 have to do with the relationship of cash payments to food stamps, the concept of a maximum benefit tied to the poverty level, payment variations within a State, inclusion of an unrelated individual in a Family group, and limited benefits to larger families. The adoption subsidy provisions in S. 2777 represent sound public policy, as does the lack of a ceiling on the foster care program. The League would recommend some changes in the foster care sections of the bill in order to provide for necessary preventive and restorative services to families.

STATEMENT

My name is Richard Zeilinger, and I am Executive Director of the Children's Bureau of New Orleans. However, I appear today in behalf of the Child Welfare League of America. Accompanying me are: William Pierce, Assistant Executive Director of the League, and Helen Blank, Executive Director of the American Parents Committee, a Division of the League.

Established in 1920, the Child Welfare League of America is the national voluntary accrediting organization for child welfare agencies in the United States. It is a privately supported organization devoting its efforts to the improvement of care and services for children. There are 380 child welfare agencies affiliated with the League. Represented in this group are voluntary agencies of all religious groups as well as non-sectarian public and private non-profit agencies.

The League's primary concern has always been the total welfare of all children regardless of their race, creed, or economic circumstances, although our special interest and expertise is in the area of child welfare services.

In the past the League has appeared before Congress to seek an improvement in public welfare programs for children and their families because we believe that a family income sufficient to meet minimum standards of health and human decency is essential for the optimal growth and development of children and basic to any program of services for children. We feel that it is essential to assist those families who are unable to earn enough to meet minimal needs. The League believes that there should be a national policy, setting national standards to assure that all people, including children, may have this minimum standard of living.

We are concerned about welfare reform because we believe the existing welfare system has caused irreparable damage to children by not meeting their basic or special needs.

More specifically we are concerned about how the welfare system directly affects the lives of children and their families. We therefore suggest that any job or income policy under consideration should be carefully examined with

a view to its potential help or detriment to children. Policies which harm children must be reassessed.

We believe that work and income programs should encourage family stability and protect the welfare of children by providing proper care for them in their own homes and with their own families. We must therefore ensure that income and welfare policies are designed to foster these goals, and will not result in problems such as parental desertion, lack of care and protection for the child and unnecessary placement of children in foster care and institutions.

We would specially note that the present number of children in foster care could have been reduced substantially if adequate income supports and social services had been available to the children in their own homes. Many more children in foster care under Sec. 408 of Title IV-A could have been reunited with their families if services for this purpose had been available. Not only is it beneficial for children to be cared for by their own family in their own home, but it is also cost effective since foster care is an expensive service for taxpayers to finance.

The situation on pending welfare reform legislation is somewhat complex. With respect to the President's welfare reform legislation incorporated in S. 2084, our testimony is approximately the same as that we gave on its House counterpart, H.R. 9030, before the special Welfare Reform Subcommittee in November. We repeat here a number of recommendations we made at that time intended to overcome deficiencies in the original proposal. While we realize that it is not officially pending before the Senate at this time, we feel we must take note of and commend the bill, H.R. 10950, which incorporates the decisions of that Subcommittee. In a recent letter, Subcommittee Chairman James Corman expresses the hope that this bill will shortly be acted on by the three parent committees, in which case, if acted on favorably by the House, it will also be before the Senate Finance Committee. Since this bill corrects, in considerable part, the deficiencies in the original proposal, we hope that this Committee will give it favorable consideration at that time. We feel that the structure and approach of this proposal offer the basis for a forward movement in welfare policy.

We do believe that a major overhaul in our welfare system is necessary as soon as possible. However, we have also studied the provisions of S. 2777, the bill sponsored by Senators Baker, Bellmon, Danforth, Ribicoff and others to enact a number of incremental changes in the existing welfare programs and we incorporate in our testimony some comments on those of its aspects affecting the welfare of children. Just to further complicate the picture the Foster Care and Adoption provisions of S. 2777 would replace provisions on the same subjects incorporated in H.R. 7200, now pending before the Senate following Finance Committee action. Our testimony must, therefore, touch on this measure also.

Turning to the original Carter welfare reform proposal as incorporated in S. 2084, we include a summary of our comments on the bill presented to the House Subcommittee on Welfare Reform. We support the basic thrust of the Administration's welfare reform proposal. We agree strongly with the plan's recognition that mothers of young children are performing important work and should be exempted from the expected-to-work track. We believe, however, that certain provisions of S. 2084 must be amended if the new plan is to offer a realistic opportunity for family stability and to alleviate familial pressures that increase the foster care caseload.

Basic benefit levels are inadequate. Food stamps should not be eliminated given the present structure of the bill. States should be required to supplement.

The maximum payable amount should not be limited to a household size of seven.

Mothers with children over the age of seven should be the judge of when they are able to work outside the home.

A work exemption must be included for mothers with special-needs children of any age.

All mothers should receive comparable income disregards.

A social services approach to day care should be offered. If an earned income tax credit is used, it must be granted only when care meets Federal Interagency Day Care Standards. Earned income tax credit must reflect actual costs of care.

Both the six-month accounting period and the \$2,300 job search stipend will nurture family instability and are unacceptable.

The number of public service jobs are inadequate. Public service employment jobholders should be entitled to an earned income tax credit.

The treatment of foster care should be clarified.

Emergency funds are insufficient and must not be included as a part of Title XX.

Income earned by children under 18 who are in school at least part time should be exempted from family income.

Unlimited protective payments could interfere with parental rights.

Treatment of children receiving SSI must be clarified.

Due process provisions are inadequate.

Recognizing the pressures on the Congress, we have studied the alternative proposals for incremental changes in the existing welfare programs, as incorporated in S. 2777 with some care. Some of these changes would move considerable distance in overcoming major deficiencies affecting children under our present programs. If, it appears, that a total reform is not going to be feasible this year, we urge upon the Committee to consider major improvements in the program including some of those incorporated in S. 2777. We must point out however, that S. 2777 fails to remedy a number of the basic inconsistencies inherent in the existing system.

We are very much concerned by the inequities existing under the present AFDC program from state to state. Payments in some states are now so low as to make it impossible to rear children in decency and health. We, therefore, welcome the minimum requirement and the provision of additional financial aid to the lower income states to make this possible.

We have always favored the continuation of the Food Stamp program because of its special values in assuring an adequate nutritional diet for poor children. We do not, however, feel that it should serve as a substitute for adequate cash income. We, therefore, question the desirability of combining the two in establishing minimum and maximum limits for federal financial sharing in AFDC cash payments. While low cash payments have typically resulted in higher food stamp allotments, we feel it is important to reverse the process and place the emphasis on an increase in money payments.

We are also concerned about the impact of a combined ceiling at the poverty level for the states now making higher cash payments. The reduction in federal financial aid that this would bring about would create pressures on the states to reduce their cash payments to families with children. Since these are generally the higher living cost states the damage to children could be very great. We, therefore, urge that the minimum apply only to cash payments and that the maximum be eliminated.

Under any bill, we support the determination of eligibility based upon current need. This would offer maximum protection for children.

We strongly support the provisions of this bill to include in the proposed Family Security Program, as part of its basic plan requirements, the coverage of intact families in need because of the unemployment of a parent. The exclusion of such families in more than half the states, the narrow definition of unemployment, and other measures of exclusion have created severe suffering for many needy families with children. The fact that available unemployment compensation benefits, CETA wages or other sources of income would, where they exist, be taken into account in determining eligibility for this program, precludes any problem of duplication. We would think it more equitable to move to universal coverage as in S. 2084.

We are concerned in any bill, about requirements on single mothers of young children to take work outside the home. The intentions of S. 2777 in this regard are not clear to us, especially in view of the reference in Sec. 101(b)(3) to CETA provisions which do not deal with this subject. It is the League's position that a mother is the best judge of her children's need for her presence in the home and her ability to carry a double workload. The occurrence of a seventh birthday does not automatically reduce a child's need for its parent's care and supervision. This is especially true when a child is handicapped, has special needs, is part of a large family, or lives in the high-tension world of our urban or suburban neighborhoods. School age children spend much time out of school owing to hours shorter than a working day, school holidays, illness and such. This amounts to at least 80 days a year. We are paying a high price for latch-key children and forms of neglect of children of all ages

In terms of delinquency, truancy, runaways, drugs and alcohol abuse, excessive numbers in foster care and other evidences of inadequacy in our child-nurturing arrangements.

We view the present exemption of mothers and children under seven as *absolutely minimal* and favor the provision in H.R. 10950 for exemption of mothers of children with special needs as a step in the right direction. The amendment reads as follows:

"An adult member of an eligible household unit which includes a child over the age of 6 who requires (because of factors or conditions specified by the Secretary in regulations) special supervision or care, if such adult member is the only adult member of such household unit who can provide supervision or care of such child (or is the only adult member of such unit) capable of providing such supervision or care who has not been referred by the Secretary under this section."

When, however, mothers of children of any age choose to work outside the home it is essential that high quality day care for preschool children to cover the full period of the mother's absence from the home and after-school care for school age children be available. We prefer that this care be furnished as a social service with a graduated fee schedule for mothers who can afford to pay something. When, however, as in this bill day care is financed by provision for a disregard of the mother's earnings, the amount must be sufficient to pay for good developmental care and not simply baby sitting. High standards must be mandated whatever the method of financing. The \$100.00 a month authorized by this bill could only result in the kind of horrors described in the report *Windows on Day Care* by the National Council of Jewish Women. Both H.R. 10950 and S. 2777 limit the number of children covered by a day care disregard. An adequate disregard should be allowed for all children in a family requiring some day care arrangements.

We also feel it important that the small earnings of children under 18 be disregarded in calculating the family income as was done in H.R. 10950. Any other approach would obviously have a totally discouraging effect. It is important to encourage growing self-reliance among young people.

We are also opposed to the inclusion in the family group for assistance purposes of an unrelated individual without legal responsibilities toward the family. This is a question which should be left to state law.

We have grave misgivings about the authority to set three assistance standards within a state. Cost-of-living differences can be taken care of now through the budgeting process. Any other basis for arbitrary differentials would seem to open the way for discrimination.

We are also concerned about the provision that places a ceiling on benefits limiting them to the amount available to a seven person family. This would be so inadequate for large families that it would seem to offer an inducement to such families to break up, either to create two units, one with each parent, or to place one or more children in foster care. Either way is costly and contrary to keeping families together.

We favor an increase in the amount and applicability of the Earned Income Tax Credit for low income families with children. This important, but little publicized, program is the means of easing the burdens of child rearing for many of the working poor and—as such—constitutes our country's equivalent of the child allowance program in other industrialized countries.

The Child Welfare League is directly concerned with the Foster Care and Subsidized Adoption provisions incorporated in S. 2777. While subsidized adoption is a new program, it has already been approved by the Senate Finance Committee as a part of H.R. 7200, now pending before the Senate. It is an important forward step in assuring permanent families for children who are hard to place. This includes those situations where foster parents have developed relationships with a special needs foster child whom they would like but cannot afford to adopt.

The foster care provisions in S. 2777 are a modified equivalent of those contained in the Senate Finance Committee version of H.R. 7200. The ceiling on foster care payments proposed in H.R. 7200 is eliminated. We strongly oppose a ceiling believing it could result in damaging situations for children in need of care. We do support constructive measures to reduce reliance on foster care by making preventive and restorative services available to families. If this is to be done successfully, however, we feel it requires an assurance of full funding to Title IV-B child welfare services for the purpose through an

entitlement process (plus a maintenance of effort provision on the states). These funds are important to provide the services necessary to improve the foster care system. We would also prefer that provision be made for foster care assistance to children placed voluntarily by their parent or guardian providing certain protections are mandated. Judicial action is not always the best route in all cases. Another concern of the League is that certain costs of administration and operation of a child placement or child care agency providing foster family home care or of a child care institution must be taken into account when determining foster care maintenance payments. Indirect costs related to the foster care program such as administrative salaries, clerical costs, attorney fees, audit costs, office supplies, membership dues in local and national organizations, insurance, licenses, and permits are among the expenditures which should be considered allowable, when determining amounts of foster care maintenance payments.

The definition of "foster care maintenance payments" in S. 2777 must include the reasonable indirect costs of administration and operation of child placement or child care agencies or child care institutions.

In conclusion, we wish to commend the guarantee of a CETA public service job to one member of every two person family receiving aid and the preference given in such jobs to other Family Security recipients who wish and are able to work. We do not feel qualified to comment with any authority on the job subsidy proposal but would fear its impact on the regular job market and its potentiality for exploitation of young and other eligible workers.

We are also concerned about changes in the WIN program, such as the elimination of the requirement for a 60-day counseling before terminating assistance to a recipient who refuses a job offer or participation in the WIN program.

We do believe that reform of the present welfare system is sorely needed. We urge this Committee to seriously consider the issues we raise in our testimony. We would want any changes to move in the direction of administrative simplification and to offer parents the kinds of supports that would enable them to carry out their critical function in our society.

WASHINGTON REPORT ON CHILDREN'S SERVICES

WELFARE REFORM: DELIBERATIONS HELPFUL AND HARMFUL TO CHILDREN

When we talk about "welfare," we are talking mainly about the Aid to Families with Dependent Children (AFDC) program, and right now over two-thirds of the AFDC recipients are children. As of April 1977, out of 11,212,951 participants, 7,874,588 were children. It is children whose future will be most affected by any changes or "reforms" in the welfare system.

H.R. 9030, the Administration's welfare reform proposal, has begun its long journey through the Congressional legislative process. As introduced to the Congress in September, the Carter bill contains a number of provisions which threaten family stability and deny children the support necessary to reach their full potential. Other provisions in the Carter bill represent a significant improvement over the present welfare system.

On December 16, the House Welfare Reform Subcommittee completed the first stage of decision-making on the basic concepts of the cash assistance component of H.R. 9030. The House Subcommittee approved the one most basic change affecting children proposed in the bill—the extension of coverage for Federal cash assistance to needy, intact, two parent families.

In the first round of Congressional action, the House Welfare Reform Subcommittee has made a number of changes in the Carter bill—additions and deletions—which would be beneficial to children and families:

In its December markup the House Subcommittee deleted the provision in the Carter bill which would have limited the number of individuals in a filing unit (household) for whom benefits could be paid to seven persons. If the filing unit had remained limited to seven persons, single parent families with more than six children would have received a payment as if they only had six children; and two parent families with more than five children would have received a payment as if they were supporting only five children. This would have discriminated against children in large families. It would also provide an incentive for a family to break up into two smaller units.

The Subcommittee added a provision so that the income of step parents who are not legally responsible for children in a household will not be imputed to children.

The House Subcommittee bill specifies that the basic benefit schedule and State supplementation on levels for which Federal cost sharing is available is to be indexed annually according to the Consumer Price Index instead of only at the point of implementation as in the Carter bill. This should assist families in coping with inflationary pressures.

H.R. 9030 had proposed a six month accounting period which would have created hardship for families with limited incomes living close to the margin of subsistence. With no savings, these families facing a sudden loss of income would have been forced to manage on very limited payments or emergency aid for several months. The negative effects on children and on family stability, stemming from the pressure of little or no income, is obvious. The House Subcommittee changed to a one month retrospective accounting period.

The emergency needs program will be a part of the new cash assistance program rather than a part of Title XX as proposed in H.R. 9030. Federal funds for the program will be expanded beyond \$600 million. Children's advocates feared that a limited emergency needs fund located under Title XX in the Carter plan would have created serious pressures to open up Title XX to cash grants. Since most States have reached their Title XX ceiling, a reduction in the quantity and quality of services was a distinct threat.

The Subcommittee voted to retain present provisions in the AFDC program which provide Federal matching funds for foster care children and added that this provision should be modified by the House-passed version of H.R. 7200, which would allow voluntarily placed foster care children to benefit.

TWO OF THE IMPROVEMENTS WERE DRAFTED WITH CWLA INITIATIVE AND ASSISTANCE

Child Welfare League and American Parents Committee Washington staff were instrumental in prompting the Subcommittee to add two provisions for the benefit of children.

William Brodhead (D-Mich.) introduced and the Subcommittee accepted an addition to the effect that the only adult member of a household that includes a child with a specific factor or condition determined by the Secretary to require additional parental supervision or attention would be exempt from a work requirement. This could allow single parents of chronic truants, etc., to remain at home to provide needed supervision and guidance.

Richard Nolan (D-Minn.) introduced and the Subcommittee adopted an amendment specifying that in determining the income of a family unit, all earnings of students 14 to 18 would be excluded; and earnings of full or part-time students ages 18 to 25 would be excluded up to the amount of earnings actually applied to the cost of education. This provision, included under existing Food Stamp and welfare law but not in the Carter version of the bill, should help to encourage independence among young people.

The Welfare Reform Subcommittee chose to retain a number of provisions in H.R. 9030 which either alone or in combination create an unacceptable situation for children:

A benefit schedule of \$4,200 for a family of four was retained. Compare this with the 1976 Federal poverty level of \$5,850 for a family of four and the Bureau of Labor Statistics Lower Living Standard of \$9,588 for a family of four.

A benefit schedule of \$2,300 for a family of four during the eight week job search period for those expected to work was retained. This amounts to \$44 a week when a parent is searching for a job—less than the present weekly Food Stamp allotment.

The entire benefit will be paid in cash rather than cash and Food Stamps. The unavailability of Food Stamps becomes a problem in light of the decisions to maintain payments of \$4,200 and to limit income during the job search period. The nutritional wellbeing of children could be jeopardized if a family cannot receive Food Stamps to supplement the \$44 a week stipend available during the job search period or if a family cannot provide an adequate diet on \$4,200 a year.

Child care costs of a child under 14 will be disregarded in determining income for welfare eligibility up to \$150 a month per child, maximum of \$800 per family. This will not allow families to deduct the full cost of day care, nor will it enable a family to use quality day care in compliance with the Federal Inter-agency Day Care Requirements (FIDCR) standards. The full costs of quality day care for every child which meets FIDCR should be allowed as a disregard. The

optimal plan for children would allow for the sorely needed expansion of day care services under Title XX or other human services authorities rather than a disregard approach.

In order to keep "wealthy" college students out of the program, the Subcommittee inserted a provision that single individuals under age 25 who have no children and are not blind or disabled may not file as single units, even if they are living independently. This discriminates against older teenagers and young adults, discourages independence and self-sufficiency, and, most of all, deprives pregnant women (and their babies until birth) of benefits.

The Subcommittee rejected an amendment offered by Representative Augustus Hawkins (D-Calif.) which would have closed a troublesome loophole in H.R. 9030 affecting the work requirement and day care. Hawkins proposed that single parents with children over six and under 14 be required to work only if there is available day care which meets Federal standards and is free or costs no more than allowable costs under the bill. As the bill now stands, single parents with children between the ages of seven and 14 are required to work only part time. However, these parents "shall not be found to have refused a bona fide job offer for good cause if the job involves hours of work which would make it impractical for such persons to be at home during hours when said child is out of school and at home." This could allow for children's being "warehoused" in low quality day care facilities after school and during the summer months, while mothers were shifted to the "expected to work full time" track. The Hawkins amendment was rejected with members arguing that teenagers do not require day care, a signal that most of the Subcommittee members did not understand the intent of the Hawkins amendment.

The House Subcommittee on Welfare Reform will reconvene on January 24 to consider the basic concepts of the jobs component of the Administration's welfare reform bill and to scrutinize the language related to changes already made in the cash assistance section. The resultant bill will be referred to the House Ways and Means Committee, the Agriculture Committee, and the Education and Labor Committee. Many of the decisions made thus far could be changed in the months to come. At this stage, the suggested changes in our welfare system would not assure that children are offered the supports necessary to grow into productive adults nor that families' basic frustrations stemming from poverty and an unresponsive welfare bureaucracy would be eliminated.

PRESENT SCHEDULE FOR CARTER'S BETTER JOBS AND INCOME PROGRAM—HOW THE WELFARE REFORM BILL IS EXPECTED TO MOVE THROUGH CONGRESS

It can be changed at any point along the way

1. H.R. 9030 introduced in House by Rep. Corman and in Senate by Sen. Moynihan in September.

2. Special joint Subcommittee on Welfare Reform representing House Subcommittees of Ways and Means, Agriculture, and Education and Labor Committees held public hearings in October and early November and completed "conceptual" markup of the cash assistance component of the bill on December 16. This joint Subcommittee on Welfare Reform will reconvene in late January to reconsider markup of the jobs component and to complete a more exact markup of the cash assistance provisions.

3. Joint Subcommittee bill will be considered separately by the full Committees of the House—Ways and Means, Agriculture, and Education and Labor.

4. Bills produced by the three Committees will be considered on the floor of the House.

5. Corman will reconvene the Subcommittee on Welfare Reform to develop reconciling amendments to take to the House Rules Committee.

6. If the bill reported by the Rules Committee is passed, H.R. 9030 will be referred to the Senate Finance Committee.

Senator MOYNIHAN. And now we have another panel which consists of Mrs. Ruth Clusen who is the president of the League of Women Voters of the United States, and we welcome you, Madam President; and Mrs. Dorothy Lasday, who is the chairwoman of the National Council of Jewish Women.

Ms. LASDAY. If I might correct that, I am the chairwoman of the Welfare Reform Work Group of the National Council of Jewish Women.

Senator MOYNIHAN. Well, we welcome you both and, as you know, we are going to have to keep to our 20 minutes because the Senate is going to vote at 12:30, so, Madam President, you may proceed.

**STATEMENT OF RUTH CLUSEN, PRESIDENT, LEAGUE OF WOMEN
VOTERS OF THE UNITED STATES, WASHINGTON, D.C.**

Ms. CLUSEN. Thank you, Mr. Chairman, and I would ask that you insert the full text of our statement into the record and I will make some brief comments orally.

For the record, I am Ruth Clusen, president of the League of Women Voters of the United States and we are glad to have, again, this opportunity to present our views on S. 2084. We, in the league, have been concerned in a very major way with welfare reform since 1970 when we undertook a study of alternatives to welfare as a means of combatting poverty and discrimination and, as a result of the study we did, our membership agreed to support a system of federalized income assistance and we lobbied for welfare reform in 1971 and 1972.

This year we were hopeful when President Carter designated comprehensive welfare reform as a major priority of his administration early last year. We took that commitment very seriously and we were hopeful because we know that the present system is indeed in bad shape. In fact, it is no system at all, but a scrambled mess of Government programs which fail, in many cases, to serve either those in need or those who foot the bill.

We were also hopeful, because we know from experience that without strong leadership from the White House and Congress we would not be able to achieve meaningful comprehensive reform and we thought that the President's speaking out on this promised the kind of leadership we needed.

We think the House Ad Hoc Committee on Welfare Reform has shown leadership. It worked under a good deal of time pressure to report a bill by early February, making what we consider significant improvements in the administration bill as it was introduced. But it is now late April and the momentum for comprehensive reform seems to have come to a halt.

For the past year, the Senate has been distracted by proposals contained in H.R. 7200 to make piecemeal and, on the whole, damaging changes in existing income assistance programs.

In the House full committees, welfare reform is taking a back seat to other legislation and no markup dates have been scheduled thus far.

Now it sounds as if the administration may be giving up before the fight and moving toward the incremental approach. We fail to see how the administration's comprehensive welfare reform bill can be reconciled with the incremental bills that have been thus far introduced without sacrificing equity, adequacy and uniformity.

Welfare advocates, including the League, have heard the threat that if we hold out for "utopia" we will sacrifice what small gains may be achievable. Perhaps this is true. But there is also the reality that, given some of the provisions put forward thus far, the incremental route could leave recipients the same, if not worse off, than they are under current programs.

We certainly do not intend to sit idly by while incremental bills are whittled down until only fiscal relief and a small degree of administrative reform remain. It is people and the quality of their lives that we are talking about.

So we urge this subcommittee to seriously consider S. 2084, the administration's welfare reform bill, to make the necessary improvements, and to report out a comprehensive welfare bill that will begin to provide for the needs of the Nation's poor in an adequate and equitable manner. We think that to do less than this is to sacrifice what might be our last opportunity to achieve comprehensive reform for some years to come.

Before listing a few areas that we would like to see amended in S. 2084, there are two facts of life that we would like to emphasize. One is that any welfare reform proposal that provides adequate levels of support will be expensive. And the second is that welfare is increasingly a woman's program and a woman's problem.

In 1975, females headed one household out of every eight. Nearly half of all poor families are headed by women. And while 6 percent of households headed by men lived below the poverty level in 1975, nearly one-third of the families headed by women fall below the line.

If welfare rolls are to be decreased, special attention must be given to the problems women who want to work face in our society. I think that was obvious from the dialog that just took place here.

Now, to S. 2084—and I would like to highlight some of the things that we think would improve it. Many of these have been incorporated by the House subcommittee and are covered in greater detail in our full statement.

Under the cash assistance portion, we hope that you will adopt a cost of living increase for the benefits. We believe that, in addition to the day care deduction for single-parent families, a deduction should be made available for two-parent families and that, in those places where care is not available, day care services should be provided.

This, of course, would mean adding additional moneys to the bill. We oppose the 6-month retrospective accountable period and would like to see it replaced with a provision similar to the one contained in the recently passed food stamp reform—a 1-month retrospective, 1-month prospective period.

We favor increased incentives for state supplementation, and an increase in the number of public service jobs, both to provide additional relief to States and to encourage more adequate cash benefits.

We believe that States should be required to hold current AFDC recipients harmless. Like the SSI recipients, the Federal Government should pay 100 percent of those costs.

Under the jobs portion of S. 2084, we urge the committee to seriously consider making PSE jobs an entitlement to all who are eligible.

We urge that you include language which will assure an adequate number of part-time jobs for those who have child care responsibilities, but who want and need to work. We think this is one of the answers to the dilemma about which there was much conversation.

Under the principal wage earner provision for deciding who in the family gets the job, we believe that this is a decision best left up to the family and should not be determined on an hours worked or money earned formula.

The league categorically opposes the lower tier benefit level for the jobs search period. The upper tier of benefits should be provided for the family in the expected to work category until a job is found or created.

In the administration of the jobs part, affirmative action should be required. Women should be given opportunities for jobs that are in nontraditional fields, and training should also be provided for non-traditional jobs.

The Department of Labor should vigorously enforce compliance with both the antidiscrimination and affirmative action requirements of current CETA law.

Senator MOYNIHAN. Ms. Clusen, I would like to put the whole of your testimony in the record. It is a very detailed and richly informed statement.

Before we speak to Mrs. Lasday, I would like to make two points. First, even so distinguished an attorney and political leader as Governor Dukakis, who opened our hearings this morning, did somewhat chastise the Senate for not moving forward in this matter of welfare reform, and I had to point out to him that we are bound by the Constitution. This is for reasons that are complex, but nonetheless inextricable; welfare is a revenue measure, and we cannot easily act until the House sends us a bill.

What we are doing here is a kind of sympathetic magic. We are acting as if the House had sent us a bill, and therefore hope maybe it will. This sometimes works. Sympathetic magic should not be dismissed. The Yule log always brings the Sun back, it is proven. You have a big Yule log burning at Christmas and in no time at all the Sun is coming up earlier than it used to.

But, in any event, we are doing our best. People say momentum has come to a halt in the House and that is why we are here.

Senator Dole, would you like to speak now, or do you want to wait and hear Mrs. Lasday?

Senator DOLE. I have read the statement very quickly. You do not comment on S. 2777, the incremental approach?

Ms. CLUSEN. No; not specifically, except in terms of the fact that it deals with welfare reform in an incremental manner we think, rather than comprehensively.

Senator DOLE. Will you have some views on that particular bill?

Ms. CLUSEN. Yes; at this point, we are not categorically opposed to Baker-Bellmon. I guess I could put it most briefly by saying that we are still hoping for more, but we will be glad to comment on specific parts of Baker-Bellmon.

Senator DOLE. If we took the suggestion that you make in your statement, what additional cost would that bring?

Ms. CLUSEN. I cannot tell you that, but we will try to provide it to you. As we have said, it will increase substantially, or to some extent, the moneys which are anticipated to be necessary in the administration's bill, but I will see if I can provide you with that.

Senator DOLE. I wish you would do that.

Ms. CLUSEN. We will, thank you.

[The following was subsequently supplied for the record:]

ESTIMATED COST OF LEAGUE-SUPPORTED CHANGES IN S. 2084

SOURCE.—Congressional Budget Office.

NOTE.—All figures in fiscal year 1982 dollars.

CASH ASSISTANCE COMPONENT

1. Raise cash assistance level to poverty line.

	<i>Billions</i>
Federal cost.....	\$44.14
State savings.....	.66
Total	143.47

2. Automatic cost-of-living increase.

(NOTE.—S. 2084 would adjust cash assistance benefits to account for cost-of-living increases between the date of enactment and the spring of fiscal year 1981. The cost of updating cash assistance benefits to the time of implementation of the program, assumed to be the beginning of fiscal year 1982, is given below. Increased costs due to cost-of-living adjustments after fiscal year 1982 would depend on increases in the Consumer Price Index after fiscal year 1982. CBO has not estimated these costs.)

	<i>Billions</i>
Federal cost.....	\$1.59
State cost.....	.05
Total	1.64

3. Retention of the food stamp program—cost estimates not available.

4. Expansion of the day care deduction to 2-parent families—cost estimates not available.

5. Adoption of accountable period which takes into consideration income received over last month and anticipated income in coming month.

	<i>Billions</i>
Federal cost.....	\$2.40
State cost.....	.23
Total	2.63

6. Cost of grandfathering 100 percent of AFDC caseload.

	<i>Millions</i>
Federal cost.....	\$230

JOBS COMPONENT

1. Leave choice of public service employment participant to eligible families. Cost estimates are not available on this change, but CBO staff estimate that any cost increase would be insignificant.

2. Eliminate job search requirement for expected-to-work family members.

	<i>Millions</i>
Federal cost.....	\$380
State savings.....	-20
Total	360

¹ Components may not add to totals due to rounding.

STATEMENT OF DOROTHY LASDAY, CHAIRWOMAN, WELFARE REFORM WORK GROUP, NATIONAL AFFAIRS COMMITTEE, NATIONAL COUNCIL OF JEWISH WOMEN

Ms. LASDAY. I am Dorothy Lasday, a resident of Dutchess County, N.Y. I am here today to speak for the National Council of Jewish Women as chairwoman of the Welfare Reform Work Group of its National Affairs Committee and as part national board member.

The National Council of Jewish Women is a volunteer organization of 100,000 women in over 200 communities across the country dedicated in the spirit of Judaism in advancing human welfare and the democratic way of life through a coordinated program of education, service, and social action in the Jewish and gentile communities, locally, nationally and internationally.

We appreciate the opportunity to share with you some of our concerns about welfare reform, based on a long history of concern about the welfare system—

Senator MOYNIHAN. Ms. Lasday, could I just interrupt to say that Secretary Califano is calling me and maybe he knows what you are about to say and wants to—

Senator Dole, would you preside for just a moment?

Senator DOLE. Surely.

Ms. LASDAY. I would appreciate it if my whole statement could be submitted for the record, and I will summarize it, Senator.

At our biannual convention in New York in March of 1977, the National Council of Jewish Women adopted a series of national resolutions that determined our policies and that directly related to the welfare system, but specifically, to work for a program of income maintenance and supportive services which will provide at least a minimum national standard of living for every individual while protecting and respecting the rights of individual citizens and maintaining work incentives.

In response to an inquiry from Secretary Califano, our National Affairs Committee, with input from its 200 members across the country, at its meeting on March 3, 1977, reaffirmed longstanding positions in stating that welfare reform should include first, a federalized income maintenance program to provide at least a minimum of a Federal poverty level.

Second, reduction of the high cost of administration of the program by determining eligibility by means of an affidavit and by selected audits to prevent fraud.

Third, provision of adequate services for child care when the person who has prime responsibility for the care of children wants to work.

Fourth, implementation of universal national health insurance and elimination of the medicaid program which requires a high local and State administrative expenditure for welfare agencies.

As an organization, the National Council of Jewish Women is convinced that, in the long run, jobs must be made available at a living wage so that people can be employed and welfare rolls can be reduced permanently.

At our biannual convention in 1975, social security program was adopted as one of the 11 NCJW program priorities for the biannium, intending to include a wide range of full employment, income maintenance, national health insurance, social security, and so forth. And we undertook to develop a study guide for examination of welfare reform as a proposed new national policy and our sections across the country began using this this past fall.

In developing this, we came up with a list of specific criteria as a basis for judging proposals for reform of the income maintenance system. We, in the National Council of Jewish Women, were pleased that many of these criteria coincided with the general principles of welfare reform announced by President Carter last May 2d; although we did not see how it was feasible to meet this first goal, no higher initial costs in the present program, unless there was a major upturn in the economy.

Our first examination of H.R. 9030 and S. 2084, the Better Jobs and Income Act, we came up with some 15 questions for which we needed answers for our presentation to the House Subcommittee on Welfare Reform last November 2d. We have attached these to our statement. And this expressed our major concerns for our organization over nearly 85 years.

Do the proposals now under consideration encourage family stability? Have they been examined in the light of those States which have implemented AFDC-UF and also those States with home relief programs for those not eligible for AFDC?

Has consideration been given to the needs of our most precious natural resource, the children?

Does the better jobs and income program, as initially designed or as modified, encourage families with children to become financially independent of cash grants, whether they are single-parent families or two-parent families?

Many of the problems which arouse these questions have not been addressed.

At the IWY national women's conference in Houston in November 1977, an overwhelming majority of the 1,981 delegates from across the country recognized that welfare is primarily a woman's issue, and revised the proposed welfare plank, and they changed the title to women, welfare and poverty. I have also attached a copy of that, because the plank expressed many of NCJW's concerns formulated in their questions.

I might add that the welfare task force had the list of the questions.

The House Subcommittee on Welfare Reform has modified the original proposal in some of the areas which were punitive to women and children, and our testimony today is primarily a comparison between H.R. 10950 and the original administration proposal, as evidenced in S. 2084.

The new bill does eliminate the consideration of the income of the past 6 months for determining eligibility, which certainly failed to recognize today that families of modest income do not have sufficient resources to sustain themselves after several months after loss of a job. Only currently available income will be considered in determining eligibility and benefit level.

The annual job search requirement, severely reduced income has been modified so that reduced income would not be required if the Secretary of Labor determines that there are no available jobs in the community.

This still fails to recognize that the job search costs money for transportation and child care, if the job search is to be intensive and not sporadic—and I have seen this in Dutchess County where I chair the child development committee and the problems of women trying to find jobs when they have no child care.

The indexing of cash benefits to the cost of living was a much-needed modification. The provision that emergency assistance that should come from the same agency that administrates the cash benefits is also an improvement. The change in the jobs program by H.R. 10950 was responsive to the concerns expressed that providing CETA jobs only at the minimum wage would cause displacement of workers.

The added provision that the worker could not be paid less than the rate prevailing for similar work from the same employer also means that workers would have a chance of making a living wage.

The authorization of use of 5 percent of the CETA overhead costs for the provision of day care for children of single parent families in the work program is certainly a recognition that the continued ceiling on funds for title XX of the Social Security Act would not permit all needed child care to be funded by title XX, but we urge that any Federal funding of child care include the requirement that such child care meet Federal standards.

Our study, we know, on day care published in 1971 and our follow-up examinations indicate that standards are necessary to protect the child and we, too, like the league, feel that it should not be limited only to single parent families.

Senator DOLE. Are these matters you are going through now on pages 5, 6, 7 and 8, are these the changes that have been made?

Ms. LASDAY. They have already been made. I am now getting to the ones that have not been made.

But there is no linkage indicated for necessary title XX support services for income maintenance recipients if a State chooses the option of Federal intake as well as computation and payment. We have seen problems for SSI recipients in many areas across the country because of poor communication with the Social Security Administration and the local social services or welfare department, but this is often because the SSA does not have a local office and their worker comes into the local community only once or twice a month.

The earned income tax credit has not really been addressed, either. There is no—we talk about a certificate in the program so that tax deductions would be reduced from the pay checks, but there is no needed assistance for those who do not have taxes deducted today—the modest income family who really is in need of relief and for whom the food stamps are needed for meeting the nutritional needs of growing children.

And, of course, there is no EITC proposed for CETA employment.

H.R. 10950, like other proposals, does not include job training for CETA placement. This means there will be limited employment.

There has to be temporary provision until national health insurance becomes a reality, because most of the limited jobs have no health insurance.

Only 2 percent of the husband and wife families are below the poverty level of 40 percent of the State median income when both husbands and wives work, according to the Department of Labor. We feel that the limitation of employment to one person in the family is a restriction that limits the family to welfare and limits family stability.

We think there are problems in the part-time employment design, in not using the local cost of living. The hold harmless clauses will not help the States which have done the most to help their poor and we think that the problems of teenagers are not seriously addressed and, in fact, made worse by the provision in H.R. 10950.

I would also like to call to your attention that we do not approve of the use of this bill for preschool education programs for young children to establish a pilot program in 10 regions which has been piloted in many places, has been proven successful and needs implementation now, and that is the early home instruction program and intervention program to help mothers with their young children and language development problems.

Finally, I would like to say that, as a national organization involved in community services in individual communities across the country, we in the National Council of Jewish Women have learned from personal experience in working with public assistance recipients of the current inequities in our uniform maintenance program. We recognize the need for broad reform for a uniform national program. We urge the Congress to examine carefully the effects of the proposed changes on the individual and the family, as well as the total financial cost to the Federal and State governments.

Each change, each improvement, brings awareness of additional aspects which must be examined in detail, for which basic information is difficult to find and for which differing answers are provided by experts. The National Council of Jewish Women recognizes the urgent need for unification for many programs now called our welfare reform system. We cannot support any unification plan which is punitive to women and children or which does not strengthen the stability of the family.

Senator MOYNIHAN. We thank you.

I would like to say to both Ms. Clusen and Ms. Lasday that I, for one, welcome the proposition that, as Ms. Clusen said in her statement, welfare is increasingly a woman's program and a woman's problem.

I wrote a long, interminable book on this subject about 7 years ago in which I said that, so far as I was concerned, the welfare system institutionalized the exploitation of women. And while I seem to be the only person who read that book, I do believe it strongly, and I am glad to see the two of you come forward and speak openly about what we know is not an obscure fact.

Senator DOLE?

Senator DOLE. I tried to follow both statements. I have some interest in food stamps because I worked on that a great deal, as you know, since you have been before our committee. Do you both suggest that we retain the food stamp program?

Ms. CLUSEN. Yes, we are in agreement on this, and I would like to take the opportunity to say that we certainly commend you for your leadership in this and we think that the way it has worked out is very good and we would like to see it retained.

Ms. LASDAY. We have seen major improvements in local communities with the changes, and I think that they should be allowed to work, to stay and to see for awhile what benefits they have.

Senator DOLE. It is going to be a very difficult decision, but I think with the elimination of the purchase requirement we have made some rather substantial improvements in the program. At the same time, we have tried to tighten it up in certain areas to take care of some of the horror stories that were presented to our committee. I am willing to do whatever is right, but I am not convinced yet that scrapping the food stamp program is in that category.

Thank you.

Senator MOYNIHAN. Thank you very much.

[The prepared statements of the preceding panel follow:]

STATEMENT OF RUTH C. CLUSEN, PRESIDENT, LEAGUE OF WOMEN VOTERS OF THE UNITED STATES

I am Ruth Clusen, President of the League of Women Voters of the United States. The League of Women Voters is pleased to have this opportunity to present our views on S 2084, the President's "Better Jobs and Income Act." The League is a volunteer citizen education and political organization of 1,400 Leagues with approximately 137,000 members in 50 states, the District of Columbia, Puerto Rico, and the Virgin Islands. Welfare reform has been a major concern of the League since 1970, when the organization undertook a study of alternatives to welfare as a means of combating poverty and discrimination. As a result of the study, the League agreed to support a system of federalized income assistance and lobbied extensively for welfare reform in 1971 and 1972.

We were hopeful when President Carter designated comprehensive welfare reform as a major priority of his administration early last year. The League took that commitment very seriously and we were hopeful because we know the present system is in sad shape. In fact it is no system at all, but rather a scrambled mess of government programs which fall in many cases to serve those in need and thus those who foot the bill. We also were hopeful because we know, from experience, that without strong leadership from the White House and Congress, we would not be able to achieve comprehensive reform. The President's designation, we felt, promised such leadership.

The House Ad Hoc Committee on Welfare Reform has shown leadership. It worked under a good deal of time pressure to report a bill by early February, making what we regard as significant improvements in the Administration bill as introduced.

It is now late April and the momentum for comprehensive reform has come to a halt. For the past year the Senate has been distracted by proposals (contained in HR 7200) to make piecemeal, and on the whole damaging, changes in existing income assistance programs. In the House full committees, welfare reform is taking a back seat to other legislation and no markup dates have been scheduled thus far.

And now it sounds as if the Administration may be giving up before the fight and moving toward an incremental approach. We fail to see how the Administration's comprehensive welfare reform bill can be reconciled with the incremental bills that have thus far been introduced without sacrificing equity, adequacy and uniformity.

Welfare advocates, the League included, have heard the threat that if we hold out for "utopia" we will sacrifice what small gains may be achievable. Perhaps this is the reality. But there is also the reality that, given some of the provisions put forward thus far, the incremental route could leave recipients the same if not worse off than they are under current programs. We certainly do not intend to sit idly by while incremental bills are whittled

down until only fiscal relief and a small degree of administrative reform remain. It is people and the quality of their lives that are important. The debilitating effects of our current welfare system can be felt throughout society. Recent increases in program costs—exacerbated by high rates of unemployment—have severely taxed government budgets at all levels. Unrealistic benefit and eligibility requirements plus the inequitable treatment of single versus two-parent families have encouraged family breakup. And the complexity and lack of coordination among existing programs have frustrated bureaucrats and recipients alike.

But the most critical effects of the current system's failings have been on those whom these programs were designed to serve. Inadequate benefit levels and the lack of realistic work opportunities condemn too many Americans to the crippling welfare cycle.

While near unanimity exists as to the failings of the current system and the need for change, welfare reform means different things to different people. To the League, the most critical test of any welfare reform proposal will be the degree to which it provides adequately for the needs of the poor. All those in need must be eligible for assistance, and benefit levels must be sufficient to provide decent, adequate food, clothing and shelter. It is in this light that we look at S 2084 today.

We recognize that any welfare reform proposal that provides adequate levels of support for all needy people will be expensive. But we believe that providing adequately for all Americans will be less costly in the long run, since poverty is a major cause of so many social problems. Moreover, a country as rich as ours can no longer tolerate a system that allows 26 million people, including 11 million children, to live in poverty.

We all must also recognize that welfare is increasingly a women's program and women's problem. In 1975, females headed one household of every eight, but nearly half of all poor families were headed by women. And while only six percent of households headed by men lived below the poverty level in 1975, nearly one-third of families headed by women had incomes below the poverty line. I need not tell you the AFDC program's clientele are primarily women with children, but I will call your attention to the fact that 58 percent of food stamp households are headed by women. If welfare rolls are to be decreased, special attention must be given to the problems women who want to work face in our society. Day care must be provided for the children of all low income parents who want to work. In addition, vocational education and job training programs must be free of sex discrimination and must encourage women to pursue higher paying nontraditional jobs. Equal employment statutes must be enforced. Job creation programs should provide part-time jobs to enable women to care for their children and work as well. It is with these criteria in mind, too, that we look at S 2084 today.

S. 2084—BETTER JOBS AND INCOME ACT

The League recognizes the very close interaction between employment policies and welfare programs. Not only does high unemployment spell high costs for welfare, but more jobs are, in the end, the only alternative to welfare.

A policy of full employment is the best insurance against uncontrollable welfare rolls. While the President's plan to reform welfare falls short of embodying a full employment policy, we view it as a significant step toward guaranteeing every American able and willing to work a job at a living wage.

We applaud the expanded job opportunities found under Title II of the bill. The fact that this plan does address the problems of the working poor is certainly to be commended. We are pleased to see the inclusion of part-time job slots for single-parent families with child care responsibilities. The League lobbied hard throughout the spring and summer to get day care into the plan and while the inclusion of a day care deduction for single-parent families is certainly a step in the right direction, this deduction does not answer enough day care needs. I will address this later.

The League fully supports the extension of cash assistance under Title I to two-parent families for we share the Administration's concern that the present welfare system contains incentives for family breakup.

We believe one of the most significant features of the plan, a policy that the League has advocated for many years, is the introduction of a federal

basic benefit level. We support federalization of welfare, and are thus pleased to see this plan take us a step further towards that goal. The fiscal relief to states and localities in S 2084 will also help to relieve the burdens of state and local governments of what is, after all, a federal responsibility.

The League finds much in S 2084 which is commendable. But we do not believe the plan goes quite far enough to rectify the shortcomings of our welfare system. It is these points that we wish to address in the remainder of our testimony.

CASH ASSISTANCE COMPONENT

Poverty line

The cash assistance level for all groups should gradually be raised to *at least* the poverty line. While we recognize that the poverty line itself is too low to provide an adequate income, raising cash assistance payments to this level is a first step in meeting the needs of poor Americans. We strongly support inclusion of language in S 2084 that would provide for incremental increases in cash assistance benefits until they reach the poverty line.

Cost-of-living

We support inclusion of language providing an automatic cost-of-living increase for cash assistance benefits. The current food stamp program and the Supplemental Security Income program both contain an automatic cost-of-living provision. To omit cost-of-living adjustments, as does S 2084 is a step backward for millions of poor Americans, who, as you know, are the hardest hit by inflation.

Food stamps

We advocate retention of the food stamp program as a means to supplement benefits until federal benefit levels are adequate.

Day care

As I mentioned earlier, the League lobbied hard for inclusion of day care in the Administration's welfare plan. We were pleased that the final Carter proposal contained a day care deduction for single parents of \$150 a month for one child and \$300 for two or more children. While this provision is essential to encourage women with young children to work, it does not go far enough.

First, the day care deduction must be expanded to include two-parent families. Currently, the food stamp program and AFDC permit two-parent families receiving benefits to deduct child care expenses. Because so many families require two incomes to maintain a decent standard of living, the day care deduction must be available to these families to offset some of the additional expenses of the two parent working family.

Second, S 2084 fails to address the other side of the day care coin—the supply issue. The day care deduction means little in those areas of the country where day care is not available—either center care or baby sitters. In 1975, almost 6.5 million children under six had working mothers. In the same year, according to a survey commissioned by HEW's Office of Child Development, only about three million children were in licensed day care centers, nursery schools or licensed family day care homes. This left over 3.5 million children in unlicensed centers or homes, cared for by relatives or, in too many cases, left to fend for themselves while parents were at work. And, of course, we have no figures on the number of parents unable to accept work because day care is not available. Adequate, high quality day care must be made available for those children and their parents.

The Administration's plan to channel Public Service Employment workers into day care centers is not sufficient to meet day care needs. We strongly urge that additional funds be made available, either by increasing amounts earmarked for day care under Title XX or by authorizing funds under S 2084, to expand the supply of licensed day care slots to meet the needs of all parents with preschool children participating in either the cash or jobs program who want to work.

Accountable period

One of the most controversial provisions of S 2084 is the provision which would base eligibility for cash assistance payments on income earned over the previous six months. This "six month retrospective accountable period" is a

drastic departure from the current AFDC and SSI programs, which base eligibility and benefits on current and prospective income needs.

HEW estimates that the six month provision would reduce benefits to recipients by between \$1.5 and \$2.5 billion compared to a current needs test under the Carter proposal. The League, however, cannot support a savings that would hurt many prospective recipients. The League would support a reasonable compromise between retrospective and prospective accounting such as the one contained in the recently passed food stamp bill, which averages income received in the previous month with income anticipated in the coming month to determine eligibility and benefit levels.

Under S. 2084, a family of four with an income over \$8,400 annually would be ineligible for assistance from one to six months after applying for benefits. But delays would be even longer considering that under the retrospective system benefits based on a given month's income will not be processed and in the hands of recipients for up to 45 days according to HEW estimates.

The Administration seems to expect that families with an income over \$8,400 would be able to save for adversity. We find this expectation unrealistic when studies show and our own experience indicates that families are not able to save until their income approaches \$20,000. Furthermore, if a low- or moderate-income family were able to save funds to tide them over in an emergency, they would be ineligible for assistance if their savings exceeded the assets limit contained in S 2084.

The Administration argues that the emergency assistance program contained in S 2084 could be used by states to provide benefits in emergency situations for families who were ineligible for benefits due to the six-month retrospective accountable period. The League does not believe that the harmful effects of the six-month retrospective accountable period will be remedied by this emergency assistance fund. In the first place, the money will be distributed to the states as a block grant. There is no assurance that states will choose to spend part of their allocation to provide for families who are without income due to the six-month retrospective accountable period. Second, we question the adequacy of the total \$620 million authorization. Comprehensive data on the total expenditures for emergency needs is not collected, but available statistics indicate that much more than \$620 million is currently spent by all levels of government.

Again, we would support an accountable period similar to the one contained in the recently passed food stamp bill, which averages income received in the previous month with income anticipated in the coming month to determine eligibility and benefit levels.

State supplementation/fiscal relief

The League has always insisted that any welfare reform plan must assure that current recipients receive benefits equal to or greater than what they currently receive. Thirty-eight states and the District of Columbia currently provide combined AFDC and food stamp benefits that exceed the \$4,200 level for a family of four contained in the Carter proposal. If these states do not continue to supplement to current levels, large numbers of recipients will receive lower benefits under S 2084 than they now receive.

It is impossible to predict precisely the amount of supplementation in each state, since this decision rests ultimately with state legislatures and will depend in large part on the state of the economy and of state budgets when the supplementation question is under consideration. But preliminary information from the states seems to indicate that while high benefit states by and large intend to maintain benefits to current levels, at least during the first years of operation, the same assumption cannot be made for midrange states. Moreover, even high benefit states may decide to cut back supplementation in the event of an economic downturn, since state costs will increase dramatically as more people revert to the cash assistance program.

We favor increased incentives for state supplementation and an increase in the number of public service jobs, if required, both to provide additional fiscal relief to states and to encourage more adequate cash assistance benefit levels. We also urge the committee to consider creating more public service jobs and expanding eligibility for these jobs as a means of protecting states from additional costs and providing more adequately for recipients.

Grandmothering

We believe that the provisions in S 2084 that would reimburse states for "grandmothering" AFDC must be strengthened. Under S 2084, a state is reimbursed for 100 percent of the cost of "grandmothering" current SSI recipients. Only 75 percent of the cost of "grandmothering" current AFDC recipients will be picked up by the federal government, and this will happen only if the state spends over 90 percent of 1977 assistance expenditures in the first year of operation of the new program. The League believes states should be required to hold current AFDC and SSI recipients harmless, and that they should be reimbursed by the federal government for 100 percent of these costs.

JOBS COMPONENT

The League has been a longtime advocate of expanded employment opportunities as the best alternative to welfare. We were therefore pleased with the emphasis on job counseling and referral and direct job creation embodied in S 2084. We believe the intent of the jobs portion of the plan is, for the most part, commendable. However, intent is not enough. Specific language to assure the intent is put into effect is necessary.

Number of jobs

It is our view that the current Administration proposal does not go far enough in providing employment opportunities for all low income people who could benefit from them. It seems to us that the 1.4 million public service jobs to be created are not sufficient to provide a job for every eligible individual who wants to work. The Department of Labor's estimate of the number of PSE jobs required is based on the assumption that unemployment will be down to 5.6 percent by 1981. If unemployment is higher, 1.4 million PSE jobs will clearly be inadequate.

A last minute addition to the jobs component was the inclusion of 300,000 part-time job slots out of the 1.4 million jobs figure. These slots were added to provide employment opportunity for single heads-of-households—read "women"—with children between the ages of 7-14 years. We question whether these 300,000 part-time positions will be created, since S 2084 does not require that a specific percentage of PSE jobs created be part-time slots. We doubt that the figure of 300,000 part-time job slots will cover the pool of eligible people, which includes those who want to volunteer as well as those who are required to work. The League urges that you include language which will assure an adequate number of part-time jobs.

The assumption that PSE participants will stay in a public service job for an average of only 26 weeks is optimistic to say the least. The Labor Department is counting on private sector employment opportunities to encourage PSE participants to move out of public service employment rapidly. But, if private employment opportunities are limited—and I would point that nothing in the plan would stimulate private sector job creation—PSE participants will remain in publicly funded jobs for longer periods, leaving others eligible for PSE jobs without work and forced to live on the lower cash assistance benefit.

Given the program's commitment to expanding job opportunities for the poor, we believe that the Administration should move toward making public service jobs an entitlement to all who are eligible, just as cash assistance is an entitlement to all those eligible.

Principal wage earner

The Carter Administration "better jobs and income" proposal currently limits eligibility for a public service job to the "principal wage earner" in two parent families with children. The principal wage earner is defined as the person who earned the most in the last six months or, alternatively, worked the most hours. This provision creates a ready-made bias toward men over women in two-parent families in the allocation of PSE jobs. In fact, the Department of Labor's own estimates project that only 14 percent of PSE participants from two parent families will be women.

The League of Women Voters strongly believes that the decision concerning which family member should take a public service job is a decision best left up to each family. The allocation of training and employment opportunities

should not be based on an outmoded conception of who the family breadwinner should be, but on the needs of the individual family and their decision of who best could profit from the job experience.

Job search

The League is opposed to the provision in the jobs program that stipulates that all families with a member who is expected to work will receive a reduced benefit during the initial eight week job search. The lower tier benefit for the "expected to work" category is \$2,300 a year for a family of four, or \$44 a week. An annual five week job search at the reduced benefit will be required of all individuals who remain in a PSE job for one year.

The Administration argues that this period of reduced assistance is necessary to provide "an incentive to seek and accept employment." We would point out that the lower benefit during the eight week job search creates an incentive for family breakup, since a family with a member who is expected to work must wait eight weeks before they are eligible for the upper tier cash assistance benefit. If the father deserted however, his family would immediately become eligible for the higher benefit as long as a child under seven was present.

Numerous work incentives—including the \$3,800 income disregard, the low benefit reduction rate, the wage supplement and the earned income tax credit—already exist in S 2084 which make work more financially rewarding than not working. We strongly believe that these financial incentives are sufficient to ensure that poor individuals will in fact seek and accept jobs. HEW Secretary Joseph Califano has stated many times that the poor want desperately to work. Numerous studies support this assertion. The eight week "job search" payment, however, does not.

Denying adequate benefits for the initial eight week "job search" is unnecessary as well as inhumane. The upper tier benefit (\$4,200 for a family of four) should be available to families with a member who is expected to work until a job—in either the public or private sector—is provided.

Sex discrimination

Prime sponsors administering the public service jobs program under Title II of S 2084 would be required to comply with prohibitions against discrimination on the basis of race, creed, color, national origin, sex, age, political affiliation or beliefs that are contained in the current Comprehensive Employment and Training Act.

An examination of participation rates in Title II and Title VI of CETA suggest that existing prohibitions against sex discrimination are not sufficient to assure the equitable allocation of jobs. In 1975, 65.8 percent of participants under Title II were men, while only 34.2 percent were women. Under Title VI, the proportions were even more skewed—70.2 percent of Title VI participants were males, while only 29.8 percent were females.

We believe that more needs to be done to assure equitable treatment of all categories of the unemployed, both under existing CETA programs, and under the Title IX to be created by S 2084. First, prime sponsors should be required to develop, submit and carry out affirmative action plans. Prime sponsors should be required to show not only how they plan to serve the various target populations, but also how they plan to ensure that women are given the opportunity to participate in training and job placement on an equal footing with men. As the WIN experience shows, too often women are channeled into low paying traditional "women's work" instead of higher paying non-traditional fields.

Finally, the Department of Labor should rigorously enforce anti-discrimination provisions, and make clear to prime sponsors that funds will be cut off for persistent failure to plan and carry out effective affirmative action plans.

We urge the Public Assistance Subcommittee of the Senate Finance Committee to seriously consider S 2084, the Administration's welfare reform bill, to make the necessary improvements and to report out a comprehensive welfare reform bill that will begin to provide for the needs of the nation's poor in an adequate and equitable manner. To do less is to sacrifice what may well be the last opportunity to achieve meaningful, comprehensive welfare reform for many years to come.

STATEMENT OF THE NATIONAL COUNCIL OF JEWISH WOMEN

SUMMARY

The National Council of Jewish Women, an 85 year old organization of 100,000 members, is a volunteer organization dedicated to advancing human welfare and the democratic way of life through a coordinated program of education, service and social action in the Jewish and general communities, locally, nationally and internationally. It has a long history of concern about the welfare system.

At its biennial convention in New York in March 1977, the NCJW adopted a resolution "to work for a program of income maintenance and supportive services which will provide at least a minimum national standard of living for every individual, while a) protecting and respecting the rights and dignity of recipients and b) maintaining work incentives." In preparation for an examination of the national issue of welfare reform, the NCJW developed a study guide to assist its local Sections (chapters) in this examination, distributed nationally this past summer for use in fall programs. This study guide includes a beginning list of specific criteria as a basis for judging proposals for reform of the income maintenance system.

The testimony compares HR 9030/S 2084, the Administration proposal, with HR 10950, the proposal of the House Subcommittee on Welfare Reform, both called the Better Jobs and Income Act, in light of a series of questions raised in testimony before the House Subcommittee in November 1977. Specifically addressed are changes relating to eligibility determination, job search, indexing cash benefits, CETA rate of pay, additional funds for child day care. Also addressed are areas where no changes have been made: need for linkage of support services and income maintenance; earned income tax credit; need for job training; restriction of CETA employment to one adult in family; part-time employment design problems; necessity to consider local cost of living; Hold Harmless; problems of teen-agers; fiscal relief to states with heaviest burden; jobs in the private voluntary sector. Also discussed is the pilot pre-school education program proposed in HR 10950.

The National Council of Jewish Women urges the Congress to examine carefully the effects of proposed changes on the individual and the family, as well as the total financial cost to the Federal and State governments.

STATEMENT

I am Dorothy Lasday, a resident of Dutchess County, New York. I am here today to speak for the National Council of Jewish Women, as chairwoman of the Welfare Reform work group of its National Affairs Committee. The National Council of Jewish Women is a volunteer organization of 100,000 members in over 200 communities across the country, dedicated in the spirit of Judaism to advancing human welfare and the democratic way of life through a coordinated program of education, service and social action in the Jewish and general communities, locally, nationally and internationally. We appreciate the opportunity to share with you some of our concerns about welfare reform, based on a long history of concern about the welfare system.

At our biennial convention in New York in March 1977, the National Council of Jewish Women adopted the following National Resolutions:

We Therefore Resolve:

The National Council of Jewish Women believes that a healthy community, sound family life and individual welfare are interdependent. It believes, therefore, that our democratic society must give priority to programs which meet human needs and that the public and private sectors must cooperate to achieve this end.

We Therefore Resolve:

1. To work for a program of income maintenance and supportive services which will provide at least a minimum national standard of living for every individual, while:

- (a) Protecting and respecting the rights and dignity of recipients.
- (b) Maintaining work incentives.

2. To work to ensure that adequate amounts of wholesome nutritious food are available to all men, women and children.

3. To support a sound social security system which will:
 - (a) Provide adequate benefits.
 - (b) Not penalize recipients who wish to remain in the work force.
 - (c) Eliminate gender-related inequities regardless of family status.
 - (d) Provide independent coverage for the homemaker.
4. To support a comprehensive and universal national health insurance program.
5. To work for the development, expansion, and adequate financing of quality comprehensive child care programs available to all children.
6. To promote and support programs and services for the care and rehabilitation of families and individuals with special needs.
7. To work for safe and sanitary housing without discrimination, including support of scatter-site, subsidized, low and middle-income housing.

In response to an inquiry from Secretary Califano, the National Council of Jewish Women's National Affairs Committee, with input from its 200 members from across the country, at its meeting on March 3, 1977, reaffirmed long-standing positions in stating that welfare reform should include:

- (1) A federalized maintenance program to provide at least a minimum of a Federal poverty level;
- (2) Reduction of the high cost of administration of the program by determining eligibility by means of an affidavit and with selective audits to prevent fraud.
- (3) Provision of adequate services for child care when the person who has prime responsibility for the care of children wants to work; and
- (4) Implementation of universal national health insurance and elimination of the Medicaid program, which requires a high local and state administrative expenditure for welfare agencies.

As an organization the National Council of Jewish Women is convinced that, in the long run, jobs must be made available at a living wage, so that people can be employed and welfare rolls can be reduced permanently.

At the National Council of Jewish Women's Biennial Convention in San Francisco in March 1975, "Social Security Programs" was adopted as one of the eleven NCJW program priorities for the biennium. The intent was to include a wide range of legislation under consideration by the Congress: full employment, income maintenance, national health insurance, social security, etc. The National Affairs Committee decided that studies undertaken by the National Council of Jewish Women prior to 1970 on income maintenance were no longer adequate for examination of "welfare reform" as a proposed new national policy. The committee leadership undertook to develop a study guide to assist with this examination, sent to all our Sections (local chapters) early in the summer so that the study would be included in program plans for this fall. Many Sections across the country have already scheduled study groups or are planning community meetings on aspects of welfare reform.

As the National Council of Jewish Women developed the study guide last fall, with publication delayed until the President announced the Administration's general outline of goals for welfare reform on May 2, 1977, we began to list specific criteria as a basis for judging proposals for reform of the income maintenance system:

- (1) Simplification of the current welfare system.
- (2) Movement toward full Federal responsibility for minimum grant programs as quickly as transfer of administration from the states is possible.
- (3) Uniform national standards of eligibility.
- (4) Coverage of all the poor, including childless couples and single persons.
- (5) Income maintenance benefits at a level no less than the officially established poverty level and with adequate recognition of differences in cost of living and also cost of living increases.
- (6) A work incentive program for those able to work which would:
 - (a) Motivate but not compel enrollment for training and employment;
 - (b) Provide appropriate job opportunities at no less than the Federal minimum wage upon completion of training;
 - (c) Provide cost of adequate services for child care when the person who has the prime responsibility for the care of children wants to work.
- (7) Costing out within economically sound limits for the Federal government.
- (8) Protection of and respect for the rights and dignity of recipients.

(9) **Encouragement of family stability.**

We in the National Council of Jewish Women were pleased that many of these criteria coincided with the general principles for welfare reform announced by President Carter on May 2nd, although we did not see how it was feasible to meet his first goal—no higher initial cost than the present program—unless there was a major upturn in the economy.

In the National Council of Jewish Women's initial examination of H.R. 9030/S. 2084, The Better Jobs and Income Act, we came up with some fifteen questions for which we needed answers, for presentation to the House Subcommittee on Welfare Reform. Summarized, these questions addressed major concerns of our organization for nearly 85 years.

Do the proposals now under consideration encourage family stability? Have they been examined in light of the experiences of those states which implemented AFDC-UF and also those states with home relief programs for those not eligible for AFDC?

Has consideration been given for the needs of our most precious national resource—the children? Does the Better Jobs and Income Program as initially designed, or as modified, encourage families with children to become financially independent of cash grants, whether they be single parent or two-parent families?

The list of original questions has been attached to this statement.

At the IWY National Women's Conference in Houston in November 1977, an overwhelming majority of the 1,981 delegates from across this country recognized that welfare is primarily a women's issue and revised the proposed Welfare plank, including a change of title to "Women, Welfare and Poverty" (also attached). The plank as adopted expressed many of NCJW's concerns formulated in our questions.

Comparison of H.R. 9030/S 2084 with H.R. 10950

1. *Eligibility determination.*—The House Subcommittee on Welfare Reform has modified the original proposal in some of the areas which were punitive to women and children. H.R. 10950 eliminates consideration of the income of the past six months for determining eligibility, which certainly failed to recognize that today families of modest income do not have sufficient resources to sustain themselves for several months after loss of job. Only currently available income will be considered to determine eligibility and benefit level.

2. *Job search.*—The annual job search requirement at severely reduced income has also been modified so that the job search at reduced income would not be required if the Secretary of Labor determines that there are no jobs available in the community. While this is an improvement, it still fails to confront the real issue: Most adult welfare recipients are women with children—women who want to work. The reduced benefit for the family with children is punitive to those children. It also fails to recognize that job search costs money for transportation and for child care, if the job search is to be intensive and not sporadic.

3. *Indexing cash benefits.*—The indexing of cash benefits to the cost of living is a much needed modification in this period of continued high inflation. The change in provisions for emergency assistance, locating this in the agency that administers cash benefits, is also an improvement, along with inclusion of funds to meet special needs including those of migrants.

4. *CETA rate of pay.*—The changes in the jobs program by HR 10950 are responsive to concerns expressed that providing CETA jobs only at the minimum wage could cause displacement of workers: Added is a provision that a worker could not be paid less than the rate prevailing for similar work for the same employer, with the average rate not to exceed \$7,700, and the maximum not to exceed \$9,600.

5. *Funds for child day care; need for Federal standards.*—Authorization for use of 5% of CETA overhead costs for the provision of day care for children of single parent families in the work program is certainly a recognition that the continued celling on funds for Title XX of the Social Security Act would not permit all needed child care to be funded by Title XX. But the NCJW urges that any Federal funding of child care include the requirement that such child care meet Federal standards. The National Council of Jewish Women's survey *Windows on Day Care*, published in 1971, and follow-up examinations, indicate that standards are necessary to protect the child.

6. *Linkage of support services and income maintenance.*—But there has been no linkage indicated for necessary Title XX support services for income maintenance recipients, if a state chooses the option of Federal intake as well as computation and payment. We have seen problems in some areas for SSI recipients in need of services because of poor communications between the Social Security Administration and the local social services department, often because the SSA does not maintain an office staffed full time in the local community but comes in once or twice a month.

7. *Earned income tax credit.*—Another area of our concern has not been addressed: The Earned Income Tax Credit will not provide monthly assistance to families who do not have income tax deductions from their pay checks and consequently will not provide the needed assistance provided by food stamps to meet the nutritional needs of growing children, and is not given for CETA employment.

8. *Need for job training.*—HR 10950, like HR 9030/S 2084 and other welfare reform proposals, makes no effort to include job training as part of the CETA job placement, nor is it specified that employment must include certain fringe benefits, especially comprehensive health insurance. Most employment opportunities for untrained women are dead-end jobs at minimum wage, which provide no opportunity for the woman and her family to become economically independent. There must be training opportunities for available jobs at decent wages, including training for non-traditional employment. A requirement to take employment which does not include comprehensive health insurance is truly punitive and not in the best interests of our chief natural resource, our children. Some temporary provision must be provided until national health insurance becomes a reality, since hearings on such legislation have not even begun in the 95th Congress.

9. *One adult family restriction for CETA employment.*—Not conducive to the goal of family stability is the restriction that limits the CETA employment to one adult in the family. A large number of two-parent families today have income above the poverty level only because both adults work. Only 2% of husband-wife families are below the poverty level of 40% state median income when both husband and wife work, according to Department of Labor statistics.

10. *Part-time employment design problems.*—Apparently those who designed the part-time employment program for women with children are unaware that in the private sector most part-time and flex-time jobs are for the convenience of the employer. During preparations for the Employment Workshops at the New York State Women's Meeting last July 1, I learned that most such jobs occur in the private sector at times when most children are out of school: peak shopping times at shopping centers (late afternoon); evenings for data processors; Saturdays and Sundays in businesses open 7 days per week. In day care centers they occur in the early morning (before school for young children) and after school. Moreover, \$150 per month will not purchase licensed full-time care for young children nor \$300 per month for a family of three or four children when school age children must be cared for full time in the summer and during other vacations. While sliding fee scales often list such a limit, it must be recognized that these fee scales are subsidized. Employers of part-time and flex-time workers want assurance of reliability of attendance, not dependent on school schedules of days off.

11. *Necessity to use local cost of living.*—There is one major problem with all the current reform proposals: Using the national poverty level is not a realistic standard in high cost living areas. While \$4,200 annual, untaxed income for a family of four can give an adequate subsistence level in a few states, it is grinding poverty in the cities of the highly industrialized states because it is based on 65% of the national poverty level. There must be some recognition of the cost of living in the area of residence, especially in the colder states with high fuel costs.

12. *Hold harmless.*—We must comment on the fiscal relief projected for the individual states and the Hold Harmless savings projected in material sent to us in February by Assistant Secretary of State Aaron. Our State Public Affairs Chairwomen across the country have found that their state and local officials have expressed concern that the cost projections have not adequately considered the numbers of newly eligible recipients that this legislation will bring onto their roles. In those states which do not have AFDC-UF, they

project a much larger increase. In most states, no consideration has been given to the increased caseloads due to the elimination of medicaid abortions.

13. *Problems of teen-agers.*—No adequate consideration is given to the problems of teen-age mothers and their children, who must be included in their parents' household under HR 10950. In New York State we have already seen how punitive such a regulation can be, not only for teen mothers, but also for homeless youth, both boys and girls, who have been able to find a home because the ADC was available to another relative who could not otherwise afford to support a teen-ager.

14. *Fiscal relief to states with heaviest burden.*—But the benefits of the Hold Harmless provision, as projected in the HEW material, work to the detriment of those states which have attempted in the past to take care of their needy population. The states with the highest welfare loads in general have no relief under the Hold Harmless provisions, especially the industrialized northern states which have the highest rates of unemployment and which have not responded to the up-turn in the economy following the recession.

15. *Jobs in the non-profit voluntary sector.*—The Jobs Program does not take cognizance of the fact that employment in the United States is provided by three areas. Reference is made to public sector and private sector employment. Little consideration has been given to the fact that the greatest growth in jobs has occurred in a third sector—the private, voluntary, non-profit sector which does not have the capacity to provide many of the benefits of so-called private for-profit sector employment and in general has a lower wage scale. Yet this is the area of greatest growth in jobs for women.

16. *Pre-school education program.*—A new element has been added to HR 10950 on which we must comment: Title III, Establishment of Preschool Education Programs. This pilot child development program is to be developed in the period of time prior to full implementation of welfare reform by establishing a pilot program in each of the ten Federal regions using the public schools, for children 8 months to 4 years. It has two elements, a half-day program for three and four year olds in school, and an out-reach program for mothers and younger children, working with them in their own homes and in resource rooms in the schools.

Such programs have already been extensively tested. A pilot program in each region would provide no new information—what is needed is broad implementation. Unfortunately, results of pilot programs already funded have not been disseminated widely. Outreach programs to help mothers work with their toddlers for language development have indeed been very effective. Some have been piloted working through schools: (1) BEEP in a Boston suburb in a middle income neighborhood has been widely publicized. (2) In Poughkeepsie, New York, the proposal is in full operation, combining a New York State Experimental Pre-Kindergarten Program in an unused school building for three and four year olds from low income families for half a day. In addition, they have added a pilot Home-Start program, with City School Board funds matched by a grant from the State Division of Youth through the Dutchess County Youth Board, which works with mothers and younger children. Nurse-Practitioners in our county well-baby clinics have attested that the program has had a major impact on the development of toddlers, as evidenced in the developmental spurt made by several infants; they had not been aware of the program but found out about it when inquiring as to the reason for the positive changes. Yet the funding for the Home-Start program ends in June. (3) HEW has had a national test of such an early intervention program known as VIP. (4) We in NCJW are enthusiastic supporters of such programs because of the success of the home intervention program known as Home Instruction Program for Pre-School Youngsters conducted in Israel by the NCJW Research Institute for Innovation in Education, which has been greatly expanded by their Ministry of Education. (Supportive material on these programs is attached.)

S. 2777, Baker-Bellmon bill

A copy of S 2777 was received only on Saturday. A detailed analysis could not be made in the short time available. But the concept of subsidized jobs in the private sector has been tried before for the unemployed. It would be important to examine the results of those programs very carefully. My own limited experience with them indicated that they seemed to provide a revolving door: shortly after the subsidization ended, the employee was discharged.

Conclusion

As a national organization involved in community services in individual communities across the country, we in the National Council of Jewish Women have learned from personal experience in working with public assistance recipients about the current inequities in our income maintenance programs. We recognize the need for broad reform to a uniform national program.

The NCJW urges the Congress to examine carefully the effects of proposed changes on the individual and the family, as well as the total financial cost to the Federal and State governments. We are uneasy about our examinations of each of the new proposals. This is perhaps best expressed in comments made by Anne R. Greer, chairman of NCJW Los Angeles Section's Welfare Reform Study Group, after an intensive eight-session study:

"I find it very hard to judge the new plan on its own merits without taking into consideration its relation to taxation, the job market, the economy, etc. I hope more consideration will be given to training older people, such as displaced homemakers, who want or need to enter the job market. . . .

"I am uneasy about the categories of who can and cannot be 'expected' to work. Who will make the rulings and on what basis? . . . Welfare recipients should be treated with dignity, courtesy and must be assured prompt access to determination of problems, grievances, appeals and/or court actions. . . .

"I find no provision for emergency assistance to a state which may become fiscally impotent. . . ."

And so it goes. Each change, each improvement, brings awareness of additional aspects which must be examined in detail, for which basic information is difficult to find—and for which differing answers are provided by experts.

The National Council of Jewish Women recognizes the urgent need for unification of the many programs now called our welfare system. But we cannot support any unification plan that is punitive to women and children, or which does not strengthen the stability of the family.

EXCERPTS FROM TESTIMONY BEFORE HOUSE SUBCOMMITTEE ON WELFARE REFORM, NOVEMBER 2, 1977

In the National Council of Jewish Women's initial examination of H.R. 9030, The Better Jobs and Income Act, we have come up with a number of questions for which we need answers:

(1) Will the "cashing out" of food stamps continue the greater equity which the stamps provided between low benefit and higher benefit states?

(2) Will the EITC (Earned Income Tax Credit) provide the same regular monthly assistance to the low and modest income working family as provided by food stamps? In other words, will there be an adequate information program for effective implementation of the withholding exemption certificate? What about those who have no taxes withheld now?

(3) Will the proposed program, eliminating SSI (Supplemental Security Income), provide the same protection for our most vulnerable population—the aged, blind and handicapped—as does SSI, which is indexed to the cost of living?

(4) Since the Administration's welfare reform proposal includes a Federal floor for benefits, indicating that the state/local option has not adequately provided for a minimally acceptable living standard, will there be Federal standards for support services to be paid for under the plan, such as child day care? The National Council of Jewish Women's survey "Windows On Day Care," published in 1971, and follow-up examinations indicate that standards are necessary to protect the child.

(5) How will linkages be made to necessary support services under Title XX, SSA, if a state opts for Federal intake as well as computation and payment? We have seen problems in some areas when SSI recipients are in need of services, because of poor communication between the Social Security Administration and the local social services department.

(6) Since there is a mandatory requirement for training and/or employment for the woman head of family receiving income support when her youngest child is 7 years or older, at least half time:

(a) What kind of incentives will be provided for employers so they will develop flex-time and share-time jobs for part-time employment that fits the child's school day?

(b) Will the \$150/month income disregard or allowance for child care for only the single parent family with one child adequately cover the cost of child care when the mother is employed full-time, especially on school-free days, with full-time care during summers and school vacations? Can this \$150/month be averaged out over the full year for school-age children? Would deducting child care cost from income before calculating benefits result in a net loss of income to these families?

(c) Will \$300/month provide care in urban areas for three or four children, for example, full-time in the summer?

(7) Will the mother of a pre-school child be allowed the option to train for employment or to work, which may be in the best interests of both the child and herself?

(a) Will there be Federal financial participation in the cost of child care meeting minimum Federal standards for the pre-school child?

(b) Would this be limited to \$150 per month for one child, \$300 for more than one child?

(8) While we have heard that in 12 states recipients will receive higher benefits than currently receiving, has there been information to indicate that the current benefits level under consideration includes food stamps? What will be the effect on benefits for families in other states, especially in areas of high living costs?

(9) With the inferred reduction in the extended unemployment compensation program and the transfer of the longer term unemployed to the Better Jobs and Income Program after several months of collecting unemployment insurance, how many of the unemployed would meet eligibility standards for assets if they are people who had been previously employed regularly with middle income for many years?

(10) Will moving those currently on extended unemployment compensation into the CETA jobs program eliminate training and employment opportunities for the most disadvantaged population?

(11) Since a large number of two-parent families have incomes above the poverty level only because both adults work, how can restricting the CETA employment to one adult in the family at the minimum wage as proposed, help the family to move off the cash assistance rolls? (Only 2% of husband-wife families are below the poverty level of 40% state median income, when both husband and wife work.)

(a) Is 40% state median income a realistic poverty level? Why has the percentage been lowered steadily in the past 20 years?

(b) Is the national poverty level a realistic standard in high cost living areas?

(12) Will the change in CETA, from jobs at the going rate of pay to jobs at the minimum wage, eliminate jobs at a living wage?

(13) What immediate fiscal relief will there be for the state/local governments? Over the long term?

(14) What effect will the Federal take-over of computation and payment have on state/local social services district employment?

NATIONAL PLAN OF ACTION ADOPTED AT NATIONAL WOMEN'S CONFERENCE

(November 18-21, 1978, Houston, Tex.)

WOMEN, WELFARE AND POVERTY

The Federal and State governments should assume a role in focusing on welfare and poverty as major women's issues. All welfare reform proposals should be examined specifically for their impact on women. Inequality of opportunity for women must be recognized as a primary factor contributing to the growth of welfare rolls.

Women in poverty, whether young or old, want to be part of the mainstream of American life.

Poverty is a major barrier to equality for women. Millions of women who depend on income transfer programs or low paying jobs for their basic life support may be subject to the multiple oppression of sexism, racism, poverty and they are often old or disabled.

Many other women, because of discriminatory employment practices, social security laws, differential education of men and women, and lack of adequate

child care are just one step away from poverty. Consequently, the elimination of poverty must be a priority of all those working for equal rights for women.

Along with major improvements in the welfare system, elimination of poverty for women must include improvements in social security and retirement systems, universal minimum wage, non-traditional job opportunities, quality child care, comprehensive health insurance, and comprehensive legal services. A concerted effort must be made to educate the public about the realities of welfare, the plight of the blind, the aged, the disabled, single-parent families and other low income women.

We support increased Federal funding for income transfer programs (e.g. Social Security, SSI, AFDC). Congress should approve a Federal floor under payments to provide an adequate standard of living based on each State's cost of living for all those in need. And, just as with other workers, homemakers receiving income transfer payments should be afforded the dignity of having that payment called a wage, not welfare.

We oppose the Carter Administration proposal for welfare reform (HR 9030), which among other things eliminates food stamps, threatens to eliminate CETA training and CETA jobs paying more than minimum wage, and does not guarantee adequate day care, and we oppose proposals for "workfare" where welfare mothers would be forced to "work off" their grants which is work without wage, without fringe benefits or bargaining rights, and without dignity. HR 9030 further requires those individuals and families without income to wait weeks or even months before even the inadequate grant is available.

We strongly support a welfare reform program developed from on-going consultation with persons who will be impacted.

This program should 1) be consistent with the National Academy of Science recommendation that no individual or family living standard should be lower than half the median family income level for substantial periods (after taxes) and this income should not fall below the government defined poverty level of family income even for shorter periods; 2) help sustain the family unit; and 3) insure that women on welfare and other low income women who choose to work not be forced into jobs paying less than the prevailing wage.

In order to improve the status of women, the following actions should be taken:

(a) To insure that welfare and other poor are not discriminated against as an economic class, affirmative action guidelines should be drawn up to provide that all employers who are recipients of Federal and/or State contract monies be required to show that they are hiring recipients.

(b) There should be targeting of funds by local CETA advisory boards for the placement and training of women in non-traditional higher paying jobs, consistent with the original mandate.

(c) The Department of Labor should make a study of jobs and wages based on a standard of comparable worth, and speedily move the implementation of that study in all government positions.

(d) Unions should devote additional energy to the organization of women to upgrade pay and working conditions for women in traditional employment.

Quality child care should be a mandated Title XX service, available to all families on an ability to pay basis throughout training, education, job search and employment.

Congress should encourage education of women by insuring that Federal and other education grants do not reduce an individual's or family's eligibility for public assistance in AFDC or any other program.

Comprehensive support services and social services must be provided and adequately funded.

SEPHARDI PARENTS TRAINED TO HELP CHILDREN NARROW GAP IN EDUCATION

(By David C. Gross)

Although the number of Jews in Israel today who originate from the Middle Eastern countries is about 55 percent of the population, the percentage of their children enrolled in Israeli institutions of higher learning is only 15 per cent. Nevertheless, this is a doubling of the number who were studying in Israel's colleges and universities a decade ago.

In an interview with "The Jewish Week", Dr. Chaim Adler, who heads the Research Institute for Innovation in Education at the Hebrew University's School of Education in Jerusalem, said that the education gap between the so-called Oriental Jews in Israel and the Ashkenazim, or European Jews, is closing, albeit slowly.

The Prague-born educator, who reached Israel with his family just before the gates of Europe were slammed shut with the outbreak of World War II, is visiting the U.S. where he and top officials of the U.S. Office of Education will confer on educational problems of mutual interest.

Among the top items on the agenda of both countries, Dr. Adler noted, are using the family as educator and educational strategies for the disadvantaged.

Although the general approach of the Israeli educators is that the United States has a great deal of data and expertise to offer Israel, there are a few areas in which Israel has innovated new approaches which are of great interest to the Americans involved with basic educational problems and policies.

EXPERIMENT SUCCEEDS

Dr. Adler cited for example the experiment first initiated by his institute, which is sponsored by the National Council for Jewish Women, in which the mothers of small children soon to enter the primary grades were first given a smattering of education, so that they would be able to relate to their own children when they started coming home from class, enthusiastic about their new experiences.

The initial experiment was found to be most successful, and today there are some 5,000 mothers taking part in the program, with expectations that in a year the number will grow to twice that. What is involved, Dr. Adler explained, is that a corps of para-professionals are assigned to a given neighborhood where there are mothers whose children will in a year or two be eligible for school.

The mothers are introduced to the basic materials of education—drawing books, math games, pictures—and made to feel comfortable with the whole learning process. "The scheme gives the mothers the self-confidence to help and guide their children, and it often introduces them to a whole new world of learning," Dr. Adler added.

Next to Israel's defense and security budget, the largest part of the country's budget goes to education, the Israeli visitor said, noting that there are one million young people in Israel enrolled in school, from kindergarten through the university. Although Israel has no shortage of home-grown educational problems, it also has some special conditions that compare favorably with the educational achievements and standards of various western countries.

Dr. Adler noted, for example, that in all of Asia, only Israel and Japan have free, compulsory education for all boys and girls, from the age of five through fifteen. Although high school, from age 15 to 18, requires tuition fees, none of the children from the disadvantaged sectors are deprived of schooling for economic reasons. The Israeli Government pays their tuition fees, and the youngsters from more affluent homes wind up paying higher fees, often as high as those charged in the university.

ORIENTALS DROP OUT

The academic high schools account for those planning to go onto higher education, Dr. Adler explained, but although some 40 percent of the students are Oriental in the first year, there is a heavy drop-out rate and only 20 percent of the graduates come from the Oriental community. Conversely, some two-thirds of all the students in the country's vocational and agricultural high schools are Orientals.

Among the results of recent surveys cited by Dr. Adler were the following salient points:

- Oriental children whose parents were either born or raised in Israel are higher achievers than those whose parents are recent immigrants.

- As the Oriental Jews become more integrated into Israeli society, the cultural differences between them and the Ashkenazic Jews tend to attenuate.

- Israel's official school system is divided between "State" schools and "Religious" schools, with the latter comprised 80 percent of Oriental Jews.

- There is a serious shortage of manpower in all fields in Israel, including education.

Problems of drug addiction, violence and discipline are practically absent from the Israeli schools.

Senator MOYNIHAN. And now, on our closing panel of the morning, we have Mr. Irving Schloss, who is a representative of the American Foundation for the Blind. Dr. Elizabeth Boggs, who represents the National Association for Retarded Citizens; and Mr. Richard Verville, legal counsel for the National Easter Seal Society.

Welcome to you all, and how would you like to begin?

Mr. SCHLOSS. Mr. Verville will lead off our panel.

Senator MOYNIHAN. Mr. Verville.

STATEMENT OF RICHARD E. VERVILLE, LEGAL COUNSEL FOR NATIONAL EASTER SEAL SOCIETY FOR CRIPPLED CHILDREN

Mr. VERVILLE. Thank you, Mr. Chairman.

There is really a panel within a panel here, because the three of us, Mr. Schloss and Dr. Boggs and I, have been working on behalf of some 14 organizations representing the blind and disabled to keep track of this welfare and jobs legislation, work with it through the House, and are now working with it again, we hope to some conclusion fairly soon.

I just have a very brief opening on behalf of our 14 organizations, and then Mr. Schloss and Dr. Boggs will get into more substance.

My opening simply is to commend this committee, first of all, because it was the father, or mother, or whichever term we use now, of the SSLand that, in a way, is the starting point for our testimony and it is against SSI that these bills need to be measured.

That is not to say that SSI does not need improvement. We think it was a major revolution in social welfare law and are extremely supportive of the Federal administration, of the Federal minimum benefit, of the work incentives that are there for the aged and the blind, not so much the disabled—

Senator MOYNIHAN. I might say, Mr. Verville, that I know you worked in HEW at that time and that many people recall the family assistance proposal as having come to nothing, but, indeed, it produced SSI.

Mr. VERVILLE. That is correct, and I think you are due a great deal of commendation for that, and I would not want to forget to mention that Senator Dole has done so much for the disabled—not just in SSI law, but in the Tax Code and many other areas.

The areas where we think SSI probably needs improvement are areas of jobs. And I think it may be one of those realities that is counterintuitive that you referred to before that the blind and disabled can work and we are left out of the jobs programs that have been created in the various bills.

The jobs subsidies program in S. 2084 and the jobs program in the Baker-Bellmon bill are targeted on families with children, and when you look at the data on the disabled and blind who are recipients of SSI they are generally unmarried.

We also have some data to support the proposition that approximately 20 to 25 percent of the new SSI cases will have job potential. They get referred to rehabilitation but they do not usually end up

working; 17,000 of 100,000 referrals to rehabilitation last year ended up rehabilitated and in a job, and we think, in part, that is because there is not a jobs program to match them to after they get rehabilitated.

So we are very interested, and we really want to be listed as one of those groups that is for work.

Second, we think that there are some needed changes in the benefit levels in the various programs including the current program to reflect the needs of disabled people, particularly severely disabled. And just very quickly, and then I will turn it over to Mr. Schloss and Dr. Boggs, in looking at the three bills before you, 2084, 2777 and 10950, the administration's proposal really does weaken SSI substantially.

It eliminates the price indexing, it confuses administration because it is no longer Federal, it eliminates work-related expenses and the earned income disregard for the SSI population.

10950 restored those provisions and 10950 added one very significant thing and that is improved work incentives for the disabled. As an attachment to our testimony, four pages from the end, you will see a chart which shows in the broken line here the notch that the disabled have as a result of earnings.

If they earn \$231 on the average per month, all of a sudden they become no longer disabled and they lose their SSI benefit and their medicaid eligibility. You can see the notch effect on this graph.

Senator DOLE. We are trying to change that.

Mr. VERVILLE. Right, and the House did change it. You see our line on 10950 is basically a line similar to, fairly similar to, the line on the blind and disabled under SSI.

So 10950 makes a significant improvement in addition to restoring SSI provisions to the administration bill, it does change the definition of disability. But it still does not deal with jobs for the blind and disabled.

Of course, 2777 pretty much leaves SSI intact, so it is positive in that respect, but we think there are some real work incentives and some benefit improvements that could be made.

Mr. Schloss?

Senator MOYNIHAN. Thank you, Mr. Verville.

Mr. Schloss?

STATEMENT OF IRVING SCHLOSS, AMERICAN FOUNDATION FOR THE BLIND

Mr. SCHLOSS. Thank you.

I would like to speak to some of the specifics which we are recommending on behalf of the 14 organizations, namely an increase in the maximum payable amount proposed in the administration bill and in H.R. 10950 from \$2,500 a year for an individual to \$3,000 a year; and from \$3,750 for an eligible couple to \$4,500 a year.

As it now stands, the maximum payable amounts do not quite take into account the bonus value of food stamps which both bills would cash out. In addition, there are major costs which blind and disabled individuals have which able-bodied individuals do not have which would justify increasing the maximum payable amounts.

The Social Security Administration study, "Work Disability in the United States," indicated that blind and disabled individuals have out-of-pocket expenses which exceed those—for medical care—which exceed those of able-bodied persons—and projected from 1972, when that study was made, to 1978 with a 10-percent inflation rate for increases in medical care costs, the differential seems to be about \$400 a year.

In addition, there are other out-of-pocket expenses which blind and disabled individuals have. Those would be for transportation costs, other costs which are just in the nature of having handicapping conditions which have to be dealt with through purchase of certain services, and certain types of equipment, which are helpful.

H.R. 10950 does correct the problem of indexing the benefits, and we would commend that provision to you.

In addition, we are recommending an aide and attendance allowance for a severely disabled individual in the amount of \$100 a month. This would be analagous to the special aide and attendance allowance that is currently in title XXVIII of the United States Code relating to totally disabled veterans from nonservice connected causes. Dr. Boggs will elaborate on that position.

Senator DOLE. Would the blind qualify?

Mr. SCHLOSS. Yes. We do believe that the decision should be left to a physician to determine those individuals who are so severely handicapped that they do require some regular aide and attendance in order to function. In effect, it would be quite analagous to a day care expense and would really, for many individuals, only be partial payment for what would be substantially costlier out-of-pocket expenses.

In addition, with regard to living arrangements, H.R. 10950 does restore the provisions in current SSI law for group living arrangements, and Dr. Boggs will discuss that in more detail, too.

Let me go now to work incentives. Before I do, let me touch on recommendations for the unearned income disregard.

The administration's bill and H.R. 10950 provide for a disregard of 20 percent of unearned income. We are recommending \$25 a month or 20 percent, whichever is greater. This would take into account the situation of individuals who are actually not receiving minimal social security payments and would have some unearned income which should justifiably be disregarded in computing their SSI benefit. It is a small increase from the current \$20 a month.

With regard to removing work disincentives, H.R. 10950 did restore the provision for disregarding work-related expenses for the blind. It added another provision which would treat attendant care for the physically handicapped as a work-related expense. However, we would like to recommend that work-related expenses for the disabled, as well as the blind, be incorporated in any bill that the committee does report.

The costs of going to work, social security taxes, income tax, transportation costs, all of these factors, should not serve to deter an individual who is capable of working and who wants to work from doing so.

With regard to the earned income disregard, the present SSI law and H.R. 10950, in contrast to the administration's bill, did restore this provision, provides for a disregard of the first \$65 a month or \$780 a year of earned income plus 50 percent of earnings over that amount until the individual is no longer entitled to SSI benefits.

We would like to recommend an increase in the disregard of the first monthly earnings from the current \$65 a month to \$158.

In 1962, when the public welfare amendments of 1962 provided for a disregard of first monthly earnings of \$85 a month for the blind and disabled, across the board, the consumer price index was 91.

In December of 1977, it has risen to 186.1. There is an increase between December of 1962 and December of 1977 of 104.5 percent. The increase in the disregard of first monthly earnings that we are suggesting does not equal the increase in the Consumer Price Index, but annualized, it does equal \$1,900 a year, which is the disregard allowed for able-bodied workers in the administration's bill. When benefit reductions are calculated.

Since time is short, let me skip down to the idea of job search assistance which Mr. Verville touched on briefly. We believe that blind and disabled individuals should clearly be entitled to the jobs search assistance under the new proposed title IX of CETA and also to public service employment in the event that jobs are not forthcoming in the general economy.

Finally, we would definitely recommend continued linkage to medicaid, continued entitlement to medicaid services for SSI beneficiaries until a comprehensive national health insurance is firmly in place.

Thank you.

Senator MOYNIHAN. Well, thank you, sir. Dr. Boggs, are you next?

Ms. BOGGS. I am next and just as a technicality, sir, we hope you will insert our entire statement in the record. It seems rather lengthy, but I figured out it is less than three double-spaced pages per organization and less than one word per thousand people who are likely to be affected by what you do on this subject.

STATEMENT OF DR. ELIZABETH BOGGS, NATIONAL ASSOCIATION FOR RETARDED CITIZENS

Ms. Boggs. I am going to address myself very quickly to the issue of the allowance for personal services which is covered on pages 9 to 13 and 23 to 25 of our testimony. I was interested, Mr. Chairman, that you referred to the family allowance mechanism which is so prevalent in other countries, because, as you are also aware, it is common in most advanced European countries to have a so-called attendant care allowance or other recognition of the extraordinary needs of people who are the most severely disabled.

People who study these functional impairment problems recognize that there are two notches. There are the people who are handicapped and have extraordinary expenses due, primarily, to the kind of mechanical types of aides they need—dialysis machines and wheelchairs and sensory devices and so forth. There are also people

who require the personal assistance of another human being on a regular and recurring basis. They are in a still more dependent category and have costs which are extraordinary relative to the rest of the disabled population, and we think that that should be more clearly recognized.

Senator MOYNIHAN. Could I just interject to say, you know, it would be helpful if you could give a list of such countries and maybe a little chart of the kind of provisions. That is important.

Ms. Boggs. We would be very glad to do that. We have that in hand.

[The following was subsequently supplied for the record:]

The following countries provide a supplemental amount within the disability benefit for eligible disabled adults who require extensive personal care (attendance allowance). Three of these have been added since 1975. Additional countries (not listed) pay such allowances only for work-related disability.

Country	Flat sum	Percent of benefit	Other
Albania.....		21 1	
Algeria.....		40	
Austria.....		50	
Australia.....	X		
Belgium.....	Range		
Benin.....		50	
Bolivia.....		50	
Bulgaria.....		13-38 1	
Burundi.....		50	
Cameroon.....		40	
Colombia.....		10-45	
Czechoslovakia.....	Range		
Denmark.....			
El Salvador.....		50 1	X
France.....		80	
Germany.....	Range		
Greece.....		50	
Guatemala.....		25	
Guinea.....		20	
Honduras.....		Up to 50	
Ireland.....	Range		
Japan.....		25	
Libya.....		Up to 50	
Malaysia.....		30	
Mauritania.....		50	
Morocco.....		20	
Netherlands.....		20-25	
Panama.....		16	
Peru.....	Minimum wage		
Poland.....	X		
Portugal.....	20 percent minimum wage		
Romania.....	X		
Rwanda.....		40	
Saudi Arabia.....		50	
South Africa.....	X		
Spain.....		50	
Sweden.....		Up to 60	
Switzerland.....		20-80 (income tested)	
Togo.....		50	
Tunisia.....		20-25	
Turkey.....		14 1	
U.S.S.R.....		100-110 1	
United Kingdom.....	X		
Upper Volta.....		50	
Venezuela.....		Up to 50	
Zaire.....		50	

¹ In these countries attendance allowances are figured on earnings rather than benefits. Since benefits reflect earnings, a figure has been calculated which approximates the ratio of the supplement to the benefit which is also received.

Source: Social Security Programs Throughout the World. Social Security Administration, Research Report No. 50 HEW Publication No. SSA-78-11805.

ALLOWANCES TO FAMILIES FOR CARE OF DISABLED CHILD

Many countries pay family allowances (without means test) to all families (based on family size) with a breadwinner in covered employment. The following

countries provide an additional allowance where the family includes a child who is handicapped. The usual rationale is that the child requires additional attention. In most of these countries health costs as well as social services and education are separately covered.

Argentina	Italy
France	Luxemburg
Belgium	Portugal
Colombia	Spain
Czechoslovakia	Sweden
Denmark	United Kingdom
Hungary	

Sources: "Social Security Programs Throughout the World" (see above). "Social and Economic Conditions of the Mentally Retarded in Selected Countries," by Richard Sterner, published for the U.N. Department of Economic and Social Affairs, by the International League of Societies for the Mentally Handicapped, Brussels, 1978.

Mrs. Boggs. Mr. Schloss mentioned that we are seeing some analogy here to the day care assistance given to mothers who want to work. There is a certain economic analogy here and we think that there should be some options. The House reported bill does permit a work-related expense allowance for attendant care for people who work. That is an option we would like to maintain, but we would also like to see the alternative available of having what might be called a standard allowance which applies to people who do not work, cannot work or who, if they work, work only for very low wages such that not the disregard would not be effective.

We have expanded on that in our statement and I will not go further.

Finally, we do want to mention that providing that kind of assistance does add a certain set of jobs to the labor market. It is a labor-intensive activity, personal assistance, and there would be a ripple effect of reploting back economically the funds made available.

Senator MOYNIHAN. Surely.

Dr. Boggs. Thank you.

Senator MOYNIHAN. I would like to do something that cannot be done. I think it is Mr. Verville who would like to have you put on the list of organizations who are in favor of work. I would like to put you all on the list as number one, but I cannot do that, because there are 15 of you, but each of you will be high on the list.

And I think you make excellent sense. I wonder, I think it may have been Mr. Verville or it may have been Mr. Schloss, who suggested that it might be counterintuitive that disabled persons are a good source for the work force, and if it is counterintuitive, the great success with which this has gained recognition is surely one of the most salient experiences of modern social policy.

It is not new to the experience of the world. Hephaestus, the armorer of the gods, was a cripple, lame, and anybody knows that all of the great fiddlers were blind. The Greeks do it in their mythology and we, I think, have also learned it.

There is a limit, and there are resource limits, and you are going to have to live with them like everybody else does, but within the capacity of this subcommittee to do the kinds of things that you suggest, we will do, because we trust you. We trust your prudence, and we know your experience.

Mr. Gashel, did you want to say anything, or were you just joining your colleagues for moral support there?

**STATEMENT OF JAMES GASHEL, CHIEF, WASHINGTON OFFICE,
NATIONAL FEDERATION OF THE BLIND**

Mr. GASHEL. Mr. Chairman, I think you will find in our statement that most of our positions agree with those taken by the other organizations. I am going to confine my remarks to a couple of things.

We very forcefully, oppose the repeal of title XVI—"welfare reform" in the area of serving the aged, blind, and disabled. Increasingly we move away from the consideration of people's special needs; yet it is very important to make allowance for those special needs. The cash assistance program, no less than any other program such as rehabilitation services or social services, should focus on the real needs which people have as individual recipients.

We see S. 2084 as the latest Federal effort to overgeneralize about the problems of poor people in America. Title XVI should not be abolished, because in many ways, it has focused in on some of the special needs which the aged, blind, and disabled have—and much of the discussion here this morning was about problems of poor people which do not particularly relate to those of the aged, blind, and disabled. In general, the rules will be guided by the larger mass of recipients and the special categorical problems of the groups that we represent will be overlooked in this.

One of the ways you can see this is in the overgeneralization about people as to their ability to work, and that has already been discussed here this morning. Also, S. 2084 omits many of the work incentives for the aged, blind, and disabled, particularly work expenses for the blind which are in the present SSI law.

So, an appeal to retain title XVI.

Then, finally, on the point of participation in the jobs program, we're just outraged that the administration would come forth with a proposal which would seem, in our judgment, to be openly discriminatory because it seems that participation in the jobs program is based on a consideration of whether a person is disabled or not.

The jobs program should be open to all, regardless of disability. In fact, there is a good reason to argue for an affirmative action program to recruit disabled and blind people into the jobs program. According to HEW statistics, 70 percent of the employable blind population is either unemployed or underemployed. I doubt that you would find such a high unemployment random sampling of the poor.

So we would like to see some affirmative action in the jobs program and not be left out of it.

That would be the extent of my remarks.

Senator MOYNIHAN. Well, you could not be more generous. I am going to have to run. You have heard the five bells, that means that I have 4½ minutes to get to the Floor to vote.

I want to thank each of you. I want to express my appreciation.

Your statement, Mr. Gashel, about title XVI is a very clear one to me. I want to say just once more that we appreciate what you said because we trust what you said, and as any legislation moves through this committee we want you to be right outside the door

when it is being done and inside the room when it is being written. Thank you so much.

Mr. VERVILLE. We also want to commend you for the bill which you cosponsored, which I did not mention in the beginning, which deals with the work, eliminating the work disincentive, and that is S. 2505 that deals with the medicaid eligibility of the disabled. That is an extraordinary movement toward eliminating a work disincentive.

Senator MOYNIHAN. We are getting along just fine this morning. [The prepared statements of the preceding panel follow:]

STATEMENT OF JAMES GASHEL, CHIEF, WASHINGTON OFFICE,
NATIONAL FEDERATION OF THE BLIND

SUMMARY

With respect to S. 2084, the Administration's proposal to establish a better jobs and income program for poor people in the United States, the National Federation of the Blind takes the following positions:

(1) We favor retention of Title XVI of the Social Security Act and oppose combining AFDC, SSI, and the food stamp program into a new cash assistance program designated as Title XXI of the Social Security Act.

(2) We favor the continuation of a federal floor for cash assistance benefits payable to the aged, blind and disabled, but oppose the levels established in S. 2084, recommending that the basic federal benefit payment for a single aged, blind or disabled individual be \$3,000 annually, and \$4,500 annually for an eligible couple.

(3) We oppose the overgeneralizing about the poor in America and especially reject the presumption that the blind should be classified among the category of those who cannot work.

(4) We support a package of work incentives aimed at encouraging aged, blind and disabled persons to seek employment. This package includes the same level of earned income exclusion as is provided for non-aged, blind or disabled cash assistance recipients who are expected to work, the reduction of benefits on a scale of 50¢ for every \$1 earned above the basic earned income exclusion amount, an exclusion of the work expenses for a blind person which are incurred in connection with producing his or her income, and exclusion of any income and resources which are necessary for a recipient who is aged, blind or disabled to fulfill a plan for self-support.

(5) We support the exclusion of unearned income at the levels specified in S. 2084, but recommend that at least an amount of \$25 of unearned income may be excluded as the basic unearned income exemption. With respect to assets, the \$500 total exclusion which is proposed in S. 2084 should be raised to \$2,250 for an eligible household unit with the overall exclusion of assets placed at \$5,000 (as proposed in S. 2085) above which level cash assistance benefits would not be payable at all.

(6) We support cost-indexing of benefits between the present time and the implementation of S. 2084 as well as after adoption.

(7) We support mandatory state supplementation of benefits to assure that no recipient will suffer a reduction in cash assistance as the result of S. 2084 and we propose that states be required to pass along all future cost of living increases to recipients in order to assure that no individual fails to receive the proceeds of increases due to inflation.

(8) We support specific provisions assuring eligibility for aged, blind and disabled person to participate in the jobs program on a non-discriminatory basis and requirements which assure a priority for such person to participate in the jobs program (including job search) as proposed under Title II of S. 2084.

STATEMENT

Mr. Chairman, my name is James Gashel. I am here today representing the National Federation of the Blind; I serve as chief of the Federation's Washington Office. Our address is Suite 212 Dupont Circle Building, 1346 Connecticut Avenue, N.W., Washington, D.C. 20036.

Thirty eight years ago the blind of this country came together to form the National Federation of the Blind, believing in the American principle that self-organization can serve as the means for self-expression. Today the Federation, through its network of 51 state affiliates and more than 450 local chapters is the most broadly based, fully representative body of blind persons who are organized to speak for themselves. As the Federation began its work in 1940 it established three principal objectives for the blind—security, equality, and opportunity. Although there has been progress on each of these goals, much remains to be done. Clearly the hearings which are being held currently by the Public Assistance Subcommittee of the Senate Finance Committee will have an impact on the lives of thousands of blind people whom we as their national organization represent. The proposals and legislative actions which emerge from your deliberations will determine the extent to which the blind achieve the security, equality and opportunity which we desperately seek to enjoy.

There are many groups affected or potentially affected by any set of proposals which seeks to reform our nation's welfare structure. The number of interests which must be attended to is overwhelming, and the diversity of these interests is mind-boggling. This is what makes the job you face in this subcommittee so difficult, but as I begin this statement I want to urge you not to be overcome by the tendency to generalize the problems in the hope that simplicity alone can bring some measure of common sense to our welfare system which many say has fallen into disorder if not disrepute. Universal solutions may meet the convenient needs of administrators and analysts, but the welfare programs (above any programs) must be aimed at meeting the unique needs of people, not the needs of the bureaucrats. Of course, there may be times when we can find harmony between administrative convenience and human necessity, but where there is no harmony we must move on the side of those who are the intended beneficiaries, even if the action offends our sense of bureaucratic orderliness. Equity does not necessarily demand consistency; in fact it may call for quite the opposite.

For several years the blind have had a rather well-defined welfare agenda. The priorities are work, personal independence, and personal dignity. I propose to analyze the Administration's welfare reform proposal (S. 2084) in light of these priorities, and I will now turn to this analysis.

(1) A standard of presumed minimum need. The establishment of a federal floor below which cash benefits may not fall is a plus factor in S. 2084, but it is nothing new for the aged, blind and disabled who become eligible for the Supplemental Security Income program (Title XVI of the Social Security Act). When you consider the cashing out of the food stamp program which is proposed in S. 2084, and a provision which we support, you find that the cash grant for aged, blind and disabled recipients would be approximately the same as it is now under Title XVI. While we approve the idea of establishing a federal floor for benefits, we believe the amount which is proposed is too low, and we suggest that the amounts for individuals and couples on the upper tier be increased to \$3,000 and \$4,500 respectively. These higher amounts are not only more in keeping with the real costs of living at the subsistence level, but they are also arrived at recognizing that aged, blind and disabled citizens must often meet special costs related to their condition. If at all practical we would like to see higher levels approved.

(2) Allowance for special needs. The cash assistance program, no less than those of rehabilitation and social services, should focus on the real needs of recipients as individuals. S. 2084 is the latest federal effort to overgeneralize about the problems of the poor in America. It begins by abolishing the present SSI and AFDC Titles of the Social Security Act and mixes them into a grand scale cash assistance plan (Title XXI). In our judgment this should not be done—Title XVI should be retained essentially as it is since that law and its administrative structure have shown themselves to be workable. Yes, it may be that SSI needs improvement, but abolishing it is not the appropriate remedy.

The grossest example of overgeneralization is the conclusion that the poor can be classified into two categories—those who can work and those who cannot. The group I represent, the blind, are said to belong among those who are unemployable, but this is erroneous on the face of it. I will have more to say about this point later, but it is enough to point out here the effect of overgeneralization and to suggest that there are many other more subtle ways in

which the special needs, abilities and disabilities of the blind are overlooked. This is equally true of any other subgroup in the grand category labeled "the poor."

Six years ago, during the last round of welfare reform, when the Supplemental Security Income program emerged and was signed into law, the blind of this country expressed their deep concern because for the first time their special programs of financial aid, targeted to meet their unique needs, were being mingled with programs serving other categories of recipients, specifically the aged and disabled. We said at that time (and subsequent events have proved us right), "If the aged, blind and disabled are to be scrambled together in one administrative heap, if a uniform budget is to be established for all aid applicants without regard to their special categorical needs, if agency rules and regulations are to be applied to all recipients on the assumption that they have identical problems, if caseloads are to be an indiscriminate mixture of the aged, blind and disabled, and caseworkers are required to be all things to all clients, then the high purposes of self-care and self-support will soon be smothered and stifled by generalized administrative treatment rather than fostered by categorical considerations which highlight the special needs of the aged, the blind, and the disabled. Public welfare for these people will cease to exist as we have known it, and it will become merely a paymaster of public funds to public charges. Though they may be well provided-for, though they will neither starve, go naked, nor lack for shelter, they will not be rehabilitated into normal, independent, and self-supporting lives; but they will be, and they will remain, public charges."

Six years ago the Congress was somewhat sensitive to the views which I have just expressed, and few (a very few) special provisions for the blind were enacted as a part of Title XVI. Today, in S. 2084 we have another attempt to substitute the convenience of the administrators for the special needs of people. But in no way is it proper or appropriate to view the needs of an 87 year old enfeebled patient of a nursing home facility as being the same as those of a 23 year old healthy, energetic and blind individual. Nor are the needs of the blind person in this example the same as those of a totally disabled woman who is bed-ridden with three children on her hands. Each of these individuals comes with a distinctive set of problems and a unique set of needs. In this example, the blind persons, for instance, may need to hire a reader for limited employment or training in connection with carrying out an approved plan for self-support. This is a special need for that individual and a program of public assistance which is responsive will make allowance for it. S. 2084 must be written to reflect the desire of blind persons to achieve rehabilitation, self-sufficiency and productivity. The blind who seek to move into the mainstream should be encouraged, not put down.

(3) Work incentives, not just welfare. I have already mentioned the presumption in S. 2084 that the blind are in the category of those who cannot work. This presumption standing alone is bad enough but coupled with a serious reduction in work incentives over what is provided in Title XVI, the Administration's proposal asks us to swallow a bitter pill. As a threshold matter, the principle that the blind are entitled to the same amount of incentive to work as is provided for other recipients must be accepted, and once this is done, there are several work incentive features which must be added to S. 2084.

In the first place, our public assistance law has long reflected the principle of exempt earnings. Under Title XVI, the first \$65 dollars of earnings is exempt, but S. 2084 ignores this long-established concept and proposes to reduce the cash assistance grant of an aged, blind or disabled individual by 50¢ for every dollar earned beginning with the first dollar. By contrast, it would appear that a single individual who is not aged, blind or disabled would be entitled to exclude the first \$1,000 of earnings annually while a family which constitutes an eligible household unit could exclude \$3,800. We see no justification for the lower level of earned income exclusion for the aged, blind and disabled, so we propose that it be made the same as for others. In the bill which was reported out of the House Special Welfare Reform Subcommittee there is now an exclusion of the first \$65 per month of earned income for an aged, blind or disabled individual, but this only amounts to \$780 per year—a far cry from the kind of equity we are proposing.

As an additional work incentive, blind persons should also be allowed to deduct their expenses which are incurred in connection with producing earn-

ings. This is now permitted under Section 1612(b)(4)(A) of the Social Security Act. The blind know well the work expenses exclusion of income of which I speak. In calculating the countable income of a blind person under present law, such expenses from gross income as federal, state, and local income taxes, FICA taxes, the cost of meals away from home during work, transportation to and from work, payment of union dues, purchase of special equipment or tools, purchase of travel aids or instruction in the use of such aids, Braille instruction, and the maintenance and upkeep of a dog guide can be deducted, but this is not true under S. 2084. This must be changed during markup.

Another work incentive (or at least an incentive to self-improvement) is the exclusion of income which may be received in connection with carrying out an approved plan for self-support. This can also be done at present under Section 1612(b)(4)(A) of the Social Security Act. There is no comparable section in S. 2084, another crippling weakness in the Administration's bill, and it is hard to understand why. Experience has shown in several states that it is only reasonable and equitable to permit such approved plans for self-support as a means of self-betterment and self-help. Income and resources necessary for carrying out an approved plan of self-support should be exempted as income and resources as long as the plan continues to be reasonably adequate and the individual recipient is putting forth a sincere and sustained effort to fulfill it.

The foregoing provisions are each essential in an adequate package of work incentives for the blind. I am pleased to say that with respect to work expenses for the blind and the exclusion of income in connection with carrying out a plan for self-support, the House subcommittee heard our plea and heeded it. The House bill now contains these provisions as they were written in Title XVI. We hope the Senate will do at least as much and more by increasing the basic amount of earned income which can be excluded before a sliding scale reduction in benefits occurs. These work incentives are key to giving us a hand-up, rather than offering us only cash assistance as a hand-out.

(4) Welfare must not pauperize the people. S. 2084 proposes exemption of certain amounts of various types of unearned income. For example, 20% of Social Security payments would be exempt. This might be a bit more generous than Title XVI, but we suggest that at least the first \$25 of such unearned income be exempt, thus building in a floor below which the unearned income exclusion could not fall. Furthermore, this exclusion of unearned income should be cost-indexed annually to keep pace with inflationary increases in the cost of living.

Turning to exclusion of resources, compared with Title XVI, the proposed new Section 2109 which is created by S. 2084 has a lower exclusion of assets which can be held by a recipient. Title XVI permits individuals to exclude \$1,500 in personal assets and \$2,250 for couples. We have always thought that these levels are too low, but the Administration's proposal lowers them even more, stating that regardless of the size of the household unit, the level at which resources will be totally excluded is \$500. We propose a change in Section 2109 which would liberalize somewhat the exclusion level. We recognize that the House subcommittee adopted the Title XVI provisions for excluding assets. We would go a bit further than this by providing an overall exemption of the first \$5,000 in personal assets held by a household unit, although we would not oppose some level of cash assistance reduction at the point where a household unit's assets reach \$2,250 dollars. In other words, all we are asking is that the \$500 exclusion be raised to \$2,250, but that the overall \$5,000 partial exemption be retained. This higher level of assets would allow recipients to retain at least some decent margin of security. We should not pass a welfare reform proposal which drives people into personal bankruptcy in order to receive an adequate level of cash assistance.

A related matter arises in reviewing proposed new Section 2108. This section sets forth the provisions for increasing a household unit's available income during any month of eligibility for cash assistance by the amount of the household unit's "excess available income," as calculated over the previous five months. The effect of Section 2108 is to penalize poor people for their efforts to rise from poverty. Since a household unit's need is current, its cash assistance should be based on current income. What income the unit had six months

previously bears no relationship to this current need. Proposed Section 2108 is an incredible disincentive, and it should be struck from the bill. We recognize that the House went a good way toward doing this, but still decided to retain at least a one month retrospective accounting period, whereas we contend that the accounting period should be prospective, not retrospective. The day an individual loses a job or otherwise falls into a situation which would likely render such a person eligible for cash assistance is the very day that eligibility should commence.

(5) Cash assistance payments should keep pace with rising costs of living. The concept of keeping cash benefits in line with the rising cost of living is today accepted in Title XVI, as well as Social Security and other benefit programs. S. 2084 is weak on this since it does not retain the commitment to cost-index benefits. The Special Welfare Reform Subcommittee in the House has included a cost of living increase provision in its version of the Welfare Reform bill, and we hope the Senate will do likewise. It is shocking that the Administration did not propose to do so, but I assume they were leaving this to the Congress.

(6) State supplementation of federal cash assistance benefits. We believe strongly in the principle that states should be encouraged (in fact, required) to supplement at least to a certain amount the federal share of the cash assistance program. In this regard, S. 2084 has some serious weaknesses. The major problem is that while the states are required to maintain their levels of effort, there is no assurance that particular categories of recipients will not suffer as the result of instituting this new program. There are a few states which currently pay more, for example to the blind, than to disabled or aged SSI recipients, and the question arises, what insurance is there that these states will continue such practices with welfare reform? Of course, they may not, and there may be some serious cuts in store for particular categories of recipients.

An equally perplexing problem is the age-old difficulty of passing along the cost of living increases. Assuming the Congress agrees to ensure that there will be annual indexing of the federal share of benefits, where is the requirement that this amount be passed along to recipients? Would it not be possible for a state simply to reduce its share as the program develops and the federal government begins to pay more and more of the costs? Recipients have been caught in this cost of living squeeze before. Now this problem has largely been solved in the SSI program, but it seems to be reoccurring with welfare reform.

(7) Individuals in need should be able to work and still receive some cash assistance. I have already discussed the failure of S. 2084 to appropriately categorize recipients, but the problem is much deeper than that. On the face of it, it is unrealistic to categorize people into the categories proposed—those who can work and those who cannot—but beyond that it is openly discriminatory to base eligibility for the jobs program (Title II of S. 2084) on the basis of the stated categories. The new proposed Section 951 of the Comprehensive Employment and Training Act of 1973 is ambiguous as to the eligibility for participation of blind persons, but it isn't hard to clarify the intent. Proposed new Section 2103 for the Social Security Act retains the Title XVI provision for referring blind and disabled individuals to vocational rehabilitation while requiring that certain other cash recipients be referred to the Secretary of Labor for participation in the jobs program. So far the House has failed to do anything about this, and it may be up to the Senate to take some affirmative steps to be sure that blind and disabled people will not be prevented from participating in public service as well as subsidized employment established under S. 2084.

The requirement that blind and disabled persons be referred to vocational rehabilitation, in lieu of a referral for participation in the programs established under Title II, has doubtful validity, because the placement record of vocational rehabilitation agencies has been so poor. The committee should refer to the studies done on this question. The committee should also consider that favoring the participation of nonblind or nondisabled persons in the jobs program will impact negatively on the ability of blind and disabled persons to secure suitable employment opportunities, not to mention the ability of vocational rehabilitation to develop such opportunities. Referral to vocational rehabilitation, then, will likely be a meaningless and hollow gesture, with no job at the end of the line.

When you sum up what we are being offered with respect to the jobs program, it amounts to flagrant discrimination, and this is in violation of federal law—Section 504 of the Rehabilitation Act of 1973 as amended. That law prohibits discrimination on the basis of handicap in any program receiving federal financial assistance. It is unthinkable that the Administration would in one breath speak of equal rights and opportunities for the handicapped while it is with another taking these rights away. To overcome this, we recommend specific language in the appropriate sections of the new Title IX for the Comprehensive Employment and Training Act which in the first place would make it clear that aged, blind and disabled persons are entitled to participation in the jobs program, including job search, and also such persons are to be granted a priority in competing for positions which are created with funds authorized under this program. This is consistent with Sections 501, 503, and 504 of the Rehabilitation Act of 1973 as amended (all of which speak of affirmative action and nondiscrimination on the basis of handicap).

(8) Summary and Conclusion. While the foregoing does not purport to be a comprehensive analysis of S. 2084, the comments indicate that there are certain basic principles which have crucial importance to the blind but which are also violated by S. 2084. The overriding problem in this welfare reform proposal is the lumping of recipients into slots which look neat from an administrative vantage point but are absolutely inappropriate when you consider the real needs of people. The first problem is the presumption that needy people can be classified into the categories of the employable and the unemployable. The second problem is that the proposal does not view people as individual recipients; it looks at household units. The individual has been forgotten in this welfare reform plan. He has been subordinated to the needs of the state, the federal government, and the computer. We no longer talk about people; we speak of household units. This is wrong. The Administration argues that the basis for this welfare reform proposal is simplicity—to make it easier for needy people to get benefits—but this will not occur under S. 2084. The red tape will be as great, the law equally or more complex. Nor is this welfare reform proposal any more generous in meeting the needs of recipients. When you consider the reduced work incentives for the blind, the lower amount of resources which may be retained before reducing the cash assistance grant, the cashing out of the food stamp program, and so on, you come out with a benefit comparable (if not lower than) that in the SSI program, which itself is none too generous.

The aged, blind and disabled have nothing whatsoever to gain and mostly everything to lose by being merged in this crazy quilt of welfare reform. If the objective is truly simplification and administrative convenience along with the standardizing of requirements, those objectives were achieved, at least to the most desirable extent, when the SSI program was created six years ago. The real need for reforming the welfare system is not in the programs which serve the aged, blind and disabled since that reform has already happened. For SSI recipients this proposal is not reform; it is retreat.

TESTIMONY OF PANEL ON BLINDNESS AND DISABILITY

Representing: American Association of Workers for the Blind; American Coalition of Citizens with Disabilities; American Foundation for the Blind; American Council of the Blind; American Congress of Rehabilitation Medicine; Epilepsy Foundation of America; National Association for Retarded Citizens; National Easter Seal Society for Crippled Children and Adults; National Rehabilitation Association; National Society for Autistic Children; United Cerebral Palsy Associations, Inc.; National Association of State Mental Retardation Program Directors; National Conference on Development Disabilities; and National Association of Private Residential Facilities for the Mentally Retarded. (By Elizabeth M. Boggs, Irving P. Schloss, Richard E. Verville.)

On behalf of the aforementioned organizations, we submit the following joint statement on S. 2084, the Better Jobs and Income Act, H.R. 10950 and other welfare bills.

I. GENERAL BACKGROUND AND ANALYSIS

These organizations represent a wide spectrum of severely disabled and blind Americans, of which there are estimated to be some 10 million. (PHS, "Health 1975-1976;" "Comprehensive Service Needs Study," Urban Institute, 1975.) We share a common concern that any reform of the nation's welfare programs be responsive to the varying needs of those blind and disabled citizens who are unemployable and necessarily depend upon public assistance program and those who, despite their handicaps, are employable and seek to become participants in the workforce. We desire to assure decent incomes, employment and needed services for these individuals and the aged. Within the categories of blindness and disability, we urge the Subcommittee to recognize the variation in functional ability which exists and relate support and program assistance to such variations. It is important that Federal policy be responsive to these variations.

In order to address these variations in a systematic and equitable fashion, it is necessary to take account of several classes of factors, and to consider how these relate to similar factors which are taken into account for persons not considered disabled. These factors are: (1) subsistence costs, (2) work expenses and earnings disregards, and (3) medical costs.

For the blind and disabled who cannot work, we believe that higher payment levels than in present SSI law and H.R. 10950 are necessary, and that there should be some special allowance for those needing attendant care or personal supervision. The reason why a large percentage of disabled (75-80%) may have no employment potential is that many may be severely disabled with a condition such as severe mental retardation or with multiple handicaps. Although the majority of the disabled are over age 55, (the median age of the totally disabled according to the 1972 Social Security survey mentioned above is 53 years, see Chart 1 attached) those adults who are disabled in childhood constitute an estimated one-third. Also, the education level is low with only one-third of the totally disabled having a high school education or better. See Chart 2.

With regard to the type and severity of disability involved, the 1972 Social Security survey and the Urban Institute Study of the "Comprehensive Service Needs" of the disabled have relevant data. The Social Security survey is of those not in institutions who have work disabilities, with those "totally disabled" being unable to work regularly. Of those 7 million totally disabled, 55% had either a cardiovascular or musculoskeletal impairment including heart disease, stroke, arthritis, and spinal injury. The "Comprehensive Service Needs Study" attempted to survey the needs of those with disabilities which were severe in their impact on functional limitations. A sample of 450 disabled rejected by vocational rehabilitation as having no vocational potential and of 300 patients at comprehensive medical rehabilitation facilities was used. Both of these samples are likely SSI recipients. In fact, 80% of the sample of 450, and 60% of the sample of 300 were receiving either SSI, disability insurance or both. Of the 450 sample, 51% had orthopaedic impairments, primarily of the back or spine, and 162 had cardiac problems. Of the sample of 300, 100 had spinal cord injury and 100 had neurological impairments, particularly cerebral, such as cerebral palsy, epilepsy or stroke.

These samples are not indicative of mental disabilities because the mentally disabled would not generally be in a medical rehabilitation center and often are too severely disabled to even apply to vocational rehabilitation. Also, those disabled who are in certain institutions are underrepresented. However, we do have specific statistics on the following areas regarding SSI: In 1976, an estimated 370,000 of the 2 million disabled and blind recipients of SSI were retarded (almost 20%); 83,000 (1.6%) had cerebral palsy; and 40,000 (2%) had epilepsy. ("Income Maintenance and the Developmentally Disabled," 1977 (HEW Grant No. 54-P-7156-3-02)).

Statistics presented in the abstract do not adequately reflect the problems faced by individuals, especially those which add to the cost of living. We have attached to this statement the letter of Carol Ann Doyle of Massachusetts, which was inserted into the *Congressional Record* of February 6, 1978, by Senator Dole. While no case is "typical," Ms. Doyle's account of her own efforts

and her accounting of the costs she incurs, either as a working, or as a non-working disabled person, are indicative of the interactive effects of the various provisions contained in different titles of the Social Security Act, along with the options chosen or not chosen by the several states. We invite you to test out our various proposals against this specific case, bearing in mind that Massachusetts has one of the more liberal state supplementation schedules, as well as a Medicaid plan that includes the services of a "health aide." If Ms. Doyle cannot make it in Massachusetts, the plight of others elsewhere is indeed precarious.

The organizations represented by this panel have reviewed the Administration's proposal, S. 2084, H.R. 10950 as reported and other bills, and have agreed on a number of specific issues which need to be dealt with before enactment of any major reform. We believe some reforms are clearly needed and that the enactment of a welfare reform bill could be of great significance to the country's blind and disabled.

In 1972, the Congress created what we think is an effective and beneficial program, the supplemental security income ("SSI") program. The enactment of SSI was what we all consider to be a great milestone in the history of social security legislation. It establishes a uniform payment level, and it established a national commitment and responsibility for payments to the aged, blind and disabled. We want to build on that foundation. We are obviously very supportive of the SSI program and see no reason to eliminate it except by substitution of an improved program for this same population. Improvements in SSI regarding benefit levels and work incentives are needed, however, and if welfare reform bills would achieve this without eliminating positive SSI provisions, we would support them.

Generally H.R. 10950 achieves improvements, including a special income disregard for attendant care for those who can work, and a new requirement regarding the definition of disability which would encourage work, but it does make some negative changes in SSI as well, such as reducing benefit levels of disabled children. We would clearly like to see the negative changes eliminated and the positive maintained. H.R. 10950, however, is far superior to S. 2084, because S. 2084 does not make the improvements noted above while eliminating numerous positive provisions such as price indexing of benefits, earned income disregards and work-related expenses. As for S. 2777, it makes few changes in SSI but could obviously be a vehicle for significant improvement in benefit levels, work incentives and jobs. S. 2777, because it makes few changes, is relatively better than S. 2084 which eliminates many positive present SSI provisions.

II. CASH ASSISTANCE PROGRAMS

A. General Income Support Issues

1. Basic benefit amounts

We recommend \$3,000 for Individuals and \$4,500 for Disabled Couples Plus Attendance and Supervision Allowance for the Most Severely Disabled.

Substantially handicapped persons experience a higher cost than that computed for the same standard of living in the same locale for persons who are competent and able bodied. The work disability is usually accompanied by functional limitations in other activities of ordinary living; such as shopping, transportation, self-care, communication, ability to carry out household tasks in approximately the same time as others allow,—all such activities which non-handicapped persons take for granted require extraordinary efforts and in many instances extraordinary expense, for seriously handicapped persons.

It has been found that there are two major categories among the disabled with respect to these extraordinary expenses—those who can manage if mechanical assistance is available, and those for whom some level of personal assistance is required. In each group there are people who may or may not have extraordinary ongoing medical costs. The former group may incur significant extraordinary expenses for the maintenance and replacement of equipment, such as hearing aids, wheel chairs, dialysis machines, symbol boards and specially fitted vehicles, and for alternative means of economic and social participation such as use of taxis in place of own automobile or public transportation, special foods and adaptive clothing. There may be a need for higher

rental for an accessible living arrangement. Although all these expenses are occasioned by the disability, most are not counted as medical expenses under usual health coverages, public or private.

When these are taken into account, it is clear that the maximum payable amounts for aged, blind and disabled in both S. 2084 and H.R. 10950 are too low. They do not represent increases over current maximum SSI cash benefits due to the proposed elimination of Food Stamps in both bills and the elimination in S. 2084 of certain SSI provisions such as the earned income disregard and work-related expenses. We recommend that the maximum payable amounts be increased from \$2,500 to \$3,000 for a single aged, blind or disabled person and from \$3,750 to \$4,500 for aged, blind or disabled couples. The current SSI maximum benefits are \$2,133.60 for a single recipient and \$3,200.40 for a couple, but such SSI recipients are eligible for Food Stamps. The average value of Food Stamps has been estimated at about \$400 a year per individual. (See the House Ad Hoc Welfare Subcommittee Explanatory Chart.) Thus, a \$2,500 payment level would just about equal the current package of SSI and Food Stamp benefits.

2. Cost of living and poverty levels—a differential for the disabled

However, Mr. Chairman, 18 of the 50 states, almost 40%, already supplement well above \$2,500 annually to SSI recipients when the bonus value of Food Stamps, about \$33 a month on the average, is included. (See Ad Hoc Welfare Subcommittee Explanatory material, "Current Law Benefits.") Some 15, or 30% of the states, pay about \$2,900 or over; 9 states pay substantially above \$3,000 a year. We believe this constitutes a pragmatic recognition of the actual cost of subsistence experienced by the disabled.

The Administration's bill with its special 75% matching provision for AFDC families brings the AFDC level to about 80% of the poverty index. The most recent poverty index for a single individual not residing on a farm is \$3,120 per year. (CSA Guidelines of April 5, 1978, *Federal Register*, Vol. 43, page 14316.) We estimate that the added costs of living for disabled people must be from \$400 to \$500 per year higher than the non-disabled. Thus, a reasonable poverty level or threshold for the disabled or blind individuals not in need of personal attendance or supervision might conservatively be \$3,500 to \$3,700 per year. (Some will have far higher costs than that. The "Comprehensive Service Needs Study," by the Urban Institute indicates that a quadriplegic has living costs of \$18,000 per year for independent living activity. See page 688 of the "Study.") Thus, a \$3,000 payment level for a disabled individual would be about 80% of the poverty index adjusted for disability. In addition, as noted previously, about 15 states have set payment levels at about \$3,000 including Food Stamps. It seems reasonable to now set a more adequate Federal floor which would be \$3,000 per individual. Also, if you look at other countries, you will find that of the industrialized, many have set national assistance levels higher than SSI. In 1975, the Canadian payment to the aged exceeded ours by \$46 per month, or about \$550 a year.

A more detailed rationale for our estimate of \$400-\$500 excess cost of living for the disabled, exclusive of personal services, is based on the following considerations. The HEW 1977 publication, "Work Disability in the U.S., A Chartbook," estimated that a disabled person in 1972 had out-of-pocket medical costs which were two-thirds greater than those of the able-bodied. In 1972, a totally disabled person had \$502 of out-of-pocket medical expenses. Inflated at a rate of 10% per year, the 1978 figure would be about \$800 while the non-disabled person's out-of-pocket expense in 1978 using inflated 1972 dollars would be \$480. Thus, there is an estimated \$320 of increased medical cost. See "Work Disability in the U.S., A Chartbook," *supra*. While Medicare was amended in 1972 to include disabled beneficiaries, it falls far short of covering all costs, even for those who have it, and furthermore, there is a 29 month waiting period after disability before coverage is extended. In addition, many disabled people need special equipment. Of the 600 individuals sampled in the "Comprehensive Service Needs Study" ("CNS") (HEW Contract No. 100-74-0309, 1975), 70% needs some equipment and 47% had to bear the cost themselves. (See pages 139 and 140 of CNS.) Obviously, costs of repair are also involved. The equipment used included walkers, crutches, wheelchairs, dentures.

3. Allowance for personal services—attendant care and/or personal supervision

The level of benefit outlined above should be available to all those who qualify as blind or disabled. An additional \$150 a month or \$1,800 a year should be available to anyone requiring substantial personal assistance.

The personal service allowance is intended to recognize the economic cost (whether paid for in cash or not) incurred by individuals such as Ms. Doyle who cannot get through a day without some help from others, whether at home or at work. It is also intended to cover the need manifest among many persons with moderate mental impairments for intermittent but frequent social supervision.

Among persons requiring personal assistance, many are now found in nursing homes and intermediate care facilities, where the high per capita costs are pro-rated to the federal government under Title XIX. Yet there are many persons both in and outside of institutions for whom personal assistance or supervision in their own homes or in non-medical congregate housing would be more cost beneficial and "less restrictive." An excellent study done in Brandeis University documents this problem in Massachusetts. (Personal Care and Disability Study—Gerber De Jong, Levinson Policy Institute, 1977.)

The study identified about 35,000 working age adults and more than 16,000 disabled children living in the community who need extra help with personal care; about a quarter of the adults have *unmet* needs. Table 1-2 indicates the total number requiring other kinds of assistance and the proportion of unmet needs in each. (The population of Massachusetts in the 18-64 age range is slightly less than 3% of the comparable national population.)

TABLE 1-2.—PERCENTAGE DISTRIBUTION OF CHRONICALLY DISABLED WORKING AGE ADULTS NEEDING HELP FROM ANOTHER PERSON BY SOURCE OF HELP AND TYPE OF ACTIVITY, MASSACHUSETTS, 1975

Source of help	Type of activity				
	Personal care (N=34,600)	Food preparation (N=82,000)	Housekeeping (N=79,400)	Food Shopping (N=90,100)	Trans- portation (N=75,200)
Within home support system.....	78.1	39.1	57.7	40.9	29.1
Outside home support system.....		2.3	8.0	3.2	5.9
Uncertain ¹	NA	34.4	11.6	30.4	35.6
Need unmet.....	21.9	24.0	22.5	25.6	38.4
Total.....	100.0	100.0	100.00	100.0	100.0

¹ Uncertain as to whether need was met or not met.

NA—Not available.

Again, some of this need could be categorized as "medical" and as such could be supplied by "home health aides" reimbursed under Medicaid in a liberal state system, as found in California or Massachusetts. The bill, S. 2505, introduced by Senators Javits, Dole, Moynihan and others in February, is designed to make this option more readily available to disabled persons with some earnings. However, we are in grave danger of over "medicalizing" some of the assistance which disabled persons need. In doing so, we may also be over-professionalizing the activities themselves and over-regulating the opportunities for the individual needing help to enter the market place or to seek informal solutions to his personal assistance problems. For example, Ms. Doyle's "health aide" is paid \$7.25 an hour for health care *and* doing laundry.

It would be desirable, in the view of our organizations, to provide an additional allowance within the SSI or BJI benefit structure for persons deemed to be extraordinarily disabled to the extent of needing personal assistance or personal supervision in the activities of daily living (technically defined as self-care and self-sufficiency in the home) or personal supervision or intervention in the instrumental activities of daily living (technically defined as out-of-home activities such as shopping, handling money, and moving about in the community).

This allowance, which we would initiate at a flat \$150 per month, should be available based on functional need for personal assistance or supervision as

assessed during disability determination. It should not depend on a month-by-month accounting or a specification as to the manner in which the individual chooses to alleviate his problem. Persons requiring more help than this would pay for should remain eligible, as now, for social and health care under Title XX and XIX. Also, if the one-third reduction rule is retained (which we oppose) the reduction should not apply to the personal services supplement.

4. Price indexing benefits

The basic benefit should be price indexed from 1978 through the actual effective date of the bill. S. 2084 does not have a price index for the benefits to be paid for any period, although present SSI law and H.R. 10950 do. Also, in S. 2084 the maximum amounts payable for the aged, blind and disabled, and for other members in their households need to be increased yearly thereafter to reflect increases in the Consumer Price Index. In effect, we urge retention of the indexing presently in the Supplement Security Income program and included in H.R. 10950 for the aged, blind and disabled and its application to benefit levels specified in the bill between this time and the effective date of the bill.

5. Maintenance of effort ("MOE"), State supplementation and hold harmless provisions—Mandatory supplementation

These provisions all affect the benefit level also. SSI law mandates state supplementation to levels of payment equal to the December 1973 payment level. In effect, this provision held all recipients of aid prior to SSI's effective date harmless at current levels and covered new cases at the same level. State supplementation levels are now in many cases above the mandated levels. This increase results not from federal requirements but from state choice to recognize the realities of costs. S. 2084 and H.R. 10950 would hold all current SSI recipients harmless at the level of payment in effect prior to the effective date of the new program. States would also be required to maintain effort at 1977 expenditure levels indexed for subsequent years at a declining rate for three years (90%, 75%, 65%) and would always have to pay 10% of total program costs under both S. 2084 and H.R. 10950. However, states would be held harmless at 90% and 100% in succeeding years.

New disabled and blind cases under the new program as proposed by the Administration, would not be guaranteed the same level as cases in the system prior to the new program. For example, in New York State the current maximum SSI payment is \$238 a month and the Food Stamp bonus is another \$21 per month. Under S. 2084 and H.R. 10950, the monthly maximum for a disabled individual is \$208, or \$51 less than the New York State payment. The cases in the system prior to the new program would get \$51 more per month than the new cases under the new program unless New York voluntarily continued to supplement for new cases.

S. 2084 and H.R. 10950 do not mandate supplementation but provide supplementation incentives in the form of shared fiscal responsibility for increases. However, the Federal share of supplementation for the aged, blind and disabled to current levels at the effective date of the new law is only 25%. While this is 25% that is state-supported now, it is far less than the 75% Federal share of supplementation to \$4,700 for families with children. Given fiscal incentives to maximize Federal financing, we fear that state investments in supplementation may give priority to families with children at the expense of the aged, blind and disabled. If our suggested \$3,000 Federal floor with indexing were accepted, supplementation would be less of an issue since only 9 states are above \$3,000 now; correspondingly, the costs would not be great.

Whether or not our \$3,000 payment level for an individual is accepted, we urge that state supplementation be mandated to at least current levels in the year before the new program is effective, but that the Federal Government absorb a major share of the mandated increase. This could be done by either specifically requiring a 50% sharing or through general hold harmless requirements. Our present estimate of total cost of supplementation above \$2,500 would be about \$1.7 billion. The states are now bearing all of that cost. If supplementation were mandated in the states above with Federal sharing, that cost to the states would go down depending on the extent of the Federal sharing in expenditures.

6. Unearned income disregard—20 percent or \$25, whichever higher

With regard to the unearned income disregard, we recommend a combination of present law and the Administration's proposal which is included in H.R. 10950: a disregard of \$25 monthly or 20% of unearned income, whichever is higher. Current law allows \$20 of unearned income to be disregarded but does not have a progressive rate applied as the Administration bill does. Twenty-five dollars represents only price indexing of the \$20 figure. It would also be more responsive to the needs of those with low unearned incomes than a simple 20% requirement. This formula needs to be price indexed.

7. Group living arrangements: Benefit eligibility and amount—retain "Keys" amendment

Current Title XVI law permits disabled individuals residing in group living arrangements to retain eligibility for SSI benefits as if they were living separately. SSI law has always included this provision for private facilities and the Keys Amendment of 1976 extended this provision to those living in public institutions with 16 or fewer residents. The intent of these provisions was to make community group homes a more viable alternative to costly institutional care and, via the Keys Amendment, to encourage the public sector to assume a larger role in financing such community-based alternatives. S. 2084 is unclear with regard to eligibility of disabled individuals residing in group living arrangements. We urge explicit inclusion of both the above provisions in any welfare reform legislation.

In a related matter, S. 2084 provides for a reduction in benefits for individuals living in household units with related individuals. It is unclear with regard to those living in group arrangements with related individuals.

Current Title XVI law stipulates that the benefits of any SSI recipient "living in the household of another" must be reduced by one-third if the aged, blind or disabled individual receives in-kind support or maintenance. However, many knowledgeable experts feel this statutory provision should be repealed. This recommendation stems from the fact that the one-third reduction provision acts as a significant disincentive to families who are willing to keep a vulnerable and socially-dependent individual in their home and drastically reduces a recipient's freedom to choose the most appropriate living situation.

With regard to a reduction in benefits for persons living with related individuals, S. 2084 seems unworkable due to the administrative complexities created by its emphasis on the issue of co-ownership, and the resultant burdens on recipients. As far as benefits for persons living with unrelated individuals is concerned, we strongly suggest that Congress make clear that "unit of one" rules prevail. We prefer the provisions of H.R. 10950 on these points.

8. Benefits to disabled children—Payment level same as adult disabled like SSI

Under current SSI law, a disabled child is entitled to the same benefit amount as a disabled adult: \$2133.60 per year. If the child lives with his or her family or, though in an institution, frequently and regularly returns home, the income and assets of the family are imputed to the child. Where the child is in an institution and independent of the family, no such imputation occurs. The benefit level for the child in the institution depends upon whether the institution receives Medicaid financing for the child in which case the payment from SSI is only \$25 a month. Otherwise, it is the full benefit of \$2133.60. To some extent, these provisions are incentives for leaving the child in the institution and not visiting frequently.

S. 2084 is not clear as to the eligibility of a disabled child in an institution though it does clearly provide a payment of \$1100 per year to an eligible family for each disabled child. H.R. 10950 is clear in that such eligibility is extended to the child in the institution since the child is treated as part of the family where the family is exercising parental responsibility. Section 2101(c)(5). Where no parental responsibility is exercised, the child is a "household unit" itself. Section 2101(b)(5). However, like S. 2084, the benefit payable for the disabled child in both cases is only \$1100 per year. Thus, the benefit level for disabled children under both S. 2084 and H.R. 10950 is \$1000 per year less for disabled children than under current law.

In addition, the imputation of income from the family to the child under current law includes disregards related to subsistence amounts for the family

members of about \$8400 a year. Under both S. 2084 and H.R. 10950, the treatment of family income in a family with a disabled child will generally not exclude as much as \$8400.

This confusion generated by S. 2084 and H.R. 10950 results from the family unit of those bills and the merger of SSI into such an approach. Under SSI, applicants are all treated as individuals and not as part of a larger unit, though SSI does include imputation provisions as described above.

We suggest that if an integration of SSI with family assistance is recommended by this Committee, that disabled children at least receive a benefit equal to that of disabled adults. This case does suggest that perhaps such a merger is not sufficiently feasible to recommend it.

B. Work Incentives

Not all blind and disabled are unemployable as the structure of the Administration's proposal implies. There are 2.1 million blind and disabled recipients of SSI; and while only a small percentage have earnings, we estimate that perhaps 20-25% are employable. Social Security data indicates that in 1977, 24.5% of the new 1977 disabled SSI recipients (103,000) were referred to rehabilitation initially because they had vocational potential. Also, the 1972 Social Security survey of the disabled, "Work Disability in the U.S.," indicates that of 15 million work disabled in 1972, 25% of totally disabled men and 10% of totally disabled women were in the workforce, 12% of men were full-time employees and 13% were part-time. (Of the partially disabled, 87% were in the workforce.) In these statistics there were 7 million totally disabled and another 8 million who were unable to do their prior work or limited in their capacity to do it. The totally disabled of this survey probably have similar characteristics to the SSI disabled.

Many disabled and blind who are unemployed need only an active job training and placement program in order to become employable. Others need substantial services as well as job placement and training to become employable. All of these individuals should be provided assistance which is responsive to their needs. With regard to job training and placement, most of the activity is through state rehabilitation agencies who rehabilitated 17,000 SSI recipients in FY 1976. This is only about 5% of all rehabilitations for that year. In total, vocational rehabilitation served about 60,000 of all public assistance recipients in 1976. CETA, on the other hand, spent about \$144 million of its \$7 billion FY 1977 budget on the handicapped. It is not clear how many individuals served were public assistance recipients.

The issue of work incentives is related to both the cash assistance programs and the jobs programs of S. 2084, H.R. 10950 and other bills. The current cash assistance program, SSI, and S. 2084, contain a very significant work disincentive: the limitation on earnings of \$230 a month inherent in the definition of disability. H.R. 10950 has eliminated this disincentive and has adopted provisions which treat disabled like blind, aged or other recipients in that after an initial disregard of \$780 of earnings, benefits are reduced at a rate of 50% of each dollar earned. This was our recommendation to the House Subcommittee. In addition, SSI includes work incentives in the form of deductions from earned income for work-related expenses and a basic earned income disregard as noted above. S. 2084 has neither of these though H.R. 10950 has both.

With regard to the employment programs, it is evident without elaborate argument, that eliminating economic disincentives to work in cash assistance programs does not result in work. Such changes only create circumstances which encourage those who do want to work to enter the labor market if they are able to and jobs are available. Thus, a major job placement and job creation effort is needed to accompany the elimination of work disincentives in the cash program. We shall direct ourselves to this aspect of our recommendations in the next part of our testimony. What follows now, are more detailed points dealing with the principle of work incentives in the cash assistance programs.

1. Limits on earnings for disabled—Substantial gainful activity ("SGA") definition: Phase out at \$481 a month; same as aged and blind

We believe that it is essential to eliminate the current destructive and arbitrary limit on earned income which is the test for disability (not blind-

ness), imposed by the Title II definition of disability and used also in Title XVI. The result of this limit, which is to define disability as earning less than \$230 a month, is: (a) unfair treatment of the disabled who can earn something but not an adequate amount to live on; (b) a destructive notch resulting in loss of all income support and Medicaid eligibility if \$230 or more is earned; and (c) a perversion of real work incentives. The Administration's proposal continues this notch since its definition of disability is the Title II definition and, if adopted, would engender rules like those under Title II.

The Administration's charts on its proposal show a phase-out at \$5,000 and \$7,500, respectively, for a disabled individual or couple. This is a misrepresentation since it overlooks the effects of the \$230 a month earnings limit inherent in the Title II definition of disability used in S. 2084. With that limit, the phase-out under the Administration proposal is actually \$3,700 and \$4,950, for a disabled individual and couple, respectively.

In its place, the use of the earnings disregard suggested above and a 50% benefit reduction rate is suggested. This is the same benefit reduction formula used for the aged and blind under SSI and all recipients under S. 2084. This approach, eliminating the \$230 a month ceiling on earnings, would result in a phase-out of benefits at \$5,000 for individuals and \$7,500 for a couple under the Administration's proposal, \$5,780 under H.R. 10950 (such a provision is in H.R. 10950), and \$6,900 and \$10,900 under our proposal.

H.R. 10950 includes such a change in the definition of disability thereby treating the disabled just like the aged and blind and restoring some work incentive in the system. (S. 2110 9(c)). Without such a change, a disabled individual can earn \$2,760 a year and also retain about \$1,200 of his SSI benefit (\$2,200 benefit — 50% of \$2,000). Thus, that person has total income from SSI and earnings of about \$3,960. However, if that person earns \$231 a month, or \$2,761 per year, his total income drops to \$231 a month of \$2,761 because SSI eligibility is terminated. This loss of total income as earnings increase is shown graphically on Chart 3 attached to this testimony. Chart 3 shows the gradual phase-out of welfare benefits as earnings increase under H.R. 10950, our panel proposal, S. 2084 and current law for the blind and aged. A sharp drop in income is shown in the two lines showing earnings and total income for the disabled under S. 2084 and SSI. These lines are designated "B" and "D". In addition, Medicaid eligibility will terminate. The notch effect in this case is severe enough to be characterized as more like a cavern than a notch. Our proposed change in approach to disability, as embodied in H.R. 10950, is estimated (by HEW) to cost only \$40 million, as indicated during House Subcommittee consideration of H.R. 10950.

In this same connection, we fully support S. 2505 co-sponsored by Subcommittee Chairman Moynihan, Javits and other Finance Committee members including Senators Dole, Haskell and Hathaway. This bill would enable disabled people with incomes above the welfare level, \$5,772 under H.R. 10950 and \$3,880 under S. 2084, to retain Medicaid eligibility if their incomes were not sufficient to pay medical expenses, i.e., if they are medically indigent. These provisions simply allow the disabled to be treated similarly to the aged, blind or families with dependent children in states with so-called "medical indigency programs." The disabled eligible for this treatment under S. 2505 are those who depend upon assistance from others to function independently, such as those needing home care or attendant care. In essence, it waives the S.G.A. rules specifically with respect to Medicaid eligibility of those most likely to have ongoing health care costs.

2. Work-related expenses—Retain current work-related expenses plus attendant care per H.R. 10950

Reasonable expenditures as determined by the Secretary of Health, Education and Welfare, for work-related expenses for the blind and disabled should be disregarded under S. 2084. Handicapped individuals who work or want to work would suffer substantial reductions in cash benefits over present SSI benefits if the Administration's proposal is enacted without a disregard for work-related expenses. Under SSI and H.R. 10950, work-related expenses for the blind and disabled are disregarded, though in different forms, and this disregard should be retained. The concept of a work-related expense also needs clarification. Handicapped people who work encounter extraordinary expenses for transportation, special clothing, interpreter service for the deaf, reading

service for the blind, and initial costs of maintenance of devices such as wheelchairs, and symbol boards. Deducting such expenses from countable income for the working handicapped would ensure that the cost of working would not outweigh the benefits of working.

The test of a work-related expense should be whether it is essential to enable the person to work, though it may also enable the person to function independently in a non-work setting. In this connection, H.R. 10950 includes as a special work-related disregard, the costs of attendant care for the physically handicapped. Thus, for those who work and pay an attendant from their income, the cost of the care could be disregarded in calculating the countable income of that disabled person for purposes of determining his eligibility for benefits. This provision of H.R. 10950 is a significant work incentive. In concept, this expanded deduction from earned income is in economic terms similar to allowing day care as a work expense for a working mother. Thus, day care for children of low and middle income working mothers is federally subsidized in the following ways: (1) allowance as work expense under Title IV-A; (2) payment to providers under Title XX; and (3) allowable deduction from gross income for income tax purposes. Our proposal would allow the same kinds of alternatives to a working disabled person with respect to costs of attendant care. A person whose disability is severe enough to qualify him for a personal services allowance, as we recommended earlier, and who with such care is able to work, should have the option of taking the "standard" supplemental allowance (\$150 a month) as part of his benefit or of taking the actual costs as a work expense.

3. *Earned income disregard—First \$1,900 of earnings*

The Administration proposal also eliminates the earned income disregard for the aged, blind and disabled. There should be a basic earned income disregard for each eligible blind and disabled person to encourage him or her to lead more economically independent lives. Under SSI and H.R. 10950, there is such a basic disregard of \$65 per month or \$780 a year per unit, but the Administration's proposal omits this important work incentive. Consistent with the provisions for other welfare categories, we recommend a disregard for each disabled or blind person of \$158 of monthly earnings increased proportionately in accordance with increases in the Federal minimum wage.

This recommended \$158 monthly earning disregard equals \$1900 a year which is equivalent to the real value of the \$3800 earned income disregard proposed to be made available to able-bodied workers in H.R. 10950. The able-bodied have a \$1900 differential in benefits compared to those who are not expected to work.

A 1900 disregard would still be less than the increase in the Consumer Price Index since December 1962 when \$85 of first monthly earnings were excluded in computing cash benefits for blind public assistance recipients. There has been a 101% increase in the Consumer Price Index between 1962 and 1977.

This disregard of first monthly earnings coupled with the 50% disregard of earned income above that base disregard would ensure a more realistic incentive for blind and disabled individuals to work themselves out of welfare dependency.

III. EMPLOYMENT OPPORTUNITIES PROGRAMS

Under Section 2103(b) of S. 2084 and H.R. 10950, as under current SSI law, adult disabled individuals must be referred for vocational rehabilitation evaluation and services. This program, one of our nation's oldest social programs, provides comprehensive rehabilitation services to the disabled including health care, social services, education and job training. It is not a job creation program and it is not primarily job placement. It is primarily rehabilitative. The program is presently 100% Federally financed for SSI recipients to encourage expansion of rehabilitation efforts and this approach would be continued under S. 2084 and H.R. 10950. Failure to accept recommended services where offered results in benefits being reduced or terminated under current law, S. 2084 and H.R. 10950. However, after accepting services, there is no assurance or even probability of finding competitive employment. Of 100,000 referrals and 50,000 service recipients in 1977, only 17,000 cases were closed as rehabilitated in a 1 to 12 month period. Thus, Mr. Chairman, there is little to indicate that jobs under S. 2084 or H.R. 10950 will be forthcoming despite

this Federal investment and despite the desire of the disabled and those serving them that they work. The basic intent, as we gather from briefings and materials of the jobs programs in S. 2084 and H.R. 10950 is to focus the proposed subsidized jobs program on the able-bodied only. We do not oppose in any way employment opportunity for unemployed able-bodied people. We see their unemployment, like that of many blind and disabled, as a national catastrophe which must be dealt with.

The present effort under way to review our welfare system must of necessity review our employment policy. In this respect, there must be a major effort to develop real, long-term employment opportunity at prevailing wages for all qualified Americans, disabled or not. Perhaps, differential job strategies would have to be developed varying with the cause of unemployment, but the basic goal is the same—jobs.

Also supporting the inclusion of the blind and disabled desiring to work in both job search and job subsidy programs is the basic policy of equal treatment for the handicapped which has become an integral part of Federal law since 1973. The Rehabilitation Act of that year clearly established that policy in Section 504 of Title II.

We have indicated previously in this testimony the likelihood of SSI disabled and blind participating in the workforce. In our opinion, approximately 20-25% of SSI disabled could work with some exiting the welfare system entirely and others drawing less in the way of benefits since benefits are reduced by 50% of each dollar earned; 24.5% of all new SSI disability or blind cases in 1977 were referred to vocational rehabilitation as individuals with job potential after receiving rehabilitation, and 21% of the totally disabled in the 1972 Social Security disability survey had full-time or part-time work. We know that this many disabled SSI recipients are not being placed in jobs each year since only 3% of the disabled and 6% of the blind have earnings and only 17,000 disabled and blind SSI recipients were fully rehabilitated and placed in jobs—after referral and rehabilitation. The reasons for this low job placement rate are not clearly proven but some reasons seem self-evident and have no relationship to ineffective services. First the loss of income and Medicaid coverage which occurs when a disabled person earns more than \$230 a month is a serious disincentive to work at above \$231 a month. If Medicaid eligibility is worth \$2000 a year, a disabled person would have to make \$6000 a year to break even with the public assistance system. Earnings of \$231 a month result in a loss of Medicaid eligibility and about \$1100 of income. Second, since the average disabled person is about 53 years old, with less than a full high school education, opportunities to work in competitive employment are limited. Third, the high general unemployment rate of the past few years and the very high rate for the disadvantaged (e.g., minorities and youth) are good evidence that the economy is not presently providing jobs in sufficient numbers for any disadvantaged populations including the disabled and blind.

We believe that an active job search program for the disabled and blind and subsidized jobs for them would increase and have a major impact on the employment rate of the blind and disabled. Such a program would reduce outlays for cash assistance and pay dividends on the rehabilitation investments being made.

In particular, we have the following suggestions to improve the "Better Jobs" part of S. 2084 and H.R. 10950:

1. Job search program

Job search assistance, under Title II of these bills, amending Title IX of the Comprehensive Employment and Training Act of 1973, would be available to any adult individual who is a member of a household unit which includes a child or any adult who is a member of a household unit receiving cash assistance which does not include a child. However, Section 931 would allow the Secretary of Labor to prescribe regulations for eligibility. We recommend language to ensure that those regulations would clearly permit job search assistance for aged, blind and disabled persons who have children or who receive cash benefits. We feel this clarification is necessary in light of recent Administration statements which imply that both the job search assistance and subsidized employment and training programs would be available only to those

"required to work"; and, as you know, "the blind and disabled are not required to work".

We do not recommend that blind and disabled individuals be subject to the work requirement under Section 933 and elsewhere in the bills, since not all of them can work full- or part-time. However, participation in job search and subsidized employment and training should be available for those handicapped persons who voluntarily seek work.

2. Subsidized jobs—For all cash recipients

Eligibility for the subsidized training and employment program is limited to those adults in a household unit which includes a child. Thus, single and childless blind and disabled persons are ineligible for the program. This is a significant exclusion, for studies indicate that a much higher percentage of blind and disabled persons are single and childless than able-bodied persons. We are concerned by this attempt in the bills to restrict participation in the subsidized employment and training programs. We also believe that either Labor Department regulations or practice would limit these programs only to those individuals referred to the Secretary of Labor who are required to work. This would have the effect of excluding all blind and disabled people from the program. We are led to believe this by the constant reference to priority for those in the "second benefit tier."

Clearly, job subsidy and training programs should explicitly include all blind and disabled persons receiving income support who seek to work, regardless of family status. There should also be a stronger legislative mandate to assure greater participation of blind and disabled persons in other CETA programs, as well. (Additionally, we urge that no blind or disabled persons currently enrolled in CETA programs be displaced by the proposed Title IX.)

In this regard, Section 954(a) relating to requirements for plans submitted by prime sponsors, should recognize the need for the development of training and employment opportunities for blind and disabled individuals. We recommend the following new paragraph:

"Appropriate provisions for subsidized training opportunities including classroom instruction, skills training, on-the-job training, and appropriate work experience for blind and disabled individuals."

3. Referral to rehabilitation and jobs

We would also urge that the referral Section of S. 2084 and H.R. 10950, Section 2103, indicate that disabled and blind individuals are eligible for job search and subsidized jobs and, where appropriate, should be referred to those programs. In some cases, this referral would be after a rehabilitation referral and program are provided, but in other cases the referral could be made immediately since only a job is needed, not rehabilitation services. Under S. 2084 and H.R. 10950, the aged, blind and disabled are excluded from the referral requirements of S. 2103 which require referral to the Labor Department and to the Title II jobs programs. The blind, disabled and incapacitated are to be referred for rehabilitation where appropriate under Section 2103(b) of both bills, while the aged have no referral provisions at all. We think a much better system of dealing with the job needs of the blind and disabled and aged is necessary. We think there should be provisions for referral immediately to job programs if the person has job potential and does not need rehabilitation. For those needing rehabilitation, a referral to that agency is appropriate but after the rehabilitation services are provided, job search or a subsidized job under Title II of S. 2084 and H.R. 10950 should be provided. This would be done by allotting job slots to the rehabilitation agency or referral of the disabled to the Labor Department programs under Title II.

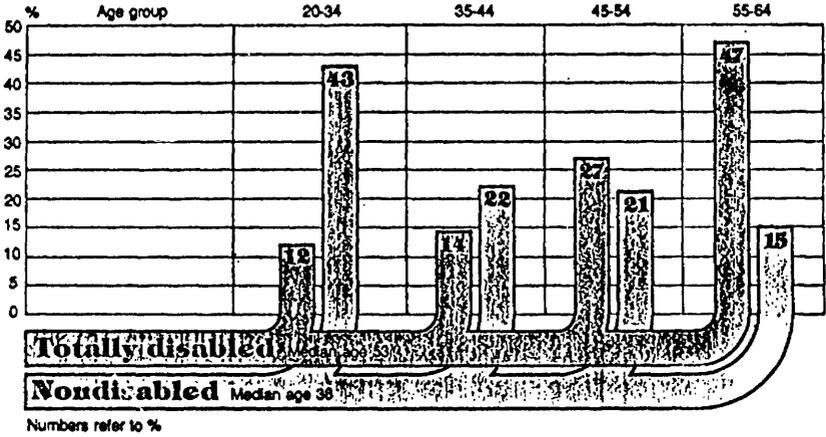
IV. MEDICAID

Finally, we urge that Medicaid eligibility be extended to all recipients of cash assistance, both recipients under the old program and the new. To discriminate on the basis of the time of entry into the same cash assistance program would be inequitable. To attempt to operate two administrative systems with two sets of eligibility criteria, the old SSI criteria and the new criteria, would be unmanageable.

Thank you for this opportunity to testify.

**The totally disabled average 53 years of age;
the nondisabled, 38 years**

CHART 1



**The higher the degree of disability,
the lower the level of education**

CHART 2

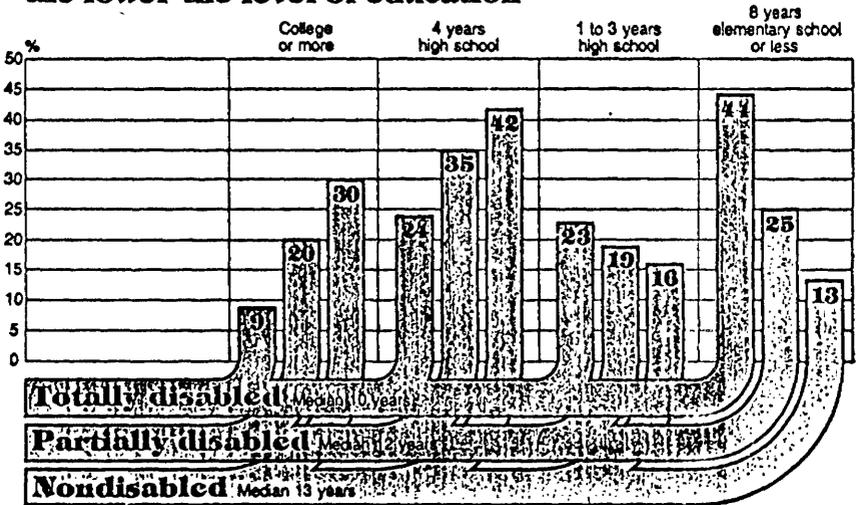
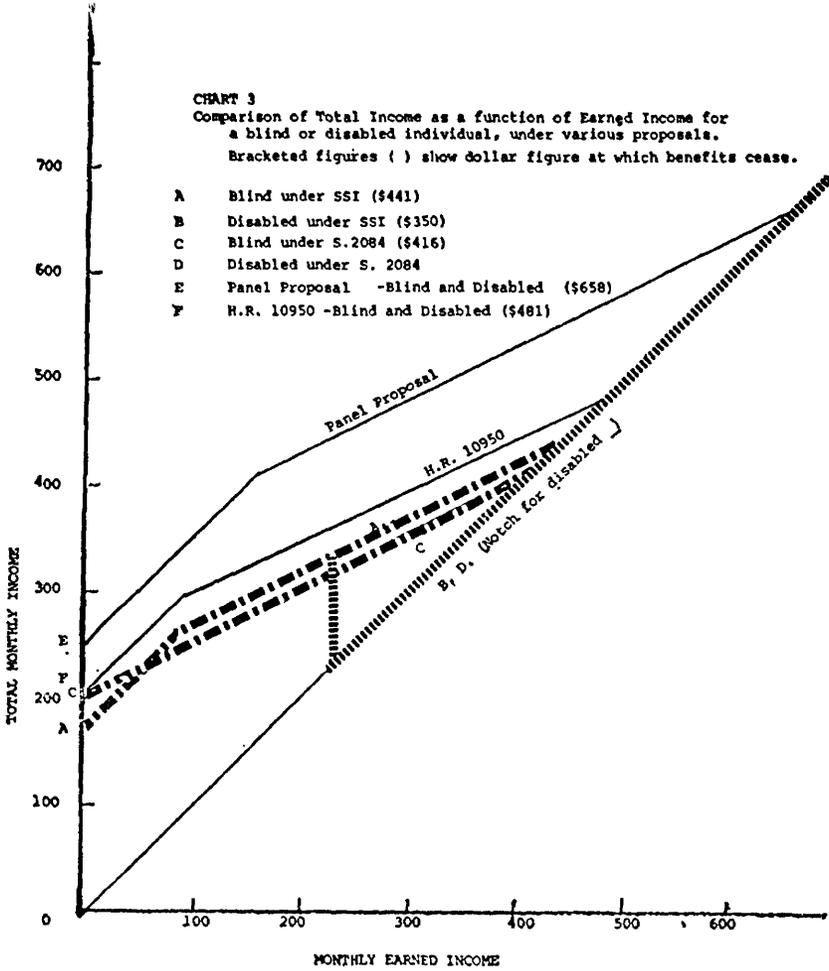


CHART 3

Comparison of Total Income as a function of Earned Income for a blind or disabled individual, under various proposals. Bracketed figures () show dollar figure at which benefits cease.

- A Blind under SSI (\$441)
- B Disabled under SSI (\$350)
- C Blind under S. 2084 (\$416)
- D Disabled under S. 2084
- E Panel Proposal -Blind and Disabled (\$658)
- F H.R. 10950 -Blind and Disabled (\$481)



DEAR SENATOR DOLE: My name is Carol Ann Doyle. I was born on September 27, 1941 with a congenital disease called Arthrogryposis. This disease caused stiffening of the joints with incomplete muscle development resulting in deformity of all the extremities. I walk with a brace and crutches and also use a wheelchair for fuller mobility. My wrists are in a fixed position with limited motion in the elbows resulting in extreme hardships in manual dexterity.

To give you a more complete picture of my limitations, I would like to cite specific ways which I am able to do things. I can often reach the same goal as you but my means of getting there may differ. It is necessary for me to arise at 6:20 A.M. each morning so that I will be ready to leave for work by 7:00 A.M. Although my speed in getting myself dressed has improved over the years, I still require this amount of time. I am not able to get into a shower or bath tub but I am able to give myself a partial bath. I place a soapy facecloth over the top part of my crutch and I am able to reach most parts of my body. My health aide comes in five days a week to assist me with bathing my legs and feet and also washing my hair. It is not possible for me to change my nylons each day myself so it is necessary for me to sleep with them on and she changes them when she arrives. I can put my brace on and dress myself using a long stick with a hook on the end. I again utilize my crutch by placing my clothing over the top of it and then over my head. I use the stick to pull my clothing off. It is necessary for me to buy certain types of clothing and tops that have a wide neckline and pants with elasticized waist bands and no zippers or buttons can be used. Because of the lack of motion in my elbows I have to use a comb that is attached to a long stick; by maneuvering my head around I can reach all sides. Just before going out of the door in the morning I put my coat on one arm and carry out my school bag. My driver helps me get my other arm in. I have been able to walk since I was seven years old. Before that I used to crawl around. Because of the constant use of crutches for the past twenty-nine years, I am experiencing constant aggravation under my arms in the form of sores. They often open and it is necessary for me to have them bandaged. Again, my health aide is of utmost importance as I am not able to do this myself. I also have a problem with chronic swelling in my legs and feet. This is a mechanical problem brought on by the lack of muscle development which normally would act as a pump to assist in propelling the blood upward. Because the blood pools in my legs; fluids seep out and fill the surrounding tissue. Fluid pills and low sodium diet do not effectively alter this as it is more of a mechanical than a chemical condition.

I am able to clean my apartment on a limited basis. My health aide changes the bed and does my laundry, she also dusts and sweeps the floor. I also have assistance from my sister who does the heavier housework such as washing the floors and walls, etc. I am able to make my bed each day and wash the dishes. I cook my own supper. My health aide puts out the necessary pans and utensils I will need. I am not able to raise my hand to my mouth so I lower my head to my hand when eating. I was doing my own grocery shopping with my sister; but, because of the problems with sores under my arms, my health aide has taken over the task.

When teaching, I use a wheelchair to get around the building with the assistance of students. I am able to plan and implement educational programs for the Learning Disabilities students I work with as a teacher aide. It is necessary for me to cross my right arm over my left cupping one hand in the other to write.

The above instances are a few examples of my daily routine. I often take for granted the way in which I do things.

I have had extensive hospitalizations in my earlier years for the purposes of corrective surgery and rehabilitation. To my knowledge, the expense of these stays were paid for by The Crippled Childrens' Association and during my four years of high school, at the Massachusetts Hospital in Canton, I believe part of the expense was paid for by the veterans and my parents.

When I finished high school I started working at the Anna Jaques Hospital in Newburyport, MA as a switchboard operator. I lived at home and paid my own medical bills such as dentist, eye doctor, etc. I was covered under a Blue Cross plan and Massachusetts Rehabilitation Commission paid for corrective shoes, braces and other necessary appliances relating to my disability.

In 1968, my mother passed away and I was no longer able to live at home and I needed a certain amount of attendant care such as dressing and personal needs.

A social worker at the local welfare office assisted me in applying for Disability Assistance and also in finding a private home where I could live in as normal a family situation as possible. A very costly alternative to this placement was a nursing home. I was granted Disability Assistance because I did not earn enough money a week to pay for my living arrangement and personal care needs. I did, however, pay for what I could out of my limited income.

I continued to work at the hospital and almost completed eleven years there. I strongly felt that I was meant to do something different with my life than being a switchboard operator and I also had hopes of becoming financially independent. So, I pursued a career in education.

To this end, I was accepted at Boston College and attended classes on campus for four years. I earned my Bachelor of Arts degree in Elementary Education, with certification in Special Education. Massachusetts Rehabilitation Commission paid for my education and because I no longer worked while attending college, I was put on full disability assistance to pay for my living expenses and health needs.

Encouraged and motivated by the idea of a new career, my life took a new meaning. I was determined to become more self-sufficient and by using different gadgets and techniques, I learned to dress myself and take care of my personal needs. I decided to try and live on my own and four years ago, at age 31, I was accepted into an apartment for handicapped persons at a local elderly housing project. Because I was now living on my own, my disability assistance was decreased considerably. Consequently, disability assistance paid the people I formerly lived with over \$400.00 a month but was now reduced to approximately \$265.00 a month for me to take care of myself.

Upon graduating from college, I was hired as a teacher aide in a public school program for handicapped children. I earned \$3.50 per hour for 30 hours a week. As a teacher's aide, I was paid only for the hours I worked. When holidays, sick days or vacations came I was not paid. Because of this irregular pay pattern, I asked if Supplement Security Income supplement my income until I got a full teaching position.

S.S.I. agreed to pay me \$131.00 per month for the period from September 1975 to September 1977. During this time, I was also covered under Medicaid for my medical needs.

Presently, I am still a teacher aide, in a different school system, earning \$3.50 an hour for 30 hours per week with no fringe benefits for 10 months a year.

On August 18th, 1977, I received a letter from S.S.I. informing me that I was no longer eligible for supplemental income as of October 1, 1977, because I was earning more than \$200.00 a month and that my status for receiving Medicaid assistance is questionable because if I earn more than \$200.00 a month, I am no longer considered disabled. This change was due to the fact that S.S.I. assistance was merely a transition period until it was shown that I was able to continue working.

Last winter, from January through May, I was hospitalized for three months with a deep rooted infection and bedridden at home for the remainder of the time. Because my job offers no benefits, I was totally dependent on S.S.I. income and Medicaid benefits.

Just prior to this hospital stay, I depended on friends and relatives to come when they could. At present, Medicaid pays for this aide

at the cost of \$7.25 per hour, \$56.25 per week. If I am not able to maintain Medicaid support I will have to forfeit the health aide as my annual income of \$3,780.00 as a teacher aide could not support the yearly cost of \$2,925.00 for a health aide.

Not only am I alarmed by this unexpected change in supportive assistance, but I am fearful of what lies ahead for me, both physically and mentally. Considering the amount of income I presently earn, and the established and unexpected expenses ahead of me, I may be forced to stay at home, because of the financial feasibility rather than to continue working.

Please consider the following figures:
Monthly Income, Sept. 1977-June 1978 (excluding non paid holidays and vacation periods):

September, 18 days at \$21.00 a day, \$378.
October, 20 days at \$21.00 a day, \$420.
November, 19 days, \$399.
December, 16 days, \$336.
January, 20 days, \$420.
February, 16 days, \$336.
March, 22 days, \$462.
April, 16 days, \$336.
May, 22 days, \$462.
June, 13 days, \$273.
\$3,780.00 (10 month year).

\$315.00 average monthly income.

My gross annual income of \$3,780.00 over a 10 month period would be reduced by \$21.00 per day for every day I was absent due to illness.

My annual deductions from this gross annual amount is as follows:

Federal Taxes, \$23.40 bi-weekly, \$321.20 yearly.

State Taxes, 10.37 bi-weekly, 108.60 yearly.
Retirement based on 7 percent of gross, 14.70 bi-weekly, 261.60 yearly.

Life Insurance, .28 bi-weekly, 7.20 yearly.
Total, \$48.76 bi-weekly, \$799.00 yearly

deductions.

Gross Income, \$3,780.00.

Deductions, 799.68.

Net Yearly Income, \$3,000.34.

According to the monthly standards of eligibility for S.S.I. recipients in Massachusetts as of September 1977, a disabled individual paying the full cost of living expenses will receive \$285.12 clear, per month, without any deductions.

On a yearly basis, if I were on S.S.I., I would receive \$3,421.44 which comes to \$421.44 more than my net annual income working as a teacher's aide for ten-months.

In evaluating these figures, the financial incentive for me to continue working is definitely not there. The road to rehabilitation has been a long and tedious one for me and I am proud to say that I indeed have made it. Psychologically, I am healthier and happier when I can be involved in a work experience, as I am now, by teaching the handicapped.

Daily, I am meeting my own needs and I am enriching my own life as well as sharing my experiences and offering encouragement and perspective to the handicapped children I work with.

However, finances and medical insurance coverage for someone as myself with a chronic disease are of major consideration and importance.

As it is now, my annual income is far below the national poverty level.

Since graduating from college, I have been in constant search for a full time teaching position. I am hopeful that someday this will become a reality. However, even if I were to become a full time teacher, and in light of any additional medical and health care assistance being denied me, that, too, would become financially unfeasible.

Consider my income and expenditures if I were on a full time teacher's salary without Medicaid assistance.

Gross Annual Income, \$9,862.00.

Net Annual Income, \$6,966.90.

Withholding Deductions:

Fed. Tax bi-weekly.....	\$56.00
State Tax bi-weekly.....	18.72
Retirement.....	26.55
Insurance.....	23
Teacher Dues.....	5.61
Blue Cross.....	3.69

Total.....\$111.35

\$111.35 x 26 pay period = \$2,895.10 total deduction yearly.

Gross salary.....\$9,862.00

Deductions yearly.....2,895.10

Net Income yearly.....\$6,966.90

Annual living expenses:

Health Aide.....	\$2,925.00
Rent.....	2,275.80
Transportation.....	225.00
Orthopedic Shoes Brace adjustments.....	180.00
Food.....	1,300.00
Clothing (Specially fitted).....	550.00
Doctors Visits.....	100.00
Dentist Visits.....	100.00
Prescriptions.....	50.00
Telephone.....	180.00
Miscellaneous.....	200.00

Total.....8,085.80

Annual Income.....\$6,966.90

Living Expenses.....8,085.80

Deficit.....1,118.90

Because I am still disabled, my medical ex-

penses are somewhat out of the ordinary. It is necessary for me to have a health aide; it is necessary to be outfitted with orthopedic shoes; it is necessary that I have the proper health care and medical treatment; and it is necessary that I have sufficient income to support my varied needs. Will it become necessary for me to turn down the opportunity for professional employment?

I find it difficult to believe that financially I may be forced to pass up a teaching position.

The question arises in my mind as to what other severely handicapped individuals are doing who are attempting to live independently as possible, but are prevented from doing so because of financial burdens that are incurred because of health aid and medical support services required because of their physical handicaps.

Could the handicapped, in situations such as mine, be covered under group insurance, such as Blue Cross-Blue Shield, for routine medical needs? Could the out of the ordinary expenses relating to the chronic conditions of some handicapped persons, not covered by general health insurance, be met by a State or Federal Health Plan?

Such coverage could and would give handicapped individuals the incentive to pursue careers, which they possibly have been trained for through rehabilitation programs, without being financially penalized because of their handicaps.

My fears are real. I fear being forced to give up my job; I fear the loss of motivation which has enabled me to attempt life at its fullest in spite of my handicap. I want to continue maintaining my apartment; I want to teach and to continue to share the hope of rehabilitation with the handicapped children I work with; I want to be productive and to have a feeling of self worth; and lastly, I want to continue to work towards becoming all that I can be.

I greatly appreciate that you have taken the time to listen to and evaluate my situation. My only hope is that I will not be forced into stagnation after the long trying years.

In November 1976, the Massachusetts Division of Employment Security awarded me a citation recognizing my success in employment and making note of my achievements as a handicapped person.

My handicap is not what is going to prevent me from continuing to be employed, but rather it is the system that is making the public acknowledgment of my success become a mockery by not allowing me to continue to be employed.

I need your help! I want to remain employed and to become as independent as I can become. Will you please help me?

Sincerely,

CAROL ANN DOYLE.

Senator MORNIHAN. The hearing is adjourned.

[Thereupon, at 12:40 p.m. the hearing in the above-entitled matter was recessed, to reconvene at the call of the Chair.]

WELFARE REFORM PROPOSALS

MONDAY, MAY 1, 1978

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

The subcommittee met, pursuant to recess, at 10:40 a.m. in room 2221, Dirksen Senate Office Building, Hon. Carl Curtis presiding.

Present: Senators Curtis and Danforth.

Senator CURTIS. The subcommittee will come to order.

Our first witness is Mr. Seidman.

Mr. Seidman, will you identify those who are with you?

Mr. SEIDMAN. My name is Bert Seidman. I am director of the Department of Social Security of the AFL-CIO and with me, to my left, is Mary Logan, who is a member of our social security department and to my right is Robert McGlotten, who is a member of our legislative department.

Mr. Chairman, I have a summary of my statement, but I ask that my full statement as well as the attachment to it, be included in the record of the hearing.

Senator CURTIS. Without objection, it is so ordered.

STATEMENT OF BERT SEIDMAN, DIRECTOR, DEPARTMENT OF SOCIAL SECURITY, AFL-CIO, ACCOMPANIED BY MARY LOGAN, SOCIAL SECURITY DEPARTMENT; AND ROBERT MCGLOTTEN, LEGISLATIVE DEPARTMENT

Mr. SEIDMAN. On February 4, 1978, the AFL-CIO Executive Council adopted a statement which we have adopted to our testimony calling on the Congress to reform and strengthen the programs designed to help the Nation's poor by enacting legislation which would meet the needs of: One, those employed in jobs which do not pay enough to keep them out of the poverty; two, those who could work outside the home but are unable to find employment; three, those who are unable to take jobs out of the home.

This summary, and my longer statement, should be regarded as supplemental to the executive council's statement, which we have asked be made a part of the record of this hearing.

The council welcomed a number of badly needed improvements made in the administration's proposal by the special House subcommittee but nevertheless found the subcommittee bill far short of what is needed to provide decent jobs and income security for the Nation's poor.

From over a year of hearings and discussions, a consensus seems to have emerged that any welfare reform proposal must provide for a minimum Federal cash benefit for the poor with uniform eligibility standards and universal coverage; jobs for those able to work; assistance to the working poor; and fiscal relief for State and local governments.

The administration bill, S. 2014; the committee bill, H.R. 10950; the Ullman bill, H.R. 10711; and the Baker-Bellmon bill, S. 2777—all purport to meet many or all of these goals.

An additional goal that these and all other welfare reform proposals should be measured against, Mr. Chairman, is the one raised by Senator Moynihan when he asked in his article in the Institute for Socio-economic Studies' Journal, "The question that we must ask about any welfare reform plan is what are apt to be its consequences on family stability."

A HEW-funded project completed by John Bishop, of the Institute for Poverty Research of the University of Wisconsin concluded that merely extending cash assistance to two-parent families increased the marital dissolution rate by as much as 70 percent. This study showed that, instead, family stability was encouraged by a program focusing on jobs and concluded, "A jobs strategy must simultaneously provide more jobs for the unskilled to drive up the wage rates for these jobs."

Mr. Chairman, we agree with the findings of this study and in fact feel that jobs of the kind it speaks of are equally necessary for many single-parent families when decent child care arrangements are available as well as single individuals and childless couples. We are pleased that all of the major welfare reform measures before the Congress stress the importance of jobs. However, none of the jobs programs in their present form will result in jobs providing either real economic security or family stability for the poor.

S. 2084 requires that all eligible for the jobs program, regardless of their education or ability or the nature of the jobs to which they are assigned, be put in a position which completely ignores the principle of equal pay for equal work. According to Labor Department estimates, 2.5 million people a year are to be moved into approximately 1 million jobs, most of which pay only the minimum wage, regardless of what other workers in the community doing similar jobs are being paid.

The administration has openly expressed its intention to purposefully make jobs so unattractive that large numbers of people will not seek them and those who are required to take them will not want to stay in them. We think this is a completely wrong-headed approach to any decent, rational, or workable jobs program.

Although the special House subcommittee improved the situation somewhat by accepting the principle of equal pay for equal work in H.R. 10950, this principle will apply only to a very small proportion of the workers assigned to the program. The jobs proposal in both H.R. 10711 and S. 2777 fall far short of AFL-CIO recommendations and are even less acceptable than the administration proposal, as they involve low wages and heavy reliance on tax credits and vouchers for private employers.

The AFL-CIO opposes the use of a voucher system as it is inevitably open to serious abuse, extremely difficult to enforce, and contrary to a provision in the CETA program which prohibits testing of subsidized or subminimum wages.

We feel that tax credits, for the most part, simply reward employers for doing what they would do anyway and there is no evidence that their use has indeed produced additional jobs.

Mr. Chairman, the AFL-CIO believes that the Congress should provide for the creation of whatever number of public service jobs is necessary to fill the gap in the private sector until implementation of national economic policies results in an adequate number of private sector jobs. The jobs in both the private and the public sector to which people are assigned should pay the prevailing wage.

A Federal responsibility should be required along with assistance to State and local governments in the identifying of existing, or development of new, job placement and training programs leading to decent jobs at fair wages.

The benefit level of the Federal cash payments of less than two-thirds of the poverty level with no provision even for cost of living increases provided under S. 2084 is totally inadequate.

Although States are encouraged to supplement these payments and administration officials insist they will, they are not required to do so and a number of State welfare officials have admitted to doing so. Indeed, a recent Congressional Budget Office report reveals that over 1.8 million families below the poverty level would lose benefits under the administration's proposal.

The special House subcommittee improved the bill somewhat by providing for cost of living increases and eliminating the extraordinarily harmful 6-month accounting and prior month's budgeting systems. However, it did not increase the benefit level and did not provide a satisfactory guarantee against severe cutbacks for millions of people if States failed to supplement.

Although H.R. 10711 provides a more acceptable level of benefits for AFDC families of four, it would be seriously deficient for larger AFDC families and leave out altogether single individuals and childless couples. S. 2777 would also exclude these people from coverage, provide a less acceptable benefit to the AFDC recipients, and not require States to supplement.

The AFL-CIO urges that those unable to work at jobs outside the home be assured a Federal minimum payment brought in stages to no less than the poverty level. We oppose abolishing the food stamp program as it is essential to supplement benefit payments which fall below the poverty level. Moreover, it is the only means of relief for those individuals and their families who are in short-term periods of deprivation due to unemployment or other loss of income.

None of the bills under consideration do anything to improve on inadequate SSI programs and, in fact, would seriously undermine existing protections provided to the low-income aged, blind and disabled persons.

The AFL-CIO has repeatedly stressed the importance of effective and immediate measures to relieve the plight of the hard-pressed cities and States that now bear an unfair share of the fiscal burden

of welfare. Administration officials claim that S. 2084 would provide \$2.1 billion in fiscal relief to State and local governments, but not until 1981.

Even then it is feared that if States are to realize this savings, it will have to be at the expense of current recipients.

Although H.R. 10950 improves somewhat on the amount of fiscal relief provided in S. 2084, it would still place far too heavy a burden on States with higher payment levels which try to maintain or improve on them.

The AFL-CIO believes that both goals, providing fiscal relief and protecting recipients, can be achieved by mandating state supplements that gradually fade away as the Federal payment increases toward the level of the higher paying States.

The AFL-CIO supports the thrust of those proposals which would broaden the scope of welfare reform to include most of the disadvantaged, the working poor as well as the young, old, disabled, and unemployed, in contrast to those which would classify certain categories of needy Americans as being unworthy of assistance or incapable of working.

Senator DANFORTH [presiding]. I am afraid your time has expired. How much longer do you have to go in your prepared statement?

Mr. SEIDMAN. About a minute or two.

Senator DANFORTH. Fine.

Mr. SEIDMAN. However, all of the proposals in their present form are unacceptable as none will adequately meet the needs of the Nation's poor. The AFL-CIO, therefore, urges this subcommittee and the Congress to reject the proposals in their present form and instead, enact legislation which will: one, establish a cash assistance program to provide income support at no less than the poverty level, if necessary, to be achieved in stages as soon as possible, in a direct, equitable and efficient manner to poor families and individuals who are unable, or cannot be expected, to work outside the home.

The benefit levels should be indexed to reflect increases in living costs.

Two, take whatever actions are necessary to increase jobs in the private as well as in the public sector, including unifying and restructuring the employment and training systems in order to make them vastly more responsive and accountable for providing assistance to persons who, with proper placement or training, could be self-sufficient.

Three, expand the earned income tax credit so that those workers who have large families or who have suffered extraordinary circumstances will not have to rely on welfare payments to keep their families out of poverty.

These, and other recommendations, are laid out in greater detail in both my full statement and the executive council's statement.

Mr. Chairman and members of the subcommittee, the AFL-CIO stands ready to cooperate with the Congress and the administration in developing effective welfare reform measures to provide genuine help to the poor and real fiscal relief for States and cities.

The aim must be decent jobs and real income security for all America's poor. Mr. Chairman, that concludes the summary of our statement. We would be very happy to reply to any questions you might have.

Senator DANFORTH. Thank you very much.

Senator CURTIS?

Senator CURTIS. I just have one question. Mr. Seidman, even the most conservative estimate of the Congressional Budget Office is now that the President's plan, as modified by the Corman committee, will cost an additional \$23 billion more to the taxpayers the very first year. You are representative of a union that represents a great many working men and women.

How can you justify support for a measure that taxes those who work for those who do not work in such a massive additional way?

Mr. SEIDMAN. Mr. Chairman, we are not satisfied with the situation where those who work are taxed for those who do not work, unless those are people who ought not to be expected to work because they are disabled or old or have young children in their care.

We urge, instead, that there should be a large-scale jobs program for those who can work. To the maximum extent possible, this should be done through improving the employment service so as to provide decent jobs for these people in private employment. This involves many other measures which are not taken up in this particular statement, but which the AFL-CIO has advocated before other committees of the Congress.

To the extent that those jobs are not available in private employment, then we think that there should be public jobs where these people can be doing useful work for decent wages. Under those circumstances, workers would not be asked to be paying for people who could be working, but are not.

But until such time as we do have work for those who want to work, then they and their families have to be maintained in some way and that is what this program is all about.

Senator CURTIS. Is your contention that the situation with regard to the unemployed at this time is the result of lack of jobs available?

Mr. SEIDMAN. It certainly is my contention that people are unemployed because of lack of jobs available. All you have to do is to see what happens when an automobile company or a public agency announces jobs available and you will find people lined up at 5:00 o'clock in the morning, and all through the night, as a matter of fact, for a very few jobs that may be available.

So I certainly do contend that, Senator.

Senator CURTIS. But your prime remedy would be Government-provided jobs?

Mr. SEIDMAN. No, that is not our prime remedy. As I have said before, the AFL-CIO has testified before committees of the Congress with a full-scale economic program. I would be glad to put into the record the economic program of the AFL-CIO as adopted by our executive council. And that is a program which aims mainly at bringing about full employment in the sense of the maximum number of jobs in the private economy.

But where those jobs do not exist, then we do think that they have to be supplemented by public service employment.

Senator CURTIS. Without taking time to describe in detail, will you list those programs that you favor that will increase employment in the private sector?

Mr. SEIDMAN. In the first place, we are in favor of enactment of the Humphrey-Hawkins bill which is aimed at that objective. Second, we have programs in the tax field, in the monetary field, in the employment field generally, employment and training, with respect to the whole field of foreign trade, which has a very serious impact on jobs in this country.

Those are the kinds of programs on which the AFL-CIO has testified before the appropriate committee of the Congress.

Senator CURTIS. Now, this committee does have jurisdiction over your recommendations for taxes and also trade. In the field of trade, do you favor a restriction of imports where they are excessive and are closing plants in this country?

Mr. SEIDMAN. That is correct.

Senator CURTIS. What, specifically, do you recommend in the way of tax legislation that goes directly to your point of increasing jobs in the private sector?

Mr. SEIDMAN. Let me say that I was not prepared to testify this morning on our tax recommendations, but I would be glad to put into the record our statements on taxes. But our tax program, generally, is aimed at restoring the economy to full employment as well as to achieve what we call tax justice, which means closing up loopholes which favor the wealthy and thereby detract from the purchasing power of those at lower incomes.

Senator CURTIS. Now, does the Humphrey-Hawkins bill have anything to do with private employment?

Mr. SEIDMAN. Yes, it does. It has a number of provisions in it which are aimed at expanding private employment. Again, I was not prepared to testify on the Humphrey-Hawkins bill this morning—

Senator CURTIS. Well, I am not asking you to go into detail, but these things that are contended to provide jobs have a very definite relation to our welfare problem.

Mr. SEIDMAN. Yes, and the Humphrey-Hawkins bill is aimed at full employment.

Senator CURTIS. But it calls for a sizable part of the action by Government, does it not?

Mr. SEIDMAN. It calls for the Government to adopt the kinds of measures which will provide the proper environment for the achievement of full employment.

Senator CURTIS. Do you favor or oppose, a youth differential on the minimum wage?

Mr. SEIDMAN. We are strongly opposed to a youth differential to the minimum wage. We think that this is no favor to the young people; they have so testified before the Labor Committee when they were considering the minimum wage legislation and, on the other hand, we think that it would result in displacement of older workers.

Senator CURTIS. That is all, Mr. Chairman.

Senator DANFORTH. Have you costed the welfare program that you proposed?

Mr. SEIDMAN. We have asked the Congressional Budget Office to cost the type of program that we have suggested and they have come up simply with a conclusion in a report which they issued some time ago that the approach which we have suggested would not cost any more than the administration's proposal, depending on the speed with which the improved benefit levels, and so on, were staged, and so on.

In other words, I cannot give you an exact figure because we have not made this proposal in the kind of specific terms that you apparently have in mind.

Senator DANFORTH. Of course, when you recommend that the benefit level should be at the same level as the poverty level—

Mr. SEIDMAN. To be raised in stages as quickly as possible to the poverty level.

Senator DANFORTH. That would obviously have a budgetary effect.

Mr. SEIDMAN. It would have a budgetary effect, but it would be a budgetary effect over a period of time, depending on how those stages would be developed.

Senator DANFORTH. Do you have any recommendations as to what the time sequence is?

Mr. SEIDMAN. In general, we think that this ought to be done over a period of 5 or 6 years in intervals, let us say, of 2 years, something of that kind.

Senator DANFORTH. I wonder if you could provide us with a sort of a chart of your recommendations and cost figures over a period of 5 or 6 years. Could you do that?

It sounds so wonderful—

Mr. SEIDMAN. We can give you some in a very tentative way, not necessarily representing our final thinking, some specifications for a bill which we have been thinking of for some time. But we have not had, ourselves, the resources to cost out that bill and, to the best of my knowledge, others have not wished to do so.

Senator DANFORTH. All cost projections are estimates. The so-called Baker-Bellmon program has been costed and so has the administration's and so has Corman's, and so on.

Mr. SEIDMAN. And if the Congressional Budget Office, or somebody else, would be prepared to provide us with cost estimates for the specifications that we would make available we would be very happy to have this done, but they have not done so up until now.

Senator DANFORTH. I think we could get them if you would just give us your timetable and, you know, sort of line it up on the same basis that the other programs are lined up so that we could be talking about apples—

Mr. SEIDMAN. We would be glad to make available to you a very rough draft bill which we have had in mind and which in essence would accomplish the objectives that we have stated in our testimony.

[The following was subsequently supplied for the record:]

SPECIFICATIONS FOR EMPLOYMENT AND INCOME SECURITY ACT OF 1978

The following are the legislative specifications for the proposed "Employment and Security Act of 1978" which embodies the "triple track" approach to the solution of the "welfare problem."

It is based on the belief that the causes of poverty and the needs of low-income people are so varied that no one sweeping approach will be effective in meeting them. The proposed bill is a major step in the restructuring of a number of institutions and programs whose failure have contributed to the "welfare mess."

TITLE I—EMPLOYMENT OPPORTUNITIES AND INCOME SUPPORT IN ABSENCE OF WORK

1. Coverage

Individuals who are able to work or can reasonably be expected to work.

2. Manpower provisions

(a) Specific authority to the Secretary to promulgate standards, to assure the coordination between State Employment Service and CETA offices and to take such other actions, including necessary revisions in the Wagner-Peyser Act, as will assure an effective and integrated manpower system.

(b) Authority would be provided for expenditure of funds to create meaningful and productive jobs in the public sector (through public agencies and private nonprofit agencies) paying the higher of the minimum or prevailing wage for applicants for whom no jobs or immediate prospects for jobs in the private sector are available. Protection would be afforded to assure that funds would not be substituted for State or local funds which would otherwise be available for jobs.

3. Eligibility for supplemental unemployment assistance benefit (SUAB)

(a) Individual, aged 18 or over for whom no work is available, is member of household in which no other member aged 18 or over is employed on a full-time basis (more than 30 hours per week), or is receiving regular unemployment compensation or a Special Unemployment Assistance Benefit (SUAB) under this program.

(b) Family income is less than 125 percent of officially determined poverty level and family assets are not more than those required to be eligible for Food Stamp Program.

(c) Applicant must be able to work, available for work, seek work, register for work with coordinated and expanded employment services and CETA agencies, and meet all other requirements (other than prior wage or employment) of State Unemployment Compensation Law.

4. Work tests

In addition to being subject to the eligibility and disqualification provisions of the State Unemployment Compensation Law, applicants would be subject to more stringent work tests. They would not be able to refuse jobs based on distant work history or skills but would be required to accept any job (including public service) available in the local labor market which pays the higher of the minimum or the prevailing wage for the job—so long as the job meets health and safety standards. They would also be required to accept training or other supportive services (including day care) which would better enable the individual to obtain work.

5. Benefits

(a) The Special Unemployment Assistance Benefit (SUAB) for a week of total unemployment would be equal to the following percentages of the state average weekly wage in employment covered under the State Unemployment Compensation Law.

- Single worker—20 percent
- Worker and dependent—30 percent
- Worker and 2 dependents—40 percent
- Worker and 3 or more dependents—50 percent

(b) If an applicant has worked during a week he will be eligible for a benefit equal to the benefit for a week of total unemployment, less his earnings in excess of the "disregard amount." The "disregard amount" shall be equal to 10 percent of earnings in the week times the number of persons in the applicant's family.

(c) When the "disregard amount" exceeds the weekly benefit amount for a week of total unemployment, or where the Earned Income Tax Credit (EITC), exceeds the SUAB payable for the week in which he had earnings, the individual shall not receive SUAB, but shall be eligible for the Earned Income Tax Credit.

6. Administration

(a) SUAB Benefits shall be administered by state unemployment compensation agencies—with job referral and labor market services provided by state employment services and CETA prime sponsors.

(b) Determination of whether individual is expected to work and comes under Title I or should apply under Title III (the Cash Assistance Program) for individuals not expected to work will be made by state manpower agency.

(c) State shall enter into agreement with Secretary of Labor to administer the program in accordance with terms and conditions of agreement and regulations promulgated by Secretary as condition of approval of State Unemployment Compensation Law.

7. Financing

States shall be reimbursed by the Federal government for 100 percent of the costs of Special Unemployment Assistance Benefits paid plus costs of administration.

8. Accounting period

(a) As under unemployment compensation laws, earnings will be reported weekly for the purpose of determining weekly benefit amount.

(b) For the purpose of determining family income qualification, prospective monthly accounting.

9. Family unit

Father, mother, and natural or adopted children (nuclear family).

10. Food stamp eligibility

Families in which an applicant receives Special Unemployment Assistance Benefits shall be eligible for Food Stamps—with SUAB considered as income.

TITLE II—EARNED INCOME TAX CREDIT**1. Coverage**

All families in which at least one person is working full-time (more than 30 hours per week), including public service employment, or in which the SUAB is less than the benefit under EITC.

2. Benefits

(a) EITC Benefit would be equal to 12 percent of earnings (up to \$4000) times each member of family unit. Benefit would be decreased on same basis for each dollar of earnings above \$4000—no benefits payable if earnings exceed \$8000.

(b) Families would continue to be eligible for Food Stamps with EITC counted as income.

3. Financing

100 percent Federal financing.

4. Administration

Administered by IRS which administers current EITC; except where individual has been drawing SUAB payments made by state agency.

5. Accounting period

(a) Earnings eligibility determined quarterly on a prospective basis.

(b) Payments made monthly.

6. Family unit—Nuclear Family.**TITLE III—CASH ASSISTANCE FOR PERSONS NOT EXPECTED TO WORK****1. Coverage**

All families in which there is no adult member (over the age of 18) who is expected to work and not covered by the Supplemental Security Income Program (SSI).

2. Not expected to work

Included would be:

(a) Single parent families with one or more dependent children under the age of 14;

- (b) Adults charged with the care of incapacitated or disabled relatives.
- (c) Others who are determined to be permanently or temporarily unable to work because of physical or mental incapacity.

3. Eligibility

Covered families whose:

- (a) Income does not exceed basic benefit plus \$900 (\$75 a month).
- (b) Assets meet a test similar to the Food Stamp Program.

4. Benefit

(a) Varies by family size with ultimate goal of 100 percent of poverty level to be reached over four-year period.

- Effective Date—75 percent
- Two years later—87½ percent
- Four years later—100 percent

(b) Regional variations in basic benefit would be based on a specified percentage of state median income which is the percentage of the national median income equivalent to the basic benefit.

(c) Until the benefit equals 100 percent of the poverty level (i) individuals would be eligible for Food Stamps, and (ii) states would be required to supplement basic benefits up to state benefit level on 12/31/77 for a non-working family—with adjustments for cost of living.

(d) Prior to the end of the third year after the effective date a study shall be completed as to whether to discontinue eligibility of welfare recipients for food stamps.

5. Financing and State fiscal relief

(a) 100 percent Federal financing when basic benefit equals poverty level (four years after effective date).

(b) For first two years Federal percentage of costs shall be increased by 50 percent of current state share e.g., where states now contribute 50 percent—Federal government will contribute 75 percent and state share decreased to 25 percent;

(c) For years two to four, state share will be decreased by additional 50 percent e.g., where state percentage was initially decreased from 50 to 25 percent, it will be decreased to 12½ percent.

(d) In no event shall state costs exceed the following percentages of the actual state welfare costs for fiscal year 1977. 75 percent for first two years and 50 percent for next two years.

6. Administration

Subject to Federal criteria, program shall be administered by states for the first 4 years; study to be completed by end of 3 years from effective date as to whether administration should be transferred to the Federal government—or whether to continue State administration on same or modified basis.

7. Accounting period

Prospective monthly accounting.

8. Family unit

Nuclear Family.

9. Access to social services

Social Services would continue to be administered by the states under the provisions of Title XX of the Social Security Act.

MEDICAID

Subject to the enactment of National Health Insurance, for the first two years after enactment of the Employment and Income Security Act, eligibility for medicaid shall continue under provisions of State law in effect on December 31, 1977. If National Health Insurance is not enacted by the end of the eighteenth month after such effective date, the Secretary of HEW shall within three months make recommendations as to amendments to Title XIX of the Social Security Act to provide medicaid benefits consistent with the purposes of this Act.

BENEFIT LEVELS—PERSONS WHO ARE WORKING OR EXPECTED TO WORK

Family size	Earnings	0	\$1,000	\$2,000	\$3,000	\$4,000	\$5,000	\$6,000	\$7,000
1 person.....	Stipend.....	\$1,872	\$1,872	\$1,872	\$1,872				
	Earnings above disregard.....		-900	-1,800	-2,700				
	Benefit.....	1,872	972	1,200	1,300	1,400	1,300	1,200	1,100
	Food stamps.....	254	308	300	30				
	Total income.....	2,126	2,280	2,500	3,330	4,400	5,300	6,200	7,100
2 persons.....	Stipend.....	2,520	2,520	2,520	2,520				
	Earnings above disregard.....		-800	-1,600	-2,400				
	Benefit.....	2,520	1,720	920	1,120	1,800	1,600	1,400	1,200
	Food stamps.....	588	582	588	588	144			
	Total income.....	3,108	3,302	3,508	4,788	4,944	5,600	6,400	7,200
3 persons.....	Stipend.....	3,172	3,172	3,172	3,172				
	Earnings above disregard.....		-700	-1,400	-2,100				
	Benefit.....	3,172	2,472	1,772	1,072	1,200	1,900	1,600	1,300
	Food stamps.....	863	842	812	772	504	354	204	54
	Total income.....	4,035	4,314	4,584	4,844	5,704	6,254	6,804	7,354
4 persons.....	Stipend.....	3,838	3,838	3,838	3,838				
	Earnings above disregard.....		-600	-1,200	-1,800				
	Benefit.....	3,838	3,238	2,638	2,038	1,600	1,200	1,800	1,400
	Food stamps.....	1,105	1,045	985	925	816	696	576	456
	Total income.....	4,943	5,283	5,623	5,963	6,416	6,896	7,376	7,856

¹ Benefit under EITC.

NOTES

Annual supplemental unemployment assistance (SUAB) stipend: 20 pct of State average weekly wage for 1 person; 27 pct for 2 persons; 34 pct for 3 persons; 41 pct for 4 or more persons.
Earnings disregard: 10 pct of earnings per person.
Earned income tax credit (EITC); 10 pct per person on earnings up to \$4,000 with dollar-for-dollar reduction above \$4,000.
Individual with earnings entitled to greater of SUAB or EITC.

BENEFIT LEVELS—PERSONS WHO ARE WORKING OR EXPECTED TO WORK

[In dollars]

Family size	Earnings	0	1,000	2,000	3,000	4,000	5,000	6,000	7,000
1 person.....	Stipend.....	1,872	1,872	1,872	1,872				
	Earnings above disregard.....		-900	-1,800	-2,700				
	Benefit.....	1,872	972	1,240	1,360	1,480	1,360	1,240	1,200
	Food stamps.....	254	308	288					
	Total income.....	2,126	2,280	2,528	3,360	4,480	5,360	6,240	7,120
2 persons.....	Stipend.....	2,808	2,808	2,808	2,808				
	Earnings above disregard.....		-800	-1,600	-2,400				
	Benefit.....	2,808	2,008	1,208	1,720	1,960	1,720	1,480	1,240
	Food stamps.....	502	502	502	408	96			
	Total income.....	3,310	3,510	3,710	4,128	5,056	5,720	6,480	7,240
3 persons.....	Stipend.....	3,744	3,744	3,744	3,744				
	Earnings above disregard.....		-700	-1,400	-2,100				
	Benefit.....	3,744	3,044	2,344	1,644	1,440	1,080	1,720	1,360
	Food stamps.....	701	671	641	611	432	300	168	36
	Total income.....	4,445	4,715	4,985	5,255	5,872	6,380	6,888	7,396
4 persons.....	Stipend.....	4,680	4,680	4,680	4,680	4,680	4,680		
	Earnings above disregard.....		-600	-1,200	-1,800	2,400	3,000		
	Benefit.....	4,680	4,080	3,480	2,880	2,280	1,680	1,960	1,480
	Food stamps.....	852	792	732	672	612	552	528	432
	Total income.....	5,532	5,872	6,212	6,552	6,892	7,232	7,488	7,912

¹ Benefit under EITC.

NOTES

Annual supplemental unemployment assistance (SUAB) stipend: 20 pct of State average weekly wage for 1 person; 30 pct for 2 persons; 40 pct for 3 persons; 50 pct for 4 or more persons.
Earnings disregard: 10 pct of earnings per person.
Earned income tax credit (EITC); 12 pct per person on earnings up to \$4,000 with dollar-for-dollar reduction above \$4,000.
Individual with earnings entitled to greater of SUAB or EITC.

Senator DANFORTH. Let me ask you this. This is a question that Senator Moynihan wanted to ask. If you had your choice between no welfare reform and the proposals that have been made to date, what would you do?

If your proposal turned out to be too expensive or, for one reason or another just was unable to get support, would you rather have nothing?

Mr. SEIDMAN. No, we would not rather have nothing. We would rather have those elements of whatever bills they might be which we would consider to be improvements in two respects. First of all, in improving on benefit levels—well, in a number of respects—first of all, in improving on benefit levels to the people covered. Second, providing more jobs. Third, providing fiscal relief.

Now, the extent to which this could be done would determine the kind of legislation that would be enacted, but we would not favor those bills in their present form because they contain, to our way of thinking, some measures that we consider to be harmful, so we would not want to be making a choice between comprehensive welfare reform and those particular bills.

If we had to—and we have not made any decision on this—we would look very carefully at measures which are aimed at what we would regard to be improvements provided that they did not include what we would consider to be harmful features.

Senator DANFORTH. By harmful, do you mean worse than what exists now?

Mr. SEIDMAN. Yes.

Senator DANFORTH. What is worse than what exists now?

Mr. SEIDMAN. Well, we think that the whole idea, for example, of requiring people to work at substandard wages is something that is worse than what exists now.

We think that subsidies and tax credits to employers is something which exists only on a limited scale now and we certainly would not want to see it expanded. It has been very—up until now, it has not been effective. If it were effective, we think it would have harmful effects.

So that there are some features of these bills which we actively oppose. There are others which we do not think go far enough, and I make a distinction between those two categories.

Senator DANFORTH. But you think that the job voucher system would be worse than nothing, right?

Mr. SEIDMAN. Yes. We think that it would be definitely harmful in a number of respects.

Senator DANFORTH. Do you think that when Congress increases the minimum wage that that has an effect on employment rates?

Mr. SEIDMAN. The Secretaries of Labor, going back to the earliest days of the Fair Labor Standards Act have made studies of this each time there has been an increase in the minimum wage, and this means that this has been done perhaps six or seven times over a long period of years, and never has a Secretary of Labor, Republican or Democrat, found that there has been any significant reduction in employment resulting from the increases in the minimum wage.

Senator DANFORTH. In your opinion, it does not have an effect on employment rates?

Mr. SEIDMAN. Yes. If anything, I think it increases employment because it improves the purchasing power of people who spend just about every dollar that they receive.

Senator DANFORTH. How about increasing social security taxes. Would that have an effect on unemployment rates?

Mr. SEIDMAN. I think increasing social security taxes may have a negative impact on employment.

Senator DANFORTH. Why?

Mr. SEIDMAN. If you mean in the form of payroll taxes.

Senator DANFORTH. Why?

Mr. SEIDMAN. Because this is not money that gets back into the economy the way the increase in the minimum wage does.

Senator DANFORTH. What does it do? When we increase social security taxes, what does it do?

Mr. SEIDMAN. It is a question as to how we are going to pay for social security benefits. If you use the social security tax, which is slightly regressive, that means that the people who are likely to spend every dollar are the ones who are going to be paying more in proportion to their income in taxes for the social security and therefore, it seems to me, it has a somewhat depressing effect on the economy as compared, for example, with financing some good out of general revenue.

Senator DANFORTH. Senator Moynihan had another question that he wanted to ask. He says, how would you define which welfare recipients should be expected to work. In view of the large numbers of mothers with small children who are currently in the labor force, is it fair to exempt AFDC mothers with preschool children from the requirement for work?

Mr. SEIDMAN. The mothers who are in the labor force are voluntarily in the labor force. They are not people who have been told that they must work. We do not think that mothers with preschool children should be told that they must go into the labor force and, moreover, we do not think that mothers of elementary school children should be required to do so, and we are very skeptical of being able to develop the kind of employment program which would meet the needs of the children as well as provide part-time jobs for the mothers involved.

Senator DANFORTH. What is your experience—

Mr. SEIDMAN. By the way, I say mothers, but I mean single parents. I do not mean—if there are single parents with children in their care, I do not think that there should be any distinction made on the basis of sex.

Which is not to say that there may not be many of these people who would want jobs and should be given every opportunity to obtain jobs, but we do not think they should be required to go into employment. And part of what is involved here is having an adequate—

Senator DANFORTH. Whether they are a single parent or not?

Mr. SEIDMAN. No, I am talking about—you asked about single parents.

Senator DANFORTH. Is that all you are talking about?

Mr. SEIDMAN. Yes. If there are two parents, then we think one parent ought to be required to work. But when there is only a single parent, then you have a different situation, and part of the problem is that nobody is really talking about doing anything to improve child care opportunities or providing sufficient funds for child care.

The bills that we have here do not provide a sufficient amount for even family day care for mothers of small children in large cities.

Senator DANFORTH. What is the degree of voluntary work by single parents of preschool-age kids, do you know? Is it typical, for example, members of your union, do you have a mother who is divorced and has preschool-age kids or elementary school-age kids? Do you have any information as to the percentage of those mothers?

Mr. SEIDMAN. We think that the alternative ought to be available to mothers of small children not to have to go to work. Now, if they choose to go to work, that is something else again.

Senator DANFORTH. I understand that. How many—

Mr. SEIDMAN. Now, when you say—the people who are at work are voluntarily at work. Nobody has required them to go to work. Their alternative is the same alternative as would exist if there were no mandated work requirement for mothers of small children in, let's say, AFDC or in a new welfare program.

Senator DANFORTH. Do you have any statistical information as to how many mothers in that category avail themselves of their option to work?

Mr. SEIDMAN. I do not have it offhand, no.

Senator DANFORTH. Do you have access to it?

Mr. SEIDMAN. We could try to get it from HEW or the Labor Department, if they have it, but I do not know whether they do.

Senator DANFORTH. You do not have any estimate from your people?

Mr. SEIDMAN. No, we do not.

Senator DANFORTH. Thank you very much.

Mr. SEIDMAN. Thank you.

[The prepared statement of Mr. Seidman follows:]

STATEMENT OF BERT SEIDMAN, DIRECTOR, DEPARTMENT OF SOCIAL SECURITY,
AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

I appreciate the opportunity to present to this Subcommittee the views of the AFL-CIO on Welfare Reform. As you know, Mr. Chairman, this is an issue of long standing concern to the AFL-CIO.

On February 24, 1978, the AFL-CIO Executive Council adopted a statement, which we have attached to our testimony, calling on the Congress to reform and strengthen the programs designed to help the nation's poor by enacting legislation which will meet the needs of (1) those employed at jobs which do not pay enough to keep them out of poverty, (2) those who could work outside the home but are unable to find employment, and (3) those who are unable to take jobs out of the home, most of whom are existing on sub-poverty incomes.

This means first and foremost full employment with jobs at adequate wages in both private and public employment for all who are able to work outside the home. Those who are unable to take such jobs because of age, disability or family responsibilities, should be assured benefit payments sufficient to provide a decent living standard for themselves and their families.

The Council noted a number of improvements made by the Special House Subcommittee in the Administration's proposal (S. 2084) which would bring it closer to achieving the kind of reform which is needed such as (1) focusing

the benefits of the Earned Income Tax Credit to a greater extent on lower-income workers; (2) taking a step in the direction of accepting the principle of equal pay for equal work; (3) providing for a shortened period of time for needy individuals and families to wait for assistance, and (4) indexing the payment level to reflect increases in the cost-of-living.

However, because of a number of regressive actions taken by the Special Subcommittee, as well as improvements left unmade, its bill (H.R. 10950) falls far short of what is needed to provide decent jobs and income security for the nation's poor.

Since early last year, weeks of hearings, exhaustive testimony and endless public and private discussions around the subject of welfare have taken place. Out of this appears to have emerged considerable support for the need for a federal responsibility to provide a minimum cash benefit to the poor as well as jobs for those able to work and assistance to the working poor. There also appears to be agreement that any such program have uniform eligibility standards, simple and clear administrative procedures, extend coverage to all who need assistance and provide fiscal relief to state and local governments.

The Administration bill, S. 2084, the Committee bill, H.R. 10950, the Ullman bill, H.R. 10711, and the Baker-Bellmon bill, S. 2777, all purport to meet many or all of these goals. Before we get to our comments on how well we feel they achieve these objectives, I'd like to mention an additional goal against which a Welfare Reform Plan should be measured.

As you so aptly stated, Mr. Chairman, in the Spring issue of the Institute for Socioeconomic Studies, "The question that we must ask about any Welfare Reform Plan is what are apt to be its consequences on family stability? Does it encourage us to believe that family units will be any more likely to remain intact?" In that article you expressed serious doubt that the Administration's claim that their program could keep families together by providing cash assistance to intact families is a valid one.

I would like to quote the conclusion of a study funded by the Department of Health, Education and Welfare and completed some months ago by John Bishop of the Institute for Poverty Research of the University of Wisconsin that substantiates your doubts and our concern:

"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 exactly 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 had turned down jobs saying 'I'm worth more than \$2.90 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."

Mr. Chairman, we agree with the findings of this study and, in fact, feel that jobs of the kind it speaks of are equally necessary to many single-parent families (when decent child care arrangements are available) as well as single individuals and childless couples. We are pleased that all of the major welfare reform measures before the Congress stress the importance of jobs. However, none of the jobs programs in the four major Welfare Reform bills will, in their present form, result in jobs providing either real economic security or family stability for the poor.

JOBS

S. 2084 requires that all those eligible for the jobs program—regardless of their education or ability or the nature of the job to which they are assigned—be put in a system which completely ignores the principle of the prevailing wage or equal pay for equal work. According to Labor Department estimates, 2.5 million people a year are to be moved into jobs, the overwhelming majority paying only the minimum wage—regardless of what other workers in the community doing similar jobs are being paid.

Under this program some individuals who had been unemployed and searching for work for five weeks might be required to accept a job weatherizing homes, for example. Their co-workers could be union carpenters receiving a higher wage plus fringe benefits and these individuals would be required to accept the same job at the minimum wage and no fringe benefits. When they are laid off, unlike their co-workers they would not receive unemployment insurance, but would instead be recycled through 5 weeks of job search activity at incomes less than half the poverty level to demonstrate their interest in employment. This is all postulated on the completely unproven assumption that there will be lots of jobs in the private economy and workers in the jobs program must be given "incentives" to fill them. The fact is that private job opportunities are declining, not expanding, in central cities and even a return to much lower overall levels of joblessness may not change this very much.

One of the justifications given for developing a program which would create this kind of inequitable situation where those in the jobs program would get substandard wages is that it would cost too much to pay the wage that others doing the same job are getting. However, as Secretary Marshall explained in a press release on September 23, 1977, "the wages of most workers would also be supplemented by cash assistance for family size so that total income will be equal to or greater than that currently provided by CETA. In a state supplementing the cash assistance benefit by 10 percent, the wage would be \$6,063, the cash assistance benefit would be \$1,864 and the total income \$8,000."

One of the primary goals of a jobs and income program should be to get those people who are working off the welfare rolls. Rather than using public funds in the form of a welfare payment to subsidize inadequate wages, these funds should be used to insure that the workers are getting fair compensation for their labor.

When Secretary Marshall testified before the Subcommittee on Employment, Poverty and Migratory Labor of the Senate Human Resources Committee, he stressed that the sub-standard wages are a desirable feature of the program as they are necessary in order to make these jobs so unattractive that large numbers of people will not seek them and those who are required to take them will not want to stay on them. We think this is a completely wrongheaded approach to any decent jobs program in the context of welfare reform.

It is not clear just how many of these jobs the Administration plans to provide. If the unemployment rate does not go down to a level where the regular CETA slots will be phased out, there would have to be additional money budgeted to create the 1.4 million slots the Administration claims will be available. Under the best possible circumstances, it appears S. 2084 would require at least 2.5 million people to engage in a six-week job search activity receiving \$40 a week for their family to live on after which they will be channeled through 1.1 million jobs which are purposely designed to be too unattractive for anyone to want.

Although the Special House Subcommittee improved the situation somewhat by accepting the principle of equal pay for equal work in H.R. 10950, this principle will apply only to a very small proportion of the workers assigned to the program. This is because there is a provision limiting the average annual rate of pay for full-time employment in any prime sponsors area to \$7,700 in 1981 (when the bill becomes effective) subject to an area wage adjustment, and a ceiling on any individual's annual wages of \$9,600 in 1981, subject to an area wage adjustment with a 10 percent upward ceiling. Further, the bill provides that not more than 15 percent of the individuals enrolled in the program could receive annual wages in excess of the area average wage. Indeed there are harsh penalties imposed on those employees that attempt to exceed these wage levels.

The Ullman jobs proposal in H.R. 10711 falls far short of AFL-CIO recommendations and is even worse than the Administration's proposal. It would cut

in half the number of public service jobs to be made available under S. 2084 and require that all of the jobs pay only the minimum wage.

The bill places heavy reliance on the private sector through the use of an expansion of the employer tax credit. We agree with the desirability of looking to the private sector for jobs but there is no evidence that the tax credit under existing authority has resulted in substantial hiring of welfare recipients. The AFL-CIO has always opposed, as a general principle, the use of tax credits as incentives to hire additional workers. Such credits, for the most part, simply reward employers for doing what they would do anyway and there is no evidence that they indeed produce additional jobs.

S. 2777 is even more objectionable from our point of view as it would provide only one-fourth the number of public service jobs as the Administration's program and these too would pay only the minimum wage. In addition to relying on the private sector through the use of the tax credit, a job voucher program is authorized. We strongly oppose the use of a voucher system to try to induce private employers to provide jobs or training for unemployed or underemployed economically disadvantaged persons. Such a voucher system is inevitably open to serious abuse and extremely difficult to enforce. It is contrary to the letter and the spirit of Section 311 (b) of the CETA program which prohibits testing of subsidized or subminimum wages.

None of the proposals satisfactorily address the issue of training and placement of the unemployed. The Administration's proposal stigmatizes all of the needy as being "hard to place workers with little or no skills" and yet there is no provision in S. 2084 for training programs. The Secretary of Labor has stated that "many of the jobs created under welfare reform will involve a training component so that relatively low wages will be appropriate even for a job requiring a somewhat higher skill level." And yet we understand that all of the decisions regarding training—including who receives it, for how long, and at what level of pay—will be left to the local prime sponsors and administrators who under the CETA program have been markedly unsuccessful in developing training programs that lead to real jobs paying adequate wages.

Although S. 2084 states that "the work projects will involve work that is currently not being done by local and state governments," all of the jobs thus far listed are currently being done in most areas of the country, and in some cases at more than twice the minimum wage rate. Many of the workers on the jobs listed are members of either a union of public employees or a building and construction trade union. It is true that in many cases there is a need for more of these kinds of jobs. But it is wrong to completely ignore that there is an existing wage structure for these jobs. It is unfair to those assigned to such jobs and would undermine the hard-won standards of those now working in them.

There is no protection in S. 2084 or H.R. 10950 against employers in both the public and the private sector lowering the wages of their present employees or firing them altogether. Indeed there is no assurance that the public service jobs under the proposal wouldn't simply replace jobs of workers now employed or who would otherwise be hired by state and local governments. Both the employer tax credit and the voucher plan incorporated in H.R. 10711 and S. 2777 provide an inducement to replace current employees.

Mr. Chairman, the AFL-CIO believes the Congress should provide for the creation of whatever number of public service jobs is necessary to fill the gap in the private sector until implementation of national economic policies, such as those in the Humphrey-Hawkins bill, result in an adequate number of private sector jobs. The jobs in both the public and the private sector to which people are assigned should pay the prevailing wage. A federal responsibility should be required along with assistance to state and local governments in the identifying of existing or development of new job placement and training programs leading to decent jobs at fair wages.

CASH PROGRAM

The benefit level of the federal cash payment of \$4,200 provided under S. 2084 is totally inadequate. It is less than two-thirds of the poverty level and less than families in 38 states are currently receiving from AFDC and food stamps. Although states are encouraged to supplement these below subsistence payments and Administration officials insist they will, they are not required to do so and a number of state welfare officials have admitted their opposition to supplementing.

There is no provision in S. 2084 for cost-of-living increases and there is no attempt to insure that current recipients—other than SSI beneficiaries—will not have their payments cut back. Indeed a recent Congressional Budget Office report reveals that over 1.8 million families below the poverty level, nearly 28 percent of all current beneficiaries, would lose benefits under the Administration's proposal. In all, 4.7 million families would be losers.

Eligibility for cash assistance under S. 2084 would be based on the families' income over the previous six months rather than their immediate need for assistance as is now the case in both AFDC and the food stamp program. This would make many families ineligible for assistance for up to three months, including families of needy strikers, seasonal workers and those who had been earning over \$8,400 a year but lost their income. As all other forms of assistance will be eliminated by this program, it is unclear what these people are expected to do during this period.

In addition to the extraordinarily involved and harmful six-month retrospective accounting period, S. 2084 requires a complex prior month budgeting system. Such a system assumes that a family still has income for two months after that income has actually ceased. It is both unrealistic and inappropriate to expect that poor families who are forced to live on less than what they need to meet their minimal needs can at the same time build up a savings account for use when they have no money at all.

The Special House Subcommittee bill, H.R. 10950, has made a number of improvements in the cash portion of the Administration's bill which we support. Although the subpoverty payment level remains the same, we welcome the addition of the provision which would raise the payment level as the cost-of-living increases.

But the bill still has a number of critical deficiencies. Under H.R. 10950, the states are not mandated to supplement inadequate payments. The Subcommittee clearly recognized the danger to recipients of not doing so and will instruct the Secretary of HEW to secure a report from each state by 1980 of its intention in this regard. If states do not indicate an intention to supplement, the law could be amended at that time. Although this is a slight improvement over S. 2084, it does not provide a satisfactory guarantee against severe cutbacks for millions of people.

We support the Subcommittee's action which eliminated the onerous six-month retrospective and continuing one-month prior budgeting requirements in S. 2084.

The Ullman bill, H.R. 10711, provides a more acceptable level of benefits to AFDC recipients than the other proposals. Providing a federal payment of the higher of 90 percent of the median income or the current payment at least has the advantage of assuring that current recipients do not get hurt. It also relates future payments to increases in the cost-of-living and wages. Such payments, however, are not related to family size leaving families with more than four persons far worse off than they are now. In addition, although AFDC-UF is mandated in all states, single individuals and childless couples are not included.

The benefit level in S. 2777 of 60 percent of the poverty level and requiring no supplementation is also unacceptable. It, too, mandates AFDC-UF but excludes single individuals and childless couples.

The AFL-CIO supports enacting a Welfare Reform program which will provide, to those unable to work at jobs outside the home, a federal minimum payment brought in stages to no less than the poverty level. We oppose abolishing the food stamp program as it is essential to supplement benefit payments which fall below the poverty level. Moreover, it is the only means of relief for those individuals and their families who are in short-term periods of deprivation due to unemployment or other loss of income. From our point of view, none of the bills, in their present form, will adequately meet the needs of the nation's poor.

FISCAL RELIEF

The AFL-CIO has repeatedly stressed the importance of effective and immediate measures to relieve the plight of the hard-pressed cities and states that now bear an unfair share of the fiscal burden of welfare. Administration officials claim that S. 2084 would provide \$2.1 billion in fiscal relief to state and local governments, but not until 1981. Even then, it is feared that if states are to realize this savings it will have to be at the expense of current recipients.

In its present form, the proposal would leave large numbers of needy people ineligible for assistance under the federal program. To meet the needs of these people, states and local governments would have to expand their general assistance programs without the benefit of a federal contribution. It should be noted that included in the estimated \$2.1 billion fiscal relief is the \$600 million Emergency Assistance Fund which is indeed no saving to the states since considerably more than this amount would be needed in most states to provide continued assistance to those hurt by the program. It is possible that the six-month accounting period, leaving many unemployed people without assistance for up to three months, will not only deplete the Emergency Assistance Fund but require additional assistance from state and local governments.

H.R. 10950 improves on the amount of fiscal relief provided in S. 2084 by allowing that in addition to the 75 percent federal match to \$4,714 for a family of four and 55 percent match to the poverty level as provided in S. 2084, in those states where current payment levels including AFDC and food stamps exceed the poverty level, 25 percent reimbursement will be allowed on the greater amount. The provision in H.R. 10950 which allows eligibility to be based on current need rather than income during the previous six months will also have an advantage in the amount of fiscal relief since states will not have to use either the Emergency Assistance Fund or state and local assistance to meet their needs. Nevertheless, H.R. 10950 would still place far too heavy a fiscal burden on states with higher payment levels which try to maintain or improve on them.

Both the Ullman bill, H.R. 10711, and S. 2777 provide even less fiscal relief to hard-pressed state and local governments, leaving all of the general assistance eligibles out of their program and paying only 50 percent instead of a 100 percent of administrative costs.

The AFL-CIO believes that acceptable Welfare Reform must insure that (a) no recipient now receiving more than the federal minimum suffers an income loss, and (b) badly hit states and cities are substantially relieved of an intolerable fiscal burden. Both goals can be achieved by mandating state supplements that gradually fade away as the federal payment increases toward the level of the higher paying states.

DAY CARE

None of the major proposals have provisions which would affect the availability, organization or quality of day care. It appears—although it isn't absolutely clear in the legislation—that under S. 2084 and H.R. 10950 mothers of school age children will only be required to accept jobs during the hours that their children are in school so would need no day care at all. If this is true, then the \$150 a month per child up to a maximum of \$300 a month for two children which will be allowed as a credit against earnings is meant to cover the cost of full-time day care for recipients. The Ullman and Baker-Bellmon proposals allow only \$100 a month per child with a maximum of \$300 a month per family.

It makes no sense to devise programs with the major emphasis on encouraging parents to work and then impose an arbitrary limitation on the allowance provided for day care without regard to the actual cost of such care. Because day care costs are not uniform across the country, this maximum of \$100 or \$150 a month for one child may be sufficient in some areas but far too low in the large urban centers. The average state-wide cost of all types of day care is higher in such states as Connecticut, Illinois, Maryland, Massachusetts and New York. Since currently AFDC recipients are allowed to deduct the actual cost of the day care as well as all other work-related expenses, in this aspect many will be worse off under the new program.

We are not suggesting that the day care delivery system should be a part of a Welfare Reform program. Quite the contrary. The AFL-CIO has long advocated the enactment of a comprehensive child care program available to all children based on their need for care and not their income. We do think, however, in this long period of debate over Welfare Reform there has been a shocking lack of public discussion of the needs of the children involved. The cost of child care arrangements should be guaranteed at whatever level is necessary to insure quality care for each child.

EARNED INCOME TAX CREDIT

Modification of the existing Earned Income Tax Credit might be an effective way to supplement the earnings of the working poor. If geared to family size, EITC benefits could be targeted to working families in the lower brackets thereby removing many working families from the welfare rolls. In S. 2084, however, the Administration's use of EITC funds for families with incomes up to \$15,000 is not sufficiently concentrated in the lower income ranges. Instead, such funds should be used to improve both the income support and the job aspects of the welfare program. The House Welfare Reform Subcommittee bill, H.R. 10950, made improvements on this provision somewhat by lowering the income-cut-off to \$12,600 and thereby targeting it to lower income families. Both H.R. 10711 and the Baker-Bellmon proposal would provide assistance to unacceptable levels of \$15,000 and \$13,300, respectively.

SUPPLEMENTAL SECURITY INCOME (SSI)

The Administration's provisions for the SSI program in S. 2084 are unsatisfactory. The maximum benefits payable to the aged, blind and disabled are now too low—\$267 for a couple and \$177 for a single person. One obvious priority should be to raise SSI benefits to at least the poverty level—\$344 per couple and \$262 per person. Yet, the Administration's proposed benefits, which the House Welfare Reform Subcommittee adopted in H.R. 10950, when adjusted for the elimination of food stamps and for other bill provisions such as the earned income disregard and work-related expenses, do not represent a benefit increase. Provisions for state supplementation protect the states, not recipients. States would not be required to supplement benefits for the elderly at all, although federal matching funds would be available at a 25 percent rate for those states which raised benefits for individuals to \$3,780 and for couples raising benefits up to \$5,670.

The Ullman bill, H.R. 10711, and the Baker-Bellmon bill, S. 2777, would not increase benefits except to cash out food stamps. If SSI benefits were adequate, the aged, blind and disabled would not need food stamps.

The House Welfare Reform Subcommittee has retained an \$800 reduction in cases of shared households. No other policy so discourages participation of the elderly in family life.

In addition, the SSI program in the Administration's proposal, is incorporated into an integrated cash assistance program in which recipients would not receive automatic cost-of-living benefit adjustments as do present SSI beneficiaries. We urge retention of the indexing and administration presently in the SSI program for all aged, blind and disabled beneficiaries as contained in H.R. 10950.

CONCLUSION

The AFL-CIO supports the thrust of the Administration's proposal as well as that of the Special House Subcommittee which broadens the scope of welfare reform to include most of the disadvantaged—the working poor, as well as the young, old, disabled and unemployed—in contrast to previous plans and the Ullman and Baker-Bellmon bill which have classified certain categories of needy Americans as being unworthy of assistance or incapable of working.

However, all of the proposals in their present form are unacceptable. The jobs programs in these bills do not provide real jobs at decent wages and the cash assistance programs do not assure the poor of a decent income.

The AFL-CIO therefore urges this Subcommittee and the Congress to reject the proposals in their present form and instead enact legislation which will:

(1) Establish a cash assistance program to provide income support in a direct, equitable and efficient manner to poor families and individuals who are unable or cannot be expected to work outside the home. The benefit level should be at no less than the poverty level (if necessary, to be achieved in stages as rapidly as possible) and should be indexed to reflect increases in the cost-of-living.

(2) Call for a massive effort to increase jobs in the private as well as public sector; unify and restructure the employment and training system making them vastly more responsive and accountable for providing assistance to persons who with proper placement or training can be self-sufficient. In order to keep the unemployed in the program directly related to the labor market, temporary in-

come support should be provided outside of the welfare system until such time as the person is placed in adequate employment at no less than the prevailing wage.

(3) Expand the earned income tax credit so that those workers who have large families or have suffered extraordinary circumstances will not have to rely on welfare payments to keep their families out of poverty.

Mr. Chairman and members of the Subcommittee, the AFL-CIO has long been committed to the goal of wiping out poverty in America. This will require, first and foremost, effective measures for the achievement of full employment. But it will also require specific and effective measures to meet the needs of all the poor. We welcome the thrust of the President's proposal to deal with the welfare problem but, as we have indicated, we find it inadequate. We stand ready to cooperate with the Congress and the Administration in developing effective welfare reform measures to provide genuine help to the poor and real fiscal relief for states and cities. The aim must be decent jobs and real income security for all America's poor.

STATEMENT BY THE AFL-CIO EXECUTIVE COUNCIL ON WELFARE REFORM,
FEBRUARY 24, 1978; BAL HARBOR, FLA.

The recent AFL-CIO convention reaffirmed our long-standing commitment to reforming and strengthening the programs designed to help the nation's poor by enacting legislation which will meet the needs of (1) those employed at jobs which do not pay enough to keep them out of poverty, (2) those who could work outside the home but are unable to find employment, and (3) those who are unable to take jobs out of the home and are existing on sub-poverty incomes.

This means first and foremost full employment with jobs at adequate wages in both private and public employment for all who are able to work outside the home. Those who are unable to take such jobs because of age, disability or family responsibilities, should be assured benefit payments sufficient to provide a decent living standard for themselves and their families.

The convention recognized that the Administration's Welfare Reform proposal, "The Better Jobs and Income Act" (H.R. 9030), although a step in the right direction, contains numerous deficiencies.

The Special House Subcommittee on Welfare Reform has made some decisions which would make a number of improvements in the Administration proposal. Most notable are: (1) focusing the benefits of the Earned Income Tax Credit on lower-income workers; (2) a step in the direction of accepting the principle of equal pay for equal work; (3) a shortened period of time for needy individuals and families to wait for assistance, and (4) indexing the payment level to reflect increases in the cost of living.

If accepted by the Congress, these changes, while worthy of our support, would still leave the bill far short of what is needed to insure that the program will provide decent jobs and income security for the nation's poor. Moreover, the Special Subcommittee has taken a number of regressive actions we strongly oppose. By abolishing the food stamp program when the new welfare program takes effect and accepting the Administration's proposal of a \$2,300-a-year payment during the job search period and refusing to provide sufficient federal funds to assure that workers receive equal pay for equal work, the Committee has counterbalanced whatever good it accomplished through amendments.

The AFL-CIO therefore urges the Congress to further amend H.R. 9030 by:

1. Providing, to those unable to take jobs outside of the home, a Federal minimum payment, brought in stages to no less than the poverty level.

2. Continuing the food stamp program.

3. Insuring that (a) no recipient now receiving more than the Federal minimum, suffers an income loss, and (b) the badly hit states and cities are substantially relieved of a fiscal burden that is intolerable. Both goals can be achieved by a program of mandated state supplements that gradually fade away as the federal minimum payment increases toward the level of the higher payment states.

4. Providing a public service employment program to take care of job needs not met in private employment, for those welfare recipients who can work.

5. Providing for payment of the level necessary in each locality to insure quality care for each child whose parents become employed at wages insufficient for them to afford such care.

6. Providing adequate stipends to those searching for work.

7. Insuring that the public and private sector jobs to which people are referred, pay the applicable minimum wage or the prevailing wage, whichever is higher, as well as applicable fringe benefits being received by current employees. These individuals should be eligible for the earned income tax credit on the same basis as all other low-income workers.

8. Requiring a federal responsibility and assistance to state and local governments in the development of job placement and training programs which will lead to decent jobs at fair wages.

9. Guaranteeing the job security and employment benefits and rights of state and local employees who would be affected by any new federal program.

The AFL-CIO will continue to work with the Congress in order to achieve the additional improvements in H.R. 9030 needed to insure the enactment of a program which will provide decent jobs and real income security for the nation's poor, and to help relieve the financial plight of the cities and states.

Since elimination of poverty in the United States is a national responsibility, the ultimate objective must be a national welfare program with a single national standard of payments, at a decent level, fully funded by the Federal government and with full protection of the job security and employment benefits and rights of state and local employees now administering welfare programs.

We will oppose onerous proposals such as requiring welfare recipients to work off their welfare payments at substandard wages, as well as all other proposals which fail to meet the needs of the poverty-stricken and fall short of the genuine welfare reform the nation needs.

Since H.R. 9030 would not take effect until 1981, we will also work for prompt action to meet the immediate needs of the poor and relieve the serious fiscal burdens of state and local governments.

Senator DANFORTH. The next four witnesses are Drs. Nathan, Morgan, Spiegelman and Anderson. The suggestion is that the four of you appear as a panel and that each of you give your testimony, 10 minutes of testimony, either reading it or giving it extemporaneously, seriatim without any questions interrupting you and then at the end of the four 10-minute presentations, be available for any questions.

You are first on the list, if you would like to start, Dr. Nathan.

STATEMENT OF RICHARD P. NATHAN, SENIOR FELLOW, THE BROOKINGS INSTITUTION, WASHINGTON, D.C.

Mr. NATHAN. The basic choice, Mr. Chairman, in welfare policy today, I think, is between the so-called comprehensive and incremental approaches to welfare reform. But, like many other such choices, the harder one studies it, the more elusive it becomes. Indeed, the administration's better jobs and income program has incremental features. Likewise, the Ullman bill in the House and the Bellmon-Baker-Ribicoff-Danforth incremental bill in the Senate, have comprehensive reform features.

Nevertheless, I would argue that the administration's better jobs and income plan is essentially a comprehensive reform plan. It involves the establishment of a consolidated new, supersystem, for providing welfare benefits to persons now covered under AFDC, SSI, and the food stamps program.

Not enough attention in this debate has been given to the sheer magnitude of the task of establishing a single, nationally administered system for these programs.

The essential need currently is to untie the Gordian knot of welfare reform on a basis that combines elements of the administration's plan and the incremental bills offered in both the Senate and the House. I believe there is a way to develop a single welfare reform plan which includes those elements of the administration's bill that can be enacted in the foreseeable future and, at the same time, draw support from those who were sponsoring various incremental proposals for welfare reform.

This would involve focusing on those features of the administration's bill which can be agreed upon now, combining some part of the administration's program with other legislation, and putting aside parts of the better jobs and income proposal, at least at the present time.

Differences between the Carter plan and the Senate incremental bill, which I think are appropriate to focus on today, are summarized on page 4 of my testimony.

No. 1, the Carter plan opts for national administration and full program consolidation. The Senate incremental bill retains State administration for AFDC and food stamps though it leaves the SSI program where it is and where it should be as a program component of the Social Security Administration.

Second, the Carter plan eliminates food stamps, which creates, of course, a medicaid problem that many have referred to. The Senate incremental bill retains food stamps except for the SSI population at State option.

Third, the Carter plan covers all singles and childless couples. The Senate incremental plan does not go as far in this direction.

Fourth, the Carter plan has a larger and more separate welfare jobs program at minimum wages. The Senate incremental bill ties more closely to the existing CETA programs and requires paying the prevailing wage with a guaranteed job to one adult in all two-parent welfare families, which I think is very important and, if time permits, I would like to go into that later on.

There are, at the same time, Mr. Chairman, important areas of agreement between the Senate incremental bill and the administration bill that constitute the basis, I believe, for developing what might be called a welfare modernization bill that would have sufficient support to be enacted. Both approaches effectively set a national minimum payment for AFDC and both adopt simplified national eligibility standards for AFDC for disregards and asset tests. Both cover two-parent, intact, poor families. Both extend additional fiscal relief to State and local government. Both remove local governments from administration and fiscal responsibility for welfare, though the Senate incremental bill does this over 3 years and keeps the States involved, which I think is right.

Both make changes in the accounting period, both permit cashing out food stamps for SSI, both would provide additional jobs for welfare eligibles and potentials.

On this final point, I would like to devote what time I have to discuss some findings of research that we have been doing about jobs, on the CETA public service employment program.

To summarize, there is evidence that the PSE program is working, to target on the disadvantaged—though I would add that there is

still, at least in my opinion, too much creaming. A better job could be done to reduce dependency by assisting the welfare-eligible population under the CETA public service employment program.

But the wages of CETA are high. There is a table in my prepared testimony which indicates the wage rates for the sample cities we studied. To me, these wage data, particularly for larger cities, indicate the great difficulty, if not the impossibility, of relying on the public sector for minimum wage jobs for the disadvantaged.

In large cities which tend to have the strongest municipal unions, the only way minimum wage jobs could be provided for welfare family heads would be to set them up on a very artificial, highly stigmatized basis, deadend jobs with a ticket to nowhere—that is, with negligible or nonexistent opportunities for transition into permanent jobs in local government.

Unless we play by the rules of the State-local public sector—and this is what the Barker-Bellmon bill does—and in my view this is best done by merging the CETA countercyclical jobs with the CETA structural jobs, unless we do that, we are not going to have a real chance to transition people into permanent employment as part of a welfare reform strategy.

The Senate incremental bill sets an ambitious, but reasonable, goal—a guaranteed job via WIN under the CETA program for at least one parent in all two-parent welfare families. This guarantee would apply in every case in which the recipient has searched unsuccessfully for a regular job for 90 days. This is a feasible and important proposal. It would require maybe 100,000 jobs, maybe more, but the important point is this. Essentially what I see the Baker-Bellmon-Ribicoff-Danforth bill as doing is that, first, it universalizes the UF program for two-parent families, and then it abolishes the program for this group by requiring that this group be a priority group with a guaranteed job for one parent in each family under the CETA program.

I think this is feasible. We should focus CETA jobs on adult workers and particularly on welfare two-parent families. The idea of a guarantee should have wide support in the considerations of welfare policy.

Mr. Chairman, I would also like to put into the record a point that I did not have in my testimony. I think as a second priority, consideration should be given to having jobs provided for AFDC families with one child where the parent in a single-parent AFDC family is a new entrant into the AFDC program. One of the things we need to be concerned about is the intergenerational problem in the AFDC program. If it was required, as a second priority, that wherever there was a single child and a single parent in a new case under AFDC, those parents should be the next priority, that would be feasible and helpful from the point of view of welfare policy. This should be done even if the child is a preschool child, as long as child care is available. There should be a work requirement for single parents—be they mothers or fathers, perhaps with some kind of a State waiver where the State could except up to a certain percent, say 20 percent, of these people in this group.

The next section of my testimony, which I will just mention briefly, makes the point that there are not enough jobs and we have to set

priorities in welfare and employment policy. It also makes the point that we need to put heavy emphasis on job creation in the private sector, because there are limits to what we can do in the public sector to create jobs, and we are approaching those limits.

Jobs and welfare go together, but that does not mean that job programs and welfare programs go together. It is my opinion that welfare modernization, as has been discussed for the AFDC program, coordinated with job and tax legislation can be achieved better in three bills, or in more bills, than in a single superbill. We have got to get away from wanting to do everything all at once. It is something like eating pizza. A small pizza on Friday and another one on Sunday is much more digestible than a large pizza with everything on Saturday night.

Senator DANFORTH. Well said.

Dr. Morgan, you are next on my list.

STATEMENT OF JAMES N. MORGAN, INSTITUTE FOR SOCIAL RESEARCH, ANN ARBOR, MICH.

Mr. MORGAN. I do not have any proposals to make, only some bare facts and some issues for your consideration.

It is useful to distinguish two goals of public policy toward the currently dependent members of society—the hopefully short-run income maintenance programs to eliminate poverty and longer run programs to reduce dependency. We keep talking about jobs, but there are other things involved.

Both purposes have led to policies which allocate funds to geographic areas which differ according to the nature and extent of poverty in those areas. These allocation policies are based on data on the geographic distribution of problem cases.

The programs for the reduction of dependency also require a theory about what it takes, usually in the form of changed behavior or investments in training, to bring about lasting improvement. I want to report some findings from our studies on both of these issues—individual behavior as it affects economic status, and the importance of distinguishing long-run from short-run problems in the allocation of poverty program funds.

An unexpected finding from our examination of the economic fortunes of thousands of families over many years—we are currently collecting the 11th annual wave of data—was that literally nothing we could measure of people's attitudes and behavior patterns was sufficiently related to their subsequent change in economic condition to suggest that altering people's behavior or beliefs would help them help themselves. It may have been the historic period, or that other changes drowned out the Horatio Alger syndrome, but we cannot, on the basis of our data, recommend that the Government attempt to change individual behavior or attitudes to remedy economic deprivation and distress.

Not that the poverty population remained unchanged during the past decade, there was a great deal of change. And a substantial amount of the change was associated with changes not in wages or hours but in family composition—who lives with and shares with

whom. We concluded that policies that affect the cohesion and functioning of the family are crucial. A focus on policies to increase work incentives or policies that are efficient in the use of Government funds may at the same time have perverse effects on family functioning.

The whole issue of the tax treatment and the income maintenance treatment of the family is what I am talking about.

The apparent effects cited last week by Bishop and shortly by Mr. Spiegelman of income maintenance programs on family splitups may have resulted not from the level of benefits, but from the way in which the family is treated under those programs. The Government is essentially trying to recapture the economies of scale from living together which means that you pay people to split up. In all of the attention to work incentives, we ignore what these definitions of the family and levels of benefit for families of different sizes are doing to the incentives to stay together.

But the most crucial findings for public policy today may be neither the turnover in change of economic status nor the lack of any apparent capacity of people to affect their own hours and earnings, but in the different groups affected by temporary and by more persistent adversity. A chapter in the sixth volume of findings from our study, which will soon be out, spells out the importance of how one defines income and needs and particularly how crucial it is whether one measures short- or long-run poverty.

I will submit two chapters from this study for your record.

What we found, really, was that poverty is a great deal more pervasive and a great deal less persistent than most people think. To simplify, there are such substantial differences between the characteristics of those who are temporarily poor on the one hand and those who remain persistently poor on the other, that the allocation of Federal funds on the basis of estimates of current, short-run, 1-year poverty, can be quite unfair to the persistently poor.

Only if the funds were for the alleviation of temporary poverty problems, not the tackling of long-run dependency problems, would the present criteria be proper. Worse still, we are spending larger and larger sums to improve the precision of our estimates, local area by local area, of the wrong criterion.

I hesitate to cite numbers, since they depend heavily on the definitions and measurement methods, but using reasonable definitions of all the other aspects and defining two groups, the temporarily poor and the persistently poor—meaning they are poor for 9 years in a row—we have such dramatic differences as estimates that blacks comprise 34 percent of the temporarily poor, but 77 percent of the persistently poor.

Since it is really difficult and expensive to measure local area needs properly by counting people properly characterized as poor, the solution to this problem may well be the development of feedback methods which continually adjust allocations of funds on the basis of proof that the funds have been well-used for the benefit of eligible recipients.

If that is not done effectively, the present allocation formulas are unfair to the persistently poor parts of the country.

Finally, I might mention our most recent findings on sex and race differences in earnings, relevant here since many of those in need are female or black or both. We found we could not explain away most of the differences in earnings by improving the measures of the qualifications and qualities that people bring to the job. It was apparent that people get sorted into bad jobs the first 10 years of their working life, the good jobs being those with more on-the-job training and better chances for advancement.

We are thrown back to the prior question of how that sorting process takes place, whether it is partly self-selection or results from lack of information and unwitting discrimination, or whether influence patterns and genuine discrimination exists in the getting of jobs, particularly first jobs, since the first job seems to set the pattern for the subsequent ones.

In the 11th wave of this panel study that OEO and then HEW have funded we are currently asking people some never-before-asked questions about whether someone actually helped them get their job so we can sort out whether the good jobs really go through a personal influence pattern or do not.

I will submit for the record both the chapters by Rick Coe on "Dependency and Poverty in the Short and Long Run" and a summary chapter on race and sex discrimination by Mary Corcoran and Greg Duncan, both coming out sometime this year in the sixth volume of findings from this study.

These studies, as I say, have been funded by the Department of Health, Education, and Welfare with the assistance of the Labor Department.

Thank you.

[The material referred to follows:]

[From a forthcoming book, Volume VI of *Five Thousand American Families, Patterns of Economic Progress*, Greg Duncan and James Morgan, Editors, Institute for Social Research, The University of Michigan, Ann Arbor, Michigan, 1978]

CHAPTER 8.—DEPENDENCY AND POVERTY IN THE SHORT AND LONG RUN

(By Richard Coe)

INTRODUCTION

Since the War on Poverty was announced, there have been reports about how many people are poor, whether poverty is being eliminated, and how successful government anti-poverty programs are in pushing people above the poverty line. Repeated counting of the poor requires agreement on how we measure poverty, but periodically we should look behind these accepted numbers in order to assure ourselves that we aren't being misled concerning the nature and extent of poverty in the United States.

We intend to examine two aspects of the nature of poverty. The first involves determining what sources of income are responsible for lifting people above the poverty line. The official poverty definition used by the Census Bureau counts money received from all sources equally as income. However, it is of interest to know how many people are dependent, but not poor, because some form of welfare kept them out of poverty. Our society has numerous mechanisms by which we attempt to provide individuals with the resources necessary for their existence. Foremost among these are the labor and capital markets in which people exchange the use of their labor services or the use of money or physical assets for a monetary return in the form of wages, salaries, rent, interest, or dividends. An increasingly important mechanism of support, however, is the transfer system in which people receive money without a direct exchange

of services or use of capital.¹ There are numerous types of transfer payments. There are *contributory* transfers, both private and public, where people contribute money at one stage in their life or when they are employed and are thus entitled to payments at some other time in their life or when they are unemployed. Private contributory transfer programs include private pension plans and injury-related income replacement plans. Public contributory transfer programs include the Social Security program, workmen's compensation, and unemployment benefits.² There are also *noncontributory* transfers, both private and public, where individuals are not necessarily required to make any monetary contribution in order to receive payments. No doubt the largest of the private noncontributory transfers are those occurring *within* the household, particularly between parents and children. (This type of transfer is the subject of Chapter 11, and will not be discussed in this chapter.) Other private noncontributory transfers occur between households, as when elderly parents are supported by an adult offspring or a wife by a former spouse.³ Finally, there are public noncontributory transfers, which include Aid to Families with Dependent Children, General Assistance, and Supplemental Security Income, as well as a host of inkind programs, such as public housing and food stamp subsidies.

In evaluating the nature and extent of poverty it might be argued that we should be concerned not only with whether a family is above the poverty line, but with the mechanism of support on which it relies. Our concern may not be restricted to eliminating poverty *per se*, but may also encompass eliminating dependency on noncontributory transfers. If so, then the *source* of income becomes as crucial as the amount, and it is this issue which we wish to address first.

Our second concern is with the time period over which poverty is measured. The official poverty counts are based on *annual* incomes of families, a time span which fails to distinguish between those families which have an occasional bad year and those which are persistently in straitened circumstances. This distinction would seem crucial for our understanding of the nature of poverty, and how we devise programs to combat it. For example, a short-run emergency insurance program (such as unemployment insurance) would seem most appropriate for families suffering an atypical hard year, while longer run educational opportunity or job training programs may be most appropriate to eliminate persistent dependency.

Data available from the Panel Study of Income Dynamics enable us to examine the effect of different sources of transfer income and different time horizons on the measurement of poverty. The second part of this chapter defines the various measures used in the analysis. Then it analyzes the sources of transfer income and the incidence of poverty in a one-year time perspective. It is followed by an examination of different time horizons and the measurement of poverty, and a look at the sources of income over a nine-year time horizon.

ANALYSIS

Definitions of different measures of income

The analysis which follows will employ five measures of income, defined as follows:

Taxable Income of the Family (Income I).—Taxable Income of the Family consists of all wages, salaries, bonuses, overtime, commissions, income from

¹ The rising importance of transfer payments in our economy has recently received increased attention from economists, most notably from members of the Association for the Study of the Grants Economy.

² Although workers do not make direct cash payments to the workmen's compensation or unemployment benefits funds, as they do to the Social Security Trust Fund, economic theory leads us to believe that workers contribute to these funds via reduced wages. The same line of reasoning applies to the employer's share of the Social Security tax.

³ These classifications are, of course, arbitrary to a degree, and the example of alimony perhaps best illustrates this. We classify alimony as a noncontributory transfer, but one could certainly argue that such transfers are not "noncontributory" in a moral or even economic sense. The rationale behind alimony payments is that the time and energy devoted by one spouse to efforts around the home were essential to the success of the other spouse and to the family, and that the spouse who expended such efforts is entitled to some return. Our distinction, however, is between situations where prior monetary contributions result in legal entitlements to subsequent benefits versus other situations.

professional practice or trade, net income from farming or from owning a business, income from market gardening, roomers and boarders, and dividends, interest, rent, trust funds, or royalties received by all members of the household. It is meant to measure the income received by the family from exchanging the use of their labor and/or money and physical assets in the labor and capital markets. This measure corresponds closely, but not exactly, to the definition of adjusted gross income used by the Internal Revenue Service.⁴

Taxable Income Plus Private Contributory Transfers (Income II).—This measure consists of Income I plus other retirement pay, pensions, and annuities. It does not include Social Security payments.

Taxable Income Plus Private and Public Contributory Transfers (Income III).—This measure consists of Income II plus Social Security payments, unemployment benefits, and workmen's compensation payments.

Taxable Income, Private and Public Contributory Transfers, Plus Private Noncontributory Transfers (Income IV).—This measure equals Income III plus alimony, child support, and money received from friends and relatives who were not members of the household.

Taxable Income, Private and Public Contributory Transfers, Plus Private and Public Noncontributory Transfers (Income V).—This measure consists of Income IV plus AFDC payments, other welfare, and Supplemental Security Income payments.⁵ As a measure of total family monetary resources, it is virtually equivalent to the income measure used by the Census Bureau to determine the number of people in poverty. Benefits from in-kind public noncontributory transfer programs (e.g., food stamps, public housing) are not included in this measure.

Sources of income and the extent of poverty

Impact on the poverty population of the different types of income.—Table 8.1 relates the sources of income to the percentage of various subgroups of the population who were in poverty. The first page is for a one-year period, 1975. The first row shows the percentage of individuals who would be in poverty if income included only what the family received through the labor and capital markets (e.g., wages, salaries, rents, dividends, and interest).⁶ As shown in the final column of row one, these sources of income maintain 80 percent of the population above the poverty line. Those individuals left behind are disproportionately in families where the head is either 65 years or older, black, disabled, unmarried with children, or female. (These groups are not mutually exclusive.)

When private contributory transfer income (i.e., pensions, annuities, and other retirement pay, not including Social Security income) is added to taxable income, an additional 2.5 percent of the population is lifted above the poverty line. Individuals living in families headed by an elderly or disabled person were particularly aided by this source of support. For example, 12.4 percent of the individuals living in a family with a head aged 65 or more were moved above the poverty line as a result of such income. Individuals who were in families headed by a black person, an unmarried person with children in the household, or by a head who worked at least 1,500 hours were virtually unaffected by this type of income.

⁴ Perhaps the most notable difference from the Internal Revenue Service definition of adjusted gross income is the omission of capital gains income. Also omitted are alimony payments received and the taxable portion of private retirement payments.

⁵ This definition of Income V (and, for that matter, of Incomes II, III, and IV) is not entirely correct for all years. Only in years 1974 and 1975 was the transfer income of other household members besides the head and wife divided into its separate components. For the years 1967 through 1973, the total transfer income of others was added to Income IV to form Income V, in addition to the public noncontributory transfer income of the head and wife. This no doubt resulted in an overstatement of the amount of public noncontributory transfers received by the family. Appendix Table A8.1a shows the potential effect of this overstatement on the results reported in this chapter.

⁶ It should be emphasized at this point that the individual is the unit of analysis in this chapter, but the economic well-being of the individual is measured by the resources of the family to which he belongs.

TABLE 8.1—INDIVIDUALS BROUGHT ABOVE THE POVERTY LINE BY VARIOUS KINDS OF TRANSFER INCOME

[All sample individuals in 1976]

Income definition	Household head in 1976 was—														
	Age 65 or older		Black		Disabled		Unmarried with children		Female		Employed at least 1,500 hr in 1975		All		
	Percent-poor	Percentage brought out of poverty	Percent-poor	Percentage brought out of poverty	Percent-poor	Percentage brought out of poverty	Percent-poor	Percentage brought out of poverty	Percent-poor	Percentage brought out of poverty	Percent-poor	Percentage brought out of poverty	Percent-poor	Percentage brought out of poverty	
1975															
I. Taxable income.....	61.0	} 12.4	43.2	} 1.3	66.8	} 10.2	51.0	} 0.2	49.7	} 2.6	4.6	} 0.0	20.4	} 2.5	
II. Taxable income plus private contributory transfers.....	48.6		41.9		56.6		50.8		47.1		4.6		17.9		
III. Taxable income plus private and public contributory transfers.....	17.7		30.9		5.5		2.29		5.6		12.9		.6		5.8
IV. Taxable income, private and public contributory transfers, plus private non-contributory transfers.....	16.8		.9		1.1		1.6		7.2		4.6		.5		1.1
V. Taxable income, private and public contributory transfers, plus private and public noncontributory transfers.....	13.6		3.2		6.8		5.6		9.3		7.0		.4		2.1
			28.5	26.5	28.8	22.6	3.1	8.9							

ANY YEAR 1967-75

I. Taxable income.....	76.5	72.8	81.3	72.0	71.0	23.4	38.3	1.5
II. Taxable income plus private contributory transfers.....	70.7	72.5	78.1	71.7	69.7	23.1	36.8	6.2
III. Taxable income plus private and public contributory transfers.....	40.1	69.4	59.5	67.6	59.6	21.3	30.6	3.5
IV. Taxable income, private and public contributory transfers, plus private non-contributory transfers.....	34.2	68.3	55.2	59.3	53.1	18.5	27.1	2.0
V. Taxable income, private and public contributory transfers, plus private and public noncontributory transfers.....	30.0	65.8	50.9	54.5	47.5	17.4	25.1	

ALL YEARS 1967-75

I. Taxable income.....	22.4	20.3	30.6	19.7	18.4	.8	5.9	1.1
II. Taxable income plus private contributory transfers.....	16.1	19.1	23.8	18.8	16.1	.7	4.8	1.8
III. Taxable income plus private and public contributory transfers.....	5.4	15.0	14.0	15.6	11.0	.6	3.0	.3
IV. Taxable income, private and public contributory transfers, plus private non-contributory transfers.....	4.9	14.3	13.2	14.5	9.8	.6	2.7	
V. Taxable income, private and public contributory transfers, plus private and public noncontributory transfers.....	2.1	6.7	6.1	6.6	4.6	.2	1.1	1.6

Public contributory transfer payments had a substantial impact on the extent of poverty, as shown in the third row of Table 8.1. Approximately 6 percent of the population is moved out of poverty when Social Security payments, workmen's compensation, and unemployment benefits are added to family income. As might be expected, the elderly and the disabled are most aided by these mechanisms of support, as 31 percent of the elderly and 23 percent of the disabled are pulled above the poverty line. Again, the working poor, blacks, and unmarried parents are least affected by these types of transfers.

Private noncontributory transfers lifted 1.1 percent of the population out of poverty. The major beneficiaries of this type of transfer were individuals in families headed by an unmarried parent and/or by a female, whose income undoubtedly increased as a result of the inclusion of alimony and child support payments. Other transfers between families, as when children help support an elderly parent, are also included in this category, although their effects are surprisingly small.

Adding public noncontributory transfer payments (i.e., payments from Aid to Families with Dependent Children, Supplemental Security Income, and general assistance programs) to form total family money income resulted in an additional 2.1 percent of individuals being moved out of poverty. The benefits from such transfers flowed most noticeably to individuals in families where the head was either an unmarried parent, female, or black. (Again, these groups are not mutually exclusive.) The working poor are little affected by these types of transfers.

Even after all sources of monetary income are counted, however, 8.9 percent of all individuals remain in poverty,⁷ indicating that the various support mechanisms adopted by our society are not completely fulfilling the purpose of providing individuals with the necessary resources to meet basic needs. Although the exchange sector of our economy provides the basic resources for the vast majority of members of our society, certain subgroups of our population rely heavily on the various transfer systems. While the elderly and the disabled receive substantial support from contributory transfer payments, presumably built up over their working lifetimes, other segments of our society—primarily the blacks and individuals in a family headed by an unmarried parent—are dependent on noncontributory transfers to lift them out of poverty. Despite the aid these groups do receive, they are still disproportionately poor. These figures also illustrate the fact that the working poor are aided very little by the various transfer systems. Although most people who work are not poor, fewer than one-third of those who work but do not earn enough to raise themselves above the poverty line receive sufficient transfer income to enable them to climb out of poverty.

Composition of the poverty population.—The first page of Table 8.2 presents a similar story by showing the composition of the poverty population when different measures of income are counted. When only the taxable income of the family is counted, individuals in families headed by a person aged 65 or more comprise 35.5 percent of the poverty population. When total family money income is used, however, such individuals comprise only 18.1 percent of the poverty population, indicating that they are benefitted disproportionately (in terms of being lifted out of poverty) compared to those individuals living in families headed by a person under the age of 65.⁸ Public contributory trans-

⁷ The Panel Study has consistently yielded lower counts of the poverty population than the Census Bureau estimates. The year 1975 is no exception. While the Panel Study shows 8.9 percent of all individuals were in poverty in 1975, the Census Bureau estimates that 12.3 percent of all individuals were in families where income was not sufficient to provide for basic needs. The source of discrepancy has not been pinpointed. Minarik concluded that the Panel Study requires better income reporting from its respondents than does the Census Bureau, and this could result in fewer poor persons. McClelland concluded that the Panel Study slightly underrepresents lower socioeconomic status families, which would also result in a lower count of poor persons. It should also be noted that children born into the panel since 1972 are not included in this analysis, which may result in a downward estimate of the aggregate poverty population.

⁸ See J. Minarik, "New Evidence on the Poverty Count," working paper (Washington, D.C.: The Brookings Institution, 1973), and McClelland, K., "Why Different Surveys Yield Different Results: Education and Earnings in the Census and the Panel Study of Income Dynamics," in *Effects of Family Background, Test Scores, Personality Traits and Schooling on Economic Success*, edited by Christopher Jencks and Lee Rainwater, Report No. DLMA-NIE-G-74-007-1, (Washington, D.C.: U.S. Department of Labor, 1977).

⁹ If both groups had benefitted relatively equally by the various transfers in terms of being lifted above the official poverty line, then individuals in families headed by a person aged 65 or more would have comprised 35.5 percent of the poverty population no matter what income measure was used.

fer payments provided the biggest relative gain for this group. In contrast, individuals in families headed by a black person comprised 27.2 percent of the population when only income from the exchange sector of the economy was counted. This percentage rose to 41.3, however, when money income from all sources was included in the income measure, indicating that blacks benefitted relatively less than nonblacks from the aggregate of transfer systems. A similar situation existed for the working poor, who accounted for only 16 percent of all those individuals whose taxable income failed to meet their minimal needs but accounted for one-quarter of the poverty population after all money income was counted.

TABLE 8.2.—COMPOSITION OF THE POVERTY POPULATION BY VARIOUS KINDS OF TRANSFER INCOME AND BY DIFFERENT TIME HORIZONS

[All sample individuals in 1976]

Income definition	Percentage of poverty population in a household whose head in 1976 was—					
	Age 65 or older	Black	Disabled	Unmarried with children	Female	Employed at least 1,500 hr in 1975
1975						
I. Taxable income	35.5	27.2	21.4	23.7	44.0	16.0
II. Taxable income plus private contributory transfers.	32.2	30.1	20.7	26.9	47.5	18.1
III. Taxable income plus private and public contributory transfers.	17.3	38.7	18.2	35.4	51.0	23.4
IV. Taxable income, private and public contributory transfers, plus private noncontributory transfers.	18.1	41.3	19.2	32.7	48.7	22.3
V. Taxable income, private and public contributory transfers, plus private and public noncontributory transfers.	18.1	41.3	19.6	30.6	46.0	25.0
ALL YEARS, 1967-75						
I. Taxable income	45.4	44.5	34.2	31.8	56.8	9.2
II. Taxable income plus private contributory transfers.	39.9	51.1	32.5	37.1	60.5	10.9
III. Taxable income plus private and public contributory transfers.	21.4	64.5	30.6	49.2	66.3	13.3
IV. Taxable income, private and public contributory transfers, plus private noncontributory transfers.	21.5	67.6	31.8	50.5	65.2	14.5
V. Taxable income, private and public contributory transfers, plus private and public noncontributory transfers.	22.1	77.0	35.9	56.2	73.9	13.6
ANY YEAR, 1967-75						
I. Taxable income	23.7	24.5	13.9	17.8	33.5	43.2
II. Taxable income plus private contributory transfers.	22.8	25.4	13.9	18.5	34.2	44.3
III. Taxable income plus private and public contributory transfers.	15.6	29.2	12.8	21.0	35.2	49.3
IV. Taxable income, private and public contributory transfers, plus private noncontributory transfers.	15.0	32.4	13.4	20.7	35.4	48.2
V. Taxable income, private and public contributory transfers, plus private and public noncontributory transfers.	14.2	33.8	13.3	20.6	34.2	49.0

Average amounts of different types of income.—Examining the percentage of individuals who are brought above the poverty line by various types of transfer payments ignores the fact that many individuals may benefit by the different types of income, but not sufficiently to lift them out of poverty. An alternative way of evaluating the different types of transfer systems is to measure the average amount of various transfers received by the entire recipient population (Table 8.3) and by those groups in poverty under the different definitions of income

(Table 8.4). Table 8.3 reemphasizes the fact that the exchange sector of our economy is by far the most important mechanism by which people acquire their command over resources. Almost 94 percent of the population were in families with some connection with the labor or capital markets, and the average amount acquired from these sources by those families was \$15,400, clearly the largest source of income. But some segments of the population have much less connection to these exchange markets, most notably the aged and the disabled. Public non-contributory transfers reached the fewest members of the population; only 8.5 percent of the population were in families which received any income of this type in 1975. Again, however, certain segments of the population were much more dependent than others on this source of income—individuals in families headed by a black person, a disabled person, a female, or an unmarried person with children in the household. It should also be noted that *private* noncontributory transfers reached more individuals than either public noncontributory transfers or private noncontributory transfers, this differential being especially pronounced when one looks at the nine-year figures. The average amount of private noncontributory transfers received by recipient families was relatively low, however.

Table 8.4, instead of looking at the entire population, focuses only on those individuals who were in families which were poor under the different definitions of income. It shows the percentage of individuals who were in part in poor families (by the different definitions) who received any of the various types of transfers, and the average amount they received. For example, of all those individuals who were in families headed by an individual age 65 or older and whose taxable income was not sufficient to raise the family above the poverty line, 62.8 percent were in families which received some taxable income. Their average taxable income was \$1,222.

TABLE 8.3.—INDIVIDUALS WHO WERE IN FAMILIES WHICH RECEIVED DIFFERENT TYPES OF INCOME, AND THE AVERAGE AMOUNTS OF THAT INCOME

[All sample individuals in 1976, N=15,702]

Type of income	Household head in 1976 was—													
	Age 65 or older		Black		Disabled		Unmarried with children		Female		Employed at least 1,500 hr in 1976		All	
	Percent- age who were recip- ients	Average amount												
1975														
Taxable income.....	63.3	\$8,438	84.2	\$10,454	67.3	\$6,565	78.4	\$8,342	79.8	\$7,346	100.0	\$19,696	93.9	\$16,506
Private contributory transfers.....	43.8	3,055	8.4	2,238	34.4	3,108	7.6	1,737	15.3	2,163	3.6	2,500	10.6	3,179
Public contributory transfers.....	88.2	3,243	31.4	1,904	70.0	3,041	29.2	2,935	40.0	2,633	13.8	1,558	27.8	2,529
Private noncontributory transfers.....	9.4	1,117	17.1	1,088	13.3	850	50.0	1,773	28.9	1,550	11.3	1,522	13.5	1,533
Public noncontributory transfers.....	14.9	1,107	31.4	2,503	31.4	1,876	37.4	2,965	27.3	2,601	2.2	1,482	8.5	2,224
9-YR AVERAGE, 1967-75														
Taxable income.....	96.3	8,208	98.3	8,800	96.4	6,714	98.3	8,879	96.3	8,469	100.0	18,379	99.4	15,719
Private contributory transfers.....	59.6	1,780	22.1	742	50.0	1,470	20.4	794	29.5	1,014	12.8	727	21.0	1,229
Public contributory transfers.....	93.0	1,983	55.0	784	84.6	1,508	56.6	1,083	63.3	1,223	36.8	438	48.8	889
Private noncontributory transfers.....	40.7	344	51.1	331	49.4	306	73.5	687	62.7	596	37.9	422	41.7	427
Public noncontributory transfers.....	36.7	777	60.4	1,556	55.9	1,182	62.9	1,655	55.6	1,423	20.2	743	27.5	1,040
Percentage distribution of sample individuals.....	11.9		12.9		6.6		9.5		18.1		70.7		100.0	

NOTE.—All figures are in 1975 dollars.

TABLE 8.4—FRACTIONS OF SAMPLE INDIVIDUALS WHO WERE POOR IN 1975 BY DIFFERENT DEFINITIONS OF INCOME WHO WERE IN FAMILIES WHICH RECEIVED DIFFERENT TYPES OF INCOME AND THE AVERAGE AMOUNTS OF THAT INCOME

Poverty definition	Household head in 1976 was—													
	Age 65 or older		Black		Disabled		Unmarried with children		Female		Employed at least 1,500 hr in 1976		All	
	Per-centage	Average amount	Per-centage	Average amount	Per-centage	Average amount	Per-centage	Average amount	Per-centage	Average amount	Per-centage	Average amount	Per-centage	Average amount
1975														
Percentage income I poor who received any taxable income.....	62.8	\$1,222	63.4	\$3,485	51.1	\$2,077	57.5	\$2,933	59.4	\$2,127	100.0	\$5,322	70.4	\$2,797
Percentage income I poor who received any private contributory transfers.....	45.0	2,905	10.6	2,475	33.9	3,029	6.4	1,611	16.8	2,120	1.0	2,276	24.9	3,241
Percentage income II poor who received any public contributory transfers.....	94.8	3,020	44.2	2,079	74.8	2,930	28.9	3,234	48.2	2,659	29.7	1,743	55.6	2,884
Percentage income III poor who received any private noncontributory transfers.....	8.8	872	22.7	1,039	12.1	933	42.7	1,716	37.0	1,620	26.5	1,366	25.9	1,593
Percentage income I V poor who received any public noncontributory transfers.....	59.8	1,186	70.2	2,702	75.2	2,154	80.8	3,177	70.7	2,919	28.9	2,021	57.0	2,641
Percentage income V poor who received any public noncontributory transfers.....	50.3	970	63.2	2,256	69.9	1,780	74.6	2,699	61.6	2,390	21.7	1,808	46.8	2,255

ALL YEARS, 1967-75

Percentage income I poor who received any taxable income.....	83.6	\$626	91.6	\$2,166	88.3	\$992	91.5	\$1,437	90.7	\$1,035	100.0	\$5,882	89.9	\$1,512
Percentage income I poor who received any private contributory transfers.....	69.6	1,519	26.1	1,002	55.9	1,377	22.1	875	34.8	1,028	3.9	1,200	44.3	1,476
Percentage income II poor who received any public contributory transfers.....	95.7	1,938	60.9	1,078	81.8	1,860	54.5	1,625	67.6	1,456	66.9	630	73.8	1,665
Percentage income III poor who received any private noncontributory transfers.....	67.1	258	57.9	323	60.0	299	70.4	432	66.6	425	23.8	269	55.9	372
Percentage income IV poor who received any public noncontributory transfers.....	89.0	1,164	95.2	2,863	93.8	2,137	90.8	3,215	96.3	3,032	78.2	2,155	93.8	2,746
Percentage income V poor who received any public noncontributory transfers.....	73.9	377	89.7	1,819	86.6	1,192	97.4	2,283	92.1	1,926	43.4	555	84.8	1,711

ANY YEAR, 1967-75

Percentage income I poor who received any taxable income.....	95.2	\$4,448	97.7	\$5,863	95.6	\$4,159	97.7	\$5,852	97.6	\$5,734	100.0	\$10,385	98.1	\$8,053
Percentage income I poor who received any private contributory transfers.....	64.1	1,719	24.6	761	51.2	1,446	21.9	803	32.1	1,062	19.0	643	33.1	1,326
Percentage income II poor who received any public contributory transfers.....	97.5	2,110	60.5	903	87.7	1,798	59.3	1,254	69.3	1,362	52.2	678	67.3	1,268
Percentage income III poor who received any private noncontributory transfers.....	51.5	359	58.6	337	56.3	335	78.9	617	70.7	546	59.4	548	60.5	495
Percentage income IV poor who received any public noncontributory transfers.....	69.5	820	78.2	1,697	78.4	1,384	88.1	1,892	78.9	1,676	48.4	1,121	60.7	1,423
Percentage income V poor who received any public noncontributory transfers.....	65.2	762	77.4	1,699	76.6	1,367	87.1	1,942	76.4	1,714	45.2	1,142	57.5	1,434

NOTE.—All figures are in 1975 dollars.

The figures presented in Table 8.4 enable us to distinguish between two distinct aspects of the effect of the different transfer systems on the poverty population, namely, the amount of income received by those persons who are connected to the various systems, and the percentage of poor individuals who are connected *at all* with the various systems. For example, of those individuals in families whose income exclusive of any public noncontributory transfers was insufficient to raise them above poverty, only 57 percent were in families which received any public noncontributory transfers. From Table 8.1, however, we know that public noncontributory transfers lifted only 19.1 percent of the Income IV poor above the poverty line (2.1 percent + 11.0 percent). Therefore, of the 57 percent of the Income IV poor who received public noncontributory transfers, only one-third (19.1 percent + 57.0 percent) received such transfers in an amount sufficient to raise them above the poverty line. The implication for public policy is that higher payment levels for noncontributory transfer programs would significantly reduce the fraction of individuals who were in poverty as officially defined. It seems clear, however, that such an increase in payments would still leave many individuals in poverty, since 43 percent of the Income IV poor are not connected at all to the public noncontributory transfer system. (It deserves reemphasis here that not all such programs are included in this analysis.) For public policy purposes, this would indicate that any program which has as its goal the elimination of poverty would have to reach a substantial number of individuals who are not currently participants in the public noncontributory transfer system. Existing public noncontributory transfer programs, of course, are not intended to cover the entire poverty population, so part of this nonparticipation can be attributed to explicit decisions made by policy makers. Aid to Families of Dependent Children, for example, restricts eligibility primarily to single parent families with dependent children in the household and imposes a work requirement if no child in the household is under the age of six.⁹ But even though 80 percent of the Income IV poor individuals who are in households headed by a single parent with children under 18 in the family unit receive some public noncontributory transfers, there remains one-fifth of such individuals who may be eligible for such transfers but are not receiving any.¹⁰ Thus it would appear that nonparticipation in the transfer systems by eligible families may be hindering efforts to alleviate poverty.

The results in Table 8.4 confirm the findings presented in Table 8.1 with respect to which subgroups of the population benefit the most from the different transfer systems. The elderly and the disabled are the most likely recipients of contributory transfer payments, both public and private. Individuals in families headed by a black person or by an unmarried person with children in the household are not likely to be recipients of contributory transfer payments, but are aided by public noncontributory transfers. Finally, the working poor are not aided much by any of the various transfer systems.

Different time horizons and the extent of poverty

The above discussion was based on poverty measured during a single year, in accordance with the official definition of poverty employed by the Census Bureau. This section takes a longer run view of the nature of poverty. We focus both on the *persistence* of poverty by looking at the fraction of individuals in various subgroups of the population who were in families whose income fell below their minimum needs level in *every one* of the nine years between 1967 and 1975 (inclusively) and on the *transitory* nature of poverty by looking at those individuals who were in families which were in poverty in *any one* of the nine years between 1967 and 1975.

The most startling result from the figures presented in Table 8.1 is that poverty is much less persistent but much more pervasive than might be thought by looking at single year poverty statistics. While 8.9 percent of all individuals were poor in 1975, only 12 percent of these were poor in every one of the nine years (1.1 percent of the entire population).¹¹ While this is still a significant

⁹ In certain cases, two-parent families are also eligible for AFDC payments. Examples would be where one of the parents is incapacitated or unemployed.

¹⁰ It is possible that some of these families are ineligible for nonincome reasons, such as having excess assets.

¹¹ The arbitrariness of the official poverty line should be noted at this point. A family could be moved above the poverty line in one year by the addition of a small amount of money to family income. Although it would remain poor in the other eight years, it would still be classified as moving out of persistent poverty. It could be argued quite forcibly that a family which was poor in eight out of nine years was persistently poor.

number of people to face such severe hardship, it does indicate that many of the one-year poor may be only temporarily below the line. But coupled with this heartening finding is the discovery of the pervasiveness of temporary poverty. Although only 8.9 percent of the population was poor in the single year 1975, one-quarter of the population (25.1 percent) was in poverty in at least one out of the nine years between 1967 and 1975. It would seem that despite the fact that many families are able to escape the continual confines of poverty, a substantial portion of our population is faced with the threat of falling from their precarious position above the poverty line.

Changing the time horizon also has a dramatic impact on the composition of the poverty population, as shown by Table 8.2. Those subgroups of the population which are disproportionately in poverty on an annual basis are generally in a much worse situation when poverty is viewed over a nine-year period. For example, blacks accounted for 41.3 percent of the poor individuals in 1975, but an astonishing 77.0 percent of the persistently poor individuals. Individuals in families headed by an unmarried person with children in the household and/or by a female also accounted for a much larger percentage of the persistently poor than of the one-year poor. On the other hand, these groups comprise a smaller percentage of the transitory poor than of the one-year poor. For example, blacks comprise 33.8 percent of the individuals who were poor in at least one of the nine years, as compared to 41.3 percent of the 1975 single year poor. These results indicate that the more favored groups of our society—such as whites, and male-headed families—although not free from the threat of poverty, are likely to be poor for only a limited time. The more disadvantaged groups of individuals, however, are much more likely to be in continual poverty, as well as in one-year poverty. The policy implications of these findings are important. If policy makers use one-year poverty statistics to allocate the funds for programs aimed at eliminating persistent poverty, they may under-allocate funds to blacks, to unmarried parents with children, and to female-headed families. On the other hand, funds for programs aimed at providing emergency aid to families who are temporarily in difficult circumstances may be over allocated to such groups, and under allocated to whites and other groups who, although not usually poor on an annual basis, are likely to fall intermittently below the poverty line.

Permanent and transitory poverty and different sources of income

We now turn to the effects the different sources of income have on permanent and transitory poverty. Table 8.1 shows again that the exchange sector of the economy is the primary vehicle for keeping the vast majority of individuals out of persistent poverty. Only 5.9 percent of the individuals are in families whose taxable income was lower than their minimum needs level in every one of the nine years from 1967 through 1975. At the same time, the labor and capital markets were not particularly efficient in preventing transitory poverty; almost 40 percent of the sample individuals were in families whose taxable income failed to meet minimum needs in at least one of the nine years. For certain subgroups of the population—the elderly, the blacks, the disabled, the unmarried parents with children in the household, and the female-headed families—this failure was particularly pronounced. Over 70 percent of those in families headed by such individuals were unable in at least one year to meet their minimum needs with income derived from the labor and capital markets.

Of the other types of income, public contributory transfer payments continued to have the largest absolute impact on poverty. Such payments lifted 1.8 percent of the individuals out of persistent poverty, and 6.2 percent out of transitory poverty. The elderly and the disabled were the main beneficiaries of such transfers, as was found for the one-year period 1975. Public noncontributory transfers also had a major impact, lifting 1.6 percent of the population out of persistent poverty. This represents 59.3 percent of those individuals whose income exclusive of public noncontributory transfers was not sufficient to bring them above the poverty line in any of the nine years. In absolute terms, the major beneficiaries of such transfers were individuals in families headed by a black person, a disabled person, or an unmarried person with children in the household. Over 7 percent of the individuals in each of these groups were brought out of persistent poverty by such payments. In relative terms, however, these groups were not aided by such transfers as much as were the individuals who were not in such families. This can be seen from the figures in Table 8.2,

which show the composition of the population of persistently poor individuals with and without public noncontributory transfers included in family income. Without the inclusion of such transfers, blacks, for example, comprised 67.6 percent of the persistently poor population; with the inclusion, 77.0 percent. This increase in the percentage of the poverty population accounted for by black individuals indicates that *on a relative basis* blacks benefitted less than nonblacks from public noncontributory transfer payments. This happens despite the fact that *on an absolute basis* blacks benefitted more than nonblacks. This occurs because among the blacks and nonblacks who were persistently poor without the inclusion of public noncontributory transfers, a smaller percentage of blacks than nonblacks were lifted out of persistent poverty by the inclusion of such transfers. Specifically, although 7.6 percent of the black individuals were lifted out of poverty by public noncontributory transfers, this accounted for only 53 percent of the 14.8 percent of black individuals who were in persistent poverty without the inclusion of such transfers. As mentioned above, for the entire population, such transfers lifted 59 percent of the persistently poor out of poverty, thus indicating that a higher relative percentage of nonblacks than blacks were lifted out of persistent poverty by public noncontributory transfers.

Although public noncontributory transfers are relatively efficient in eliminating persistent poverty, they are one of the most ineffective in eliminating transitory poverty. Such transfers lifted only 2 percent of the entire population out of transitory poverty, which represents less than 10 percent of the transitory poor when public noncontributory transfers were excluded from income. This result is tempered somewhat by the figures presented in Table 8.4, which indicate that the average annual amount of public noncontributory transfers received by the Income IV poor over the nine-year period compares favorably to the average annual amounts of other types of transfers received by families who were poor under alternative definitions of income. These payments apparently are not sufficient to prevent these families from occasionally falling below the poverty line.

Summary and conclusions

This chapter has attempted to examine how our perception of the nature and extent of poverty is affected if we place poverty in a long-run perspective and if we examine the sources of income which push individuals above the poverty line. Perhaps the most important finding of the study is that poverty, as officially defined with respect to a family's minimum level of needs, is much less persistent but more pervasive than might be thought from a look at the official one-year poverty figures. Of the individuals who were poor in the one-year period 1975, only 12 percent were in poverty in every one of the nine years between 1967 and 1975. On the other hand, while only 8.9 percent of the population was poor in 1975, fully one-quarter of the sample individuals were in poverty in at least one of the nine years between 1967 and 1975. Viewing poverty over a longer time horizon than one year also dramatically alters the composition of the poverty population. Individuals in families headed by a black person, a female, or an unmarried person with children in the household, while disproportionately poor on a one-year basis, comprise an even larger fraction of the persistently poor. For example, blacks comprised 41.3 percent of the poverty population in 1975, but they accounted for a shocking 77.0 percent of the individuals who were in families which were poor in *every* one of the nine years between 1967 and 1975. The implication for public policy is that decision makers should be cautious in using the official annual poverty figures to allocate the resources earmarked for public anti-poverty programs depending on the precise goal of the individual program. If, for example, the program is aimed at eliminating long-run poverty, the use of one-year poverty figures to allocate the program's funds would result in an under-allocation of such resources to black families.

APPENDIX 8.1

The different types of transfer payments were added to taxable income to evaluate their effect on poverty in an arbitrary order. The rationale for adding contributory transfers before noncontributory transfers was that the receipt of contributory transfers is more a product of an individual's own actions than

is the receipt of noncontributory transfers, which depend much more on the action of other individuals. Thus persons who must rely on noncontributory transfers in order to climb above the poverty line are arguably more dependent than individuals who do not need such transfers in order to meet their minimum needs. The rationale for adding public transfers after private transfers was that the receipt of public transfers is conditioned on the actions of the community as a whole, while the receipt of private transfers does not require such concerted agreement. Thus, persons who must rely on public transfers to provide for minimum needs are dependent on the agreement of a larger number of people than are those who rely on private transfers.

Given the political importance of public noncontributory transfer payments, it is interesting to determine whether the conclusions presented in this chapter concerning such transfers are dependent on the choice of ordering. As in Table A8.1a, adding public noncontributory transfers to taxable income before adding in any other transfers does not significantly alter any of the conclusions in this chapter concerning the effect of public noncontributory transfers on the extent of poverty. Changing the order in such a manner somewhat decreases the effect of public noncontributory transfers on one-year poverty, increases its already relatively large effect on persistent poverty, and greatly decreases its minor effect on transitory poverty.

It also should be mentioned in relation to Footnote 5 of the text, that including the entire transfer income of others in years 1967 through 1973 as public noncontributory transfer income does not alter the effect of such transfers on persistent or transitory poverty.

TABLE A8. 1A.—INDIVIDUALS BROUGHT ABOVE THE POVERTY LINE BY ADDING IN PUBLIC NONCONTRIBUTORY TRANSFERS FIRST

Income definition	Household head in 1976 was—													
	Age 65 or older		Black		Disabled		Unmarried with Children		Female		Employed at least 1,500 hr in 1975		All	
	Percent-age poor	Per-centage brought out of poverty	Percent-age poor	Per-centage brought out of poverty	Percent-age poor	Per-centage brought out of poverty	Percent-age poor	Per-centage brought out of poverty	Percent-age poor	Per-centage brought out of poverty	Percent-age poor	Per-centage brought out of poverty	Percent-age poor	Per-centage brought out of poverty
1975														
Taxable income	61.0	1.3	43.2	5.2	66.8	3.2	51.0	8.0	49.7	5.4	4.6	0.6	20.4	1.5
Taxable income plus public noncontributory transfers	59.7		38.0		63.6		43.0		44.3		4.3		18.9	
ALL YEARS, 1967-75														
Taxable income	22.4	2.9	20.3	8.7	30.6	7.0	19.7	7.3	18.4	5.5	0.8	.5	5.9	1.7
Taxable income plus public noncontributory transfers	19.5		11.6		23.6		12.4		12.9		0.3		4.2	
Taxable income plus all transfer income of others	18.0	1.5	11.0	.6	22.0	1.6	11.9	.5	11.7	1.2	.3	.0	3.9	.3
ANY YEAR, 1967-75														
Taxable income	76.5	.0	72.8	1.2	81.3	.4	72.0	1.4	71.0	1.1	23.4	.6	38.3	.5
Taxable income plus public noncontributory transfers	76.5		71.6		80.9		70.6		69.9		22.8		37.8	
Taxable income plus all transfer income of others	76.4	1.1	71.4	.2	80.5	.4	70.6	.0	69.3	.6	22.7	.1	37.6	.2

[From a forthcoming book, Volume VI of Five Thousand American Families, Patterns of Economic Progress, Greg Duncan and James Morgan, Editors, Institute for Social Research, The University of Michigan, Ann Arbor, Mich. 1978]

CHAPTER 1. A SUMMARY OF PART I FINDINGS

(By Mary Corcoran and Greg J. Duncan)

INTRODUCTION

In 1975, white men, on average, earned \$6.67 per hour. This was 36 percent higher than the average hourly wage of black men, 60 percent higher than for white women, and fully 78 percent higher than for black women.¹ These wage gaps are not well understood, and indeed, the two leading explanations of them have radically different implications for understanding discrimination and planning public policy. The first, a *skill* explanation, centers on alleged differences in qualifications: white men earn more than the other three groups because they have more valuable job-related skills. The second, a *treatment* explanation, claims that a wage gap begins because employers initially treat workers differently according to the employee's sex or race, independent of skills—a bias which usually works to the advantage of white males. This differential treatment might in turn generate the group differences in work skills. If the first theory were true, then pay differentials would fall as skills became more equally distributed through, say, job training programs for the less skilled. If the second theory were true, then job training programs for minorities and women would be less successful in reducing wage differences than programs directed at the institutional causes of discrimination.

Past empirical work has largely focused on the skill explanation and has tried to show how differences in the work skills and hence, the productivity of individual workers lead to the pay differences. (See Mincer and Polachek, 1974; Suter and Miller, 1973.) Thus, since black workers usually have completed less formal education than white workers, they are said to be less qualified than white workers. Supposedly it is rational for employers to pay blacks less because they have fewer skills; the only irrational, or discriminatory pay differential is the wage gap not accounted for by these skills differences.

If differences in skills account in part for the wage gap, discovering how these differences come about becomes important. For example, the black-white differences in educational quality or attainment, are in part a result of past discrimination in the school system. Or a black may be more likely to drop out of school at age 16 because his family needs his earnings. To the extent that black/white skill differences derive from such causes, it may be misleading to label the resulting wage gap nondiscriminatory—even if this wage gap is not the result of direct employer discrimination.

In the case of sex as opposed to race, it is considerably more difficult to identify a source of differences in skills which could lead to the wage gap. Many economists (e.g., Mincer and Polachek, 1974) say that women's qualifications are lower than men's because women assume the bulk of child care and home care responsibilities. This has several implications regarding job-related skills. First, the majority of women do not work continuously after leaving school but, instead, to fulfill family and child care responsibilities, they intersperse periods of employment with periods of nonmarket work. If women expect to have a less regular lifetime pattern of labor force participation, they may have a shorter work horizon than men and, thus, have clear economic incentives to acquire fewer job skills. In addition, the skills they do acquire may become rusty (and, hence, less valuable) during the time they are out of the labor force to have and raise children. Also, even when women work, they must balance the demands of work and family. Family responsibilities may force women to accept lower paying jobs that are closer to home, to have compatible work schedules, or to have high absenteeism rates in order to care for their children when they are ill.

Some argue that skill differences between men and women which lead to the sex-based wage gap are not really the result of employer discrimination because women choose to place child and home demands above job demands. Many ques-

¹ Throughout this volume, we use the term white to include all racial categories other than black.

tion the assumption that the sex division of labor within the home should be taken as given. They argue that it is important to identify the social institutions and conditions that enforce this sex division of labor. Certainly employer discrimination may also play a role in this if pay differences reinforce the sex division of labor within the home by making it more costly in foregone earnings for men to assume family responsibilities.

On the other hand, proponents of the treatment explanations argue that skill differences, voluntary or not, are not at issue since employers treat equally qualified men and women (or blacks and whites) quite differently. Becker (1957), for instance, has argued that employers may prefer one group of workers to another (men to women or whites to blacks), and that they would be willing to pay a premium to indulge their preferences. Others have argued that employers may treat individual workers on the basis of the characteristics of the group to which they belong (see Aigner and Cain, 1977, for a summary of these arguments). If, for example, the average future labor market attachment of women is less than that of men, then employers with imperfect information about attachment may treat all women as though they had a lower level of attachment.

Bergmann (1971) suggests another possibility. She argues that women workers are "crowded" into a relatively narrow range of occupations, resulting in an oversupply of workers to these "female" jobs and artificially reducing the supply of workers to "male" jobs. According to Bergmann and Adelman (1975) female jobs offer fewer promotions and on-the-job training opportunities than do other jobs, and this produces skill differences between men and women. This argument is a variant of what have been called "segmented labor market" theories. Proponents of these theories (see Cain, 1976) argue that jobs in the labor market fall into one of two sectors, the secondary sector or the primary sector. The secondary sector is composed of relatively small, unprofitable, and unstable firms, and its jobs tend to offer few opportunities for promotion and on-the-job training. Large, stable firms comprise the primary sector and its jobs provide both promotion and training opportunities. Women and blacks tend to be disproportionately restricted to the secondary sector because of hiring discrimination in the primary sector. Discrimination may also exist within the primary sector, as when minorities are relegated to job ladders with lower pay and fewer opportunities for advancement.⁸

Efforts to investigate empirically the sources of the race and sex wage gaps have been hampered by inadequate information on work histories and family responsibilities. Instead, past studies have relied on data sources designed for other purposes. The best of these sources contain measures of years of formal education, verbal ability, and life cycle work patterns. Beyond this, the correspondence between available empirical measures and various theoretical concepts becomes quite remote. The empirical effects of marital status on the relative earnings of men and women, for example, are interpreted as the effect of work commitment. It is impossible to tell, however, if a marital status effect may be a result of discriminatory actions on the part of employers rather than of individual or even average skill differences.

In response to the data deficiencies of past studies, the staff of the Panel Study of Income Dynamics designed a questionnaire which was administered in 1976 to household heads and some 3,500 spouses who were part of a national, representative sample of almost 6,000 families that have been followed since 1968. The analysis reported in the first part of this volume focuses on the 5,225 household heads and spouses who were in the labor force in 1975. Of this total, 2,250 were white men, 895 were black men, 1,326 were white women and 741 were black women.⁹

⁸ Both the "skills" and the "segmented labor market" explanations take current job structures as given. A third, radical perspective argues that job structures evolved at least in part as a means of worker control and that policies aimed at ending sex and race-wage inequality should focus on changing present job structures (Gordon, 1976).

⁹ Note that the two groups of women are composed of both wives and unmarried female household heads while both married and unmarried men are included in the two groups of men.

The questionnaire was designed to address four hypotheses regarding pay differentials by race and sex. The first is that white men are paid more than black men and white and black women because white men receive more on-the-job training. While this hypothesis is widely believed, evidence to test it has been indirect. The Panel Study data, in contrast, contains responses to a set of direct questions on the training content of jobs.

The last three hypotheses relate to differences in earnings between men and women. They are that women earn less than men because they (1) lose skills when they withdraw from the labor force to have and raise children, (2) have higher absenteeism because of illness of other family members (especially children), and (3) restrict job locations and work hours to those compatible with their household responsibilities. Direct questions on each of these topics were included in the questionnaire. Furthermore, both men and women were asked these questions to see if the men with such limitations suffer the same wage penalties as women with corresponding limitations. Both men and women can restrict job location or work hours either because of family responsibilities or because of personal preferences. Regardless of the reason, similar restrictions should, in the absence of discrimination, bring similar wage penalties to both men and women. Also, some men may drop out of the civilian labor force for a period of years without acquiring additional job skills—perhaps for military service. All respondents who dropped out of the labor force were asked whether, during their period of withdrawal, they had acquired any training or skills that would be useful on a job. If labor markets are efficient, then the wage penalty suffered by men who do not acquire useful job skills while in military service should be similar to that of women who withdraw from the labor force to raise children.

In sum, the Panel Study data contain direct measures of on-the-job training, interrupted work experience, absenteeism, and self-imposed restrictions on job location and work hours. In the analysis presented in the first five chapters, we have described the extent to which these measures differ by race and sex, and estimated the extent to which these differences accounted for differences in pay. We also investigated the extent to which differences in training measures resulted from voluntary choice.

Our data permit us to test the skills explanation to a much greater extent than has been possible with other data sets. We cannot, however, also test the treatment explanation, so we do not include its major explanatory variable—occupation—among our empirical measures. Although differences in occupational distributions explain much of the pay differences between the races and sexes, it is unclear whether the occupational differences result from employer discrimination or voluntary choice. To what extent do women, for example, choose to work in lower paying, female-dominated occupations because they allow flexibility in setting work hours or because they don't penalize those with prolonged work interruptions? An understanding of occupational decisions is obviously crucial for a test of the treatment explanations, and our data tell us very little about this. In this book, we do not control for differences in occupational distributions in attempting to account for pay differences by race and sex. This permits us to estimate the maximum impact of skills on earnings differences.

ANALYSIS

What we found

Our conclusions can be summarized as follows:

White men differed from black men and from white and black women in ways predicted by the conventional wisdom of stereotypes. White men had completed more formal education than either black men or black women. White men reported training periods on their current jobs which averaged more than twice as long as the training periods of black men or white and black women. White and black women spent less time overall in the labor force than white men, with fewer of their working years being fulltime. Also, women were considerably more likely than white men to report being absent from work because of the illness of other family members, to have placed restrictions on hours or job location when looking for work, and to expect to stop work in the near future.

Even after adjusting wages⁴ for these large average differences in qualifications, white men still earned substantially more than black men, white women, or black women. Average qualification differences explained less than one-third of the wage gap between white men and black women, less than half of the wage gap between white men and white women, and less than two-thirds of the wage gap between white and black men—substantial but hardly overwhelming amounts given the extensive number of qualification measures included in our data. The earnings advantages enjoyed by white men cannot be entirely or even primarily attributed to the superiority of their skills.

Table 1.1 shows the extent to which different factors accounted for wage differences between white men and the other three groups. Differences in training accounted for between 8 and 15 percent of the wage differentials between white men and other workers. Differences in formal education accounted for almost 40 percent of the wage gap between white men and black men and for 11 percent of the wage gap between white men and black women. Differences in work history accounted for 28 percent of the wage gap between white men and white women and about 14 percent of the wage gap between white men and black women.

The most striking finding of the study was that the indicators of labor force attachment explain virtually none of the earnings differences between men and women. Individuals of either sex with lower attachment earned no less than otherwise similar individuals with greater attachment. So while women, on the average, lost more time from work, placed more restrictions on job hours and job location, and more often planned to quit work in the near future, these characteristics were unrelated to wages within each group and hence explained none of the total wage gap between men and women.

TABLE 1.1.—PERCENTAGE OF THE WAGE GAP BETWEEN WHITE MEN AND OTHER GROUPS OF WORKERS "EXPLAINED" BY VARIOUS FACTORS

[All working household heads and spouses aged 18-64]

	Black men	White women	Black women
Formal education.....	39	2	11
Work history.....	3	28	14
Years of training completed on current job.....	15	10	8
Indicators of labor force attachment.....	-2	2	-2
Unexplained.....	45	58	69
Total.....	100	100	100

Differences in training time on the current job accounted for between 8 and 15 percent of the earnings differences between white men and the other groups. While some of these training differences seemed to be influenced by economic incentives, most were produced by what appeared to be institutional barriers in hiring and promoting blacks and women into the jobs with training.

How we found it

The remainder of this chapter and the other chapters in the first part of this volume detail our procedures and findings. The next section of this chapter describes each set of qualification measures and the extent to which differences in the measures account for both individual wage differences and average wage differences by race and sex. In the concluding section, we discuss the implications of our results. The two appendices to this chapter describe the statistical procedures used to arrive at estimates of the effects of worker characteristics on individual and on group differences in wages.

⁴ Wage rates are calculated by dividing total annual labor income by the total annual work hours. Race- and sex-based differences in annual earnings are even larger than differences in hourly earnings because white men work more hours per year than the other groups of workers. Some of these differences in work hours result from larger amounts of involuntary unemployment (and underemployment) incurred by black men and white and black women.

The remaining chapters in Part I of this volume treat different sets of qualifications separately and in great detail. Chapter 2 examines the set of work history measures. Since on-the-job training is a central part of most explanations of earnings differences, the entire third chapter is devoted to it. The fourth and fifth chapters focus on self-imposed restrictions and absenteeism, respectively.

Indicators of attachment to the labor force

We used the following five measures of attachment to the labor force in our analyses: absenteeism because of own illness, absenteeism because of illness of others, self-imposed restrictions on work hours and location, self-imposed limits on geographic mobility, and plans to quit work.⁴

The questions used to obtain these measures and the distribution of responses by race and sex are detailed in Figures 1.1 to 1.5. Table 1.2 reports the amount of the wage gap between white men and the other race/sex groups that can be explained by race/sex differences in attachment.

The average time lost from work in 1975 was small for all race/sex groups, but women and black men did lose more time than white men. On the average, white men missed 4 hours from work in 1975 because someone else in the family was sick, compared to 8 hours for black men, 12 hours for white women, and 26 hours for black women. White men lost 36 hours from work because of their own illness compared to 43 for white women, 58 for black women, and 50 for black men. Women were much more likely than men to have imposed limitations on the location of their jobs or hours they would work; only about 14 percent of men reported placing such limitations compared to 34 percent of white women and 22 percent for black women. Surprisingly, the sexes did not differ in the limits they placed on geographic mobility. In each race/sex group, about one-third reported that they could get a better job if they were willing to move. Fewer than one-tenth of all workers planned to quit work in the near future, but most of them were women.

⁴ We originally used one other measure of labor force attachment, voluntary part-time work, since previous research had suggested lower wages for part-time workers. While women were more likely to be part-time workers, we found that this variable had a large positive effect on the wages of black men that was generated by a very small number of cases, and that it had no significant effect on the wages of white men or white women.

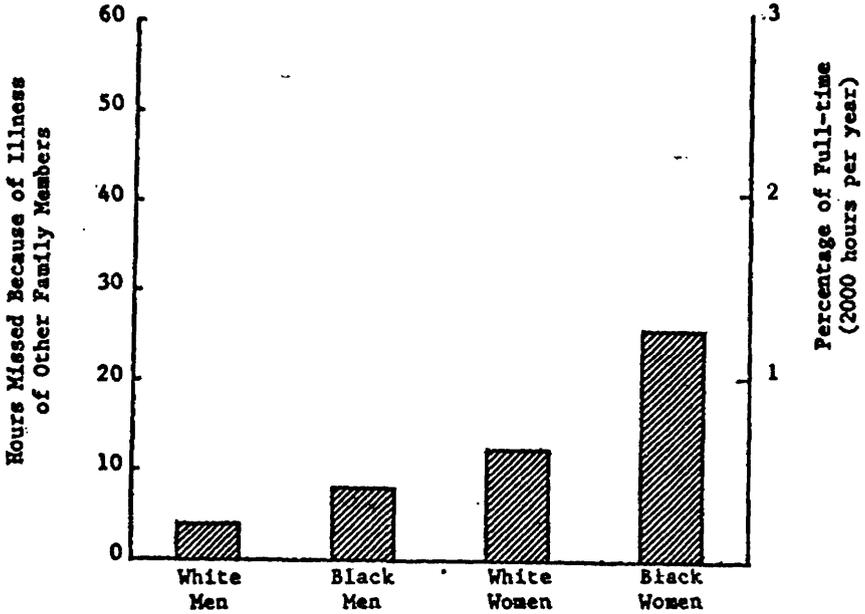


Figure 1.1. ABSENTEEISM BECAUSE OF THE ILLNESS OF OTHERS

When asked "Did you miss any work in 1975 because someone in the family was sick?", women, and especially black women, were much more likely than men to respond affirmatively. When expressed as a fraction of a full time, 2000 hour year, however, the amount of absenteeism for all groups is quite small.

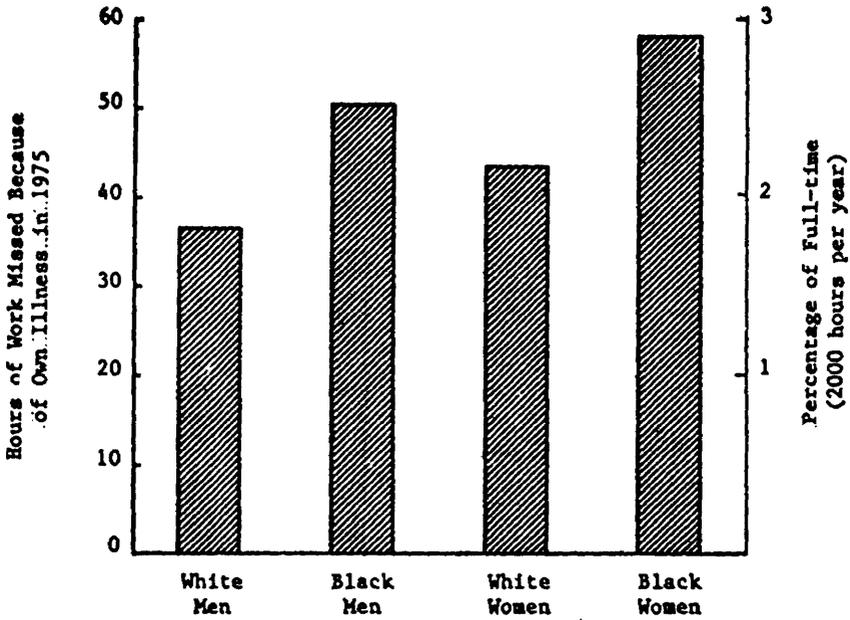


Figure 1.2. ABSENTEEISM BECAUSE OF OWN ILLNESS

Women and black men lost more time from work because they themselves were sick.

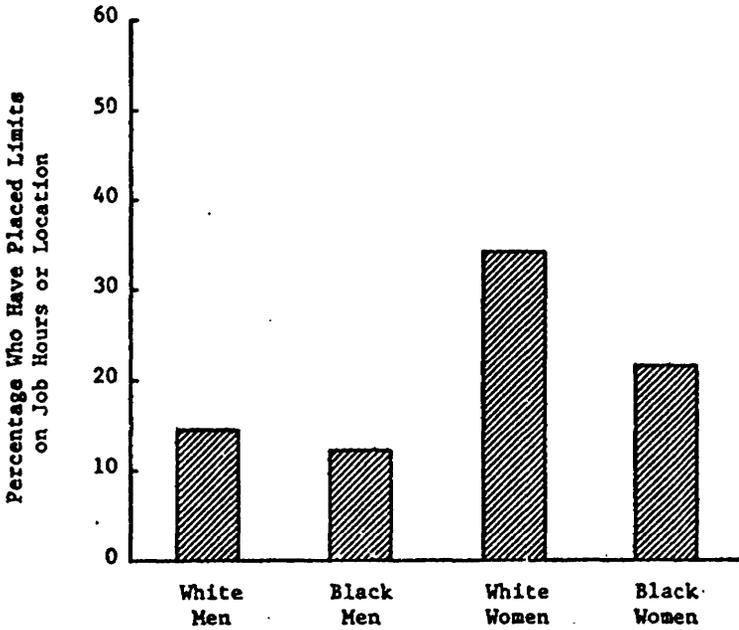


Figure 1.3. SELF-IMPOSED RESTRICTIONS ON LOCATION OR WORK HOURS

Many more women than men gave an affirmative response to the question "Thinking back to when you started your present job, were there some limitations on where you could work or what hours you could work that were factors in taking this job?"

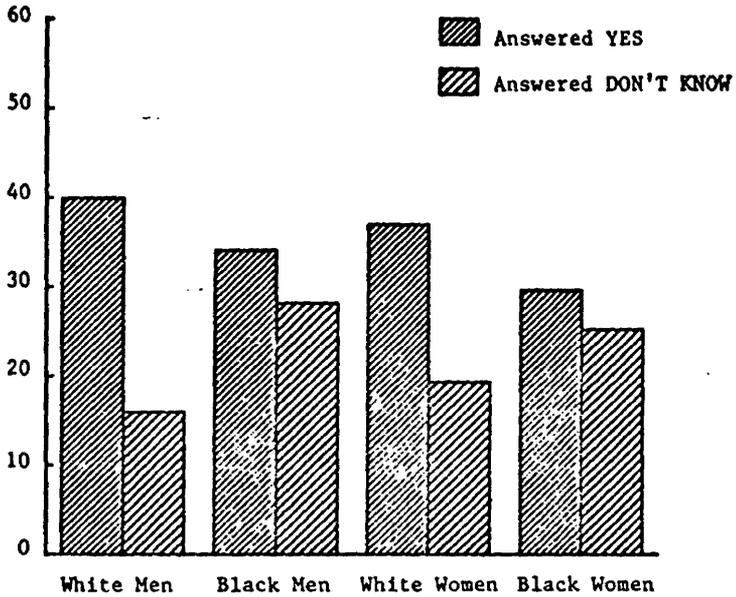


Figure 1.4. SELF-IMPOSED LIMITS ON GEOGRAPHIC MOBILITY

The question "Are there better jobs you could get if you were willing to move and live somewhere else?" showed few differences in affirmative responses across the race/sex subgroups, and blacks were somewhat more likely than whites to say that they didn't know

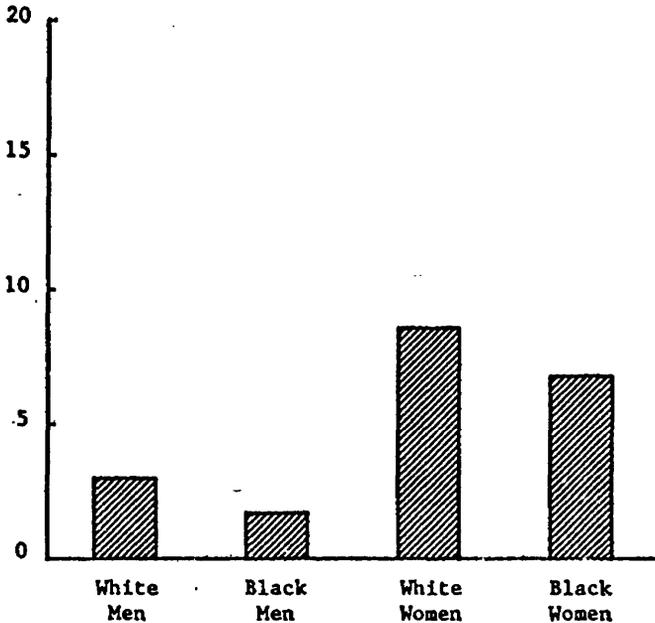


Figure 1.5. PLANS TO QUIT WORK

Although fewer than one-tenth of any of the four groups said they planned to quit work in the next few years for reasons other than to get training, those who do say so are predominately women.

These differences in attachment explained almost none of the sex-based wage gap, largely because attachment, as measured in this study, had a negligible impact on wages.⁶ For instance, workers who were frequently absent from work or who had imposed limitations on work hours or job location earned no less or only slightly less than did similarly qualified workers who attended work regularly and imposed no such limitations. Imposing geographic limitations did lower a worker's expected wages, but had almost no effect on race or sex differences in wages since all race/sex groups were equally likely, on average, to impose such restrictions.⁷ Workers who planned to quit work in the

⁶ We used the standard statistical procedure of multiple regression to relate wages to our measure of labor force attachment, work history, training, and formal education. In calculating the results for one particular set of predictor variables (such as attachment), the effects of all other sets of predictors have been taken into account. For more details, see the Appendix to this chapter.

⁷ As explained in Chapter 4, responses to the question on self-imposed limits on geographic mobility may be confounded by differences in information about jobs in other locations. Additional analysis in that chapter used the longitudinal aspect of the Panel Study data to test for differences in wage rate changes between husbands and wives who moved as opposed to couples who did not move. In general, these wage differences were minimal although it was found that a greater proportion of wives who moved dropped out of the labor force than did wives who didn't move. Thus, mobility may have an indirect effect on wages by reducing labor force experience.

near future earned less than did workers with no such plans, but so few workers of either sex planned to quit work that male/female differences in such plans explained, at most, 2 percent of the wage gap between white men and women. Not only did employers fail to reward more reliable workers within the four race/sex subgroups we also found no evidence of reward even to long-term reliable employees for whom information on reliability is readily available and inexpensive.

It may be surprising to learn that differences in attachment explained virtually none of the wage gap between men and women and indeed, had very little effect on individual worker's wages. Of course, we cannot rule out the possibility that attachment is inadequately measured. But, using a variety of measures, we found that women typically showed less attachment than men with these measures. To the extent that these are valid measures of attachment, these findings suggest that there is little rational economic justification for employers to treat men and women differently on the assumption that it is difficult to sort employees individually and that women as a group are less reliable and less committed than men.

TABLE 1.2.—PROPORTION OF WAGE DIFFERENCES BETWEEN WHITE MEN AND BLACK MEN, WHITE WOMEN AND BLACK WOMEN EXPLAINED BY VARIOUS LABOR FORCE ATTACHMENT MEASURES

[All working household heads and spouses aged 18-64] -

	Black men	White women	Black women
Hours of work missed because of illness of others in 1975.....	-1	-1	-2
Hours of work missed because of own illness in 1975.....	-1	0	-1
Placed limits on job hours or location.....	0	2	1
Knows that there are better jobs elsewhere.....	-2	-1	-2
Doesn't know whether there are better jobs elsewhere.....	3	0	1
Plans to stop working for nontraining reasons.....	-1	2	1
Total.....	-2	2	-2

Work history and training measures

We split an individual's work history since leaving school into four segments: years out of the labor force since leaving school, years of work experience prior to working for present employer, tenure with present employer prior to present position, and tenure in present position. Tenure in present position was further subdivided into two segments: training completed in present position and post-training tenure. A sixth variable measured the proportion of all years that were full time work.⁹ Figures 1.6 to 1.11 show how these measures differed across the four subgroups defined by race and sex. Table 1.3 gives the percentage of the wage gaps between white men and the three other groups that can be accounted for by race/sex differences in work history and training.

As expected, men and women differed considerably both in the amount of time they worked and in the continuity of their work experience. Compared to white men, the average white woman had three years less pre-present employer

⁹ The definition of "part" and "full" time work was left up to the respondent for this measure, and there is reason to suspect that part-year workers, such as school teachers considered their work as full time.

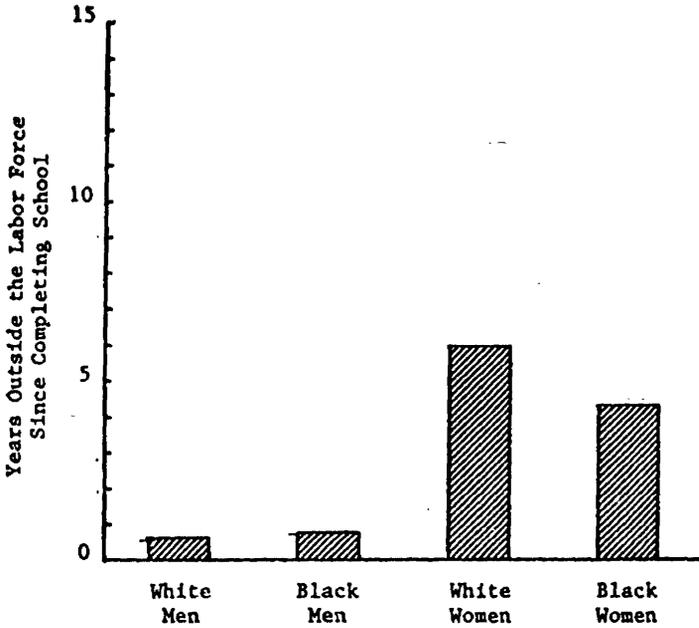


Figure 1.6. YEARS OUTSIDE THE LABOR FORCE SINCE COMPLETING SCHOOL

With respect to work history after finishing their schooling, women spent a much longer time out of the labor force than men.

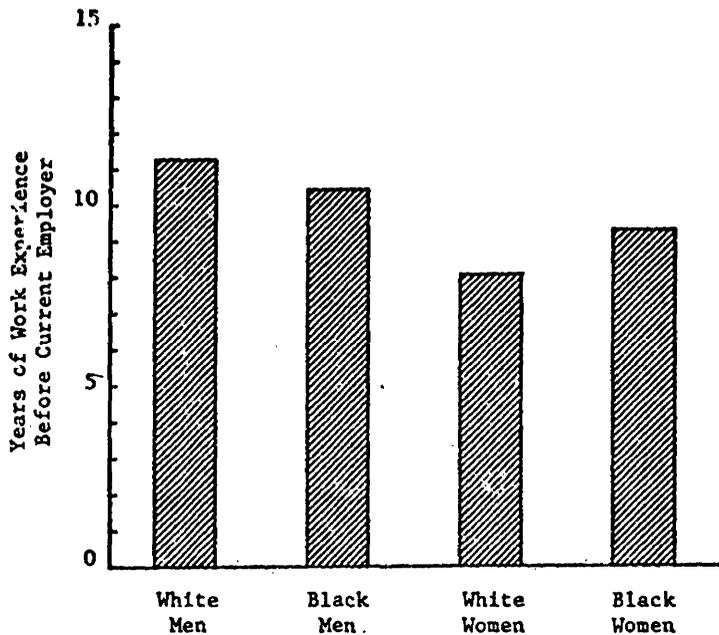


Figure 1.7. YEARS OF WORK EXPERIENCE BEFORE CURRENT EMPLOYER

Women spent somewhat less time in the labor force prior to taking a job with their current employers.

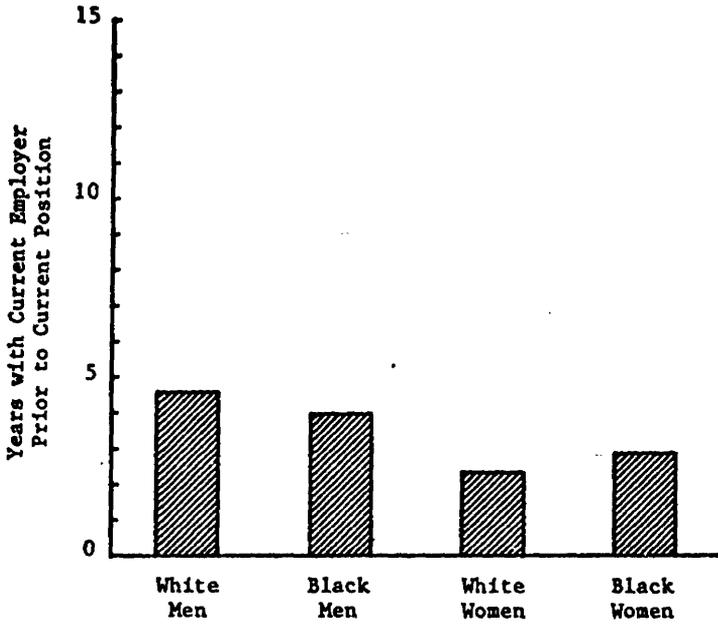


Figure 1.8. YEARS WITH CURRENT EMPLOYER PRIOR TO CURRENT POSITION

Once joining their current employer, women still had fewer years of tenure prior to taking their current position.

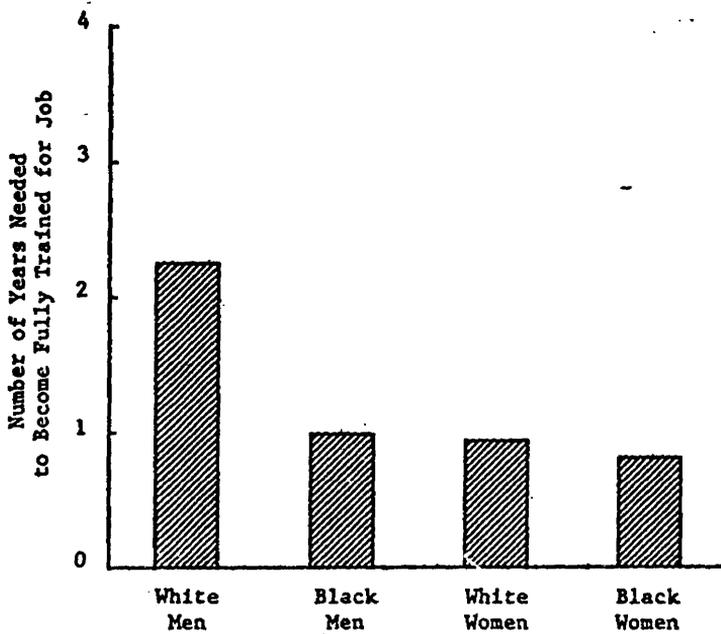


Figure 1.9. ON-THE-JOB TRAINING

In response to the question "How long would it take the average new person to become fully trained and qualified for your job?" white men reported training periods that were more than twice as long as those of the three other groups of workers.

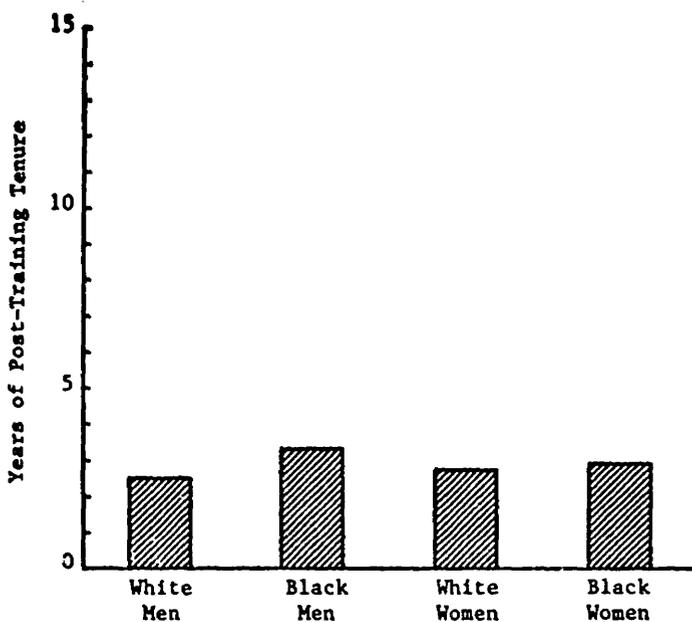


Figure 1.10. YEARS OF POST-TRAINING TENURE ON CURRENT JOB

Women spent about the same amount of time as men in their current position after finishing the training period.

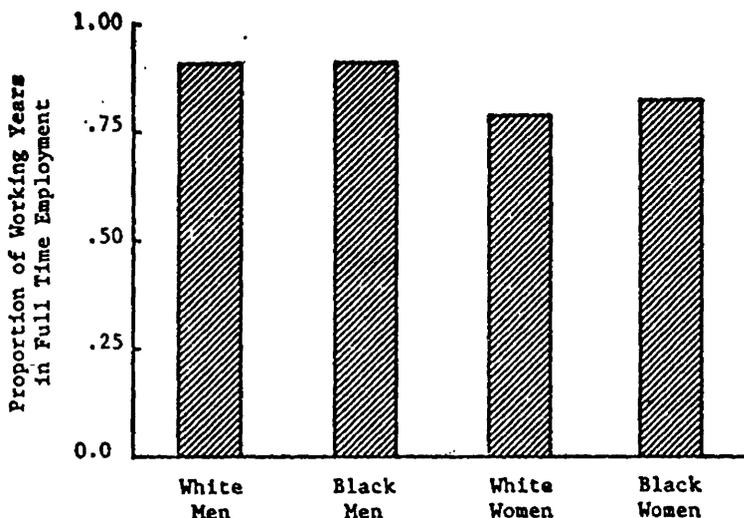


Figure 1.11. PROPORTION OF YEARS WORKED FULL-TIME

In addition to working fewer total years, women are also somewhat less likely to work full-time.

experience, three years less present employer tenure, spent five more years out of the labor force, and was much more likely to work part-time. Differences are similar but smaller when we compare white men to black women. In addition, white men have completed more than twice as much training as black men, white women, or black women.

Past investigations of pay differences by race and sex have indicated that white men's wages rise much more sharply with work experience than do the wages of black men and of women. In contrast with this previous analysis, we broke up work experience into the different segments just described. We found that time spent in a given work segment was equally valuable to all race/sex groups, but that time spent in different segments was not equally valuable. A year of completed training, for instance, raised wages by 5 to 8 percent while a year of pre-employer experience only raised wages 1 to 3 percent. White men had spent relatively more time in the more valuable work segments, especially the training segment, than had the other three groups, and so benefitted more from overall work experience than the rest.

TABLE 1.3.--PERCENTAGE OF WAGE DIFFERENCES BETWEEN WHITE MEN AND BLACK MEN, WHITE WOMEN AND BLACK WOMEN EXPLAINED BY VARIOUS WORK HISTORY MEASURES

[All working household heads and spouses aged 18-64]

	Black men	White women	Black women
Years outside the labor force since completing school.....	0	6	3
Years of work experience before present employer.....	2	3	1
Years with current employer prior to current position.....	5	12	7
Years of training completed on current job.....	15	10	2
Years of post-training tenure on current job.....	-4	-1	-1
Proportion of total working years that were full time.....	0	8	4
Total.....	18	38	22

Differences in work history patterns and in training accounted for a considerable portion of the wage gaps between white men and white and black women, largely because women acquired less tenure, completed less training, and were more likely to work parttime. Differences in the proportion of full-time work accounted for 8 percent of the wage gap between white men and white women and 4 percent of the wage gap between white men and black women. Differences in training completed explained 10 percent of the wage gap between white men and white women, 8 percent of the wage gap between white men and black women, and 15 percent of the wage gap between white men and black men. Differences in other tenure components accounted for 11 and 6 percent of the wage gaps between white men and white and black women, respectively.

Surprisingly, the large average differences in years spent out of the labor force since school completion (ranging from 3.5 to 5.2 years) explained very little of the average wage gaps between white men and white and black women. It appears that women are paid less than white men for some reason other than obsolescence of skills because of prolonged periods of labor force withdrawal. Indeed, labor force withdrawals had very small effects on wages even within race/sex groups and even when these withdrawals involved no skill acquisition.⁹ Nor did differences in work experience prior to working for one's current employer explain much of the average wage gap between men and women.

Our results (see Chapter 4) show that among white men, married workers earn considerably more than do similarly qualified single workers but that this is not true for women. Some have argued on the basis of similar results that marriage increases men's earnings more than those of women because marriage affects the labor force behavior of men and women quite differently. That is, marital status serves as a proxy for differences in labor market commitment between men and women.¹⁰ In Chapter 4 we find however, that among whites, sex differences in the wage benefits associated with marriage were unchanged even after we adjusted for differences in work commitment, work orientation, and work history.

Black and white men had very similar work history patterns—with one exception. White men had completed twice as much training in their current positions as had black men, and this difference alone accounted for 15 percent of the wage gap between white and black men.

Both the skills and treatment explanations of sex/race wage differentials predict that training accounts for a considerable proportion of the wage gaps between white men and the other three groups. The crucial question is whether race/sex differences in training result from voluntary choice by workers or from the discriminatory hiring and promotion practices of employers. If women and minority workers are crowded into jobs with little opportunity for training it is more appropriate to attribute training-based wage differences to discrimination. In Chapter 3, these issues are explored in some detail. It is concluded that while an individual's chances of engaging in training responded to economic incentives, the most important factors may be involuntary, institutional ones. Women and blacks with similar work horizons and labor force attachments as white men ended up in jobs with less training largely because their prior work experience did not pay off in training opportunities as it did for white men. That is, it appears that employers and firms, when hiring and promoting, may treat women and black men differently than otherwise similarly qualified white men.

⁹ Note that labor force withdrawal does reduce wages because work experience is not being accumulated. We find that there is no additional penalty resulting from depreciation or obsolescence of skills. Chapter 2 tests whether withdrawals which involved neither schooling nor training had any effects on worker wages. Such withdrawals had negligible effects on wages for all groups except black men.

¹⁰ Another possible explanation for the higher wages of married men reverses the marriage-wage line of causation, i.e., higher wage men are more attractive marriage prospects and are therefore more likely to marry.

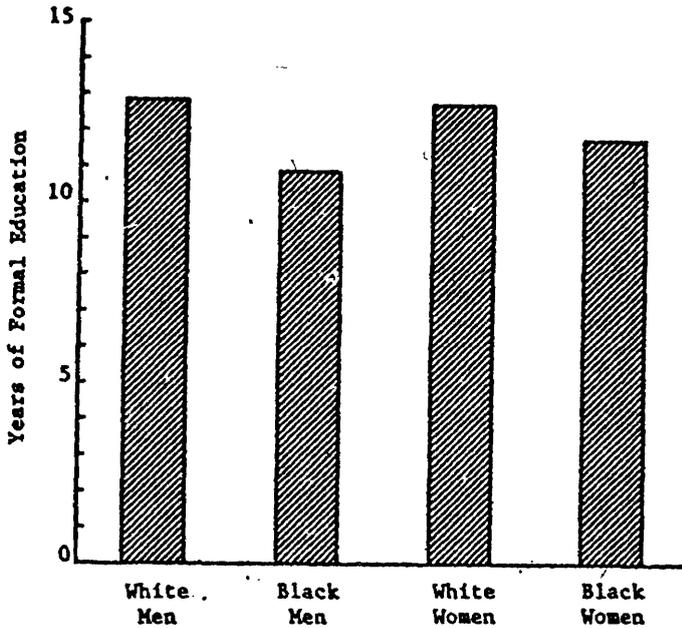


Figure 1.12. FORMAL EDUCATION

Whites have a well-documented advantage in completed education over blacks.

Educational attainment

As Figure 1.12 shows, differences in formal education were greatest between white and black men. White women were most similar to white men, while black women had completed somewhat less education than white women.¹¹ Because education has a very strong effect on wages, differences in educational attainment accounted for a substantial fraction of the pay differences between white men and blacks—especially black men. Differences in formal education accounted for 39 percent of the wage gap between white and black men and 11 percent of the wage gap between white men and black women.

SUMMARY AND IMPLICATIONS

We find that the wage advantages enjoyed by white men cannot be explained solely or even primarily by superior qualifications or more attachment to the labor force.¹² Even after adjusting the wage gaps between white men, white and

¹¹ Educational distributions do, of course, differ by sex. Women are more likely than men to finish high school, but are less likely to finish college. We investigated possible nonlinear effects of schooling, but found no consistent patterns.

¹² This finding is not unique to us. Most studies which try to adjust the male/female wage gap (Sawhill, 1973; Gaxaca, 1973; Malkiel and Malkiel, 1973; Mincer and Polachek, 1974) or the black/white wage gap (Smith and Welch, 1977) for "skills" differences still leave white men earning considerably more than any other group. Our study generalizes these findings somewhat by including a set of additional skill variables unavailable to past researchers.

black women, and black men for differences on an extensive list of qualification and attachment measures, white men earned substantially more than did the other groups—particularly women.¹² Given this, we suspect that future investigations of the skills explanation will only confirm these results. That is, those who claim the labor market treats workers fairly in the sense that equally productive workers are paid equally are likely to be wrong. Furthermore, skill augmenting education and training programs alone will probably not eliminate the earnings advantage enjoyed by white men. These results suggest that social scientists should focus more on the treatment explanations of the male/female and black/white wage gaps and less on the skills explanation. Some investigators, for instance might explore the processes by which workers decide to enter certain fields, search for jobs, and acquire jobs. Others might focus on employers' hiring, training, and promotion decisions.

Perhaps our most surprising findings were that virtually none of the indicators of labor force attachment could account for much of the earnings differences between men and women—largely because our indicators of attachment had only trivial effects on wages. Some might argue that we have not included all relevant measures of attachment. This is probably true. But relevant excluded factors are apt to be correlated with our included attachment measures. Since included measures account for none of the gap between white men and the other three groups, it is unlikely that excluded measures will explain very much of the earnings differences. Others may argue that our measures are too imprecise. It is impossible to rule this out entirely. Nevertheless, we used many different kinds of measures, and we did find substantial differences in the average values of these measures across the four race/sex groups, with women, as expected, consistently scoring lower than men on attachment. Moreover, we also found that employers do not consistently penalize longer term employees with higher rates of absenteeism, even though the employers have had ample opportunity to gather such information. Thus there appears to be no economic reason for employers to discriminate against women in hiring, promotion, or pay on the basis that women are, on the average, less attached to the labor force than men. If employers justify differential treatment between men and women on the basis of average sex differences in labor force attachment they are clearly behaving unfairly toward many women.¹⁴

White men's current jobs provided at least twice as much training as did the jobs of women and blacks, and these differences explained a substantial proportion of the wage gaps. By itself, this finding does little to help us understand the extent or operation of discrimination. Do women and black men acquire less skills than white men because they choose to do so or because they are systematically excluded from jobs with good training opportunities? Our evidence (detailed in Chapter 3) indicates that women and black men do not receive the same training opportunities as do similarly qualified white men—a result which suggests that employers treat workers differently on the basis of race and sex. If they do, any wage differences among the four race/sex subgroups which are caused by training differences can also be attributed to dis-

¹² It should be noted that the procedure we used to adjust wage gaps tends to overstate the importance of differences in measured qualification.

¹³ In addition to the inequity that results from categorizing whole groups of workers without distinguishing among them, there is an inefficiency in resource allocation that can be costly to society. Arthur Okun commented recently:

"Under conditions of perfect job discrimination, blacks and women (and other victims of prejudice) would get exactly the same jobs they would obtain if not disadvantaged but would merely receive less pay for them. In fact, however, the prevalence of exclusions from good jobs (rather than exploitation involving lower wages) as the technique of discrimination makes substantial inefficiency a by-product of inequality.

"Okun, Arthur, 'Further Thoughts on Equality and Efficiency,' in *Income Redistribution*, Colin D. Campbell, ed. American Enterprise Institute for Public Policy Research, Washington, D.C. 1977."

In other words, treatment of women as a group without distinction is not only unfair to some of them, but inefficiently assigns them to jobs where they cannot fully use their abilities.

crimination, albeit indirect. This suggests a need for policies (such as affirmative action programs) which ensure equal treatment of these groups in the hiring, promotion, and training decisions, and a need for study of that process.

Women typically have less work experience and are more likely to have worked parttime than white men; these differences in turn affect the wage gap between white men and women. Differences in the average years of experience of men and women are likely to result in large part from the sex division of labor within the home which may be in turn reinforced by sex discrimination in the labor market. Labor market policies could be designed to enable women and men to combine their family and work roles more efficiently. Such policies might include parental leaves for both sexes, more flexibility in work hours, increasing the availability of part-time work in the more prestigious occupations, or shared jobs.¹⁵ The flexible timing policies would seem especially useful since most of the women (and men) who restrict their job search do so because of concern for the timing of hours, rather than the volume of hours or job location.

It is beyond our expertise to propose a portfolio of specific policies for dealing with unjustified sex and race differences in earnings. But the kinds of policies that might have an effect do become clear from our data. Particularly for blacks, policies which improve the access to and the quality of education could be expected to narrow the wage gaps between the races. Anything that alters the division of labor in the home and the family sex roles toward more equality might well allow women to accumulate more labor force experience, do more full-time work, and hence earn more. But the greatest benefit to those firmly attached to the labor force may derive from policies that equalize access to a job with training and a chance for advancement.

APPENDIX 1.1

INTRODUCTION

In the text of Chapter 1, we summarized the results of our attempts to account for wage differences among white men, black men, white women, and black women. This Appendix details our procedures and findings.

Three steps were involved in the attempt to account for wage differences using the skill and attachment measures available in the Panel Study data. First, we calculated the average values of the measures separately by race and sex. These averages, presented in graphs in the text, are tabulated in Table A1.1. Next we related all of these measures to wages to determine if individuals with different amounts of these measures are paid accordingly. Third, we combined the information on differences in average skill and commitment measures with information on how these characteristics affect wages in order to calculate the fraction of the wage differences between white men and the other three groups that are "explained" by differences in these characteristics. In addition, we examine the stability of the results by changing the wage rate measure and by using coefficients from a regression in which all four race/sex subgroups are pooled together.

All of the empirical results were obtained from the set of household heads and wives in the Panel who (1) were employed at the time of the spring 1976 interview, (2) had worked at least 500 hours in 1975, and (3) were between the ages of 18 and 64. Note that the women consisted of both wives and female household heads, and also that individuals who were children in families were excluded.¹

¹⁵ Some policies might even provide incentives to break up the sex division of labor in the home. For example, in Sweden parents are guaranteed six paid months of maternity leave for either parent. If parents choose to share maternity leave, they are given seven months, three to one parent and four months to the other.

¹ The effects of marital status on earnings are examined in some detail in Chapter 4.

TABLE A1.1.—MEAN VALUES OF INDEPENDENT VARIABLES IN WAGE EQUATION, BY RACE/SEX SUBGROUPS
 [All working household heads and spouses aged 18-64]

	White men	Black men	White women	Black women
Formal education (in years).....	12.85	10.96	12.73	11.75
WORK HISTORY				
Years out of labor force since completing school.....	.51	.63	5.75	4.03
Years of work experience before present employer.....	11.27	10.44	8.05	9.27
Preemployer work experience squared ¹	225.0	212.9	129.9	161.9
Years with current employer prior to current position.....	4.58	3.96	2.33	2.86
Years of training completed on current job.....	1.686	.791	.722	.704
Years of post-training tenure on current job.....	2.51	3.31	2.74	2.91
Proportion of total working years that were full time.....	0.990	.913	.790	.826
INDICATORS OF LABOR FORCE ATTACHMENT				
Hours of work missed for others' illness in 1975.....	4.01	8.05	12.45	25.68
Hours of work missed for own illness in 1975.....	36.5	50.4	43.0	58.0
Limited job hours or location.....	.145	.122	.342	.216
Knows there are better jobs elsewhere.....	.399	.340	.369	.295
Doesn't know whether there are better jobs elsewhere.....	.159	.281	.193	.252
Plans to stop work for nontraining reasons.....	.030	.017	.086	.068
DEMOGRAPHIC CONTROL VARIABLES				
Size of largest city in area (in hundreds of thousands)....	3.840	5.484	4.079	5.261
Whether south.....	.266	.542	.261	.558
In 1975 hourly wage.....	1.722	1.461	1.284	1.154
1975 hourly wage (geometric mean) ²	5.60	4.31	3.61	3.17
Number of observations.....	2,250	895	1,326	741

¹ The square of preemployer work experience was included in the regressions to allow for a parabolic relationship between experience and wages.

² These average wage figures differ from those presented in the opening paragraph of the text because these are geometric means and the others are arithmetic means.

How the measures relate to wages

Although the four groups of workers differed considerably in a number of ways that may affect productivity, it does not necessarily follow that these differences "explain" all of the earnings advantages enjoyed by white men. Differential work experience and attachment will explain the gap only if they have substantial effects on earnings. If, for example, workers who lost time from work to care for other family members are not paid less than workers who miss no work, then the fact that women, on average, tend to miss somewhat more work for this reason will not explain why they earn less than men.

We used multiple regression to estimate the effects of the various measures of education, training, work history, and labor force attachment on wages. Regressions were run separately for the four different groups of workers, and the results are detailed in Table A1.2.³ We used the natural logarithm form of the hourly wage rate as the dependent variable so that the coefficients can be interpreted as the estimated effects of a one-unit change in an independent variable on the percentage change in wage rate.⁴ Thus, the ".060" entry in the upper left-hand corner of the table shows that for white men, an additional year of education was associated with a 6.0 percent increase in hourly earnings.

Two striking results emerge from Table A1.2. First, the relationships between the various independent variables and wages were remarkably uniform across the four subgroups defined by race and sex. Second, differences in attachment did not lead to appreciable differences in pay.

Previous work on pay differences between the sexes and races has found considerable differences in the sizes of the coefficients. For example, the payoff on an additional year of work experience was found to be higher for white men than for any of the other groups. In contrast, our data allowed us to

³ Numerous alternatives to the regression model of Table A1.1 were estimated for the four race/sex subgroups and are described in subsequent chapters. The results of Table A1.2 are representative of most of the results from alternative formulations. The data have been weighted for differential sampling and nonresponse rates.

⁴ Note that equal percentage changes in wages imply unequal absolute changes in wages. A 10 percent increase from \$3.00 per hour is \$.30 but is \$.60 from \$6.00 per hour.

classify work experience into different segments. White men and women spend different amounts of time in the various segments. The coefficients shown in Table A1.2 indicate that the proportional payoff on an additional year spent in any particular segment is quite similar for the four groups. Of the 48 coefficients on the variables for the three minority groups, only 10 are significantly different from the corresponding white male coefficients—two at the 1 percent level of significance and eight in the 5 percent level. Of the 10 differing coefficients, only three were smaller (in absolute value) than the coefficients for white men.⁴

TABLE A1.2—REGRESSION RESULTS FOR SUMMARY WAGE EQUATION, BY RACE/SEX SUBGROUPS

[All working household heads and spouses aged 18-64]

	White men	Black men	White women	Black women
Formal education (in years).....	¹ 0.060 (.004)	¹ 0.062 (.006)	¹ 0.076 (.006)	¹ 0.079 (.008)
WORK HISTORY				
Years out of labor force since completing school.....	-.005 (.007)	-.800 (.010)	¹ -.005 (.002)	.005 (.003)
Years of work experience before present employer.....	¹ .013 (.003)	¹ .026 (.005)	¹ .011 (.004)	¹ .011 (.005)
Preemployer work experience squared.....	¹ -.0003 (.0001)	¹ -.0006 (.0001)	¹ -.0004 (.0001)	¹ -.0004 (.0002)
Years with current employer prior to current position.....	¹ .024 (.002)	¹ .019 (.003)	¹ .021 (.003)	¹ .017 (.003)
Years of training on current job.....	¹ .048 (.006)	¹ .065 (.014)	¹ .080 (.013)	¹ .076 (.016)
Years of post-training tenure on current job.....	¹ .014 (.004)	¹ .014 (.006)	¹ .022 (.005)	-.012 (.007)
Proportion of total working years that were full time.....	¹ .307 (.060)	¹ .551 (.094)	¹ .262 (.044)	¹ .125 (.057)
INDICATORS OF LABOR FORCE ATTACHMENT				
Hours of work missed for others' illness in 1975.....	.0006 (.0005)	-.0003 (.0003)	-.0001 (.0002)	.0003 (.0002)
Hours of work missed for own illness in 1975.....	² -.0002 (.0001)	.0001 (.0001)	² -.0002 (.0001)	.0000 (.0001)
Limited job hours or location.....	-.041 (.030)	² .102 (.048)	-.018 (.026)	-.008 (.039)
Knows there are better jobs elsewhere.....	¹ -.105 (.024)	¹ -.124 (.037)	¹ -.112 (.028)	¹ -.148 (.039)
Doesn't know whether there are better jobs elsewhere.....	² -.071 (.031)	² -.078 (.039)	¹ -.145 (.034)	-.031 (.039)
Plans to stop work for nontraining reasons.....	¹ -.169 (.063)	-.222 (.120)	-.056 (.044)	¹ -.285 (.068)
DEMOGRAPHIC CONTROL VARIABLES				
Size of largest city in the area (in hundreds of thousands).....	¹ .027 (.003)	¹ .018 (.004)	¹ .018 (.003)	¹ .022 (.004)
Whether south.....	² -.060 (.025)	¹ -.095 (.035)	-.034 (.029)	¹ -.089 (.035)
Constant.....	.334	-.046	-.033	-.009
R ².....	.303	.291	.328	.346
Number of observations.....	2,250	895	1,326	741

¹ Significantly different from zero at 0.01 level.² Significantly different from zero at 0.05 level.

NOTE.—The numbers on the table are raw score regression coefficients with standard errors in parentheses.

While the education and work history measures generally had significant effects on wages, the attachment measures usually did not. Absenteeism because of the illness of others in the family and self-imposed limits on job choice or location had virtually no effect on the wages of any of the four subgroups of workers. Workers who knew of better jobs in other localities but had

⁴ Some readers may be surprised to see that white men and black men have similar coefficients on formal education. This is inconsistent with some past research, but is consistent with a study conducted on several large sets of microdata. Schwarts (1977) found no significant race differences in the effects of education on the national logarithm of annual earnings for men 25 to 64 years with positive earnings in three different national surveys: the 1962 Occupational Changes in a Generation Survey, the 1970 Census, and the 1972 wave of The Panel Study of Income Dynamics.

not moved to take them earned about 10 percent less than those who said no such better jobs existed. Those who did not know whether better jobs were available suffered a somewhat smaller penalty. Those planning to stop work in the next few years also earned less, with the amount varying somewhat across the four subgroups. In general, however, attachment measures did not explain wage differences very well.

Accounting for wage differences between white men and other workers

Next we combined the information on differences in the amounts of education, work experience, and work commitment across the race/sex subgroups with the estimated effects of these factors on earnings to see how well they accounted for earnings differences between white men and the other groups of workers. We multiplied the difference between white men and each of the other groups in the average values for each independent variable by its estimated effect (which comes from the wage rate regression equation for white men), and then expressed the product as a fraction of the total difference in wages. As an example, it was shown earlier that white men average nearly 13 years of formal education while the mean for black men is about 11 years. The regression results for white men showed that this two year difference is "worth" 6 percent per year, or about 12 percent altogether. Since the (geometric) mean wages of white men are about 30 percent higher than black men, the differences in educational attainment account for 12/30, or about 40 percent of the total earnings gap between black and white men.⁵

TABLE A1.3.—ACCOUNTING FOR WAGE DIFFERENCES BETWEEN WHITE MEN AND OTHER RACE/SEX SUBGROUPS

[All working household heads and spouses aged 18-64]

	Percentage of wage gap between white men and minority groups accounted					
	Not adjusted for south and city size			Adjusted for south and city size		
	Black men	White women	Black women	Black men	White women	Black women
Formal education (in years).....	43	2	12	39	2	11
WORK HISTORY						
Years out of labor force since completing school.....	0	6	3	0	6	3
Years of work experience before present employer.....	3	3	1	2	3	1
Preemployer work experience squared.....						
Years with current employer prior to current position.....	6	12	7	5	12	7
Years of training completed on current job.....	16	11	8	15	10	8
Years of post-training tenure on current job.....	-4	-1	-1	-4	-1	-1
Proportion of total working years that were full time.....	0	8	4	0	8	4
INDICATORS OF LABOR FORCE ATTACHMENT						
Hours of work missed for others' illness in 1975.....	-1	-1	-2	-1	-1	-2
Hours of work missed for own illness in 1975.....	-1	0	-1	-1	0	-1
Limited job hours or location.....	0	2	1	0	2	1
Knows there are better jobs elsewhere.....	-2	-1	-2	-2	-1	-2
Doesn't know whether there are better jobs elsewhere.....	3	0	1	3	0	1
Plans to stop work for nontraining reasons.....	-1	2	1	-1	2	1
DEMOGRAPHIC CONTROL VARIABLES						
Size of largest city in the area (in hundreds of thousands).....	-17	-1	-7			
Whether south.....	6	0	3			
Total explained.....	51	42	28	55	42	31
Unexplained.....	49	58	72	45	58	69
Total.....	100	100	100	100	100	100

⁵ The statistical basis for this procedure is described in Appendix 1.2.

The results of calculating this ratio for each predictor variable are summarized in Table A1.3. The first entry in the table, 43 percent, comes from the calculation on educational differences between white and black men, as outlined above. The final rows of the table show the fraction of the wage differences that can and cannot be accounted for by our set of 13 explanatory variables.⁹ In sum, Table A1.3 shows that differences in educational attainment are most important for black men; differences in work history matter most for women; and training differences are somewhat important for all groups. An equally important finding is that a very large part of wage differences cannot be explained by our long list of productivity-related factors.

Education.—We have just seen both that the educational attainment level of white men exceeds that of black men and that education has a strong, positive effect on earnings. So it should not be surprising that the differences in the quantity of education account for a substantial fraction of the wage gap between white and black men. Differences in the quality of education have not been measured in our data and would no doubt increase the explanatory power of education even more. Black women have somewhat more education, on average, than black men, and differences in attainment account for 11 percent of the wage differential between white men and black women.

Work history.—A unique aspect of the panel data is that the total work histories of all respondents can be broken down into comparable segments. For black men, the training time on the current job segment is especially important, accounting for 15 percent of the wage gap between white and black men. For both groups of women, the other tenure segments make important contributions as well. Differences between white men and white and black women in the two other segments of employer tenure also explain a substantial part of the wage gaps between white men and white and black women.

Women are also paid less because they spend more time out of the labor force and are less likely to be working full-time when in the labor force. These two factors account for 6 and 8 percent of the wage gap for white women and exactly half that amount for black women.

Labor force attachment.—Contrary to our initial expectations, the group of attachment variables explain very little of the earnings differences between white men, blacks, and women. None of the measures accounts for as much as 4 percent of the wage gap, and two of them actually operate in an unexpected direction. White men report less absenteeism because of illness of others in the family, for example, but because absenteeism had a small *positive* effect on wages it appears that reduced absenteeism among blacks and women would actually *increase* the wage differences. A more reasonable conclusion would be that this kind of absenteeism produces virtually *none* of the wage differences. Differences in the extent to which the four groups of respondents have not moved to get better jobs also produces an anomalous result, but this is because white men are more likely to know of better jobs elsewhere. Thus, we may be measuring the amount of job-related information acquired rather than voluntary limits to mobility. Although the remaining measures operate in the expected direction, their contribution to the explanation of wage differences is minimal.

⁹Two of the independent variables, Size of Largest City in the Area and Whether South, were included in the regressions to adjust for cost of living and other differences between urban and rural areas and among regions of the country. Because wages are higher in urban areas and because blacks are more likely to be living in urban areas, our treatment of the City Size variable makes a substantial difference in the calculation of how much of the wage differences can be "explained" by the independent variables. In Table A1.3, these two variables are treated in two different ways. In the first three columns, they are included along with the other independent variables. In the last three columns, the wage differences explained by these two variables have been subtracted from the total wage gap and the explanatory power of the other independent variables is expressed as a fraction of this "adjusted" wage gap. The calculations presented in the text of this chapter are based on "adjusted" wage gap.

TABLE A1.4.—REGRESSION RESULTS FOR WAGE EQUATION, WITH ALL RACE/SEX SUBGROUPS COMBINED
 [All working household heads and spouses aged 18-64]

	Computed wage rate	Reported wage rate
Formal education (in years).....	1 0.066 (.003)	1 0.052 (.003)
WORK HISTORY		
Years out of labor force since completing school.....	1 -.005 (.001)	1 -.006 (.002)
Years of work experience before present employer.....	1 .011 (.002)	1 .011 (.003)
Pre-employer work experience squared.....	1 -.0003 (.0001)	-.0004 (.0001)
Years with current employer prior to current position.....	1 .022 (.001)	1 .025 (.002)
Years of training completed on current job.....	1 .055 (.005)	1 .031 (.006)
Years of post-training tenure on current job.....	1 .016 (.003)	-.001 (.003)
Proportion of total working years that were full time.....	1 .291 (.030)	1 .193 (.040)
INDICATORS OF LABOR FORCE ATTACHMENT		
Hours of work missed for others' illness in 1975.....	.0000 (.0002)	-.0002 (.0002)
Hours of work missed for own illness in 1975.....	.0000 (.0001)	-.0001 (.0001)
Limited job hours or location.....	-.023 (.017)	1 -.046 (.022)
Knows there are better jobs elsewhere.....	1 -.111 (.015)	-.035 (.020)
Doesn't know whether there are better jobs elsewhere.....	1 -.094 (.019)	1 -.068 (.025)
Plans to stop work for nontraining reasons.....	1 -.104 (.031)	1 -.092 (.041)
DEMOGRAPHIC CONTROL VARIABLES		
Size of largest city in the area (in hundreds of thousands).....	1 .023 (.002)	1 .022 (.002)
Whether south.....	1 -.056 (.016)	1 -.063 (.021)
Black male.....	1 -.101 (.031)	-.077 (.041)
White female.....	1 -.255 (.017)	1 -.198 (.023)
Black female.....	1 -.337 (.034)	1 -.280 (.054)
Constant.....	.307	.534
R ².....	.392	.218

1 Significantly different from zero at 0.01 level.

2 Significantly different from zero at 0.05 level.

NOTE.—The numbers on the table are raw score regression coefficients with standard errors in parentheses. The total number of observations is 5,212.

TABLE A1.5.—ACCOUNTING FOR WAGE DIFFERENCES BETWEEN WHITE MEN AND OTHER RACE/SEX SUBGROUPS FOR 2 ALTERNATIVE WAGE RATE MEASURES

[All working household heads and spouses aged 18-64]

	Percentage using pooled coefficients and calculated wage rate			Percentage using pooled coefficients and reported wage rate		
	Black men	White women	Black women	Black men	White women	Black women
Formal education (in years).....	44	2	13	42	2	12
WORK HISTORY						
Years out of labor force since completing school.....	0	6	3	0	9	5
Years of work experience before present employer; preemployer work experience squared.....	3	2	1	2	0	0
Years with current employer prior to current position.....	5	11	7	6	16	9
Years of training completed on current job.....	17	12	9	12	8	6
Years of post-training tenure on current job.....	-5	-1	-1	0	0	0
Proportion of total working years that were full time.....	0	8	4	0	6	3
INDICATORS OF LABOR FORCE ATTACHMENT						
Hours of work missed for others' illness in 1975.....	0	0	0	0	1	1
Hours of work missed for own illness in 1975.....	0	0	0	0	0	0
Limited jobs hours or location.....	0	1	0	0	3	1
Knows there are better jobs elsewhere.....	-2	-1	-3	-1	0	-1
Doesn't know whether there are better jobs elsewhere.....	4	1	2	3	1	1
Plans to stop work for nontraining reasons.....	0	1	1	0	2	1
Total explained.....	66	42	36	64	48	38

The effects of combining the subsamples and changing the wage rate measure

Two crucial parts of our analysis are the estimated effects (coefficients) of the independent variables on wages and the portion of the wage gap between white men and the other groups that can be explained by the various independent variables. Our discussion thus far has implicitly assumed a single, correct set of estimates for these two parts, although any data analyst knows that changes in the definition or functional form of variables or additions to the set of independent variables often cause the coefficients to change somewhat. The stability of the coefficients of many of the variables are investigated in later chapters. In this final section of Appendix 1.1, we investigate the sensitivity of the results by first using the *average* coefficients obtained by pooling the four race/sex subgroups together and second, by using an alternative measure of wage rate.

In our accounting procedure, we had taken differences in average amounts of the various characteristics and valued them with coefficients from the wage equation for white men. Since there were some differences between the coefficients of white men and the other three groups, we also chose to see if differences would arise from valuing characteristics with "average" coefficients obtained by pooling all four groups together rather than the white coefficients. The resulting coefficients, shown in the first column of numbers in Table A1.4, entitled "Computed Wage Rate" are generally similar to those of white men. The coefficients on the education and training variables are somewhat higher while the coefficients on several of the attachment measures are slightly lower. Using pooled coefficients changes the accounting fractions very little, as shown in the first three columns in Table A1.5. Educational differences are still very important in explaining wage differences between white and black men, while work history differences play a role in explaining the male/female wage gaps. The conclusion about the unimportance of the attachment measures remains unaltered.

The wage rate measure used in our analysis was calculated by dividing the total 1975 labor income by total 1975 work hours. For wives, the husbands report the income while the wives themselves report their annual work hours. The alternative wage rate measure was a direct report of current rate of salary or hourly wage rate. All employed respondents were asked the question sequences:

D55. Are you salaried, paid by the hour, or what?

1. SALARIED

3. PAID BY HOUR

7. OTHER

<p>D56. How much is your salary? \$ _____ per _____</p> <p>D57. If you were to work more hours than usual during some week, would you get paid for those extra hours of work? <input type="checkbox"/> 1. YES <input type="checkbox"/> 5. NO (GO TO D63)</p> <p>D58. About how much would you make per hour for that overtime? \$ _____ (PER HOUR) (GO TO D63)</p>	<p>D59. What is your hourly wage rate for your regular work time? \$ _____ (PER HOUR)</p> <p>D60. What is your hourly wage rate for overtime? \$ _____ (PER HOUR) (GO TO D63)</p>	<p>D61. How is that? _____ _____ _____</p> <p>D62. If you worked an extra hour, how much would you earn for that hour? \$ _____ (GO TO D63)</p>
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The salary reports were converted into hourly earnings by assuming a 40-hour work week. The straight-time hourly rate was used for those paid by the hour. For those who were neither salaried nor hourly, the marginal wage rate reported in question number D62 was used. For 16.7 percent of the respondents, an hourly wage rate was not ascertained.⁷ For those cases, we substituted the original hourly earnings measure.

To establish further comparability with the original wage measure, the range of this reported hourly earnings measure was truncated at \$.50 and \$25.00 and converted to natural logarithms. The simple correlation (r) between these two wage variables is .67. The coefficients from the regression of this alternative wage measure on the same set of independent variables is given in the second column of numbers of Table A1.4. Although the fraction of variance explained in the reported wage equation is only about half as large as in the calculated wage regression, most of the coefficients are similar. Two variables, "Years of Post-training Tenure on Current Job" and "Knows there Are Better Jobs Elsewhere" become insignificant. Changes in the ability of these variables to account for pay differences between the races and sexes, however, are small, as shown in the final three columns of numbers in Table A1.5. There are some offsetting changes in the explanatory power of some of the work history measures, but our basic conclusions are not affected.

APPENDIX 1.2

The statistical basis of our procedures for accounting for pay differences between the races and sexes has been worked out by Oaxaca (1973) and is summarized in Conte (1976). In this appendix, we describe the procedure, using the group of white men and white women as examples. It applies equally well to accounting for pay differences between white men and the groups of black men and women.

⁷ This includes cases where the reported hourly rate was above \$9.98 per hour. Unfortunately, these cases were all coded as \$9.98.

Let:

$$(1) \quad G = \frac{W_{wm} - W_{ww}}{W_{ww}}$$

where:

W_{wm} is the average hourly wage of white men, and W_{ww} is the average hourly wage of white women.

G , then, is the proportionate average wage advantage of white men relative to white women.

Now:

$$(2) \quad G + 1 = \frac{W_{wm}}{W_{ww}}$$

so

$$(3) \quad \ln(G + 1) = \ln W_{wm} - \ln W_{ww}$$

From the property of least squares estimation,

$$(4) \quad \ln W_{wm} = Z_{wm} \hat{\beta}_{wm}$$

and

$$(5) \quad \ln W_{ww} = Z_{ww} \hat{\beta}_{ww}$$

where:

Z_{wm} and Z_{ww} are vectors of mean values on the independent variables for white men and women, respectively, and $\hat{\beta}_{wm}$ and $\hat{\beta}_{ww}$ are vectors of estimate coefficients for these two groups.

Substituting (4) and (5) into (3),

$$(6) \quad \ln(G + 1) = Z_{wm} \hat{\beta}_{wm} - Z_{ww} \hat{\beta}_{ww}$$

Now let

$$(7) \quad \Delta Z = Z_{wm} - Z_{ww}$$

and

$$(8) \quad \Delta \hat{\beta} = \hat{\beta}_{ww} - \hat{\beta}_{wm};$$

then the wage differential between white men and women can be written either as

$$(9) \quad \ln(G + 1) = \Delta Z \hat{\beta}_{wm} - Z_{ww} \Delta \hat{\beta}$$

or

$$(10) \quad \ln(G + 1) = \Delta Z \hat{\beta}_{ww} - Z_{wm} \Delta \hat{\beta}$$

In words, equation (9) says that the total wage differential can be decomposed into a part resulting from differences in amounts of the independent variables "valued" at the white, male coefficients and a part resulting from differences in coefficients "valued" at the white, female means.⁴ Since we find very few differences in coefficients, we ignore the second part of the decomposition. The numbers in Table A1.3 show, for each independent variable i , $(\Delta Z_i \times \hat{\beta}_{iwm}) \div \ln(G + 1)$.

Note that equation (10) represents an alternative method for decomposing the wage differences. In contrast to (9), equation (10) values differences in the mean amounts of the independent variables with the white, female coefficients. Since there were few differences in coefficients across the four race/sex subgroups, this alternative method does not change our conclusions based on use of the white, male coefficients.

⁴ Note that there is no covariance term in this expression.

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APPENDIX II

A TEST MODEL

One way to see the problem of designing a tax-and-income-maintenance system that is reasonably neutral with respect to decisions about working, having children, and sharing housing and child care, is to look at the implications of an apparently reasonable system. Let me describe one and we can see.

Suppose we have a tax-or-subsidy system that uses a uniform 50 percent rate, that is, if a unit has an income less than its threshold standard, half the difference is paid them in a "negative income tax," and if they have more half the excess is taxed away.

We thus focus on the definition of threshold "income," and we propose to define it so as to set a level of family well-being that takes account not only of the family's money income but also of needs and of the time they have left to enjoy it—that is, how hard they worked to get it. And we shall include in that work a credit for housework and child care.

Threshold income is where well-being is $= 1.0 = 100$ percent

$$\text{where: Well-being} = \left(\frac{\$ \text{money income}}{\$ \text{family needs}} \right)^{1/2} \cdot \left(\frac{\text{Free time per adult}}{\text{Free time if each adult works full time (2,000 hr per year)}} \right)^{1/2}$$

By simple algebra, then, the target or threshold income is

$$\text{Target \$income} = (\$ \text{needs}) \left(\frac{6760}{8760 - \text{work hours per adult}} \right).$$

The tax-subsidy rule is that the subsidy should be half of ((the target minus actual money income), a tax if it is negative.

$$\text{Subsidy} = \frac{1}{2} ((\$ \text{needs}) \left(\frac{6760}{8760 - \text{work hours per adult}} \right) - \$ \text{actual income}).$$

We now have only to define needs standards, and the work hour allowance for housework and child care.

The well-being function is, of course, analogous to the usual production function—linear, homogenous.

One could argue about the exponents, and develop more complex measures. And one can deduct sleep time from the base and make the measure much more sensitive to work hours (too sensitive, I think). But let's proceed to fix the needs standards and work allowances and see the results.

We define needs with no economy of scale adjustments, purposely to encourage living together and sharing:

Needs:

Each adult 18 or older—	-----	\$3,000
Each child 12-17—	-----	2,000
Each Child 6-11—	-----	1,500
Each child under 6—	-----	1,000

But we allow for some economies in caring for children:

Work credit for housework and child care:

Household management (each dwelling) 1,000 hours

plus 500 hours for each child under 18, plus

another 500 if any child is under 6.

Maximum = 3,500 hours

One could easily argue with these standards, but it is useful to think of them as a point of departure and see their implications for people's decisions about working, having children, or doubling up. And we can ask whether the results seem equitable particularly as between families with two, one or no earners.

AMOUNT OF SUBSIDY (OR TAX), DISPOSABLE INCOME, AND WELL-BEING INDEX FOR FAMILIES OF DIFFERENT COMPOSITION, WORK, AND EARNED INCOME UNDER A PROGRAM TO MAINTAIN WELL-BEING (NOT JUST INCOME)

	Family composition							
	1 adult			2 adults				
	No children	1 child under 6	Children 2, 4, and 6	No children	1 child under 6	2 children under 6	Children 2, 4, and 6	
Dollar income needs.....	\$3,000	\$4,000	\$6,500	\$6,000	\$7,000	\$8,000	\$9,500	
Hours credit for housework and child care.....	1,000	2,000	3,000	1,000	2,000	2,500	3,500	
Market work hours and earnings								
Hours	Earnings			Subsidy or tax				
None.....	None	1,305	2,000	3,802	2,454	3,048	3,636	4,418
1,000.....	\$3,000	0	840	2,112	1,113	1,755	1,846	3,250
2,000.....	6,000	-1,245	-162	2,850	-210	500	1,153	2,130
3,000.....	9,000	-2,370	-904	3,459	-1,500	-720	0	1,058
4,000.....	12,000	-3,303	-1,102	4,433	-2,760	-1,905	-1,092	-104
Net disposable income								
None.....	None	1,305	2,000	3,802	2,454	3,048	3,636	4,418
1,000.....	3,000	3,000	3,840	6,112	4,113	4,755	4,846	6,250
2,000.....	6,000	4,755	5,838	8,850	5,790	6,500	7,153	8,130
3,000.....	9,000	6,630	8,066	12,459	7,500	8,280	9,000	10,095
4,000.....	12,000	8,697	10,858	18,433	9,240	10,095	10,908	11,896
Well-being measure								
None.....	None	.71	.71	.71	.71	.70	.71	.71
1,000.....	3,000	1.00	.90	.81	.88	.85	.79	.81
2,000.....	6,000	1.16	1.01	.87	1.02	.96	.93	.89
3,000.....	9,000	1.25	1.06	.88	1.12	1.05	1.00	1.95
4,000.....	12,000	1.27	1.05	.86	1.19	1.11	1.05	1.59

¹ Would probably require paying for housework and/or child care, so net income after that, and well-being, would be smaller.

A set of illustrative cases is given, skipping over the algebra and giving the net subsidy or tax, and the after-tax, after-subsidy disposable income, and the well-being measure. One can see the effects of decisions about market work by moving down the columns, of marrying by looking three columns to the right, of having children (and usually working less in the market) by moving diagonally up to the right.

To keep things as simple as we can, we assume a fixed \$3 per hour for market work.

A single adult with one child ends up with \$2,000, all subsidy, without doing any market work, \$3,840 after earning \$3,000 working half time, or \$5,838 working full time. The marginal tax rates on money earnings are 41 percent and 33 percent because of the allowance for work effort and the well-being measure goes from .71 to .90 to 1.01, meaning that the person is better off working. There might have to be some floor or separate child care allowance—I'll come back to that issue.

A couple with one preschool child ends up with \$6,500 if they do only 2,000 hours of market work—both half-time or only one working and the other minding the house and child. Increasing market work by 1,000 hours raises earnings by \$3,000, after subsidy-tax income by \$1,780 (\$6,500 to \$8,280) implying a marginal tax rate of 41 percent. Another 1,000 hours, meaning both parents work full time, would mean \$12,000 in earnings, \$10,095 after taxes. In terms of our well-being index a couple with one child going from one full-time equivalent market worker to 1½ to 2, has a well-being measure that goes from .96 to 1.05 and 1.11, a reasonable incentive compared with a straight 50 percent tax or subsidy of differences from the need standard of \$7,000, ignoring work effort which would produce well-being measures of .95, 1.01, and 1.05.

More important than work decisions which have been overstressed anyway, are decisions about who lives with whom and pools resources—and decisions about having children. More children always means a lower level of economic well-being even after the subsidies-taxes, and even if the parent or parents manage to keep working for money. Presumably we want it that way, even though we want to be sure children are properly cared for we don't want it to be economically profitable to parents to have them.

The case where society would most like to encourage combining families is that of two single parents. Suppose they each have one preschool child. Separately they might each work half time, end up with \$3,840 disposable income and a well-being ratio of .90. Together, even without working more than before in the market, the pooled family would have \$7,153 in disposable income and a well-being ratio of .93. The total subsidy would fall from twice \$840 or \$1,680 to \$1,153. And if there are economies in living together not incorporated in the needs standard and hence not recaptured by the government, the incentive to double up is still greater. For instance, it might easily be possible because of shared responsibility for the children, for the parents to do more market work.

A more usual situation is a woman with several children and a man with none he is taking any direct responsibility for. A woman with three children 2, 4, and 6, not working in the market, would get a subsidy of \$3,802 and be in difficult shape (well-being = .71). A single man working full time would end up with \$4,755 after taxes, well-being = 1.16. Marriage would produce a family with a disposable income of \$3,130, \$2,130 of it subsidy, and well-being of .89. The government has reduced the cost to the man of acquiring a family. Separately the government collected \$1,245 in taxes from the man, gave \$3,802 to the mother, net cost \$2,557. Together, the government provides a subsidy of \$2,130, recapturing almost none of the gains from doubling up. Additional child-support subsidies would help.

In general, as you can see from the tables, marrying is not discouraged, having additional children is discouraged, and you are always better off in terms of a sensible measure of well-being, if you work more. Most important of all, there is credit given for work, and the working poor are treated a little better. This may be all it takes to improve public acceptance of adequate income maintenance programs. Put another way, the marginal tax rate on income from work is lower than that on other income, and the needs standard on which subsidies or taxes are based is set higher the more work people do.

These figures, and this set of definitions and subsidies and taxes, are merely illustrative. The important issue is how to design a system that does not distort in antisocial directions decisions about having children, sharing households and child raising, or about working. And the crucial point is that if the standard of well-being the program uses as a goal takes account of work/leisure as well as money income and family needs, it is more likely to be balanced in these three dimensions. The result should be a greater sense of equity as between the working and nonworking (for money) poor, and as between parents who devote more or less time to children, and as between men and women.

There is, as we have said, also a concern for proper care of children, and the problem that income maintenance floors sufficient to assure that care, might put a money premium on having children, while inadequate support might punish children for the indiscretion of their parents. I have suggested elsewhere the possibility that there could be separate child care subsidies, paid for by long-term surtaxes on all parents for each child they produced. Instead of trying to squeeze the full current cost out of parents, including divorced ones, we proposed a surtax for 40 years on each parent for each child. For normal families, this amounts to an installment plan method of paying for child-raising costs. But it puts "women's work" in the market place, gives her free choice whether to work in the market or raise children, allows the setting of national standards for child care separately from the taxes which imply a population policy or national fertility policy. Child care is expensive in both time and money, and it would take something like a 5 percent surtax per child to make the system generally self-financed. Remember that the subsidies come during the first 18 years, the payments spread over 40, and even at 3 percent (real rate) the present value of 40 annual surtax payments is only 23 times the annual payment while the 18-year cost has a present value of over 14 times the annual cost.

Such schemes are easy to invent, but their popular understanding and acceptance, and their actual effects on behavior require some advanced research, and I mean more than speculating about the possible effects. There is a variety of research eliciting responses from representative samples of the population, that should be done. Are the need standards and the housework-child care allowances realistic, and fair as between different family sizes so they will not distort people's choices about living arrangements?

Our present panel study data could be used to make estimates of the impact of any proposed scheme, though only before any effects it might have on behavior. Such impact studies are most useful if a scheme is not expected to alter behavior very much. But a change to a system that was more nearly neutral with respect to individual choices would produce changes by getting rid of past distortions of behavior.

Senator DANFORTH. Mr. Spiegelman?

STATEMENT OF ROBERT G. SPIEGELMAN, DIRECTOR, CENTER FOR THE STUDY OF WELFARE POLICY, MENLO PARK, CALIF.

Mr. SPIEGELMAN. I am project leader on the Seattle-Denver income maintenance experiments which I am going to talk to you about today. With me are two colleagues from SRI International, Philip Robbins on my right and Lyle Groeneveld on his right.

I am pleased to have this opportunity to present to you findings from the Seattle-Denver experiments. These experiments are the product of 10 years of effort by HEW, the States of Washington and Colorado, SRI and Mathematica. I am hopeful that the information that we are providing in these experiments will help in your deliberations on welfare reform.

The Seattle-Denver experiments were testing 11 different variations of the negative income tax programs. These are very similar to the tier 1 cash assistance portions of the program for better jobs and income.

The experimental plans of support levels range from 90 to 140 percent of the poverty level and tax rates that range from 30 to 80 percent. The experiment has no job component or work requirement, but it does provide training subsidies to many of the families.

Because the negative income tax provides unearned income to families and taxes earned income at relatively high rates, it should be no surprise that such a program causes a reduction in work effort. On the average, we found that the experiments caused a reduction in annual hours of work of about 5 percent for the male heads of families, about 22 percent for wives and 11 percent for female heads of families.

Some workers reduced their time in the labor force, some reduced their overtime work. It was a variation of methods of reducing work, but on the average, the experiment caused the probability of being employed to drop by only 2 percentage points for husbands and 7 percentage points for wives and female heads.

The Seattle-Denver experiments are the first experiments among those that have been tested to demonstrate that work effort response is very sensitive to changes in the support level, and to the tax rates. This is an important finding because it can guide policymakers in setting these parameters in a national program.

For persons who were initially below the break-even level and who worked during the experiment, we found that a \$1,000 increase in disposable income per annum caused a reduction in hours of work of 2 percent for husbands, 12 percent for wives, and 6 percent for female heads.

A \$1 per hour decrease in the net wage rate, which is caused by the NIT tax, resulted in a reduction of hours of 4 percent for husbands, 14 percent for wives, and 8 percent for female heads.

A \$1 an hour reduction in net wage rate is a very large reduction since we are dealing with a mean of around \$3.

These experimental results were extrapolated to the national population using a microsimulation model called Math. The simulations were run assuming that the NIT would replace the existing AFDC and food stamp program but there would be no State supplementation.

The results of the simulations were very revealing. They indicate the importance of considering both the response of individuals participating in the program and the number of families who will be participating. Participation essentially means receiving benefits from the program.

For example, we found that at a program of 75 percent of the poverty level and a tax rate of 50 percent, the husbands would reduce their work effort by 6 percent. If you increased that tax rate to 70 percent, the husbands in the program decreased their work effort by 11 percent.

Wives and female heads have similar kinds of reactions.

While this increase in the tax rate leads to a reduction in work effort among those participating in the program, it very much lowers the break-even levels of the program—that is, the income at which a family would no longer receive benefits—and, by doing so, drastically reduces the number of participating families.

As a result, a high tax program tends to be less expensive than a low tax program. The 70-percent program was considerably less expensive than a 50-percent program at the same support level. But this savings has an undesirable side effect of causing greater work effort reductions on the part of those who do remain as participants in the program.

Therefore, in setting any kind of tax rate as part of a subsidy program, these tradeoffs must be kept in mind.

A second set of results from the experiment I know are of interest to this committee relate to the impact of the negative income tax on the rate of marital dissolution. Contrary to our prior expectations, we found that black and white families on the negative income tax have significantly higher rates of marital dissolution than do control families. This finding was not borne out in our study of the Chicano families, however.

The dissolution rate for white families on the experiment exceeded that for control families by 61 percent; for black families, the difference was 58 percent; for Chicanos, essentially 0.

The findings further perplexed us because we found that the impact was greatest for families on the lowest support levels and it was least for families on the highest support levels.

These findings led to hypotheses that, in retrospect, do appear to be reasonable and have been, in fact, accepted by others in the profession. The hypothesis implied that the negative income tax creates two opposing forces acting on a family. One force encourages the members to stay together—we call that an income effect. Another encourages dissolution—we call that the independence effect.

The income effect decreases marital dissolution rates by increasing the family's well-being. This is the money they receive from the program, or the support that they receive from it directly.

At the same time, the independence effect increases the dissolution rate by reducing the financial dependence on the marriage of the more dependent partner, usually the wife. This is a result of the income she can receive outside of the marriage.

We also found that the existing welfare systems in Washington and Colorado do not provide as acceptable alternative to marriage as the NIT program, the negative income tax program.

Because of the stigma that is attached to the receipt of such welfare benefits and the apparent uncertainty with regard to the ability to obtain these benefits, these benefits are essentially discounted by their potential recipients relative to those available from a negative income tax program with the same support level.

Our model of income and independence effects with the welfare discount accounts for the pattern of impacts by support level that we have observed. For low support levels, the destabilizing independence effects dominates the income effect. At the high support levels, the income effect is stronger and offsets this effect.

Thus, the dissolution effect dissipates at the higher levels of support.

It is worth noting that the negative income tax increases marital dissolution mainly in families in which the wife does not work. We found that in families in which the wife has substantial earnings herself, the experimental effects are essentially neutral.

In conclusion, then, the result so far from the Seattle-Denver experiments demonstrate that there is a strong work effort response and that heads of families are sensitive to both support levels and the tax rates. One implication is that the work effort response is, indeed, an important element in cost.

In simulating the Seattle-Denver program, work effort response accounted for as much as 50 percent of the total cost for some of the programs simulated. It was lower in others.

There is also an effect of the experiment on marital status. Black and white families both showed a tendency to separate under the impact of the experiment.

We hope that these results will prove to be useful to your deliberations. Thank you.

Senator DANFORTH. Very interesting.

Let me ask you this—let me ask each of you this—if you were designing a welfare program—there is one more? I am sorry.

Dr. Anderson, please proceed.

Mr. ANDERSON. Thank you. I will try to make it brief.

Senator DANFORTH. Do not let me rush you. I was just jumping the gun.

Mr. ANDERSON. Thank you.

**STATEMENT OF MARTIN ANDERSON, SENIOR FELLOW, HOOVER
INSTITUTION, PALO ALTO, CALIF.**

Mr. ANDERSON. These hearings on welfare reform are important and timely and I am happy to have the invitation to appear before you.

In the last 15 years or so, welfare reform has been a major issue on the political agenda of the United States. An enormous amount of effort, time, and thought of some of the most dedicated and intelligent people in this country have been devoted to the task of changing and improving our welfare system.

Many detailed comprehensive plans have been developed, but, so far, all of these attempts to radically reform our welfare system have failed. The problem is still with us, seemingly as intractable as ever, and perhaps the most important question we can ask at this time is why. Why have all the attempts failed? What should be done; what can be done?

The whole subject of welfare reform is a difficult and sometimes incredibly complex issue. There are members of this committee who have been deeply and intimately involved in the welfare reform effort for perhaps over a decade now and I would suspect that they would agree that there are few public policy problems that are as difficult to understand. In fact, sometimes the problem is so complex that unless we are able to step back from the dense thicket of the specifics of welfare it is very easy to lose sight of what the main issues are.

When we approach the problem of welfare reform we usually do so with a set of beliefs and convictions about how our welfare system works, about how people would behave under certain conditions as well as some ethical judgments about what welfare should do.

And those sets of beliefs can greatly influence what our conclusions will be.

Today, I would just like to assume that we can approach welfare reform with either one of two alternative sets of beliefs—for sake of discussion, let's call the first set A, the second set B. These are set forth in table 1 of my testimony.

This greatly oversimplifies matters, but let us also assume that welfare reformers could be divided into two groups. Those in group A would accept the statements in set A; those in B would accept the statements in set B.

So, for example, if you are a type A welfare reformer you would believe: one, the current welfare system is a bankrupt, dismal failure. It fails to provide help to many who need help. The help that is provided is, in many cases, is inadequate.

Two, you would believe that the problem of poverty is not being alleviated by current efforts. To the contrary, the percent of Americans who are poor may even be increasing.

Third, you would believe that the American public ranks welfare reform high on their list of priorities and has no really strong objections to the idea of a guaranteed income.

Fourth, you would believe that guaranteed welfare incomes and high effective marginal tax rates on earned income have little or no impact on the work effort of low-income workers.

Fifth, you would believe that the structure of existing welfare programs maintains a fairly strong financial incentive for those on welfare to go to work. It is always more profitable to work than to go on welfare.

And finally, you would believe that with enough study and effort, it is possible to develop a comprehensive welfare reform plan that will simultaneously yield satisfactory levels of welfare benefits, a strong financial incentive to work and a relatively low cost to the taxpayers.

On the other hand, if you are a type B welfare reformer, you would believe:

One, judged by two key criteria, extent of coverage, and the adequacy of support, that our current welfare system has been extraordinarily successful, that there are few people in the United States in serious need of help who are not eligible for some form of Government aid.

Second, you would believe that poverty is being rapidly and surely eliminated by the twin forces of a growing economy and massive welfare expenses and poverty has now declined to perhaps less than 3 percent of the population.

Third, you would believe that the American public ranks welfare reform relatively low on their list of issue priorities. They do favor large cuts in welfare spending based on their conviction that many welfare recipients can support themselves. They flatly oppose, by a large margin, the idea of a guaranteed income.

Fourth, you would believe that guaranteed welfare incomes and high effective marginal tax rates on earned income do cause a substantial reduction in the work effort of low-income workers.

Fifth, the interaction of many, separately created programs—AFDC, food stamps, SSI, public housing, medicaid, et cetera—has created such high effective tax rates on earned income that there is little, if any, financial incentive for many of those on welfare.

And finally, you would believe that radical welfare reform is politically impossible. No such plan could be devised that would simultaneously yield minimum levels to welfare benefits, financial incentives to work, at an overall cost to the taxpayers that would be politically acceptable.

A welfare reformer with type A beliefs will almost certainly recommend that the current welfare system be scrapped and it be replaced by a single comprehensive plan, one that incorporates the essentials of a guaranteed income, provides strong financial incentives to work, has uniform national standards and is run by the Federal Government.

On the other hand, someone who accepts the statements listed in set B will probably recommend that the essential structure of the current welfare system be maintained, that welfare aid be limited to the needy only; that there be increased efforts to limit fraud and abuse; that fair, clear, work requirements be established and enforced, inappropriate beneficiaries be removed from the welfare rolls; the administration of welfare made far more efficient and more effective; that more responsibility for welfare be shifted from the Federal Government to the State and local governments, private institutions and individuals.

The basic problem with the statements in set A is that they are not true, and yet it seems that a great many of those who are involved in the process of welfare reform have come to accept most, if not all, of them. I would guess that this is especially true of the intellectuals. I have not made any survey to confirm or disprove this hypothesis, but I would not be surprised to find that upward of 70 to 80 percent of the intellectuals in this country would accept most of the A statements.

No matter how well we reason from these type A premises we are destined to fail in the quest for a comprehensive welfare reform package. Not because the reasoning is wrong, or because we have not worked hard enough or long enough, but simply because the premises are wrong.

I would argue that a large part of the difficulty that this country is having with the issue of welfare reform comes from believing a few, fundamental things about welfare that are not true and from not knowing a few things that are true. I just briefly summarized some of the main ones here: The physical data, the experimental results. The reasons behind them are spelled out in substantial detail in my recently published book on welfare.

This does not mean that if we all suddenly became type B welfare reformers that the welfare reform controversy would disappear. There are still deep differences in philosophical views that even total agreement on the facts would not dispell, but I do think the discussions would be clearer and that agreement on what should be done could probably be reached a lot more quickly.

Senator DANFORTH. Thank you very much for an excellent series of statements.

In fashioning a modification in our existing welfare system, how much emphasis do you think we should give to the old political slogan that we should try to get people off of welfare rolls and onto payrolls?

How much of the problem is one which can be solved by jobs programs? It seems that even under the President's program you would have something like 1.4 million CETA jobs, as opposed to what we have now—what is that, half a million? 750,000.

So he would be going up less than three-quarters of a million. Yet, presently we have—what is the present unemployment figure, about 7 million, roughly 7. So it would be maybe about 10 percent of the total number of people who are unemployed.

Mr. NATHAN. Some of the current 700,000 would be continued under the Carter new CETA bill, about 100,000. So we are talking about a million and a half jobs now under the administration's proposal.

The unemployment figure for—the latest figure is 6.73 now.

Senator DANFORTH. So we have a large—we have got 6¾ million who are now unemployed.

Do you think that we—do we overemphasize the jobs program? Is this a relatively small part of the problem?

Mr. NATHAN. Both Martin and I are type B welfare reformers, but probably with very different notions of what ought to be done.

On the critical question of jobs and how far we can go, the fact of the matter, from my experience, is that jobs are very popular. Every-

body would like to guarantee a job. But when you look at the economics of it, they are not even remotely feasible.

We cannot provide enough jobs, because the figures understate the real facts. If you wanted to guarantee a job to everyone who was willing to work and wanted to work, you would draw a lot of people into the labor force who are not in the labor force currently.

You would also bring to the queue persons who want these presumably better, governmental jobs, lots of people who are working currently at very low wages or in unattractive kinds of work. I worked up figures once that if you wanted to have a guaranteed job approach, which again the Gallup or Harris poll would show is 99 percent popular, you would need to create as many as 12 or 15 million jobs.

The work we have been doing at Brookings on the CETA program suggests to me that we are coming up against the limit of what the public sector can do in both the State and local area to create jobs for disadvantaged persons. In fact, we need to press harder to make sure that CETA jobs are additional jobs for disadvantaged persons.

But I would say that a million and a half jobs in total is very near as far as you could go without all kinds of inefficiencies and administrative problems, plus building up the public sector beyond what I think one would really want. That is a tenth of all the jobs you might need if you wanted to provide a job for everybody. So that means that it is also necessary to mount vigorous efforts to create jobs for disadvantaged persons, for low-skilled people, in the private sector.

When you look at how difficult that has been, if you look at the whole history of programs to stimulate jobs in the private sector, and when you listen to the arguments against the various different ways of doing that, you come down to a twofold conclusion. One is that we have got to have public assistance programs. We cannot go completely to a jobs strategy on a comprehensive basis. Second, we need to push jobs strategies, but there are limitations to what can be done.

Senator DANFORTH. Does anyone else want to comment on that?

Mr. MORGAN. I think, in a sense, it is a dodging of the issue to focus on jobs. There are a lot of people in this country who cannot work, and the difficulty of defining who cannot work has never been solved.

I cited our studies as indicating that if a lot of those people put out a lot of effort and tried to find jobs, nothing happens anyway and has not for years. If you go out and ask people, do you have a disability so you cannot work, you would find a substantial number of people in this country who will say I am nervous, I cannot work.

Now, I submit that as a public policy issue, you have to decide whether you want to take them at their word and provide them with some kind of decent assistance or whether you want to pick on them. And I think I would submit that the evidence from psychology and elsewhere is that they are probably telling the truth, they cannot work. And to insist that they find a subsidized job and force them into working is not only a waste of time, it is probably dysfunctional.

But, in a sense, what we are doing is dealing with two problems at once, the problem of eliminating dependency on the one hand and

the problems of eliminating poverty on the other and to mix the two up leads to bad thinking, on the most part. There is a dependency problem that is not going to be solved by jobs programs alone. It has been a long-term problem and some of it will never be solved.

We are always going to have dependent members in society and if you induce the family in America to split up you are going to increase it a great deal more. We made some estimates, and we re-estimated them recently, how much of a dependency problem in America is being handled inside the family and it is orders of magnitude larger than anything the whole welfare program handles.

You would have to have 5 times the welfare program you have today if you let the family split up the rest of the way. I simply submit that it is absurd to spend all of our time worrying about work incentives when the facts are that we have all kinds of programs that are dysfunctional from the point of view of family functioning and togetherness and encouraging people to live and share with each other and live with their own families.

I do not want to compel that, either. I simply say that we ought to have programs that are at least neutral with respect to people's decisions about whom they live and share things with.

Mr. SPIEGELMAN. I do not really have any proposal here, but some information is interesting as to the relative merits of the Carter proposal versus the extent of the problem.

If you look at the husband and wife families in the United States, which is the main group that is being swept in under a negative income tax, or cash grant program, only 3 percent, less than 3 percent of those families had incomes that would be under the roughly \$3,800 cutoff for the tier 2 part of the cash program. So roughly, you are talking about 1 million families which would have sufficiently low incomes that the jobs component would be an important part of their support program. That is not terribly out of line with the kinds of numbers that are being proposed.

I know there are lots of people who could use jobs, but in terms of the main new component being talked about in the Carter proposals, I think the relationships do not seem that bad.

Senator DANFORTH. The relationship?

Mr. SPIEGELMAN. Between the number of jobs that are being proposed for the jobs component of the program and the number of people that would be new into the welfare program that would need such jobs.

Senator DANFORTH. You are saying that, regardless of the expansion of CETA, it is a part of the total welfare program. The other side of your statement is that there are an awful lot of people who would not, for one reason or another, take advantage of any expansion of CETA.

Mr. SPIEGELMAN. Yes. What I am saying, really, is that there is a tier 1 program and there is a tier 2 program and really, the jobs component is aimed at this tier 2 group, the ones that would presumably then by the jobs be brought above that \$3,800 minimum.

I am saying right now the number of two-parent families in that condition is roughly a million, which is not out of line with the kinds of numbers of jobs that we are talking about.

Mr. ANDERSON. I would like to comment on some of these things. It seems to be assumed that you can only reduce the welfare rolls by creating public service jobs, and I would just like to refer to one example that has always fascinated me, and this is an example that happened in California a few years ago.

From March 1971 to June 1973, the actual number of people on welfare in California was reduced by something on the order of a third of a million and this was primarily done, not by taking people off of the welfare rolls, but by simply tightening up the screening process, the investigation process of people applying for welfare.

I think sometimes we lose sight of the fact that there is enormous turnover in the welfare rolls.

During that 2-year period—and I was living out there at that time—they said something on the order of a third of a million people left the welfare rolls. This was not a reduction in the rate of increase, but an absolute reduction of a third of a million people. As far as I know, there was no significant decrease in the unemployment rate in California and these people seem to have been absorbed fairly rapidly into the work force.

I think it might be very interesting to go back and look at that experience and see what exactly did happen to those people.

Senator DANFORTH. This was accounted for just by tightening up the process?

Mr. ANDERSON. Primarily, as I understand it. They did not go and say look, so many people have to get off the welfare rolls. They simply tightened up the investigation and the screening of people coming on to make sure that they were eligible and they qualified under the law.

I am sure that there were other things that were done but, as I understand it, the primary reason for the reduction was the tightening up of the screening process.

It is also estimated that it was a net reduction of 785,000 compared to what it would have been without the particular changes being brought into effect, and that was just one State.

Senator DANFORTH. Well, I take it that Dr. Morgan, your No. 1 objective would be to keep the family together?

Mr. MORGAN. Well, I do not want to force them to stay together. I think some of the marital dissolution we are finding here may easily be impact effects rather than long-term results. You may remember when OEO was first started and set up the legal aid program most of the original money in the OEO legal aid program went to pay for divorces that the poor had not been able to afford up until then. You have to be careful of what is an equilibrium answer and what is a short-run impact of a new program.

What I am saying is that we have lots of programs which, in defining the standards relative to family size, are trying to recapture, for the Federal Government, the economies of scale that come from living together and, in the process of course, make it advantageous to split up.

In the same way, if you start playing with the income tax law, if you are not careful, you might make it disadvantageous to get married

and file a joint return. Now, I am arguing for some kind of reasonable neutrality so that people can do what they want to.

I think if we followed these people in California who were kept off the welfare rolls, we might find they were absorbed into other fairly poor families, and I am not sure that is a good solution necessarily. I do not want to force people to take care of relatives at their own disadvantage if they do not want to, but I think that we ought to be careful about the impact of the way programs were set up.

And in all of the discussion of income maintenance programs, you will find almost no discussion of the relationship between the benefit side and the family structure. All the discussion has to do is the benefit relative to other earnings. There is a structure in there, there is an adjustment for family size, but it has never been discussed.

Senator DANFORTH. Senator Curtis has some questions which he would like me to read for him.

For Dr. Nathan, he asks, you state on page 3 of your testimony, in discussing the tactics of welfare reform:

There is also the fact that welfare, at least the liberalization of welfare is not a popular issue. Why go through a difficult, controverted struggle over income redistribution if many of the same goals can be achieved in less divisive ways.

Basically here, are you espousing the Baker-Bellmon bill? Are you saying that we can get to the same place—that is, greater income redistribution, through gradual steps by the kind of things that are in Baker-Bellmon?

Mr. NATHAN. Basically, yes. I think that the Baker-Bellmon bill, which you are a cosponsor of, is a very important proposal. It contains within it a number of the kinds of features that, as a type B welfare reformer, would move in the direction that seems right to me.

The point that I was making that Senator Curtis picked up on is best illustrated by some figures that I ought to briefly cite.

There is a great ambivalence in this country about welfare, as has been alluded to earlier. When people are asked this question, do you think that most people who receive money from welfare could get along without it if they tried, or do you think they really need it, the figures show that 54 percent said they could get along without it, 15 percent had no opinion, and only 31 percent said they needed the money.

Do you approve of most government-sponsored welfare programs is another question. The answer—58 percent “no,” 10 percent “no opinion,” only 32 percent approve.

But then, if you flip the questions over and you ask the questions in a different form, and you ask, do you approve of food stamps for the poor? Eighty-one percent: “yes.”

Do you approve of aid to poor families with dependent children? Eighty-one percent say “yes.”

Do you approve of health care for the poor? Eighty-two percent say “yes.”

So even within individuals there is this ambivalence of not liking welfare programs, but wanting to help the poor. Add to that the fact that there are many different groups that regard welfare reform in

many different ways. To some, welfare reform is getting the chiselers off the rolls. To others, welfare reform is reducing the burden on State and local taxpayers. To still others, welfare reform is helping people in a more appropriate way recognizing that, in a rich Nation, we should help the poor in an adequate way.

With all of these conflicting attitudes and this great emotionalism, it seems to me that the essential question that we have to ask ourselves is, is this trip necessary? This is the fifth, sixth, seventh or 27th comprehensive welfare reform plan that has come along. Martin and I worked on this subject together. It seems to me that the answer today is that this trip is not necessary. We are moving now towards a consensus on the incremental approach. The New York Times recently endorsed this position editorially, which is a shift for them. The idea of an incremental strategy is to integrate programs better, to rationalize them, to deal with inadequacies, to tighten up on administration, to tie into jobs better. I think this consensus is getting stronger. The bill which you are a cosponsor of is moving in a way that is beyond what I would have expected a year ago. I see improving prospects for what I would consider good legislation. The type A assumptions that Martin has pointed out and others have pointed out are beginning to be challenged.

Things are moving in a good direction. I am glad to see that.

Senator DANFORTH. Dr. Spiegelman, Senator Curtis has the following question for you.

You have stated that the experiment extrapolation were run assuming that the NIT would replace the existing AFDC and food stamp programs and that there would be no State supplementation. What, in your judgment, would the extrapolations have shown had you assumed that there would be State supplements, say at the ratios or benefit levels now present in AFDC and/or SSI?

Mr. SPIEGELMAN. I do not really think I can answer that without really looking at the statistics that we have and doing some computational work. I am afraid, offhand, that I could not do that.

I would be happy to take that home with me and report back to you on it.

Senator DANFORTH. If you could do that for the record I think Senator Curtis would appreciate it.

[The following was subsequently supplied for the record:]

SRI INTERNATIONAL.
Menlo Park, Calif., May 24, 1978.

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

Reference: Robert G. Spiegelman testimony of May 1, 1978.

DEAR SENATOR MOYNIHAN: Senator Karl Curtis requested that I provide an estimate of the effect of State supplementation of the SIME/DIME simulations (see page 62 of my testimony). The term "State supplementation" in the question is not precisely defined as to the level of supplementation. I interpret it to imply a hold-harmless principle in which the State supplements would reimburse all families whose structure was such as to qualify them for an NIT, but would lose payments by the elimination of the AFDC and food stamp programs.

The version of the simulation model used for this comparison is slightly different from that presented in my written testimony presented to the Senate Finance Subcommittee, and therefore the results without State supplementation

under this model will differ slightly from those in the original presentation. The model is the same as that used by DHEW in the preparation of its cost estimates for the administration's welfare reform proposal.

The enclosed table compares the labor supply response and cost with and without State supplementation for a program having support at 75 percent of the poverty line and a 50 percent tax rate. This program was selected because it is the NIT program most like the tier 1 cash component of the administration's proposal. Two results of this comparison are of interest. First, the hold-harmless provision does not significantly change the cost due to the labor supply response; second, the hold-harmless provision adds approximately \$3 billion to costs, representing a 38 percent addition to the total cost of the program.

Sincerely,

ROBERT G. SPIEGELMAN,
Director, Center for the Study of Welfare Policy.

Enclosure.

NIT PROGRAM
(Cost in 1974 dollars)

	Average hours change per participant per year	Percent charge	Net cost before response (billions)	Net cost due to response (billions)	Net cost after response (billions)	Number of participating families (millions)
No state supplement:						
Husbands.....	-100	-5.6				
Wives.....	-113	-23.5				
Husband/wife families.....	-213	-9.4	\$5.4	\$1.9	\$7.3	7.5
Female heads.....	-44	-6.3	.2	.2	.4	3.0
			5.6	2.1	7.7	10.6
State supplement, hold harmless:						
Husbands.....	-96	-5.4				
Wives.....	-109	-22.2				
Husband/wife families.....	-205	-9.0	6.5	2.1	8.6	7.9
Female heads.....	-48	-6.7	1.8	.2	2.0	3.2
			8.3	2.3	10.6	11.1

Note: Support equals 75 pct. of poverty line (\$4,250 in 1974); tax equals 50 pct.

Source: Simulations performed by Mathematica Policy Research, Washington, using MATH model; runs dated Apr. 20, 1977.

Senator DANFORTH. Dr. Anderson, his question for you is do you think—what do you think we should do? Would you testify specifically about your recommendations on cash assistance, jobs, and work requirements and the earned income tax credit?

Mr. ANDERSON. I would just like to first briefly comment on one of the things that Mr. Nathan was pointing out about the ambivalence of the American public. I think this is only an apparent ambivalence. I think that they are actually quite consistent and quite rational. If you take a look at the polls, it seems to me what they are really saying is that the public has no objection to helping people who cannot help themselves. But at the same time they have a firm conviction that many people who are on welfare rolls should not be there and therefore they want to cut the welfare rolls because they would like to see those people removed.

I think that if you look at these two aspects of the polls, they are not ambivalent at all.

I do not have a comprehensive plan of my own to put forth today. I have laid down some principles in the book about general guidelines which I think should guide us in any major reform of the welfare system.

I might address myself specifically to one point, though, which I think is getting increasing attention, and that is the earned income tax credit. I have recently been looking into that and the thing that really bothers me most about it is the way we are using the normal tax system to achieve welfare objectives. I think that in our haste to do something about welfare, using the tax system, we have not taken a careful look at what some of the secondary effects have been.

The current earned income tax credit, in my judgment, has already caused some very serious distortions in the existing Federal income tax system. If you look at a typical taxpayer in the United States, the head of a four-person family, and examine the three major taxes on that person's income—Federal income tax, State income tax and social security tax—you discover marginal rates of taxation which are running close to 30 percent for fairly low-income people. We have a crazy situation where the marginal income tax rate goes up and down repeatedly. The marginal income tax rate is lower for a family making \$17,000 a year than it is for someone making \$7,000 or \$8,000 a year and that, to me, just does not make any sense.

I might comment further on one point. I have not studied the details of the Baker-Bellmon bill but the one section that I have looked at is the question of the earned income tax credit. It is recommended that this be expanded, going from 10 to 15 percent up to the poverty level; I think they used the number of \$6,300. The only problem with that is that there is no way that you can have a larger earned income tax credit at the low end without simultaneously increasing the effective tax rate at the higher end. The net result of using the 20 percent reduction rate that is implied in the bill for people making over \$6,300 a year, is to subject them to marginal income tax rates that will exceed 40 percent. And I think that you should take a very serious look at the effect the earned income tax credit is having on the rest of the workers in this country.

This is the part that gives me the most concern at this time.

Senator DANFORTH. I am very apologetic that I am the only person here for this galaxy of stars to shine on, but I am told that Senator Moynihan and Senator Curtis at least have written questions that they would like to submit to you, if that is all right with you, if you could answer those questions for the record.

Mr. MORGAN. I might make one fairly radical suggestion that you consider the issue of the work effort problem in distinguishing the working poor and the nonworking poor. The earned income credit is a sloppy way to do it, in a sense, because it is based on earnings rather than work.

It is not at all inconceivable to define a level of well-being that takes into account how much work people are putting out, too, and to base both taxation and maintenance scheme on a function that includes both hours of work and earnings.

If you do this, you could obviously work out a scheme that supports the working poor at a higher level than the nonworking poor, does not discourage work effort and, if you imbed the proper family relations in a scheme like this, you could invent schemes that really are neutral with respect to all of these decisions.

The real problem is, you want a scheme of taxation and income maintenance which is not distorting with respect to whole sequences of decisions about who lives with whom, about how much work people are going to do, about whether they work for money or stay home and take care of children, about how many children they have.

Now, I gave your staff person an appendix to a lecture I gave last fall, if you want to put that in the record, too, which works out an example of this, or you may just want to look at it and decide what you want to do with it. It is speculation, and it is much too radical for the present nitty-gritty reforms that are arguing about grubby details. But, in fact, the basic problem of most of the welfare programs is that they do not try to maintain people's well-being. They are trying to maintain their money income and they are ignoring how much work they are putting out to get there.

If you want to assume that people's well-being is a function that includes their leisure time, you obviously have a whole different way of looking at the world, but I do not think it will sell, so I am not really trying to propose it.

Senator DANFORTH. Do you have a response to that?

Mr. NATHAN. One of the things that I have felt throughout this fairly long experience we have had following these issues is that often grand designs, like a negative income tax, assumes too much and observes too little, too little in terms of how welfare problems look on the ground and in the cities. If I had to choose between grand designs and nitty-gritty grubbing in details, I am for nitty-gritty grubbing in details. The important thing is that we have come a very long way on welfare policies. Another important point is that the question just asked, and the point that you were just making about the extent to which we perhaps should relate assistance to a period of work, is exactly the concept embodied in the Baker-Bellmon-Danforth bill in two ways—in the voucher proposal and in the proposal for an employment tax credit which would be based on the hourly rate and hours worked. We know that there is a lot of resistance to this approach for reasons that are strong and understandable, principally by the labor movement.

Altogether, I think it is important to note that a lot has happened in this field. We are moving in a good direction.

I would like to make one other comment for the record if I could, Senator. Mr. Spiegelman and I were identifying a difference of opinion. He was saying that there are not that many jobs that we need, that if you want to go with a jobs strategy, maybe a million jobs is what would be needed.

I think it is important to note that we both agree and disagree. I agree that if you set priorities for a jobs strategy, you can go for a smaller number of jobs. In my testimony I particularly emphasized the desirability of having priority one, as in the Baker-Bellmon-Danforth bill, be two-parent welfare families. That would be popular; I think this is the way we should go with CETA, and we could do that with 200,000 jobs, maybe more, but it is manageable.

Second, I said in my testimony and I would like to underline it if I could, that I have come around to the view that, as a second prior-

ity—and I would even be willing to see this be obligatory—we ought to get at the intergenerational welfare problem. We ought to say that one-parent welfare families, which are mostly women with a small child, or with one child who are just coming onto the welfare rolls, who have never been on the rolls before, that they should be the second priority. To the extent we can, we ought to try to break this cycle of dependency.

And so, if we set priorities, indeed, with 1 million or 2 million jobs in the public sector and innovations in the private sector, such as the Baker-Bellmon bill seeks to do, we can tie jobs and welfare together.

But make no mistake about it, there is always going to be a dependency problem. If you really want to provide jobs you have to think about all of the people who need jobs and all of the people would want better jobs. That is a very large number of people.

Senator DANFORTH. Let me ask you this, just as an estimate, if you could give it. We now have about 6¾ million people on welfare. Let's assume the best CETA program that you can design in your own mind the best job voucher type program, the best antifraud or screening program that you can design in your mind.

Assuming all of that, how many people would be on welfare when that sort of scheme was fully in place?

Mr. NATHAN. Well, the AFDC population is now just a shade under 11 million, of which 8 million are children. The food stamp population is about 15 million.

I would say, having a certain caution from observing these issues develop over a period of time, that in the private sector, it would take a long time to set up a voucher program that would be widely accepted. I just do not think that is in the cards in the short run.

I would say that you are talking about somewhere in the range of 15 to 20 percent of the people who are in the welfare population being absorbed by a somewhat expanded CETA program and by better antifraud and quality control techniques. These processes now are being significantly improved. It is nice, once in a while, to say something good about HEW and in this area, HEW has done a good job.

My assumption of 15 to 20 percent is based on a frankly pretty pessimistic view as to how much could be achieved in this Congress and the next in the way of private sector voucher-type incentives. When you finally get down to the nitty-gritty grubby details of negotiating out a welfare bill, this year or next, you are probably going to have to settle for experimental vouchers and not a full voucher program.

A full voucher program could go further but even that, I think, is limited, because we tend to overestimate the workability of new ideas. Congress adopted the WIN tax credit a couple of years ago and the takeup was very small. These things are very hard to do. For any kind of a credit or voucher that is tied to hourly rates, the administrative problems are very large. It would take a long time to do. It would take a long time to get accepted. It would be very complicated.

[The prepared statements of the preceding panel follow:]

STATEMENT OF RICHARD P. NATHAN

The basic choice on welfare policy is between the comprehensive and incremental approaches to welfare reform. But, like many other such choices, the harder one studies it the more elusive it becomes.

Indeed, the Carter administration's "Better Jobs and Income" program has incremental features. Likewise, the Ullman and Bellmon-Baker-Ribicoff bills have comprehensive reform features.

Nevertheless, I would argue that the Administration's BJIP plan is essentially a comprehensive reform plan. It involves the establishment of a single new supersystem for providing welfare benefits to persons now covered under AFDC, SSI, and the food stamp programs. Not enough attention in the debate has been given to the sheer magnitude of the task of establishing a nationally administered system for these programs.¹

Proponents of more limited incremental approaches to welfare reform have in numerous forums outlined their reasons for favoring such a strategy. I would just summarize some of the more prominent ones:

(1) *The growth of welfare programs.*—In the last decade, there has been tremendous growth in many income-support programs. An essential factor often overlooked in evaluating this growth is that Census Bureau personal-income data do not include the value of the in-kind assistance programs, such as Medicaid, food stamps, and housing; yet, it is precisely these programs that have grown the fastest. The point simply is that this growth has made comprehensive replacement reform less important insofar as "need" is being met to a greater degree than it was when the idea of a negative income tax first surfaced.

(2) *Pluralism in society.*—The second set of reasons for rejecting the comprehensive replacement approach to financing welfare relates to comparative politics. To the best of my knowledge, all of the industrial democracies of Europe have multiple welfare programs which have evolved in a manner similar to that in the United States. One could argue that in a pluralistic society there are bound to be multiple and even conflicting welfare goals and therefore that only a multiple system or incremental approach to welfare policy is suitable.

(3) *The conundrum of NIT.*—Without going into detail, if we stipulate that we want an "adequate" income-support level for all families, with a tax rate or welfare reduction rate of no more than 50 percent, the arithmetic of the negative income tax is inexorable. For example, if we assume a \$6,000 poverty line for a family of four, putting a single income-support system into effect with these characteristics would require either a one-time increase in welfare spending on the order of \$20 billion, or compromises on the basic features of an NIT. This does not include any additional funds for a jobs component of welfare reform or for fiscal relief to states and localities.

(4) *Exaggeration of the "Welfare Mess."*—The so-called welfare mess has been overstated. Welfare programs in many instances fit together surprisingly well. We have one cash-grant program for the aged and disabled and one for poor families. There is also an overlay of the food stamp program, which, in effect, is a mini-negative income tax that supplements both low welfare benefits and the low earnings of the working poor. There is clearly a limit to how much we can achieve in the way of integration. No matter how much welfare reforming we do, there will, undoubtedly, always be, in addition to cash assistance, a separate program for health, one for school lunches, and another for financial assistance to low-income college students. Unemployment assistance and social security (contributory and not means-tested) are not proposed to be eliminated as separate programs and included in any comprehensive reform scheme. Basically, this leaves two cash transfers which are needs-tested and aimed at different groups (AFDC and SSI) and the food stamp supplement as, in effect, a generalized program of income support. Modifying and

¹ I commend to the Committee's attention the work done on this subject by former HEW Assistant Secretary, Rufus E. Miles, Jr., a Senior Fellow at the Woodrow Wilson School of Public and International Affairs, Princeton University. The citation is, "The Carter Reform Plan: An Administrative Critique," An Occasional Paper of the National Academy of Public Administration, Washington, January 1978. The House Committee bill, it should be noted, provides for state administration.

integrating these programs to deal with the remaining gaps and deficiencies and to enhance efficiency is the essence of the incremental position.

(5) *Doubtful gains in administrative reform.*—In considering the tradeoffs between the comprehensive and incremental positions, a word of strong caution needs to be indicated as regards the assumption of smooth, efficient administration of a new, reformed supersystem for welfare. Recent experience with SSI is instructive. I have serious doubts about the assumption that a single, computerized administrative structure for all welfare payments could be set up easily and would work well. As a nation, we tend to be too confident that centralized bureaucracies can perform exceedingly complex tasks.

(6) *Tactics of welfare reform.*—The arguments cited so far are substantive. There is also the fact that welfare, at least the liberalization of welfare, is not a popular issue. Why go through a difficult, controverted struggle over income redistribution if many of the same goals can be achieved in less divisive ways?

The essential need currently is to untie the Gordian knot of welfare reform on a basis that combines elements of the Administration's plan and the incremental bills offered in the Senate and the House.

I believe there is a way to develop a single welfare bill which would include those elements of the Administration's plan that can be enacted in the reasonably foreseeable future and at the same time draw support from those who are sponsoring various incremental proposals for welfare reform. This would involve focusing on those features of the Administration bill which can be agreed upon now, combining some parts of the Administration program with other legislation, and putting aside parts of BJIP, at least for the present time. To be specific, legislation involving the jobs component of welfare reform could be included in the reauthorization of the CETA program; similarly legislation effecting the earned income tax credit (EITC) could be considered in connection with tax reform legislation, also now pending.

There are conditions under which smaller steps are better than great leaps. What is involved is "welfare modernization"—not a complete overhaul of the system, but at the same time a bill that would constitute much more than tinkering at the edges. My experience in the cauldron of welfare reform leads me to the conclusion that such a basically incremental strategy would be faster, easier, and more suited to the political conditions and attitudes of the moment than the broader, comprehensive-reform approach.

The differences between the Carter plan and the Senate incremental bill, in essence, involve:

1. The Carter plan opts for national administration and full program consolidation; the Senate incremental bill retains state administration for AFDC and food stamps, though it leaves SSI where it is (and should be) as a program component of the Social Security Administration.
2. The Carter plan eliminates food stamps; the Senate incremental bill retains them, except for SSI recipients at state option.
3. The Carter plan covers all singles and childless couples; the Senate incremental plan does not go as far in this direction.
4. The Carter plan has a larger and more separate welfare jobs program at minimum wages; the Senate incremental bill ties more closely to the existing CETA program and requires paying the prevailing wage with a guaranteed job to one adult in all 2-parent welfare families.

There are other important differences regarding the accounting period and incentives for private employment in the private sector, although these differences are less basic to the choice indicated at the beginning of this testimony between the incremental and comprehensive routes to a welfare reform.

But this is only part of the picture. There are at the same time important areas of agreement that constitute the basis for developing a welfare modernization bill. Both approaches (BJIP and the Senate incremental bill) effectively set a national minimum payment level for AFDC and adopt simplified national eligibility standards for this program. Both cover two-parent (so called, intact) poor families on the same basis as broken families, which have tended in the past to receive preference in the topsy-turvy world of welfare policy. Both plans extend additional fiscal relief to state and local governments. Both remove local governments from administrative and fiscal responsibility for welfare, though the Senate incremental plan would—and I would say, wisely—

keep the states involved. Both make changes in the accounting period. Both permit cashing out food stamps for SSI recipients. Both would provide additional jobs for welfare-eligibles and potentials.

On this final point—jobs—I would like to discuss the significance for welfare reform of the findings of the current Brookings monitoring study of the CETA-Public Service Employment (PSE) program. (Brookings is conducting a national monitoring study in 42 jurisdictions of the CETA-PSE program for the National Commission for Manpower Policy. A preliminary report on this study was submitted last month. Attached to this testimony is a summary of the principal findings presented in this report.)

To summarize, there is evidence that the PSE program is working to target on the disadvantaged, although I would add that there is still, at least in my opinion, too much "creaming". A better job could be done to reduce dependency by assisting the welfare-eligible population under the CETA-PSE program.

But the wages of CETA are high. Our data are still preliminary. They show that the average hourly wage in cities for service workers (the lowest paid job classification) is \$5.28 in distressed cities and \$4.61 in the other large cities in the sample, as of mid-July 1977. It should be noted that for the latter group (PSE workers in other large cities), the lowest hourly rates are for clerical workers. It should also be noted that the rates for rural areas (\$3.03 overall) and small cities and suburban areas (\$3.82 overall) are much lower than for large cities. Likewise, PSE hourly rates for the project component of PSE tend to be lower than those for the sustainment portion of the program. Table 1 attached to this testimony summarizes the field data on wages.

To me, these data indicate the great difficulty, if not impossibility, of relying on the public sector for *minimum-wage* jobs for the disadvantaged. In large cities which tend to have the strongest municipal unions (no value judgment implied here), the only way minimum-wage jobs that could be provided for welfare family heads would have to be to set up on a very artificial, highly stigmatized basis, dead-end jobs with a ticket to nowhere, that is, with negligible or nonexistent opportunities for transition to permanent jobs in local government.

From my field-site visits, I have come away with the conclusion that the only way *minimum-wage* jobs could be created in the public sector in many large cities (especially older and declining cities) would be for these jobs to be so separate and non-competitive with regular jobs as to be acceptable in the context of local labor relations processes. Such jobs would involve putting people in very separate categories, with identifying uniforms and/or transportation to go to jobs that clearly do not compete with city (or for that matter urban county) employment—for example, sorting out aluminum cans at the city dump, doing a survey of attitudes on social service needs, distributing pamphlets about city services.

Unless we play by the rules of the state-local public sector, and in my view this can be done best by a full merger of welfare-jobs into the current CETA system, we are not going to get at welfare dependency through jobs on a long-term and cost-effect basis—that is, cost-effective because there is a real chance for transition to permanent employment.²

The Senate incremental bill sets an ambitious, but reasonable, goal—a guaranteed job via WIN under the CETA-PSE program for at least one parent in all two-parent welfare families. This guarantee would apply in every case in which the recipient has searched unsuccessfully for a regular job for 90 days. This is a feasible and important proposal. Judging from October 1977 AFDC-UF caseload, such a guarantee would require approximately 100,000 positions currently, if we assume the universalization of the AFDC-UF program and that one-half of all AFDC-UF families find positions through other channels (either public or private-sector positions), hence the other half is subject to this CETA-public service job guarantee.³

² For a fuller discussion of this point, see chapter 7, "Policy Implications," in *Monitoring the Public Service Employment Program*, Richard P. Nathan, Robert F. Cook, Janet M. Galchick, Richard W. Long and Associates, National Commission for Manpower Policy, Washington, 1978, pp. 144-145. This section of the report is entitled, "The Limits of Social Policy for PSE."

³ Even if the new definition of unemployed status in the Senate incremental bill were adopted for the AFDC-UF program, there is every reason to conclude that an AFDC-UF job guarantee is a workable one.

It needs to be remembered that the CETA-PSE program has other goals too— for example, providing useful service and aiding the recently unemployed. It is also important to note, as the figure below indicate, that lower skilled jobs appropriate for welfare-eligible adults are decreasing, not increasing, as a proportion of total available jobs. Using new detailed occupational data for 1972, the proportion of the employed population accounted for by farm laborers, laborers, and service workers (excluding protective services and health services) has declined from 17.7 to 16.6 percent of total employment. A more exhaustive examination of detailed occupational data probably would reveal a larger decline.

To absorb the growing youth population (which will not peak until 1980) and at the same time to reduce family dependency requires three things: (1) new programs, like the new youth job-entitlement programs; (2) a willingness to set realistic priorities for employing welfare family heads, as under the Bellmon-Baker-Ribicoff bill, and (3) a commitment to creating jobs for the hard-to-employ in *both* the public and the private sectors.

The latter objective, developing job programs for the disadvantaged in the private sector, is as difficult a policy objective to achieve as energy conservation or curbing pornography. But the point must be made: Greater efforts to provide jobs for welfare family heads must be pursued in *both* the private and public sector. And both present formidable obstacles.

Jobs and welfare go together, but that doesn't mean job programs and welfare *programs* go together. I believe the separation of job and welfare programs enhances the acceptability and feasibility of social targeting objectives under programs like the CETA-PSE program (now operating at 725,000 positions).

In order to achieve social targeting and job-transition objectives under a decentralized CETA-PSE program which cannot work without the active cooperation of local governments and private employers, there is a point beyond which such social policy requirements under CETA-PSE can be counterproductive. One can argue that adopting as one aim of CETA-PSE, a countercyclical rationale (with its emphasis on relieving short-term unemployment), facilitates efforts also to relieve structural unemployment under the CETA format by making the program more attractive to local governments and by making participants more acceptable to private employers. From an operational and practical point of view, there are significant advantages of having a single CETA-PSE program which includes *both* structural and cyclical components and does not make a sharp internal distinction between participants on the basis of their degree of social and economic disadvantage.

This conclusion reinforces the point made earlier that everything social doesn't have to be in one bill or one system. Welfare modernization, coordinated with job and tax legislation, can be achieved better in three bills (or more bills) than in one bill. It's something like eating pizza; a small plain pizza on Friday and another one on Sunday is much more digestible than a large one "with everything" on Saturday night.

TABLE 1.—AVERAGE HOURLY WAGES PAID TO PSE PARTICIPANTS BY OCCUPATION, TYPE OF GOVERNMENT, AND TITLE

	Large, distressed cities		Other large cities		Small cities and suburban areas ¹		Rural areas ¹	
	Sustainment	Project	Sustainment	Project	Sustainment	Project	Sustainment	Project
Managerial.....	\$9.86 (45)	\$4.50 (20)	\$5.03 (85)	\$4.12 (45)	\$3.44 (23)	\$4.56 (32)	\$4.10 (9)	
Professional.....	8.06 (849)	4.85 (10)	4.78 (909)	3.85 (98)	3.99 (68)	4.53 (80)	3.92 (18)	
Technical.....	7.58 (231)	3.98 (90)	4.61 (280)	4.02 (61)	3.84 (46)	4.48 (46)	3.41 (31)	\$3.09 (6)
Clerical.....	5.83 (407)	4.20 (28)	4.03(2, 112)	3.34 (120)	3.44 (246)	3.67 (134)	2.79 (111)	3.19 (5)
Craft.....	7.55 (66)		5.63 (91)	3.63 (63)	4.85 (14)	4.00 (12)	3.52 (6)	
Operative.....	7.25 (175)	5.15 (501)	5.61 (172)	4.82 (455)	3.71 (30)	3.46 (33)	3.22 (27)	
Laborer.....	6.26 (369)	4.81 (561)	4.96(1, 681)	4.33 (679)	3.64 (209)	4.04 (235)	2.91 (92)	3.19 (26)
Service.....	5.28 (645)	4.30 (66)	4.61(2, 431)	3.90 (431)	4.04 (131)	3.46 (134)	2.87 (67)	
Total average hourly wage.....	6.78(2, 785)	4.84(1, 276)	4.85(7, 760)	4.23(1, 951)	3.71 (774)	3.94 (707)	3.02 (361)	3.14 (37)

¹ Percentages are affected by the small numbers.

Note.—Figures in parentheses indicate the number of participants for whom data are available.

Source: Field research data.

EXECUTIVE SUMMARY—PRELIMINARY REPORT ON THE BROOKINGS' INSTITUTION
MONITORING STUDY OF THE PUBLIC SERVICE EMPLOYMENT PROGRAM

(By Richard P. Nathan, Robert F. Cook, Janet M. Galchick, Richard W. Long,
and Associates)

Under contract with the National Commission for Manpower Policy, the Brookings Institution in mid-1977 initiated a national monitoring study of the public service employment program (PSE) under titles II and VI of the Comprehensive Employment and Training Act (CETA). The preliminary report submitted February 15, 1978, consists of an analysis of field data as of mid-July 1977 and includes a conference transcript which reflects additional field research through December 1977. The final report, to be submitted in December 1978, will include analysis of the July 1977 data plus field data collected as of December 31, 1977.

The study is based on a sample of forty-two jurisdictions which represent various prime sponsor arrangements, geographic areas, and population levels. It includes sixteen large cities, nine smaller cities, fifteen counties, and two school districts. Within these jurisdictions numerous subgovernments and non-profit organizations are also represented.

The monitoring research for these jurisdictions has been conducted by twenty-six research associates selected for their knowledge of public policy and federal programs. Most are economists or political scientists and many are recognized experts in the field of employment and training. All are residents of the area they are studying. The sample represents over twenty thousand positions, or approximately 5 percent of the PSE positions filled nationwide as of midsummer 1977. The draft preliminary report focuses on the displacement issue and also includes analyses of the fiscal, programmatic, and social effects of the PSE program.

1. EMPLOYMENT EFFECTS

One of the most critical issues of public employment programs—job displacement—is also one of the most difficult to assess. The rate of displacement refers to the extent to which local governments use CETA funds to support employment which would have been supported by other sources in the absence of the program. The determination of displacement for this analysis was based on a set of categories of job creation and displacement which are discussed, with examples, in chapter 3 of the report. Table 1 summarizes the first-round findings.

TABLE 1.—PSE POSITIONS CLASSIFIED BY TYPE OF JOB CREATION OR DISPLACEMENT, ALL TITLES

	Title VI project total		Title II and VI sustainment total		Total for all titles	
	Number	Percent	Number	Percent	Number	Percent
New programs.....	395	8	1,339	9	1,734	1
Expansion.....	1,881	36	4,435	29	6,316	93
Special projects.....	2,192	42	247	2	2,439	31
Program maintenance.....	347	7	5,927	39	6,274	12
Total job creation.....	4,815	92	11,948	79	16,763	82
Transfers.....	29	1	1,378	9	1,407	7
Rehires.....	3	(¹)	23	(¹)	26	(¹)
Potential hires.....	322	6	1,234	8	1,556	8
Contract reduction.....	47	1	110	1	157	1
Other.....	10	(¹)	415	3	425	2
Total displacement.....	411	8	3,160	21	3,571	18
Total positions.....	5,266	26	15,108	74	20,334	100

¹ Less than 0.5 percent.

Source: Field research data.

The rate of displacement was found to be substantially higher for title II and VI sustainment positions (21 percent) than for title VI project positions (8 percent) as shown in table 1.

Figures also varied depending on the employing organization. Displacement was highest among positions retained by the sample governments (21 percent)

and lowest for the positions used by nonprofit organizations (3 percent). A comparison by title within the sample governments showed displacement to be higher in sustainment positions (24 percent) than in project positions (7 percent).

The overall rate of displacement for the full sample was 18 percent—20 percent adjusted for the relative weights nationally of CETA prime sponsor types.

Differences between the displacement findings of this study and those of previous studies are discussed in the report in relation to the changed fiscal setting and eligibility requirements of current PSE legislation and differences in methodology, particularly for the program maintenance category of employment effects. For 31 percent of the positions studied (85 percent of which were in four distressed large cities) associates determined that, although the positions were in existing programs, they would not have been filled in the absence of PSE funding. Some of these positions may be reclassified as displacement in the second round of the field research (for December 31, 1977) in cases in which associates determine that the fiscal position of the jurisdiction has improved to the point where the positions involved would have been funded in December in the absence of PSE.

The fact that the program maintenance category is potentially more fluid than the others in the first set of observations suggests that for purposes of comparing research findings on PSE employment effects a three-part framework for the findings of this study should be used, consisting of new services and activities (51 percent), program maintenance (31 percent), and displacement (18 percent).

2. FISCAL EFFECTS

The analysis of fiscal effects in chapter 4 is an adjunct to the employment effects analysis. The key concept is substitution. If a jurisdiction uses funds to displace a worker who otherwise would have been employed by that government, this substitutes federal funds for resources which can then be used for other purposes. This can result in a reduction or stabilization of taxes, an increase in the general fund balance, or an expenditure on additional employment or capital. Among the fiscal effects of PSE funds used for substitution purposes, tax stabilization was by far the largest category, accounting for two-thirds of funds released by displacement. In this case the economic impact of PSE is shifted from the public sector to the private sector and from the point of view of macroeconomic policy the program's impact is analogous to a federal tax cut.

3. PROGRAMMATIC EFFECTS

To study PSE programmatic effects, data were collected on the functional activities and occupations of PSE participants in the sample governments (chapter 5). A number of summary points can be made:

1. "Primary services" were predominant in both sustainment and project PSE, although less so for the projects.¹

2. Within primary services, PSE participants in sustainment positions were more likely to be in protective services and general administration. Project participants tended to be in public works, utilities, and sanitation, which are more amenable to the project approach.

3. The proportion of PSE participants in education was relatively small, but this may be explained by the midsummer observation date.

4. Nonprofit organizations tended to concentrate PSE positions in social and cultural services. This could affect the overall functional distribution as the role of these organizations expands under PSE.

5. Large cities and fiscally hard-pressed jurisdictions tended to devote the largest proportions of their PSE positions to primary services (especially protective services and public works). Small cities and suburban jurisdictions tend to have a higher concentration of PSE participants in social services.

6. PSE participants were more likely to be in lower skilled occupations than other workers. The proportion of lower skilled positions was greater in the project portion of the program than in sustainment PSE.

In sum, PSE participants tended to be working in basic service areas and in relatively low skilled positions, although there was a sizable proportion in professional and technical capacities. Little evidence was found by associates that

¹ Primary services include protective services, public works, utilities and sanitation, and general administration.

PSE is a "make work" program. This is not surprising in light of the dominance of primary services observed in this study. However, both the functional area distribution and skill levels may change as the role of nonprofit and other employing organizations grows and full operational levels are reached in both titles.

4. SOCIAL EFFECTS

The question of the degree of social targeting of PSE has been a major policy issue. Chapter 5 of the Brookings study provides midsummer 1977 data on the characteristics of over nineteen thousand participants in sustainment and project PSE. The most notable conclusion is that for persons with the characteristics that are specifically targeted in the legislation—jobless for fifteen out of the prior twenty weeks, economically disadvantaged, and members of AFDC families—the percentage being served under the new title VI projects was higher than under the sustainment portion of the program. It must be remembered that title VI projects were still in the buildup stage when these data were gathered; the results should be considered preliminary. The data also showed that, for all types of governments in the sample, the percentage of PSE participants from minority groups was considerably higher than the minority percentage in the general population. The large proportion of PSE participants with a high school education and the still relatively low levels of AFDC participants suggest that some creaming may be taking place.

Also presented in chapter 5 are a discussion of wage supplementation and findings on wages for a sample of nearly 16,000 PSE participants. When the wages paid to PSE participants exceed the \$10,000 annual maximum, the difference must be paid out of local revenues. Such wage supplementation was found to be concentrated in large distressed cities, where nearly three-quarters of all PSE positions involved supplementation; in other large cities the proportion was 15 percent.

Considerable variation was found in the wages paid to PSE participants. Participants in higher skilled occupations generally earned higher hourly wages; overall wage rates were higher in large cities—particularly large distressed cities—than in other types of governments. These differences reflect the generally higher wage levels for unsubsidized employment in urban areas and may also reflect local labor market conditions, which will be examined in the final report. In large cities—both distressed and other—PSE participants in sustainment positions tended to earn higher wages than those in project PSE. This finding was reversed in small cities and suburban and rural areas.

5. POLITICAL EFFECTS

The PSE program is characterized by decentralization and a high degree of flexibility which permit recipient jurisdictions to translate the national objectives into a local program that reflects their particular policy preferences and fiscal conditions. Chapter 6 describes the sponsorship arrangements under which local governments participate in the PSE program and gives preliminary observations on intergovernmental relations under the program and the administration of the PSE program by large city governments. Relations between the Department of Labor and participating jurisdictions were generally smooth, though DOL pressure to speed up hiring rates was almost universally reported for the sample. DOL also made specific charges of irregularities—including displacement and patronage—in several large cities. Preliminary data on local PSE administration suggest that there is a tendency for large distressed cities to assign major administrative responsibility for their PSE program to a unit of the mayor's office rather than to a line agency, and that such cities retain a higher percentage of their positions than do other types of governments.

6. POLICY IMPLICATIONS

As discussed in chapter 7, the PSE program has a broad range of objectives, including:

Job Creation to stimulate the economy and reduce unemployment in a recession.

Service Provision to supply needed additional services in the public sector.

Social Targeting to aid disadvantaged persons through employment.

Transition to relieve dependency through permanent employment.

Training to upgrade the skill levels of the labor force through work experience.

Income Maintenance to redistribute income to needy families and individuals.

Economic Development to assist distressed areas.

Fiscal Relief to assist state and local governments.

These objectives can be grouped into three major categories: counter-cyclical, social, and fiscal relief. Planning for the future of the PSE program should be based on a consideration of the effectiveness of PSE in achieving each of the program's objectives and the trade-offs between them. One important trade-off concerns the characteristics of participants. The more the program is targeted on the disadvantaged, the harder it may be to adjust the program level as required for countercyclical reasons. There are also trade-offs between goals within the category of social objectives. For example, an emphasis on transition to permanent unsubsidized employment may make "creaming" more likely and social targeting more difficult. To the extent that fiscal relief is considered a goal of the PSE program, the question must be asked whether this relief is going to the right places.

THE WORK EFFORT AND MARITAL DISSOLUTION EFFECTS OF THE SEATTLE AND DENVER INCOME MAINTENANCE EXPERIMENTS

(By Robert G. Spiegelman, Lyle P. Groeneveld, and Philip K. Robins)

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I. INTRODUCTION

One of the primary purposes of conducting the Seattle and Denver Income Maintenance Experiments (SIME/DIME) is to provide information for the design of a national welfare program. Knowledge of the work effort and marital status effects of the experiments and the ability to extrapolate the site-specific results to the national population represent critical inputs into the overall program design. The purpose of this paper is to present an overview of the research findings from SIME/DIME with respect to marital status and work effort, and to describe how the experimental results are being used to draw inferences about the likely work effort effects of a national program.

II. A DESCRIPTION OF SIME/DIME

The Seattle and Denver Income Maintenance Experiments are testing eleven variants of a negative income tax (NIT), which is similar in structure to the cash assistance portion of the Program for Better Jobs and Income (PBJI). The experimental plans combine three support (or guarantee) levels with two tax (benefit reduction) rate systems. The three support levels (normalized for a family of four in 1971 dollars) are \$3,800, \$4,800, and \$5,600.¹ One of the tax rate systems has constant average (and marginal) tax rates of .5 and .7. The other tax rate system has average (and marginal) tax rates that decline with income. Under the declining system the average tax rate decreases from initial values of either .7 or .8 at the rate of .025 per thousand dollars of annual income (the rate of decline of the marginal tax rate is .05 per thousand dollars of income). The experimental plans have no work requirements associated with receipt of benefits.

In order to eliminate the influence of other tax and transfer programs, SIME/DIME fully taxes public transfers and reimburses positive income taxes. A national program would presumably operate in a similar fashion. Because positive taxes are reimbursed, the payment a person receives depends on gross income and both experimental and non-experimental tax rates.

In Figure 1, the interrelationship between an experimental plan with a constant tax rate and the positive income tax system is depicted graphically. The

¹ Adjustments are made to the support level for family size and for cost of living changes over time. In February 1978, for example, the support levels in the Denver experiment for a family of four were \$5,755, \$7,255, and \$8,465. These support levels are substantially above the support levels of the PBJI.

horizontal axis shows gross income (income before taxes or transfer payments) and the vertical axis shows disposable income (income after taxes are subtracted and transfers are added). Two breakeven levels are distinguished. Point B is the tax breakeven level, where disposable income is equal before and after imposition of the experimental plan. All persons to the left of B (with gross income initially less than B') are better off with the program. Point G is the grant breakeven level, the point at which the grant (payment less positive tax reimbursement) is zero. At point G an individual does not receive a grant, but also does not pay positive taxes. Table 1 presents the grant and tax breakeven levels for the eleven programs tested in SIME/DIME. As this table indicates, families not receiving grants are still eligible to receive benefits (in the form of tax relief) at fairly high levels of income.

About 4,800 families were originally enrolled in the experiments during 1971-1972. Roughly 55% of the families are experimental families and 45% are control families. About two-thirds of the experimental families are enrolled for three years while the remainder are enrolled for five years.² SIME/DIME also has three manpower treatments which combine job counseling with education and training subsidies.

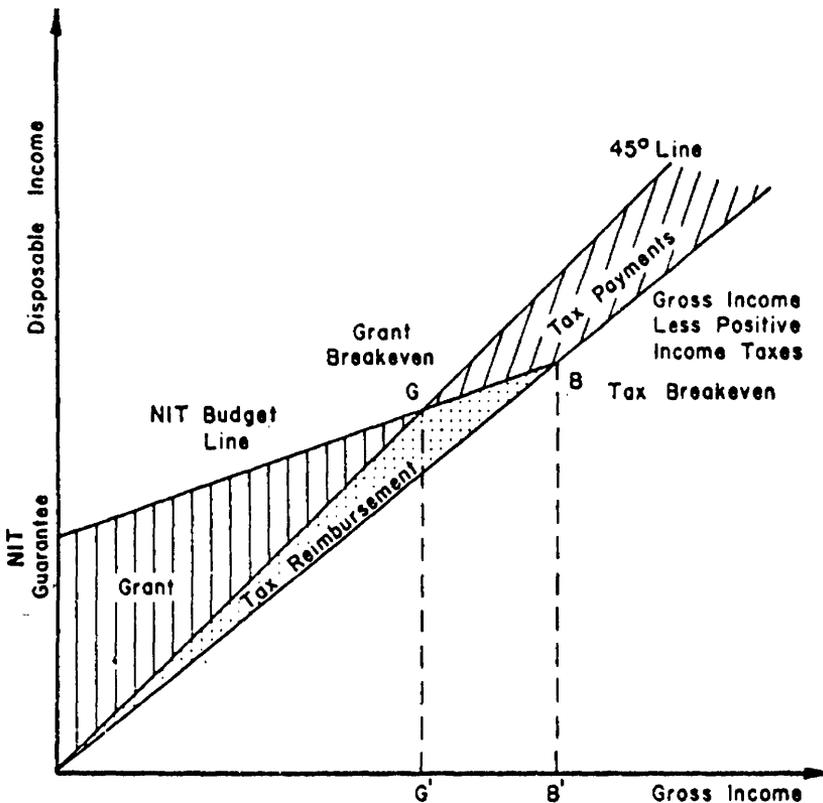


FIGURE 1
A NEGATIVE INCOME TAX PROGRAM
WITH POSITIVE TAX REIMBURSEMENT

Note: Figure assumes no income outside of earnings and a linear positive income tax system.

² SIME/DIME is also testing a 20-year program, which began about two years after the three and five year programs. About 170 families in Denver were assigned to treatments under this program. The work effort response of 20-year families has not yet been analyzed.

TABLE 1.—PLAN BREAKEVEN LEVELS FOR THE SEATTLE AND DENVER INCOME MAINTENANCE EXPERIMENTS
[1971 Dollars]

Key: S=NIT annual support level; t_0 =initial NIT tax rate; r =rate of decline of the average NIT tax rate per thousand dollars of income (rate of decline of the marginal tax rate is $2r$).

Plan	Grant breakeven level	Tax breakeven level
F1 (S=3800, t_0 =.5, r =0)	\$7,600	\$10,250
F2 (S=3800, t_0 =.7, r =0)	5,429	6,350
F3 (S=3800, t_0 =.7, r =.025)	7,367	10,850
F4 (S=3800, t_0 =.8, r =.025)	5,802	7,800
F5 (S=4800, t_0 =.5, r =0)	9,600	13,150
F6 (S=4800, t_0 =.7, r =0)	6,867	8,520
F7 (S=4800, t_0 =.7, r =.025)	12,000	19,700
F8 (S=4800, t_0 =.8, r =.025)	8,000	11,510
F9 (S=5600, t_0 =.5, r =0)	11,200	15,070
F10 (S=5600, t_0 =.7, r =0)	8,000	9,780
F11 (S=5600, t_0 =.8, r =.025)	10,360	16,230

NOTE. These figures are for a family of 4 with only 1 earner and no income outside of earnings. Positive tax reimbursements include the Federal income tax and Social Security taxes. The Federal income tax assumes the family takes the standard deduction. State income taxes, which are relevant only for the Denver experiment (there is no State income tax in Washington), are ignored in calculating the tax breakeven levels. The tax breakeven levels are thus slightly higher for the Denver experiment.

An important feature of SIME/DIME (and the other experiments as well) is a stratified allocation of families to experimental treatments on the basis of four assignment variables: family type (one or two family heads), ethnicity (Black, White, or Mexican-American), site (Seattle or Denver), and normal income (seven levels of "typical" pretransfer family income adjusted for family size).³ The work effort results presented in this paper, cover only the Black and White family heads. Subsequent analysis has indicated that the work effort response of Mexican-American families is slightly larger than that of the other groups. The marital status results cover originally enrolled families in all three ethnic groups.

Table 2 presents a selected number of characteristics of the Black and White families studied at enrollment. The typical sample member has income and education levels that are above the levels associated with most families in poverty. There is fairly strong attachment to the labor force among primary earners and about two-fifths of the secondary earners are employed. The sample consists primarily of young families with two children and the average initial benefit received from the experiment was about \$1,300 per year which is substantially less than the average support level of \$4,800 per year (the benefit received by families with no working members). Approximately 14% of the husband-wife families and 54% of female-headed families received welfare (AFDC) benefits prior to the experiment. Generally speaking, the sample may be characterized as representing what is commonly referred to as the "working poor".

III. EFFECTS OF THE EXPERIMENT ON WORK EFFORT

In estimating the work effort response to SIME/DIME, we have adopted an approach that enables us to distinguish the effects of changing guarantee levels and tax rates. Referring again to Figure 1, it is seen that the experiment increases the disposable income of all families with gross incomes below the tax breakeven level.⁴ Economic theory predicts that an increase in income that is not work related will induce an individual to reduce the amount of time spent working because leisure becomes more attractive. For purposes of analyzing the effects of the income maintenance experiments, we term the change in work effort associated with an increase in income the *guarantee effect*.

³ To be eligible for SIME/DIME, normal income had to be less than \$9,000 per year in a family of four with one working head, and less than \$11,000 per year in a family of four with two working heads.

⁴ Families with gross income below the tax breakeven level are called program participants.

TABLE 2.—SELECTED CHARACTERISTICS OF BLACK AND WHITE FAMILIES AT ENROLLMENT

	Husbands	Wives	Female heads
Average normal income per year.....	\$6,660	\$6,600	\$3,950
Average hours worked per year.....	1,719	559	1,101
Average hourly wage rate among workers.....	\$3.30	\$2.21	\$2.42
Percent employed.....	80	41	56
Percent previously receiving welfare benefits (AFDC).....	14	14	54
Percent in Denver.....	49	49	49
Average age.....	34	31	34
Average years of education.....	11.6	11.5	11.5
Percent black.....	40	40	56
Average number of family members.....	4.3	4.3	3.5
Percent control families.....	47	47	39
Average initial payment per year for families below the breakeven level*.....	\$1,330	\$1,330	\$1,160

*This amount excludes AFDC benefits received prior to enrollment that are reimbursed by the experiment.

The experiment also increases the tax rate an individual faces.⁵ Again, economic theory predicts that an increase in the tax rate (holding disposable income constant) induces an individual to reduce the amount of time spent working because a higher tax rate implies a lower economic return to working. We term the change in work effort associated with an increase in the tax rate, holding disposable income constant, the *compensated tax effect*.

By adopting an approach that identifies guarantee and tax effects, alternative income support programs can be compared with respect to the two program parameters that are set independently by public policy. Thus, it is possible to estimate the disincentive effects of several competing programs; information that is useful in designing an optimal program.

Table 3 presents estimated compensated tax and guarantee effects on annual hours of work for participants in the Seattle and Denver Income Maintenance Experiments. These estimates apply to heads of families who were employed prior to the experiments and who remain employed during the experiments.⁶

The figures in Table 3 indicate a modest disincentive effect for husbands and a substantial disincentive for wives and female heads of families. Percentage-wise, the effects are -5% for husbands, -22% for wives, and -11% for female heads. For men, the total response is about equally divided between guarantee and tax effects; while for women, most of the effect is due to the guarantee. It is important to recognize, however, that these experimental effects are based on guarantee levels and tax rates resulting from the set of programs being tested in SIME/DIME, and not from any single income maintenance program. Furthermore, because the distribution of income in the experimental sample is considerably different from the distribution of income in the U.S. population, the same set of programs tested at the national level may have a substantially different effect.

In addition to causing a reduction in annual hours of work for persons employed, the experiment also reduces the probability of employment. The probability of employment can be reduced either by lengthening the period of time between jobs or by shortening the period of time spent on a given job. Table 4 presents estimates of the effects of the experiment on the probability of employment. For husbands, there is a very small reduction in the probability of employment which stems about equally from shortening periods of time on a given job and lengthening periods of time between jobs. Thus, husbands in the experimental group tend to remain unemployed for slightly longer periods of time and tend to hold jobs for slightly shorter periods of time than husbands in the control group.

Wives and female heads of families exhibit a somewhat larger reduction in the probability of employment than husbands. The reduction for women stems almost entirely from lengthening each period of time spent not employed. An implication of these results is that women in the experimental group who were not employed prior to the experiment were less likely to seek employment during the experiment than women in the control group; while women in the experimental group who were employed prior to the experiment were only slightly more likely to leave employment than women in the control group. We have not

⁵ For persons who received public transfers (such as AFDC and Food Stamps) prior to the experiment, the tax rate may actually be lower under the experiment.

⁶ We performed tests to determine whether the estimated responses differed by race, site, and experimental duration. The test results suggested that they do not.

yet analyzed how women spent this additional time. Because most women in SIME/DIME have young children, it is likely that a large part of the additional time was spent in productive activities in the house (such as child rearing), rather than in active job search.

TABLE 3.—TAX AND GUARANTEE EFFECTS ON ANNUAL HOURS OF WORK FOR THE AVERAGE WORKING INDIVIDUAL BELOW THE BREAK-EVEN LEVEL

	Husbands	Wives	Female heads
Tax effect.....	-56	-64	-59
Guarantee effect.....	-47	-199	-117
Total effect.....	-103	-263	-176
Percentage effect.....	-5	-22	-11

Source: Michael C. Keeley, Philip K. Robins, Robert G. Spiegelman, Richard W. West, "The Labor Supply Effects and Costs of Alternative Negative Income Tax Programs: Evidence from the Seattle and Denver Income Maintenance Experiments: Pt. 1, The Labor Supply Response Function," Research Memorandum 38, Center for the Study of Welfare Policy, Stanford Research Institute, Menlo Park, Calif., May 1977.

TABLE 4.—EFFECTS OF THE EXPERIMENT ON THE PROBABILITY OF WORKING AND ON THE LENGTH OF TIME SPENT WORKING AND NOT WORKING

	Husbands	Wives	Female heads
Probability of working in the absence of the experiment.....	0.79	0.40	0.55
Experimental effect.....	-.02	-.07	-.07
Source of experimental effect:			
Percent change in the length of time spent working.....	-7	7	-3
Percent change in the length of time spent not working.....	7	55	48

Source: Philip K. Robins and Nancy Brandon Tuma, "Changes in Rates of Entering and Leaving Employment Under a Negative Income Tax Program: Evidence from the Seattle and Denver Income Maintenance Experiments," Research Memorandum 48, Center for the Study of Welfare Policy, Stanford Research Institute, Menlo Park, Calif., March 1977.

IV. IMPLICATIONS OF THE WORK EFFORT RESULTS FOR A NATIONAL PROGRAM

In order to make use of the information provided by the experiments in the design of a national program, it is necessary to extrapolate the experimental results to the national population. We have used the technique of micro-simulation to generalize the experimental results.

Microsimulation consists of applying social program regulations and behavioral assumptions to a data base containing disaggregated information about individuals or groups in order to project program costs and caseloads under varying conditions. To generalize the SIME/DIME results, we use the Micro Analysis of Transfer to Households (MATH) model to assess the effects of a variety of nationwide negative income tax programs. The MATH model reproduces program eligibility requirements and benefit determination schedules. It also estimates behavior of low-income families regarding welfare participation and work effort.

The tax liability, transfer payment, and amount of employment are determined for each family both before and after the NIT is implemented, and the results are summed to derive the total change in costs, caseloads, and work effort under alternative plans. The different effects on various family types are also determined. Six NIT plans with varying tax rates and levels of support are simulated using the March 1975 Current Population Survey (CPS).

The income data from the March 1975 CPS are annual data for the year 1974. Thus, the calculations represent what the effects of an NIT would have been in 1974. No attempt is made to update the responses or cost estimates to later years.

The six programs for which predictions are made have constant tax rates of 50% and 70% on earnings, and support (guarantee) levels of 50%, 75%, and 100% of the poverty level (\$5,000 for a family of four in 1974). Because the poverty level increases with family size, the support level also increases with family size. The nominal support level is assumed to be constant across regions. The NIT replaces the existing AFDC and Food Stamps programs, taxes all other nonlabor income at the rate of 100%, and reimburses positive income

taxes below the tax breakeven level. All families that are eligible to receive benefits are assumed to participate.⁷

Work effort responses to a nationwide program

The average work effort responses to the six nationwide NIT programs are presented in Table 5. The results are reported in two ways: first, the average responses for all participating families, i.e., families receiving benefits from the program; and second, the average responses for the U.S. population. The average responses for the U.S. population include non-responders, as well as responses of participants and nonparticipants. The nonparticipants who respond are families that previously received welfare benefits and are above the breakeven level of the NIT program. These families increase their work effort when the welfare programs are replaced by the NIT program.

In interpreting the results, it is important to keep in mind that the responses vary not only because of changing guarantee levels and tax rates, but also because of a changing pool of participants. For example, as the tax rate increases (for a given guarantee), the pool of participants decreases. The manner in which the pool changes depends on the distribution of income within the relevant population subgroup. For the programs simulated, the number of participating families (e.g., those who receive benefits) ranges from 3.3 million to 19.3 million.

For participating husband-wife families, the magnitudes of the average responses are positively associated with both the guarantee and the tax rate. For participating female-headed families, the responses are positively associated with the guarantee, but do not vary with the tax rate. For both groups, the results indicate fairly sizeable reductions in work effort, ranging from between 10% and 21% for husband-wife families and between 0% and 15% for female-headed families.

The average responses of the U.S. population are quite small relative to the average responses of participating families because most families in the United States do not participate in the program. While the magnitude of the average responses increases with the guarantee, it decreases with the tax rate for both groups. This inverse relationship between the average U.S. response and the tax rate is an interesting and perhaps unexpected result that is a consequence of the fact that the number of participants decreases by an amount large enough to offset the effect of a larger response among participants. Thus, the total disincentive effect of a nationwide NIT program is smaller under higher tax rate programs, despite the fact that the response of participating families is larger.

Costs of a nationwide program

Estimated annual program costs are presented in Table 6. Program costs are defined to be net of the current costs of the AFDC, AFDC-UP, and Food Stamps programs, which are replaced by the NIT.

The costs of a nationwide NIT vary widely with the parameters of the program. The most expensive program (support level equal to 100% of the poverty level and tax rate equal to 50%) costs \$30 billion more than the current welfare system, and has approximately 39% of all husband-wife families and 73% of all female-headed families participating in the program. The least expensive program (support level equal to 50% of the poverty level and tax rate equal to 70%) costs \$4 billion less than the current welfare system (which represents a 41% savings in welfare program costs) and has approximately 3% of all husband-wife families and 41% of all female-headed families participating in the program.

⁷ The NIT program with a support level equal to 75% of the poverty level and a tax rate equal to 50% is the program most comparable to the cash assistance portion of the PBJI, with several important exceptions. First, the support level of the PBJI is only 65% of the poverty level. Second, under the PBJI, families receive lower benefits if their earnings are under \$3,800 per year and the primary earner is expected to work. (In our simulations we do not impose a work requirement.) Third, the PBJI taxes most nonlabor income at the rate of 80% (Federal assistance is taxed at the same rate of 100 percent). Fourth, the tax reimbursement provisions of the PBJI are somewhat less generous than the tax reimbursement procedure used in the simulations (only Federal income taxes are reimbursed under the PBJI). Fifth, the PBJI contains an extension of the Earned Income Tax Credit (EITC) which tends to reduce program tax rates. Sixth, the simulations do not assume that welfare families made worse off by the NIT are given supplemental benefits. Because of these and other differences between the simulated programs and the PBJI, the figures presented in this paper should not be interpreted as representing estimates of the work effort effects and costs of the PBJI. The figures are presented primarily to compare the work effort effects and costs of alternative income maintenance programs.

TABLE 5.—AVERAGE LABOR-SUPPLY RESPONSES FOR ALL PARTICIPATING FAMILIES AND FOR ALL FAMILIES IN THE UNITED STATES

NIT support level	NIT tax rate 50 pct.						NIT tax rate 70 pct.				
	Participating families			All U.S. families			Participating families			All U.S. families	
	Change in annual hours of work	Percent change	Number of participating families (millions)	Change in annual hours of work	Percent change		Change in annual hours of work	Percent change	Number of participating families (millions)	Change in annual hours of work	Percent change
50 pct. of poverty level: ¹											
Husbands.....	-104	7.0	.....	-4	-0.2		-136	-10.8	.....	-2	-0.1
Wives.....	-92	-23.3	.....	-2	-.3		-111	-29.9	.....	0	.0
Total.....	-196	-10.3	2.4	-6	-.2		-247	-15.1	1.3	-2	-.1
Female heads.....	0	0.0	2.3	+16	+1.6		-10	-2.7	2.6	+20	+2.0
75 pct. of poverty level: ¹											
Husbands.....	-106	-5.9	.....	-19	-1.6		-157	-11.2	.....	-9	-.5
Wives.....	-110	-22.8	.....	-19	-2.4		-126	-32.5	.....	-5	-.6
Total.....	-216	-9.5	7.6	-38	-1.4		-283	-15.8	2.8	-14	-.5
Female heads.....	-47	-6.7	3.0	-23	-2.4		-47	-9.3	2.5	-12	-1.2
100 pct. of poverty level: ¹											
Husbands.....	-119	-6.2	.....	-47	-2.4		-164	-10.1	.....	-23	-1.2
Wives.....	-130	-22.7	.....	-50	-6.3		-144	-32.0	.....	-18	-2.3
Total.....	-249	-10.0	15.7	-97	-3.5		-308	-20.6	5.8	-41	-1.5
Female heads.....	-99	-12.0	3.6	-69	-7.1		-95	-14.9	3.0	-52	-5.3

¹ Poverty level is \$5,000 per year for a family of 4 in 1974.

NOTE.—Average hours of work per year before response, all husbands in the United States equals 1,999. Average hours of work per year before response, all wives in the United States equals 793. Total number of husband-wife families in the United States equals 39.8 million. Average hours of work per year before response, female heads in the United States equals 974. Total number of female-headed families in the United States equals 4.9 million.

Source: Michael C. Keeley, Philip K. Robins, Richard W. West, "The Labor Supply Effects and Costs of Alternative Negative Income Tax Programs: Evidence from the Seattle and Denver Income Maintenance Experiments: PL II, National Predictions Using the Labor Supply Response Function," Research Memorandum 39, Center for the Study of Welfare Policy, Stanford Research Institute, Menlo Park, Calif., May 1977.

TABLE 6.—PROGRAM COSTS BEFORE AND AFTER RESPONSE, HUSBAND-WIFE AND FEMALE-HEADED FAMILIES

NIT support level	NIT tax rate 50 pct				NIT tax rate 70 pct			
	Program costs before response (billions)	Change in program costs due to response (billions)	Program costs after response (billions)	Number of participating families (millions)	Program costs before response (billions)	Change in program costs due to response (billions)	Program costs after response (billions)	Number of participating families (millions)
50 pct of poverty level: ¹ Husband-wife families.....	-\$0.1	\$0.3	\$0.2	2.4	-\$0.8	\$0.2	-\$0.6	1.3
Female-headed families.....	-2.9	-.1	-3.0	2.3	-3.3	.0	-3.3	2.0
Total.....	-3.0	.2	-2.8	4.7	-4.1	.2	-3.9	3.3
75 pct of poverty level: ¹ Husband-wife families.....	5.4	2.2	7.6	7.6	1.6	1.1	2.7	2.8
Female-headed families.....	.2	.2	.4	3.0	-.6	.1	-.5	2.5
Total.....	5.6	2.4	8.0	10.6	1.0	1.2	2.2	5.3
100 pct of poverty level: ¹ Husband-wife families.....	19.0	6.5	25.5	15.7	6.5	3.1	9.6	5.8
Female-headed families.....	4.0	.5	4.5	3.6	2.6	.4	3.0	3.0
Total.....	23.0	7.0	30.0	19.3	9.1	3.5	12.6	8.8

¹ Poverty level is \$5,000 per year for a family of 4 in 1974.

NOTE.—Total number of husband-wife families in the United States equals 39.8 million. Total number of female-headed families in the United States equals 4.9 million.

Source: Michael C. Keesley, Phillip K. Robins, Richard W. West, "The Labor Supply Effects and Costs of Alternative Negative Income Tax Programs: Evidence from the Seattle and Denver Income Maintenance Experiments: Pt. II, National Predictions Using the Labor Supply Response Function," Research Memorandum 39, Center for the Study of Welfare Policy, Stanford Research Institute, Menlo Park, Calif., May 1977.

For programs with positive costs, the proportion due to the work effort response varies between 23% and 55%. The magnitude of these additional costs demonstrates the importance of accounting for work effort adjustments when designing a national program. Failure to take work effort adjustments into account can lead to a serious underestimate of total program costs.

Effects on the welfare population

Since the simulations assume that certain welfare programs (AFDC, AFDC-UP, Food Stamps) are replaced by the NIT, and that there is no state supplementation of lost welfare benefits, it is likely that some families are made worse off by the program (i.e., their disposable income is reduced). Table 7 presents a tabulation of the number and percentage of welfare families that are made worse off by the NIT, assuming no state supplementation. As this table indicates, the percentages are quite large, even for the more generous NIT programs. For example, under an NIT program with a support level equal to the poverty level and a tax rate equal to 50%, one quarter of the welfare families are made worse off. To compensate families made worse off by the NIT would likely result in a substantial increase in program costs.

The reason why so many families are made worse off by the NIT may be due to the fact that there are loopholes in the existing welfare system that enable families to face very low benefit reduction rates.³ These low benefit reduction rates imply that welfare grants remain high even when family members work a substantial number of hours. Thus, even though the support level of the NIT may be higher than the support level of welfare, the higher NIT tax rate makes many working welfare families worse off.

TABLE 7.—NUMBER AND PERCENTAGE OF WELFARE¹ FAMILIES MADE WORSE OFF BY THE NIT, NO STATE SUPPLEMENTATION

NIT support level	NIT tax rate 50 pct		NIT tax rate 70 pct	
	Number worse off (millions)	Percent made worse off	Number worse off (millions)	Percent made worse off
50 pct of poverty level²				
Husband-wife families.....	1.2	79	1.4	89
Female-headed families.....	1.8	93	1.9	95
Total.....	3.0	87	3.3	92
75 pct of poverty level²				
Husband-wife families.....	.7	43	1.2	71
Female-headed families.....	1.4	67	1.6	75
Total.....	2.1	59	2.8	73
100 pct of poverty level²				
Husband-wife families.....	.4	23	.7	41
Female-headed families.....	.5	25	.7	33
Total.....	.9	24	1.4	37

¹ AFDC, AFDC-UP, food stamps.

² Poverty level is \$5,000 per year for a family of 4 in 1974.

Source: Simulation runs prepared for SRI International by Mathematics Policy Research and the Hendrickson Corp.

V. EFFECTS OF THE EXPERIMENT ON MARITAL STATUS

SIME/DIME has provided an opportunity to study the effects of an NIT on marital dissolution. We begin by reviewing the reasons for suspecting that an NIT will affect rates of marital disruption.

First, an NIT would remove the incentives to marital dissolution inherent in the current system. Under certain circumstances, the income available to a family can increase if the husband is not present in the home. There have been no empirical studies that demonstrate that these incentives have any effect

³ The main loophole arises from generous provisions regarding the deduction of work related expenses from income.

upon dissolution rates. However, such incentives would not be present in an NIT program in which eligibility and benefit levels are not dependent upon family composition. Thus, in any effect these incentives would not be present in an NIT.

A second reason for expecting an NIT to alter dissolution rates rests on the observed association between family income and marital dissolution rates. Many studies have shown that the probability of marital dissolution is highest for the lowest income families. If poor families have high rates of marital dissolution not because they lack material resources, but because they lack appropriate values and personality traits, then altering income levels will not greatly affect marital stability in this population.

On the other hand, many argue that income levels affect the ability of the families to cope with a variety of problems and dissatisfactions. Further, it is argued that male heads of families who cannot provide certain consumption standards for their families are viewed as failures by themselves and others. One response to such failure is flight from marriage relationship. Income supplement programs that substantially improve living standards might reduce the pressures towards dissolution. We refer to effects of this sort as *income effects*. We expect that the income effects of an NIT would lower the rate of marital dissolution.

But there is another effect of an NIT that has been overlooked in most policy discussion. Early in our research we suggested that an NIT would alter the structure of dependence in marriages (Hannan, Beaver, and Tuma, 1974). An NIT guarantees support to unmarried as well as married. As a result, an NIT will alter the level of resources available outside of marriage and thereby alter the dependence of the members on marriage. We refer to this effect as the *independence effect*. Since the NIT increases the level of resources outside of marriage, the independence effect will raise the probability of marital dissolution.

A final issue to consider is *welfare discounting*. If participation in the current system is degrading, both its income and independence effects are muted. Families receiving payments would not experience the full income effect due to the strain induced by stigma. Likewise, dependent spouses would not experience the full independence effect of the welfare system if it is viewed as degrading. This suggests that a payment from an NIT program will have a stronger income and independence effect than a payment of the same amount from welfare. Another way of putting this is to say that welfare is "discounted" in its effects on marriage relative to an NIT.

There are other nonpecuniary differences between welfare and NIT programs that may result in welfare being discounted. Participation in the NIT involves less effort than going on welfare. Our experimental NIT program has a simpler and presumably less alienating bureaucracy. The rules of the NIT are carefully explained to the participants. Information about eligibility rules and support levels of welfare may not be as well known. Any of these three factors (stigma, transaction costs, or lack of information) suggest that the effects of welfare may be discounted.

What, then can be said about the expected impact of an NIT on marital dissolution rates? For an NIT that is more generous than the present welfare system, as is the case with the Seattle-Denver experiment, it is not possible to predict the direction of the impact *a priori*. If the income effects dominate, the NIT will lower the dissolution rate. If the independence effects are stronger the reverse will hold. Even a less generous program may have both income and independence effects if the changes in the program affect the rate at which welfare is discounted.

Basic experimental findings

Our findings show that the NIT program destabilize marriage. Controlling for the variables used in assigning families to treatments and several other variables that may affect dissolution, we found that the experiment significantly increases the dissolution rate for both Whites and Blacks. The differences between the experimental and the control groups are statistically significant for both races indicating that we can with some confidence rule out the possibility that the experimental-control difference is due merely to chance.

This finding is consistent with a model in which the independence effects dominate the income effects for the programs tested. But does it imply that all NIT schemes will increase dissolution rates in populations like those we studied? To answer this question we must consider some more complex analyses. Our most provocative findings concern the patterns of impacts by level of income support. The lowest support level holds particular interest since it differs little in financial terms from the existing level of support available from the AFDC and Food Stamps. If welfare is not discounted, this program should have no independence effect. But the dissolution rate for families on this treatment greatly exceeds that of the control groups—by 96% for Whites, by 67% for Blacks, and by 60% for Chicanos (see Table 8).¹ So we conclude that the independence effects of welfare are indeed discounted relative to those of an NIT. A curious result shown in Table 8 is that, for each race-ethnic group, the plan that guarantees income at the highest level, 140% of the poverty line, has the smallest impact. These findings make plain the need to understand the stigma and information content of NIT schemes in order to compare their effects with the existing system.

The basic results of the experimental analysis are robust. We found no technical problem that explains away the findings. One problem deserves mention: attrition. We lost track of some families, and others refused to participate after a time. We suspected that a family's decision to remain in the study was affected both by the benefits they receive from the experiment and by marital events. If control families were more likely to leave the experiment at the time of a marital dissolution, our records would undercount dissolutions for this group. This bias would inflate experimental-control differences. Luckily, the attrition rates in this experiment are low, about 10% over two years. But in studies of rare events such as marital disruptions, even small attrition rates may give misleading results. So we investigated the sensitivity of our results to attrition (Hannan, Tuma and Groeneveld, 1976). They are not very sensitive. Even if all the controls who left the experiment had an unrecorded marital dissolution, the experimental-control difference would still be positive and significant for Whites and Blacks. The difference between the low support treatment group and the controls is the most robust of all the basic findings.

TABLE 8.—PERCENT CHANGE IN MARITAL DISSOLUTION RATE BY LEVEL OF INCOME GUARANTEE

Guarantee level	Race-ethnic group		
	Black	White	Chicano
90 percent of poverty line.....	1 67	1 96	60
125 percent of poverty line.....	1 93	1 55	-28
140 percent of poverty line.....	21	12	-35
Average of SIME/DIME program.....	61	1 58	-4
Number of cases.....	939	1, 297	518

¹ Significant at the 0.05 level.

² Significant at the 0.01 level.

The income and independence effects of an NIT

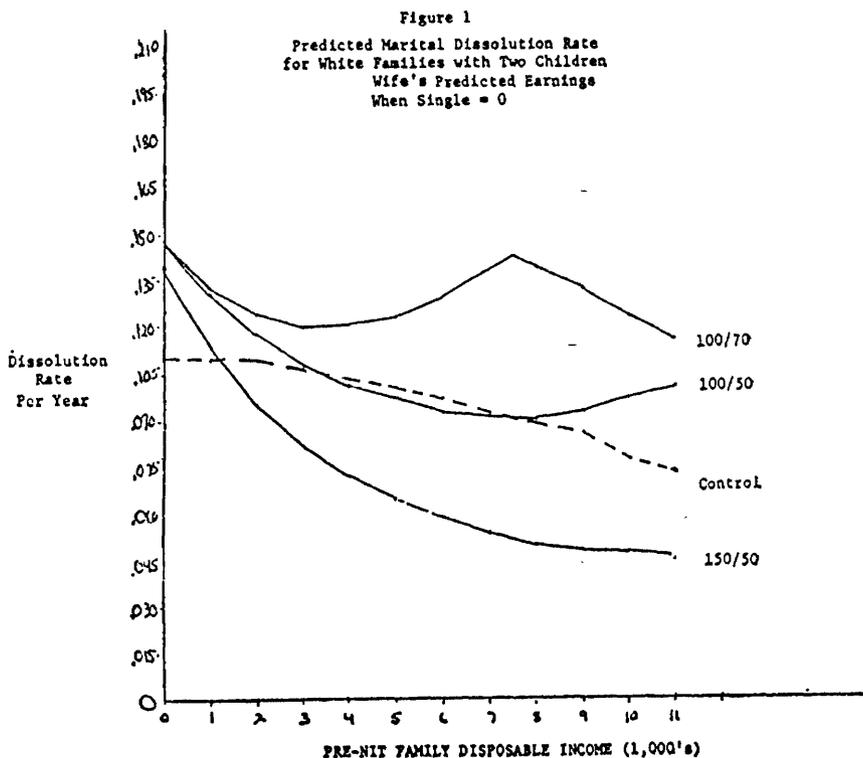
To probe the mechanism creating these experimental effects, we attempted to parameterize the income and independence effects. Recall that the 90% of poverty level support has a larger impact on dissolution than that of the 140% level. Moreover, the former is statistically significant while the latter is not. Why does a small financial change from the control environment have a strong impact when a bigger change does not?

We sought to explain this pattern of experimental-control difference with a model of the income and independence effects of the NIT program. Our model and the evidence supporting it are discussed at length elsewhere (see Hannan, Tuma, and Groeneveld [1977a, 1977b]). Briefly, our model assumes that the income and independence effects are nonlinear functions of income.

³ Throughout this paper, we report impacts estimated over the first 2 years of the experiment for 5-year experimental families. The effects for 3-year families are approximately 80% of the 5-year effects.

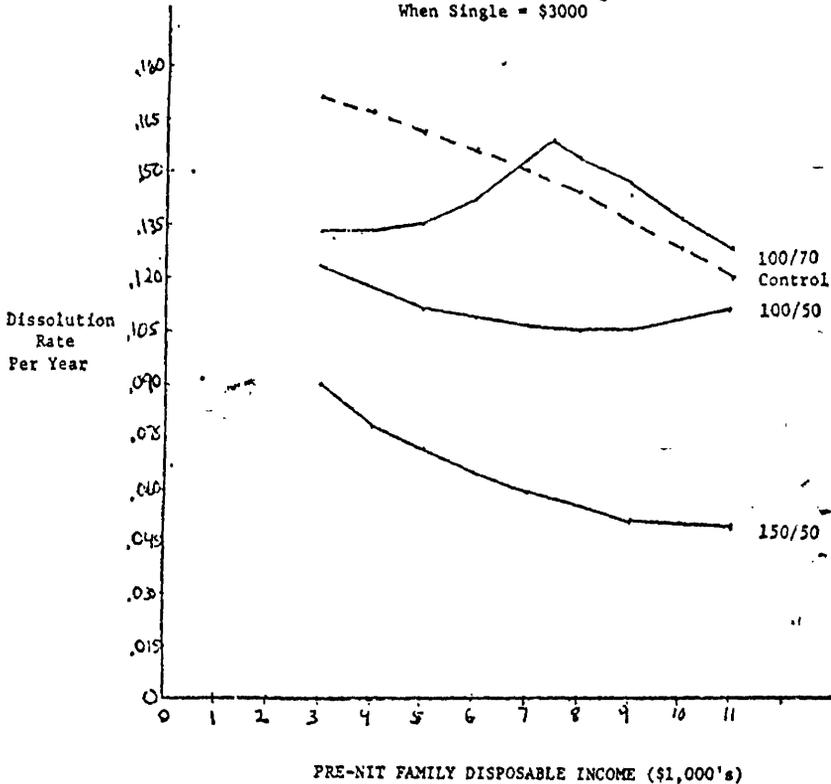
We address the problem by using our model for the income and independence effects of NIT payments. Our analysis reveals that the impact of any NIT program differs according to the race-ethnicity of the family, the number of children, and a variety of other demographic and background characteristics. So we must calculate impacts separately for each combination of characteristics. We cannot be exhaustive here but will illustrate the impacts of various NIT programs on rates of marital dissolution for white families with two children in which each spouse is aged 25, has 12 years of education, and the couple has been married for 5 years. We will vary both family income prior to the NIT and wife's pre-NIT independence. As will become clear, the latter plays a crucial role in determining the NIT impact on dissolution rates. We consider two cases typical of those we studied: (1) wives who would not be employed upon becoming single; (2) wives who would earn \$3000 per year as a single woman. In each case we assume, in line with the discussion earlier and our empirical findings, that welfare is "discounted". In particular, we assume that each dollar of welfare guarantee has an independence effect half as large as that of a dollar of earnings or a dollar from the NIT program.¹⁰

Figures 1 and 2 plot the dissolution rate under various programs by levels of pre-NIT family disposable income. Figure 1 contains the predicted curve for families in which the wives would have no earnings after leaving the marriage. Consider the most generous NIT program depicted in Figure 1, the 150% of poverty level support with 50% tax, denoted 150/50. It is below the control curve almost everywhere. For most families, the stabilizing effect of the program outweighs the independence effect. Only for the poorest families is this not so. For them the income effect curve is quite flat. Even large changes in



¹⁰ We have tried other discounts and found that as long as welfare is discounted, the experimental impacts can be explained. However, the 50% discount gives better results than others we tried.

Figure 2
 Predicted Marital Dissolution Rate
 for White Families with Two Children
 -Wife's Predicted Earnings
 When Single = \$3000



family income have relatively small stabilizing effects; consequently, the independence effect dominates in the low range of family incomes.

Next, examine the 100% of poverty level, 70% tax program, denoted 100/70. The curve for this plan is above the control curve at all levels of pre-NIT family income. In other words, the plan does not raise family income sufficiently to induce income effects strong enough to offset the independence effects of the program.

Finally, consider the 100% of poverty level, 50% tax program (100/50). It has a dissolution curve that falls between those of the other two NIT programs. It gives higher dissolution rates than a program with the same tax rate but a higher support level. This outcome reflects the curvature of the income and independence effects. Both effects are increased when one increases the support level from 100% to 150%. However, the income effect of such an increase dominates the increase in the independence effect.

The 100% of poverty level, 50% program (100/50) gives lower dissolution rates than a program with the same support level but a high tax rate. Increasing the tax rate reduces the income effect of the program because families receive smaller payments at any level of pre-NIT family income. It does not, however, lessen the independence effect for women who have no earnings. Thus, according to our model the 100/70 program has the same independence effect as the 100/50 program, but it has a smaller income effect.

Above we mentioned that wife's independence before the NIT is important in determining the NIT impact. We see this in Figure 2, which plots curves

for the same programs as in Figure 1, but for families in which the wife would earn \$3000 per year after leaving the marriage. Now the various NIT programs mainly decrease the dissolution rate; that is, the increase in independence that they induce is small relative to their effects on improved family well-being. Curves for both the 150/50 and 100/50 plans are below the control curve for the range of pre-NIT family incomes plotted. The NIT increases the rate of dissolution only for the 100/70 plan, and then only for families with pre-NIT income above \$6,500. Furthermore, the increase due to the NIT is rather modest.

Several general tendencies emerge from these and other figures not reported here. First, the NIT impact is mainly concentrated in those families with the most dependent wives. For working women, introduction of an NIT changes only slightly the quality of financial alternatives to an existing marriage, and thereby has less impact on decisions to end a marriage. Second, the high support and low tax programs yield the lowest dissolution rates, and, at least for Whites, these are normally below the pre-NIT rates. Plans with lower support levels and higher tax rates tend either to be closer to the control curve or to increase the dissolution rate.

-VI. CONCLUSIONS

The following summarizes the major conclusions of this paper.

A. Within the SIME/DIME sample, there is a modest decline in work effort among male heads of families (5%) and a substantial decline among spouses (22%) and single female heads (11%).

B. A large proportion of the reduction in work effort among women represents time out of the labor force.

C. The work effort response to a nationwide NIT program is very sensitive to the program support level and tax rate.

D. Failure to take work effort response into account when designing a national program can lead to a serious underestimate of total program costs.

E. The total work effort response to a nationwide NIT program is smaller under higher tax rate programs, despite the fact that the work effort response among participating families is larger.

F. The total costs of a nationwide NIT program are very sensitive to the support level and the tax rate.

G. Compensation of welfare families made worse off by a nationwide NIT program is likely to result in a substantial increase in program costs.

H. The NIT plans tested in SIME/DIME tend to substantially increase the rate of marital dissolution among Black and White families.

I. The greatest increase in marital dissolution occurred at the lowest support levels and the smallest increase occurred at the highest support level.

J. The experimental impact on marital dissolution appears to be operating through offsetting income and independence effects. The dominance of the independence effect at low support levels, plus the tendency for married women to partially discount the potential benefits from the existing welfare system, could explain the high impact of the low NIT support levels.

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Senator DANFORTH. Anybody else want to venture a guess?

Thank you very much and, as I indicated earlier, I am told that some members of the committee who are not here would like to submit written questions to you for the record.

Thank you.

[The following was subsequently supplied for the record:]

HOOVER INSTITUTION
ON WAR, REVOLUTION AND PEACE,
Stanford, Calif., May 16, 1978.

HON. DANIEL PATRICK MOYNIHAN,
Dirksen Senate Office Building,
Washington, D.C.

DEAR PAT: I am sorry that I did not get a chance to see you at the hearings on May 1st, but I fully appreciate the kinds of scheduling demands that you have to cope with these days.

In regard to the questions you raised in your letter I have the following comments:

(1) *The impact of income support on family stability.*—In retrospect, I'm afraid that the findings of the Seattle-Denver guaranteed income experiment which show a sharp increase in the number of broken marriages for the low-income families who took part in the experiment are not altogether that surprising. Evidently economic considerations do enter, to some degree, into the decision to become married or to stay married, and perhaps what the experiments are showing is that, given a substantial degree of economic independence for a guaranteed period of three to five years, some people will elect to take that opportunity to get out of a marriage that is no longer appealing to them. I am sure this phenomenon is not restricted to low-income families, but that does not dispel the problem: namely, that a guarantee of economic independence will cause low-income families to break up. In fact, if the guarantee were for a lifetime, rather than just for three to five years, I suspect that the results would be even more pronounced.

(2) *The impact of welfare on the incentive to work.*—I'm afraid the pessimistic conclusions of Secretary Marshall in regard to the results of a negative income tax with a benefit set at 75 percent of the poverty-line and a benefit-reduction rate of 70 percent are correct. Virtually all the experimental evidence and theoretical reasoning that we have available today indicates that the intuitive conclusion reached by the mythical New York taxicab driver is right: (1) the greater the degree to which incomes are guaranteed and independent of work effort, the less most people will work, and (2) the higher the marginal

tax imposed on additional earnings, the less most people will work in the long run.

I believe the only way to approach this problem, given the current situation, is to restrict welfare payments to only those who cannot truly care for themselves. The problems of administration, as many have pointed out, will be difficult—but the alternative is disastrous.

(3) *Speenhamland*.—The effects of the Speenhamland Plan in early nineteenth century England cannot be validly compared with either the current Food Stamp program, or with the Earned Income Tax Credit—both of which are small parts of our overall welfare/income redistribution system. One could make some tenuous comparisons between the results of Speenhamland, which according to Karl Polanyi, the noted liberal historian, "eventually ruined the people whom it was ostensibly designed to succor," and the results that could well flow from the establishment of a comprehensive guaranteed income program in the United States. There are enough similarities between the Speenhamland Law and a guaranteed income plan of the 1970's to cause us to be, shall we say, disquieted.

(4) *Distinction between the "Needy Only" and the "Guaranteed Income" philosophical approaches to welfare*.—The "needy only" approach holds that persons who, through no fault of their own, are unable to care for themselves or their families should receive help from the government. The role of the government is seen as a limited one. If someone is able to work, welfare should be denied. Welfare payments should go only to needy people, and the amount of that payment should be in proportion to their need. The "guaranteed income" approach holds that people have a right to a certain level of income completely independent of their ability to earn. It assumes that everyone has a right to some basic minimum level of income, regardless of their ability to care for themselves.

The sum of our welfare programs does not, in any sense, constitute a guaranteed income. A work requirement, in principle, is embodied in each and every one of them. The revolutionary aspect of the guaranteed income idea is to have the federal government proclaim that it is morally right for everyone to have a minimum income, regardless of whether or not one is capable of self support. It may be true that under today's complex system of welfare some individuals, fully capable of self support, are receiving welfare income. But that does not mean we have a guaranteed income in effect.

If I can be of any further assistance please don't hesitate to contact me.

With best regards,

MARTIN ANDERSON,
Senior Fellow.

MAY 11, 1978.

Senator DANIEL PATRICK MOYNIHAN,
*Senate Office Building,
Washington, D.C.*

DEAR SENATOR MOYNIHAN: My testimony, and the material I submitted for the record, answers many of the questions of your letter of May 3, but a brief systematic response may help:

1. Both Bishop and Spiegelman provided data indicating that income maintenance experiments induced splitting up of families, but neither of them provide the details on how the experimental groups were treated if they split—that is whether both new households received income supplements, and of what size. Any maintenance program that takes account of economies of scale in setting amounts may save money, but it encourages the formation of smaller units by splitting. Also, breaking up is a one-time thing not a continuous process, and there may well be impact effects, as when the OEO provision of legal services led to divorces people had previously been unable to afford. The result was not necessarily bad.

2. I have seen no convincing evidence that taxes (or benefit-reductions) as high as 70% of income at the margin reduce work effort, and our panel study data indicate that many people have very little control over how much they work. Our data seem to indicate that at the very lowest wage levels, an increase in family income may allow reduction in hours from very high levels, through an income effect, but that higher marginal net wages are not associated with

working more. A work requirement would be expensive and difficult to administer, whereas a public jobs program can be justified on its own merits.

3. The chapter by Richard Coe which I submitted for the record has better and more recent data from our Panel Study on short-run and long-run poverty, and indicates not only the relatively small proportion who are persistently poor, but the fact that they are quite different from the temporarily poor.

But the relative numbers do not really tell us the reasons families get off and stay off welfare. We have been unable to find in our studies any motivational or attitudinal differences that account for people's ability to climb out of poverty. Aside from changes in family composition, most of the other changes appear to be random, environmental changes, commonly called luck.

4. Some changes in family composition are the usual and expected changes over a family life cycle as people marry, have children, and send the children off to form new households. The timing of such changes does matter of course, particularly starting families too early. Other changes, particularly divorce or separation, or doubling up of unmarried adults, have large effects on the economic status of those involved, and are presumably even more under their own control. At least we can find some relation between relative contributions of family members, and their propensities to stay together.

5. Designing taxation and income maintenance programs that are reasonably neutral simultaneously with respect to decisions people make about working for money, doing unpaid work, having children, and living and sharing with others, requires a systematic attack on the problem, starting with some theoretical work with alternative approaches, some attitude surveys particularly about economies of living together, and perhaps some experiments like those that focused only on the treatments expected to affect work effort. The basic approach, however, should probably define some measure of well-being that included money and non money income and some leisure left over after work to enjoy it. Setting taxes and income maintenance payments on such a criterion automatically helps the working poor more than the non-working, and taxes the working affluent less than the non-working. I submitted an appendix to the Woytinsky lecture giving an example, which you may want to include in the record.

Sincerely,

JAMES N. MORGAN,
Research Scientist.

SRI INTERNATIONAL,
Mento Park, Calif., June 7, 1978.

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

DEAR SENATOR MOYNIHAN: My staff and I have prepared responses to your letter of May 3, which are enclosed herein. This enclosure replaces that sent to you in my earlier letter of June 2nd. I hope these responses will help in your deliberation.

Please call on me if you have further questions.

Sincerely,

ROBERT G. SPIEGELMAN,
Director, Center for the Study of Welfare Policy.

Enclosure.

FINANCE COMMITTEE QUESTIONS ON JOHN BISHOP'S TESTIMONY

"1. Last week we heard some startling testimony from John Bishop, of the University of Wisconsin Institute for Poverty Research, about the impact of income support on family stability. His basic points were these:

1. There is little conclusive evidence that AFDC is instrumental in breaking up families;"

Response: We agree with John Bishop's conclusion that there is little empirical evidence that AFDC is instrumental in breaking up families.

"2. There is some evidence that AFDC-U has a greater effect in creating female-headed families than AFDC alone does;"

Response: The evidence cited by John Bishop regarding the effect of AFDC-U on marital stability does not support the conclusion that AFDC-U has any effect on marital dissolution, nor does it support his generalization of the results to the population of low-income, two-parent families. First, there is no evidence that the reported dissolution rate is high. Second, the AFDC-U population is not representative of the population of low-income, two-parent families that would be affected by welfare reform.

The Alameda County AFDC-U study (Wiseman, 1976) referred to by Bishop found an annual dissolution rate of about 20%. Bishop contrasts this finding to the lower dissolution rates found in the income maintenance experiments and Panel Study on Income Dynamics (PSID). However, this comparison fails to recognize previous research findings that indicate higher dissolution rates should be expected in an AFDC-U sample than in these other low-income samples. First, the AFDC-U families are much poorer than the families in these other samples. The mean family income for two-parent families in the New Jersey Experiment was \$4,200 (1968 dollars); in the Seattle/Denver Experiments the mean family income was \$6,200 (1971 dollars). The "poor and near poor" families in the PSID include many families whose income would disqualify them for AFDC-U. To be eligible to enroll in the AFDC-U program, families must have incomes below their state's needs standards, which are generally at or below the poverty level. Therefore, it is unlikely that the average income of two-parent families on AFDC-U is as high as the average income of families on the experiments. Empirical research on marital stability has consistently shown highest dissolution rates among very low-income families (see Hannan, Tuma and Groeneveld, 1976, for a review of this literature).

The second important difference between the AFDC-U sample and the income maintenance samples is the employment status of the husbands. To be eligible for AFDC-U, the male head cannot work more than 100 hours per month. Thus, AFDC-U husbands will be either unemployed or employed in part-time or short-term jobs. In the SIME/DIME sample, on the other hand, approximately 80 percent of the husbands averaged more than 100 hours per month in the year before the experiment. Bishop and others have argued that the husband's work experience is an important determinant of the marital dissolution rate. If unemployment or marginal employment of the husband increases the dissolution rate, then it is not surprising that the dissolution rate in the AFDC-U sample is high.

Thus, the AFDC-U sample in the Alameda County study is substantially poorer and the husbands are less employed than the low-income families studied in the income maintenance experiments or the PSID. Both of these differences are factors that have been demonstrated to affect marital dissolution rates. Therefore, we dispute Bishop's conclusion that dissolution rates are "high" among AFDC-U families. We believe that the rates reported in the Alameda County study are no higher than would be found among a sample of non-AFDC-U families of comparable income and husband's labor supply.

Bishop also cites as evidence of a positive effect of AFDC-U on marital dissolution three studies of female headship rates (Ross and Sawhill, 1975; Minarik and Goldfarb, 1976; and Honig, 1976). He notes that Minarik and Goldfarb find a positive but statistically insignificant effect of the presence of an AFDC-U program on the female headship rate of the states they studied. He does not note that Ross and Sawhill find an insignificant negative effect of the presence of an AFDC-U program on the 1970 female headship rates on 41 U.S. cities. Only Honig finds a significant positive effect, but only for blacks. These results, as Bishop states, are not conclusive.

If one were to accept Honig's finding as conclusive, the direction of causality is unclear. An alternative explanation suggests that states with high female headship rates introduce AFDC-U programs in the hope of reducing marital instability. Using the aggregate cross-sectional data employed by these three studies, it is impossible to determine which of these alternative explanations is correct.

Neither these studies of female headship rates nor the Alameda County AFDC-U study provide evidence that AFDC-U has any effect on marital dissolution rates. This is not to argue that there is no AFDC-U effect, but only that none of the studies referred to, nor any others of which we are aware, provide evidence of such an effect.

"3. Based on the income maintenance experiments, cash assistance plans like those tested in Seattle and Denver are likely to have the greatest effect on family composition, with family splitting apt to be significantly greater among those who receive such aid than among recipients of AFDC or among families receiving no other assistance."

Response: We found this third point somewhat unclear. We interpret the statement as having two parts. First, would the implementation of a national cash assistance program similar to the plans tested in Seattle and Denver increase the rate of marital dissolution? Second, would the response be different among families who had previously received AFDC benefits than among families who did not? If we have misunderstood the issue being raised, we will be happy to respond to a restatement of No. 3.

Our analyses indicate that the introduction of a cash assistance program similar to the plans tested in SIME/DIME would increase the rate of marital dissolution among low-income families. The effect would depend upon the level of benefits provided and upon the nonpecuniary changes in the program that might be introduced. The latter may be particularly important. Our findings indicate that any effort to reform the welfare system by reducing stigma, disseminating information about benefit levels and eligibility rules, or simplifying enrollment procedures may increase the dissolution rate independently of any change in benefit levels. Our findings also show that the effect on dissolution rates will be greatest among women who are most economically dependent upon their present marriage (such as mothers who are unemployed).

Our theory leads us to expect that the impact of a cash assistance program on marital dissolution would be less among families with AFDC experience than among those without such experience. Presumably, families who were receiving benefits would have more information about benefit levels and eligibility requirements and would feel less stigmatized by AFDC. Therefore, the income maintenance treatment is less of a change for AFDC families than for non-AFDC families. However, in our analyses we have found no significant differences in the response of AFDC and non-AFDC families. The lack of difference may be due to the small number of families reporting recent AFDC experience. Less than one-fifth of the two-parent families reported receiving any income from AFDC in the year before the experiment. We do not know whether those reporting benefits received them under AFDC-U provisions, or for some other reason.

It should be noted that only a small proportion of the two-parent, low-income families who would be eligible for benefits under a cash assistance program are currently receiving AFDC benefits. An Institute for Research on Poverty study of the national AFDC-U population (Lidman, 1975) estimated that in 1971 more than one-half of the two-parent families with incomes below their state AFDC needs standard are ineligible for AFDC-U. The ineligibility resulted either because the husband worked more than the maximum allowed hours of work or because he was receiving unemployment insurance benefits. Also, participation in the AFDC-U program has been low among those eligible. Therefore, most of the two-parent families affected by a national NIT program will not have AFDC experience.

FINANCE COMMITTEE QUESTIONS ON LABOR SUPPLY

Question. "2. Another issue that has been of great concern to this Committee is the impact of welfare on the incentive to work. Secretary Marshall has testified that a negative income tax with a benefit set at 75 percent of the poverty-line and a benefit-reduction rate of 70 percent could have so great an effect on the incentive to work that 55 percent of the incremental costs of the plan would essentially offset money that would otherwise have been earned."

Answer. The facts, as stated by Secretary Marshall, are correct. The NIT plan with a support level at 75 percent of the poverty line, and a benefit reduction rate of 70 percent does result in 55 percent of the incremental costs being associated with a change in work effort (see Table A, enclosed). It should be noted, however, that the high percent is a reflection of the low total cost of the program. Only 5 million families participate in this program, the total cost of which is only \$2.2 billion above the cost of the supplanted AFDC and Food Stamp programs. As shown in the table, the actual costs due to labor supply effects in the 70 percent tax rate program are half of that of the 50 percent tax rate program because fewer families participate in the higher tax rate program. However, in comparing high and low tax rate programs with the same support level, we find

that for those who participate in both programs, the high tax rate program has a greater effect on work effort. In addition, two programs with similar total cost—one with low support level and low tax rate, and the other with high support level and high tax rate—appear to have costs due to work effort response that are similar as a percent of total cost.

Question. Other questions under No. 2, “. . . do you feel that effects of this magnitude are likely to occur if AFDC were replaced by a consolidated cash assistance program?”

Answer. If replacement includes universal extension of the program to two-parent families and substitution of eligibility requirements like those of the NIT, the effects should be as predicted in Table A.

Question. “Would this reduction in work effort be greater or less than that which occurs under the current welfare system?”

Answer. The work effort responses predicted in Table A are adjustments from the status quo, which include work effort adjustments that people have already made to the present system. Thus, even for an NIT with support as low as 50 percent of the poverty line (and no state supplementation), there would be some reduction in work effort by participating two-parent families, but there would be an increase in work effort by participating one-parent families whose benefits would be lower under the NIT.

Question. “Is it reasonable to expect that a work requirement, or a public jobs program would mitigate this effect?”

Answer. Work requirement and a public jobs program would have different effects on work effort. A jobs program would affect realized hours of work only if there is involuntary unemployment or the jobs program offers jobs at wage rates above those available in the private market for the same population. Since there is undoubtedly some involuntary unemployment among the population eligible for the jobs program, and the wage rates will be higher than the minimum acceptable wage for some persons eligible for public service jobs, I expect that a jobs program would offset some of the negative work effort effects, but I cannot say by how much.

The work requirement in the Administration's Welfare Reform proposal, however, fits more directly into the NIT framework. It essentially acts to lower the support level from \$4,200 to \$2,300 per year for a family of four, and it also lowers the marginal tax rate on incomes under \$3,800 from 46 percent to -4 percent (see fig. 1, enclosed). Without a significant computational effort, I cannot say what the effect of the introduction of the lower tier budget line has on total work effort, but I can provide some examples that will illustrate the order of magnitude of the effect.

For a husband in a two-parent family working almost zero hours and having a wage rate of \$2.50 per hour, our model would predict that introducing the second tier budget line (i.e., a work requirement) will induce him to work approximately 113 hours per year more than if only the upper tier program were implemented.¹ If this same person had an expected wage rate of \$3.00 per hour, the increase in hours of work would be approximately 127 hours per year. If the individual would have worked some hours without the work requirement, than the effect would be smaller. These examples substantiate the contention that the work requirement should have a positive effect on the work effort of persons whose earned income would have been less than \$3,800 per year in a program without the work requirement and with only the upper tier cash program.

¹ The computation is as follows:

Support Effect at Zero Hours of Work:

Change in support due to second tier, \$4,200 minus \$2,300 equals \$1,900.

Cost of living adjustment 1971/1978, \$1,900/1.5 equals \$1,267.

Support effect equals change in support times change in annual hours of work per dollar of support (SIME/DIME estimate), \$1,267 times .0344 equals 43.6 hrs./yr.

Compensated Tax Effect:

Change in tax rate for second tier, 50 percent.

Cost of living adjusted wage rate, \$2.50/1.5 equals \$1.67.

Change in net wage rate, \$1.67 times .5 equals \$.835.

Compensated tax effect equals change in net wage rate times change in annual hours of work per dollar change in net wage rate (SIME/DIME estimate), \$.835 times .0832 equals 69.5 hrs./yr.

Total effect: 43.6 plus 69.5 equals 113.1 hrs./yr.

Question. "3. To what extent are the results of the Seattle and Denver Income Maintenance experiments applicable to evaluating the likely effects of the Carter Administration's program for Better Jobs and Income?"

Answer. The enclosed Table B and Figures 1 and 2 compare the SIME/DIME low support program (\$5,800 in 1978 dollars and a 56% tax rate) with the upper tier cash component of the Administration proposal. The figures indicate that the general structure of the two programs are similar, both being based on a negative income tax. To make specific comparisons requires extrapolation of SIME/DIME results to the somewhat lower support levels of the Administration proposal. Roughly speaking, the SIME/DIME low support program and the cash assistance component of the Administration proposal (with state supplements) are quite similar. Thus, the SIME/DIME results are directly applicable to evaluation of the cash assistance component of the Program for Better Jobs and Income.

Question. "Of the bill submitted by Senators Baker, Bellmon, Danforth, and Ribicoff?"

Answer. An added difficulty of using the SIME/DIME results to estimate the effect of this bill is that the AFDC system has asset tests and eligibility requirements that create notches in the system. The effects on work effort of these notches have not yet been estimated. Aside from the eligibility requirements, the cash component of a combined AFDC and earned income tax credit program are sufficiently similar in structure to both the Administration proposal and SIME/DIME that the SIME/DIME parameters can be used to estimate the effects of the Baker-Bellmon proposal. We have not made such estimates, however.

Question. "4. I believe I am correct in saying that the Seattle and Denver experiments show that for a constant basic benefit-level, the higher the benefit-reduction rate, the greater the reduction in work effort. But is it not also true that the high benefit-reduction rate produces a lower breakeven point, hence, fewer families are eligible for benefits and the aggregate reduction in work effort is less?"

Answer. Your conclusion with regard to the effects of the high tax rates is precisely correct and demonstrates the trade-off between program costs and tax rates that exist in designing an optimal program.

TABLE A.—PROGRAM COSTS BEFORE AND AFTER RESPONSE, HUSBAND-WIFE AND FEMALE-HEAD FAMILIES
[Dollar amounts in billions; participating families in millions]

NIT support level	NIT tax rate 50 percent				NIT tax rate 70 percent			
	Program costs before response	Change in program costs due to response	Program costs after response	Number of participating families	Program costs before response	Change in program costs due to response	Program costs after response	Number of participating families
50 percent of poverty level¹:								
Husband-wife families...	-\$0.1	\$0.3	\$0.2	2.4	-\$0.8	\$0.2	-\$0.6	1.3
Female-headed families...	-2.9	-.1	-3.0	2.3	-3.3	0	-3.3	2.0
Total.....	-3.0	.2	-2.8	4.7	-4.1	.2	-3.9	3.3
75 percent of poverty level¹:								
Husband-wife families...	5.4	2.2	7.6	7.6	1.6	1.1	2.7	2.8
Female-headed families...	.2	.2	.4	3.0	-.6	.1	-.5	2.5
Total.....	5.6	2.4	8.0	10.6	1.0	1.2	2.2	5.3
100 percent of poverty level¹:								
Husband-wife families...	19.0	6.5	25.5	15.7	6.5	3.1	9.6	5.8
Female-headed families...	4.0	.5	4.5	3.6	2.6	.4	3.0	3.0
Total.....	23.0	7.0	30.0	19.3	9.1	3.5	12.6	8.8

¹ Poverty level is \$5,000 for family of 4 in 1974.

Note: Total number of husband-wife families in the United States equals 39,800,000. Total number of female-headed families in the United States equals 4,900,000.

TABLE B.—PROGRAM BENEFITS FOR UPPER TIER OF PBJI AND FOR SIME LOW SUPPORT PROGRAM

[1978 dollars]

Income	Upper tier of PBJI					SIME low support program					
	Grant	Earned income tax credit	Tax reimbursement	Total benefits	Total taxes paid	Marginal tax rate ¹	Grant	Tax reimbursement	Total benefits	Total taxes paid	Marginal tax rate ¹
0	\$4,200	0	0	\$4,200	0	\$0.46	\$5,800	0	\$5,800	0	0.50
\$1,000	3,700	\$100	0	3,800	\$61	.46	5,300	\$61	5,361	0	.50
\$2,000	3,200	200	0	3,400	121	.46	4,800	121	4,921	0	.50
\$3,000	2,700	300	0	3,000	182	.46	4,300	182	4,482	0	.50
\$4,000	2,200	400	0	2,600	242	.51	3,800	242	4,042	0	.50
\$5,000	1,700	450	0	2,150	303	.51	3,300	303	3,603	0	.50
\$6,000	1,200	500	0	1,700	363	.51	2,800	363	4,163	0	.50
\$7,000	700	550	0	1,250	424	.51	2,300	424	2,724	0	.50
\$8,000	200	600	\$160	960	448	.51	1,800	608	2,284	0	.50
\$9,000	0	650	60	710	767	.51	1,300	827	2,127	0	.50
\$10,000	0	565	0	565	1,055	.36	800	1,055	1,855	0	.50
\$11,000	0	465	0	465	1,303	.36	300	1,303	1,603	0	.50
\$12,000	0	365	0	365	1,553	.36	0	1,353	1,353	\$200	.50
\$13,000	0	265	0	265	1,804	.36	0	1,104	1,104	700	.50
\$14,000	0	165	0	165	2,037	.36	0	837	837	1,200	.50
\$15,000	0	65	0	65	2,293	.36	0	583	583	1,700	.50
\$16,000	0	0	0	0	2,570	.26	0	370	370	2,200	.70
\$17,000	0	0	0	0	2,851	.26	0	151	151	2,700	.70
\$18,000	0	0	0	0	3,113	.20	0	0	0	3,113	.20

¹ Marginal tax rate is equal to 1 minus the change in disposable income associated with a \$1 change in gross income. It is assumed that the social security marginal tax rate is 0.06 up to an income level of \$17,700 and that the Federal marginal income tax rate is 0.20 over all income levels above \$7,200.

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ANSWERS TO QUESTIONS FROM SENATOR MOYNIHAN ON WELFARE POLICY
ISSUES TO RICHARD P. NATHAN¹

Following a hearing on welfare reform May 1, 1978 before the Subcommittee on Public Assistance of the Senate Finance Committee, Senator Moynihan, chairman of the Subcommittee, sent a letter raising a number of penetrating and multifaceted questions. The text of Senator Moynihan's letter is attached (Attachment I).

Question 1. Last week we heard some startling testimony from John Bishop, of the University of Wisconsin Institute for Poverty Research, about the impact of income support on family stability. His basic points were these:

- (1) There is little conclusive evidence that AFDC is instrumental in breaking up families;
- (2) There is some evidence that AFDC-U has a greater effect in creating female-headed families than AFDC alone does;
- (3) Based on the income maintenance experiments, cash assistance plans like those tested in Seattle and Denver are likely to have the greatest effect on family composition, with family splitting apt to be significantly greater among those who receive such aid than among recipients of AFDC or among families receiving no other assistance.

Would you care to comment on these findings? Are they in accord with your own conclusions or those generally accepted by researchers in this area? How would you explain these counter-intuitive results? What implications should we draw in trying to design a welfare reform?

Answer. The social science research community, almost to a man, has predicted for a long time that comprehensive welfare-reform plans would reduce family break-up. The results are in, and this assumption is called into question. Yet it seems to me that this is precisely what research is for. Such results, while surprising, are needed to improve social policy decisionmaking.

Following are responses on the three sub-parts of question No. 1:

- (1) Heather I. Ross and Isabel V. Sawhill have written on the question of whether research done through mid-1975 showed any link between AFDC and family break-up. They conclude that "welfare does indeed have an impact on family structure." Their analysis states that this is "not so much because it encourages separation, but rather because it inhibits remarriage."

¹ Richard P. Nathan is a senior fellow at the Brookings Institution; the views expressed here are his alone and do not represent the views of the officers, trustees, or other staff members of Brookings.

"We could find no evidence that welfare has a measurable influence on separation rates, but the remarriage rates of women on AFDC are much lower than the remarriage rates of other women in similar circumstances, including other poor women."¹

(2) Your second question under No. 1 refers to John Bishop's statement in his testimony that AFDC-U may have "a greater effect in creating female-headed families than AFDC does alone." Bishop's testimony refers specifically to research done on Alameda County, California under the direction of Professor Michael Wiseman of the Department of Economics at the University of California, Berkeley. I talked to Professor Wiseman and he has since written to me; his letter is attached to this paper. (Attachment II). In short, Wiseman says his data cannot be used to draw such a conclusion. Yes, family fragmentation is "substantial" under AFDC-U, but he did not have a control group and is not in a position to draw conclusions indicating that family fragmentation under AFDC-U is greater than it would have been in its absence.

Overall, the AFDC-U program is so small and caseloads fluctuate so much because of changes in rules and their interpretation that it is unwise to draw conclusions from available program data, i.e., by comparing family structure in states with and without AFDC-U programs. More rigorous research would be needed to compare carefully selected counties in states with and without the program, and even that would involve formidable research problems because of policy differences, constant policy shifts, and changes in processes and the interpretation of regulations.

(3) The third sub-part of No. 1 deals with the Seattle-Denver findings and suggests that a generalized cash assistance plan could cause family break-up. Perhaps so. The testimony of Robert G. Spiegelman of the Stanford Research Institute on May 1, 1978 offers a basis for such a conclusion. Other parts of the literature do not show this (both the experimental and non-experimental work), and there are characteristics of the Seattle-Denver experiment and the way the data fall out that suggest more interpretation is needed. In particular, more work needs to be done to determine which aspects of the experiment cause the dissolution effect observed (not all groups show it).

But the main point is this: As emphasized in the material which follows, an incremental welfare reform strategy involves important differences from a comprehensive plan along Seattle-Denver lines. For example, the link between welfare and work proposed in the Baker-Bellmon-Ribicoff-Danforth bill, which guarantees a job to each intact welfare family, could turn out to be exactly the right approach in terms of reinforcing family ties. This group—intact families—would receive top priority for jobs, and would be guaranteed a CETA job after a 90-day waiting period. It is not only possible to envision families staying together to take advantage of this opportunity, but even re-grouping to do so. More study needs to be given to this proposal, but it is appealing for many reasons, including this one. A number of related and general points about the link between welfare and job programs are made in this paper, drawing on the results of our monitoring study of the CETA program for public service employment.²

Question 2. Another issue that has been of great concern to this Committee is the impact of welfare on the incentive to work. Secretary Marshall has testified that a negative income tax with a benefit set at 75 percent of the poverty-line and a benefit-reduction rate of 70 percent could have so great an effect on the incentive to work that 55 percent of the incremental costs of the plan would essentially offset money that would otherwise have been earned.

Based on your work on this topic, do you feel that effects of this magnitude are likely to occur if AFDC were replaced by a consolidated cash assistance program? Would this reduction in work effort be greater or less than that which occurs under the current welfare system? Is it reasonable to expect that a work requirement, or a public jobs program would mitigate this effect?

Answer. Your second question focuses on incentives to work, and suggests that a consolidated cash assistance program with a high benefit-reduction rate would present serious design problems. I agree. This is the conundrum of the negative income tax (NIT). The combination of a "reasonably high" benefit (i.e. close to the poverty line) and a benefit-reduction rate of 50 percent or less would

¹ Heather L. Ross and Isabel V. Sawhill, *Time of Transition: The Growth of Families Headed by Women* (The Urban Institute, 1975), p. 162.

² *Job Creation Through Public Service Employment*, vol. 2, *Monitoring the Public Service Employment Program*, An Interim Report to the Congress, report 6 (National Commission for Manpower Policy, March 1978).

be prohibitively expensive under a comprehensive plan. The inexorable arithmetic of a NIT forces one to more complex and, if you will, incremental approaches to welfare reform.

In essence the incremental position says it is okay to have a reasonably high benefit (again, at or close to the poverty line) plus a higher benefit-reduction rate than 50-percent—say 75–80 percent—for single-parent families.

For working-age single persons, childless couples, and two-parent welfare families, there is strong resistance to such high benefit levels and reduction rates. These groups are treated on a different basis from the AFDC population. Witness, for example, the imposition of the 100-hour test for the AFDC-U and the limitation of food stamps for needy adults of working age who do not have children and are not disabled. The later program has a low benefit-reduction rate (30 percent at the margin).

In essence what is needed is to preserve (pardon the expression) the "categorical" approach to welfare policy. Almost all reform plans (including the Administration's) in various ways keep the distinction between one- and two-parent welfare families. We need to preserve this flexibility to have different approaches for different groups, precisely because there are different values in the society as to how various groups should be treated under transfer programs.

Whatever is done to expand and generalize AFDC-U, it will be necessary, at least in my opinion, to treat this group differently from the basic AFDC program on such matters as supplementation, eligibility, and the jobs component of welfare. I recently learned that Administration officials have in mind proposing a lower supplement for the AFDC-U group if it is decided to mandate this program. The Administration's current thinking, as I understand it, involves limiting federal matching of supplementation to 80 percent of the poverty line for AFDC-U, as compared to 100 percent under a reformed AFDC program.

I suggest that your excellent staff take a look at a new paper by Frank Levy of the Urban Institute, appropriately titled, "The Harried Staffers Guide to Current Welfare Reform Proposals," (May, 1978). Levy, in his final chapter, puts together what he calls a "representative" welfare reform plan which also includes differential treatment for the AFDC-U group. (He recommends limiting AFDC-U supplementation to 80 percent of the poverty line.)

Levy would—and I agree—leave the food stamp program for the moment as the only generalized transfer program for singles and childless couples.

The Ullman and Baker-Bellmon bills also treat two-parent welfare families differently, with the Baker-Bellmon bill embodying what to me is the most promising approach of guaranteeing a CETA job after a 90-day waiting period to one parent in all such families. Combining the lower benefit (the 80 percent supplementation ceiling referred to earlier) with the Baker-Bellmon idea of a guaranteed job to one parent in all two-parent families would, it seems to me, deal with a number of issues intelligently. It would mean a lower benefit in most cases for intact families and hence a stronger work incentive for this group. (The literature—including the Seattle-Denver results—clearly indicates that the lower the benefit, the stronger will be the work incentive.)

The Baker-Bellmon approach would, in effect, universalize AFDC-U and then abolish it through CETA.⁴ Such a strong job-strategy for this group would, I believe, have broad public acceptance. It would in addition be an effective lever for having CETA target on social needs. The current and, to me, troublesome trend in CETA-PSE is to dilute the social-targeting capability of the program by weakening or loosening its eligibility requirements. CETA, in essence, reflects a bargain between local governments and the feds. The locals receive funding which can in part be used for people they want in jobs they want. In exchange, there needs to be an assurance for Washington that some portion of CETA-PSE funds will be used to employ people for social or welfare policy reasons, i.e., fulfilling the program's structural or targeting objective. It is the old drugstore technique of the "two-for". Sponsors receive one "free" (or reasonably free) position for job creation in exchange for their participation in the fulfillment of national social policies. Linking job and welfare policy has been one of the most trumpeted purposes of welfare reform. The Baker-Bellmon bill, I believe, represents a breakthrough on this issue.

The Ullman bill contains another feature that has similar potential, the idea of assigning job funds to WIN to be used to buy-in to the CETA system for spec-

⁴ Except during job search periods. See also p. 14.

lified target groups, such as the top priority for intact families under Baker-Bellmon. As my paper suggests later on, I believe that, as a way of getting at the intergenerational problem under AFDC, second priority (perhaps under such a buy-in) should be assigned to new single-parent entrants to AFDC with one child.

The next to last part of question No. 2 suggests that one might challenge an implicit assumption of Secretary Marshall's about the effects of welfare reform. His statement, as quoted, implies that the lower the benefit reduction rate, the greater will be the work incentive effect of a comprehensive welfare reform plan. We know now—thanks to the Seattle-Denver and New Jersey experiments—that this is not true in one sense. The lower the reduction rate, the greater will be the total reduction in work effort for the economy, i.e., because of the higher break-even thus produced. Your question asks: "Would this reduction in work effort (viz. under a 70 percent reduction rate) be greater or less than that which occurs under the current welfare system?" The answer is that the total or aggregate work reduction could be greater under such a plan, because the reduction rate posited—70 percent—could be lower than the combined reduction rate under current programs (AFDC, food stamps, and in some cases, housing programs). This would certainly be the case—i.e., a greater total work reduction—comparing BJIP (with a 52-percent reduction rate) to current programs. Dr. Steven Director, a Brookings Fellow in Employment Policy this year, is presently working on precisely this issue; a copy of a short paper describing his research is enclosed with this response. (Attachment III).

As regards the final item in question No. 2 about a work requirement, I have always felt that a work requirement is both good and necessary social policy. But I don't think it can be administered currently in a manner that would offset the negative effects of a comprehensive welfare reform plan with a low (below 50 percent) reduction rate on the nation's total labor supply.

Question 3. You have made a strong case for retaining multiple welfare programs instead of adopting a consolidated one, as the Carter Administration has proposed. However, doesn't the approach you favor preserve the problem of cumulative marginal benefit-reduction rate, which may easily approach or exceed 100 percent? Also, isn't it costly and inefficient to operate several different programs that serve basically the same population?

Answer. Your third question deals with the other side of the proposition just discussed—namely, the problem of cumulative tax rates under multiple transfer programs.

I don't think this problem is insoluble. In fact, as Leonard J. Hausman's work demonstrates, it is dealt with quite well in the real world. Hausman's examination of the way existing programs work led him to write in 1974, "For families receiving AFDC, tax rates under AFDC alone and cumulatively are surprisingly low."⁵ (Underlining added.) He further stated that cumulative rates with food stamps and public housing taken into account are below "80 or 90 percent" because these benefits are conditioned to total income. His investigation of how AFDC rules work, with less systematic attention to the way they are implemented by caseworkers, suggests that careful design work can deal with this issue in a multiple program world. As stipulated in No. 2, the problem is reduced by virtue of the important premise of incrementalism that there can be higher reduction rates under AFDC, while at the same time benefit levels and reduction rates for other groups (e.g. singles, childless couples, and two-parent families) are at a lower level.

The second part of question No. 3 deals with the administrative costs of multiple programs, the proposition being that it may be costly and inefficient to operate several different programs. Quite to the contrary. I have strong reservations about the often-easy assumption that a single national computerized system for all welfare populations would work well and efficiently. In this area, I can think of no more stirring work than that of former HEW Assistant Secretary, Rufus Miles, whose recent paper published by the National Academy of Public Administration is in the form of an administrative critique of the Carter welfare reform plan.⁶ The main points in his analysis are as follows:

⁵ *Integrating Income Maintenance Programs*, ed. Irene Laurie, chapter 2, Cumulative Tax Rates in Alternative Income Maintenance Systems, Leonard J. Hausman (Academic Press, 1975), p. 53.

⁶ *The Carter Welfare Reform Plan: An Administrative Critique*, Rufus E. Miles. (National Academy of Public Administration, 1978)

1. "Federal administration would cost much more than state operation.
2. A federally operated electronic data processing operation would be subject to numerous hazards and is not needed to minimize fraud.
3. Transition to federal operation would be disruptive, costly, and require three years or more to complete.
4. Federal administration would proliferate the offices dealing with the poor, confuse them, and reduce the possibility of moving toward integrated access to social services for low income people."

Miles, the author of Miles Law, who now sits in Princeton, concludes:

"The more thoroughly one examines the total set of issues, the stronger seems to become the case for continuing and strengthening the administrative role of the states in the management and operation of the cash assistance program and its coordination with all other essential aspects of service to needy people at the community level."

Question 4. I am curious why you seem to wish to treat AFDC recipients differently from those who receive SSI. Why do you feel SSI should be run by the Social Security Administration, but a reformed program for families should not be? Why do you think it is desirable to cash out food stamps for the elderly, blind and disabled, but not for mothers with children?

Answer. The first part of the question is covered earlier—namely, the argument for treating AFDC families on a separate basis and administering this program at the state level. An important reason is the work test and desired job connection for working-age recipients. Employment services are primarily a state responsibility, with most public job programs locally run, with referrals through the state employment service. Work done by the Manpower Demonstration Research Corporation shows that AFDC mothers respond very well to employment programs, in this case, the supported work approach.⁷

"The report is for a sample of 303 members of the AFDC research sample,⁸ of whom 147 are experimentals and 156 are controls, and is based on the results of an interview administered to the entire sample nine months after enrollment. Analysis of the research findings shows a number of significant differences between AFDC experimentals and controls, reflecting the early positive effect supported work has had on this group of participants.

"The report also compares the AFDC experimental-control differentials with the differentials for the other three target groups in supported work (Masters, et al. 1977), and with selected other samples of AFDC recipients, on such issues as earnings and income. Such comparisons show both that the differentials between AFDC experimentals and controls are greater than the differentials between experimentals and controls in other target groups and that the relative success of AFDC experimentals was greater than the success of participants in other manpower programs.

"The importance of these findings, although they are preliminary, should not be underestimated. They are for a group whose pre-enrollment characteristics would not have promised great success."

At the hearing before the Subcommittee on May 1, I proposed that new entrants to AFDC with one child be made the second priority group (second to intact families) for job programs that serve the disadvantaged, and that the work test be applied to this group, regardless of the age of the child—assuming, of course, that adequate child care is available.

On the second part of question No. 4 as to the separation of AFDC and SSI, I definitely feel that SSI (now that it is reasonably de-bugged) should continue to be administered by the Social Security Administration. It would be disruptive to change and hard on the elderly. A high proportion of SSI aged recipients also receive Social Security retirement benefits—upwards of 90 percent as I recall. It makes eminently good sense to have one-stop service for this group. A possible mistake made last time around was the decision not to keep the disability component of SSI with AFDC at the state level. Nevertheless, I wouldn't propose changing that now.

Rufus Miles' paper deals in a knowledgeable way with the reasons why AFDC should be administered at the state level. I would urge, and this point is em-

⁷ *Analysis of Nine-Month Interviews for Supported Work: Results of an Early AFDC Sample.* Rebecca Maynard, et al. (Manpower Demonstration Research Corporation, November 1977)

⁸ The sample is from six of the ten sites where AFDC participants are enrolled. Atlanta, Chicago, Hartford, Newark, Oakland, and Wisconsin.

bodied in both the Ullman and Baker-Bellmon bills, that eventually full state administration be required—i.e. getting local governments (mainly counties) out of the picture.

Turning next to the cash out of food stamps and the question of why this should be done for the aged SSI population but not the AFDC population, I believe a case can be made for a *full* cash out of *both* groups. But in this area, my testimony reflected not so much my own preference, as my previous experience working on welfare policy issues. In short, I don't think the time is right for the cash out of food stamps for the AFDC population. We are on the verge of absorbing a dramatic change in the food stamp program—the elimination of the purchase requirement—which will make this program more flexible for all groups. Furthermore, it is my impression that there is considerable sentiment among the people interested in welfare legislation who could form a consensus, that for children, food stamps should be retained because, at least in some marginal way, they encourage parents to skew their consumption patterns towards food.

Question 5. What do you think would be an appropriate national minimum payment level for AFDC? Are you suggesting in your testimony that the same amount and standards should be used for computing eligibility and benefits for intact families, including the working poor? Would this not create a guaranteed income for all families with children, hardly an incremental step?

Answer. Here, I would simply repeat the point made earlier that the idea of incrementalism is to treat different groups differently. The AFDC-U population is a case in point. All of the major welfare proposals currently extant treat this group differently for purposes of determining the benefit level. Personally, I would hope a way could be found to mandate the AFDC-U program and revise or eliminate the 100-hour rule, while at the same time tying this group into CETA.

As suggested earlier, the idea in the Baker-Bellmon bill of a job guarantee for this group might be linked with the proposal in the Ullman bill for a WIN buy-in to CETA. Such an approach strikes me as reflecting a growing consensus among that small but gritty fraternity of welfare incrementalists.

Question 6. You say that it is difficult, if not impossible, to provide public service jobs for the disadvantaged, which pay the minimum wage. I am a little disturbed by this conclusion. Are you suggesting that any public jobs program will necessarily pay higher wages, and thus be more attractive, than private-sector jobs which do pay the minimum wage?

Answer. As regards the difficulty of paying the minimum wage for PSE positions, my testimony on page 7 indicated that there are problems with doing this "in many large cities." Your question suggests that this statement applied generally, which I did not mean to say, and, in fact, I did qualify my comments on this point. The problem referred to here is especially serious in older cities with strong municipal unions and generally high wage scales.

Overall, the data from our monitoring study of the CETA-PSE program indicate that the tendency towards relatively high wages in the public sector clearly impedes the transition of PSE participants to private employment. This problem makes it essential that there be a limit (which is not the case currently) on the length of time a participant can stay in the PSE program. (Eighteen months is proposed in the pending legislation.) Such a limit is needed to improve the capability of the PSE program to move participants into unsubsidized jobs in both the public and private sectors. If the Baker-Bellmon job guarantee were to be adopted for intact families, it would be necessary for this group to face a second 90-day (or longer) period of job search at the end of an 18-month period in PSE.

Question 7. Could you tell the Committee a little more about your evaluation of the CETA program? In particular, how does the definition of displacement that you are using differ from those used in most other studies? Is it not the effect of this definition to make it impossible to find a pattern of displacement in any city that is financially hard-pressed?

Do you have any information about the longer-term consequences of CETA? To what extent do holders of CETA jobs move into the private sector? To what extent do they go back on unemployment or welfare?

Are CETA workers as productive as regular public employees? Have you found any serious difficulties in matching the skills of people eligible for CETA with the jobs that prime sponsors feel need to be done?

Answer. Other studies that have been done to date of the PSE program do not have a cyclical component. Therefore, everything that we classify as 'program

maintenance" would in their context be classified as displacement. In answer to the first part of this question, displacement might be lower in distressed cities for this reason. Our evidence, in fact, suggests this. However, it is possible for it to occur. If a distressed jurisdiction uses PSE funds to make a tax cut, we would classify that as displacement. If, on the other hand, its revenues were reduced for other reasons (e.g. a declining tax base), the use of PSE would more likely be classified by us as job creation. With the exception of one large, distressed city in our sample, a split was made between job creation and displacement—that is, the field Associate decided that some PSE positions were "program maintenance" and some would have been locally funded anyway and hence are displacement.

As regards CETA post-program experience, the data we have seen suggest that 30-35 percent of the terminations are placed in employment, either by themselves or through referral by the sponsor. Terminations are small in relation to enrollment at any point in time. Of the people terminated *and placed*, by far the majority (around 90 percent) are placed in public employment or nonprofit employment. A portion of those not placed enter another training program or the military. But most of those persons who are not placed are returned to unemployment. These data are from the Labor Department's Quarterly Progress Reports.

Questions to which we do not have answers are: among those placed in jobs how many are in those jobs 60 days, 90 days, one year after placement? What is the welfare status of those not placed? How many of those unemployed after termination find jobs in 60 days, 90 days, one year? The "Continuous Longitudinal Manpower Survey" known in the trade as CLMS, is a veritable gold mine of information on what happens to the people who are in CETA programs; the Department of Labor deserves credit for investing in this systematic Census-collected data source. Soon we will have data from the CLMS on post-program experience. I hope the Department will use this information to provide good answers to the questions you pose about what happens to people in various CETA programs and how their experience compares with their peer group in the labor force.

On your final question about the productivity of CETA workers, our evidence suggests that CETA employees are as productive as regular workers. However, this data is mainly for entry-level positions, and there is considerable skimming within the eligible population. Your final question also asks about matching people and skills under CETA-PSE and whether this presents difficulties to sponsors. For some jobs (namely countercyclical jobs), sponsors have quite a lot of altitude and can fit the person to the job. For other CETA-PSE jobs (namely those provided on the structural rationale), the idea is that the sponsors should fit jobs to the people. For sponsors who resist the latter, yes, there will be problems, but my feeling is that a deal is a deal. Federal decision makers should insist on a structural component to CETA. Some currently pending legislative provisions (particularly those emanating from the House) ease up too much and would shift the terms of trade in a way that could seriously undermine the structural aims of CETA.

I hope these answers are helpful. A number of known and close incrementalists have helped me to obtain needed data and citations. I am taking the liberty of sending them copies of this response and your original letter.

ATTACHMENT I

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C., May 3, 1978.

Dr. RICHARD NATHAN,
*Brookings Institution,
1775 Massachusetts Avenue, NW.,
Washington, D.C.*

DEAR DICK: I do so regret my inability to take part in what I understand was a splendid hearing on welfare reform Monday. A series of personal matters quite unexpectedly detained me in New York City the entire day. This was particularly distressing as I had especially looked forward to this particular hearing.

As Senator Danforth may have mentioned, I had intended to put several questions to you in person, and would now like to take the opportunity to submit them in writing, with the hope that you may be willing to take a few minutes

to answer them. When you reply, kindly send a copy also to Michael Stern, Staff Director of the Senate Finance Committee, so that your comments can be incorporated into the official hearing record.

1. Last week we heard some startling testimony from John Bishop, of the University of Wisconsin Institute for Poverty Research, about the impact of income support on family stability. His basic points were these:

1. There is little conclusive evidence that AFDC is instrumental in breaking up families;

2. There is some evidence that AFDC-U has a greater effect in creating female-headed families than AFDC alone does;

3. Based on the income maintenance experiments, cash assistance plans like those tested in Seattle and Denver are likely to have the greatest effect on family composition, with family splitting apt to be significantly greater among those who receive such aid than among recipients of AFDC or among families receiving no other assistance. Would you care to comment on these findings? Are they in accord with your own conclusions or those generally accepted by researchers in this area? How would you explain these counter-intuitive results? What implications should we draw in trying to design a welfare reform?

2. Another issue that has been of great concern to this Committee is the impact of welfare on the incentive to work. Secretary Marshall has testified that a negative income tax with a benefit set at 75 percent of the poverty-line and a benefit-reduction rate of 70 percent could have so great an effect on the incentive to work that 55 percent of the incremental costs of the plan would essentially offset money that would otherwise have been earned.

Based on your own work on this topic, do you feel that effects of this magnitude are likely to occur if AFDC were replaced by a consolidated cash assistance program? Would this reduction in work effort be greater or less than that which occurs under the current welfare system? Is it reasonable to expect that a work requirement, or a public jobs program would mitigate this effect?

3. You have made a strong case for retaining multiple welfare programs instead of adopting a consolidated one, as the Carter Administration has proposed. However, doesn't the approach you favor preserve the problem of cumulative marginal benefit-reduction rates, which may easily approach or exceed 100 percent? Also, isn't it costly and inefficient to operate several different programs that serve basically the same population?

4. I am curious why you seem to wish to treat AFDC recipients differently from those who receive SSI. Why do you feel SSI should be run by the Social Security Administration, but a reformed program for families should not be? Why do you think it is desirable to cash out food stamps for the elderly, blind, and disabled, but not for mothers with children?

5. What do you think would be an appropriate national minimum payment level for AFDC? Are you suggesting in your testimony that the same amount and standards should be used for computing eligibility and benefits for intact families, including the working poor? Would this not create a guaranteed income for all families with children, hardly an incremental step?

6. You say that it is difficult, if not impossible, to provide public service jobs for the disadvantaged, which pay the minimum wage. I am a little disturbed by this conclusion. Are you suggesting that any public jobs program will necessarily pay higher wages, and thus be more attractive, than private-sector jobs which do pay the minimum wage?

7. Could you tell the Committee a little more about your evaluation of the CETA program? In particular, how does the definition of displacement that you are using differ from those used in most other studies? Is it not the effect of this definition to make it impossible to find a pattern of displacement in any city that is financially hard-pressed?

Do you have any information about the longer-term consequences of CETA? To what extent do holders of CETA jobs move into the private sector? To what extent do they go back on unemployment or welfare?

Are CETA workers as productive as regular public employees? Have you found any serious difficulties in matching the skills of people eligible for CETA with the jobs that prime sponsors feel need to be done?

Let me say once again how much I appreciate your willingness to help us understand the complex issues of welfare reform.

Cordially,

DANIEL PATRICK MOYNIHAN.

ATTACHMENT II

UNIVERSITY OF CALIFORNIA, BERKELEY,
Berkeley, Calif., May 24, 1978.

Dr. RICHARD NATHAN,
The Brookings Institution, 1775 Massachusetts Avenue N.W., Washington, D.C.

DEAR DICK: The following two statements summarize the results of our studies in Alameda County with respect to the family fragmentation question.

(1) Fragmentation is substantial among AFDC-U families. The odds are about one chance in five that a mother in an AFDC-U family at any point in time will be in an AFDC-FG family within one year. Most, but not all, of these transitions are due to the father's separation from the family.

(2) The ACSW cannot be used to support the contention that this instability is the result of the availability of welfare itself. We have no corresponding "control" group of families in similar circumstances which are not receiving assistance. The ACWS data do not reveal any change in the probability of family dissolution in the county as the "hours rule" for defining AFDC-U eligibility was made more stringent, but this may be due to the correlation of these developments with other offsetting system changes.

This isn't much, but recall that the sample was not intended as a source of information on instability among welfare families. As you know, I was amazed by the amount we found. The essential point is that it is a mistake to view the population of two-parent families and the population of one-parent families within this stratum as distinct. Rather, there is a great deal of movement from one group to the other. This to me suggests that a unified approach to welfare administration is essential and that arbitrary stratification of the population between those nominally the responsibility of the Department of Labor and those expected to be wards of HEW is likely to be an administrative nightmare.

With highest regard,

MICHAEL WISEMAN,
Assistant Professor.

ATTACHMENT III

DISCUSSION OF MARGINAL TAX RATES AND WELFARE REFORM

(Prepared by Steven Director)

Two major parameters of any welfare program are the guarantee level and the marginal tax rate. The guarantee level is the amount of benefits received by a household with no other income. The tax rate is the rate at which benefits are reduced as earnings rise. Together these two parameters imply a breakeven level above which individuals are no longer eligible for assistance payments. (The guarantee level divided by the tax rate is the breakeven level.) Views as to the appropriate levels for these parameters vary widely. The House Subcommittee on Welfare Reform seems to prefer higher tax rates than those contained in the Administration's welfare reform plan (H.R. 9030). For example, Subcommittee revisions of H.R. 9030 would permit states that supplement federal assistance payments to reduce these benefits up to 70 cents (instead of 52 cents) per earned dollar.

Surprisingly, both those favoring high tax rates and those favoring low rates seem to view the issue within the same tradeoff framework. A typical statement of this tradeoff can be found in recent Congressional testimony by Lawrence N. Woodworth, Assistant Secretary of Treasury for Tax Policy. He explains that,

"The rate at which a welfare program phases out is usually quite high in order to keep the cost of the program within reason and to concentrate benefits on those recipients most in need. Yet these rates of phaseout are equivalent to rates of tax on additional dollars of earnings. When a household faces a combination of these rates from more than one assistance program or from positive taxes such as the income tax and the social security tax, the household is given a powerful disincentive to increase earnings from work."¹

Policymakers are told that the benefits from high tax rates must be weighed against the work disincentive they create. The assumption that raising tax rates

¹ Statement by Lawrence N. Woodworth before the Welfare Reform Subcommittees of the Committees on Agriculture, Education and Labor, and Ways and Means, September 20, 1977.

lowers work incentives is so frequently made by both academics and policy-makers that it warrants a careful analysis. This note argues that this assumption is incorrect and that, therefore, much of the debate on welfare reform has been misdirected.

LABOR SUPPLY EFFECTS

Consider the case of a sharp decrease in tax rates. Two opposing shifts would be observed. Since the change in their total income from an additional hour of work is now greater, some current welfare recipients will increase their hours of work. However, others may respond by decreasing their work effort. For example, the lower benefit reduction rates would allow a household that previously had a combined (welfare plus earnings) income of \$5,000 to reduce their earnings somewhat and still maintain their previous income level. Other reductions in work effort may come from individuals who move onto the welfare rolls for the first time. For such individuals, the welfare option is now more attractive since the lower tax rate raises the maximum one can earn and still receive welfare payments (i.e., the breakeven level).

Since a change in benefit reduction rates causes some people to work more and others to work less, the relative magnitudes of these opposing shifts is critical. The relevant empirical studies² suggest that changes in the number of recipients has a far greater impact upon total hours worked than do changes in average hours worked per welfare recipient. Estimates based on the Seattle and Denver Income Maintenance Experiments³ show that under a national negative income tax program with a guarantee equal to 75% of the poverty level and a .5 tax rate, 7.6 million husband-wife families would participate in the program and on average reduce their annual hours of work by 216. With a .7 tax rate the average reduction in hours would rise to 283, but the number of recipient families would fall to 2.8 million. The net effect of these opposing shifts is that the reduction in total hours under the .5 tax rate (7.6 million families \times 216 hours) is twice what it would be under the .7 tax rate (2.8 million families \times 283 hours).

EFFICIENCY CONSIDERATIONS

A second argument that has been made in favor of low benefit reduction rates is that they are a more efficient device for increasing recipient incomes. Referring again to estimates based on the Seattle and Denver Income Maintenance Experiments⁴ we see that with a guarantee equal to 75% of the poverty line and a .5 tax rate, total benefits paid would be 8.0 billion dollars greater than the current AFDC and Food Stamp system.

Of this amount, 2.4 billion dollars (or 30%) would be offset by reductions in earnings due to reduced work effort. The remaining 5.6 billion is the net increase in recipient incomes. With the same guarantee level and a .7 tax rate, total program cost would be 2.2 billion dollars above the present system, with 1.2 billion dollars (or 55%) being offset by the reduced earnings of recipients. Thus it does appear that low tax rates are more efficient if efficiency is defined as the increase in recipient incomes per dollar of welfare costs. This occurs because low tax rates increase total benefits paid more rapidly than they increase earnings reductions.

It is not clear, however, that our policy objective should be to maximize efficiency as defined above. While low tax rates decrease the percentage of welfare payments offset by reduced earnings (55% versus 30%), they increase

² Studies which have found a positive correlation between tax rates and total labor supply include:

Barr, N. A. and Hall, R. E., "The Probability of Dependence on Public Assistance," M.I.T., mimeo dated July 1973.

Levy, Frank, "AFDC Work Incentives," Urban Institute Working Paper No. 70, June 1977.

Keeley, Michael C. et al., "An Interim Report on the Seattle and Denver Income Maintenance Experiments," Stanford Research Institute Research Memorandum 41, June 1977.

Greenberg, David H. and Hosenk, James R., "Regional Labor Supply Response to Negative Income Tax Programs," Rand Corporation Report R-1785-EDA, February 1976.

Studies such as Garfinkel, I. and Orr, L., "Employment Rate of AFDC Mothers," 27 "National Tax Journal" (No. 2), pp. 275-284 and Bendt, D.L., "AFDC Benefit Reduction Rates and the Probability of Working," Mathematic Policy Research, August 1973, have found negative correlations between AFDC tax rates and labor supply among welfare recipients. However since these studies do not consider the effect of tax rates on changes in the size of the recipient pool, they provide no information on total labor supply effects.

³ Keeley, table S2, p. 9.

⁴ Keeley, table S3, p. 12.

the absolute amount of such payments (1.2 versus 2.4 billion). Increases in earnings reductions are undesirable for several reasons. First, such work reductions mean fewer goods and services are being produced. Second, since aggregate demand is unchanged the reduction in goods and services available will increase inflationary pressures. Third, and very important, the prime concern of many taxpayers is to reduce the amount (not percentage) of welfare payments that go to those who could have and would have worked more under a system with a higher benefit reduction rate. Finally, if one were to measure efficiency as the percentage of welfare dollars which go to the poorest families, the policy preference would be for high tax rates. Low tax rates, by raising breakeven levels, allow households with relatively high levels of earnings to continue to receive welfare benefits.

TAX RATES AND GUARANTEE LEVELS

The above discussions have compared programs with the same guarantee and different tax rates. We know that either reducing tax rates or increasing guarantee levels raises program costs. One might argue, therefore, that from a budgetary perspective the comparison should be between a high guarantee-high tax program and a low guarantee-low tax program of the same total cost. Constraining the choice in this manner can, however, be misleading. While a low guarantee-low tax program may reduce work disincentives, these reductions result not from the lower tax rate, but from the lower guarantee. Whether the low guarantee creates undue hardship is an important but separate issue. If low guarantees can themselves be justified, there is no reason not to further reduce costs and work disincentives by combining them with high tax rates. Anyone with earnings subject to the tax rate would be receiving a net income above the guarantee level.

CONCLUSIONS

The empirical data suggest that one need not prefer low benefit reduction rates in order to maintain work incentives. In fact, the reverse is true. Holding the guarantee level constant, the reduction in total hours worked under a .5 tax rate would probably be twice what it would be under a .7 tax rate. Though low tax rates are to be preferred on certain efficiency grounds, other equally important considerations seem to outweigh, or at least counterbalance, these efficiency arguments. What is clear is that high benefit reduction rates drastically reduce program costs. These savings could be used either to reduce the burden on taxpayers or increase the generosity of the program by raising guarantee levels.

[Thereupon, at 12:20 p.m., the subcommittee recessed, to reconvene at the call of the Chair.]

