HOW TO THINK ABOUT WELFARE REFORM FOR THE 1980'S

HEARINGS

BEFORE THE

SUBCOMMITTEE ON PUBLIC ASSISTANCE

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-SIXTH CONGRESS

SECOND SESSION

FEBRUARY 6 AND 7, 1980

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CONTENTS

ADMINISTRATION WITNESSES

PUBLIC WITNESSES

COMMUNICATIONS

ADDITIONAL INFORMATION

HOW TO THINK ABOUT WELFARE REFORM FOR THE 1980's

WEDNESDAY, FEBRUARY 6, 1980

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

The subcommittee met at 2:15 p.m., pursuant to call, in room 2221, Dirksen Senate Office Building, Hon. Daniel Patrick Moynihan (chairman of the subcommittee) presiding.

Present: Senators Moynihan and Heinz.

[The press release announcing these hearings follows:]

[Press Release No. H-3]

For Immediate Release, January 24, 1980—U.S. Senate Committee on Finance, Subcommittee on Public Assistance

FINANCE SUBCOMMITTEE ON PUBLIC ASSISTANCE TO HOLD HEARINGS ON WELFARE REFORM PERSPECTIVES

The Honorable Daniel Patrick Moynihan (D., N.Y.), Chairman of the Finance Subcommittee on Public Assistance today announced that the Subcommittee will hold hearings on "how to think about welfare reform for the 1980s."

Senator Moynihan stated that the Subcommittee has asked a number of expert witnesses to provide testimony during these two days of hearings so as to share with the Finance Committee the fruits of their research and insights on those problems which welfare reform legislation must address. The Chairman of the Subcommittee further noted that these hearings should provide valuable perspectives on the subject prior to the detailed consideration of specific welfare reform proposals pending before the Committee. That detailed consideration of specific proposals will not be undertaken in these hearings. Hearings on legislative proposals for welfare reform will be held later by the full Committee as soon as the schedule of the Committee permits.

The hearings will be held starting at 10:30 a.m. on Wednesday, February 6, 1980, and at 10 a.m. on Thursday, February 7, 1980. The hearings will be held in *Room 2221, Dirksen Senate Office Building.*

Chairman Moynihan announced that the following witnesses are now scheduled to testify at the hearings:

Wednesday, February 6, 1980

Martin Anderson, Hoover Institution, Stanford University
Anthony Morelli, Vice President, Economic Development Council of New York City, Inc.
Philip Toia, Vice President, Municipal Finance, Chase Manhattan Bank
Leonard Hausman, Florence Heller School, Brandeis University
David Chambers, School of Law, University of Michigan
Max Horlick, Chief, Comparative Studies Staff, Office of International Policy, Social Security Administration.

Thursday, February 7, 1980

Eli Ginzburg, Director of Conservation of Human Resources and Chairman, National Commission for Employment Policy, Graduate School of Business, Columbia University
Lynn Cutler, Vice Chairperson, Advisory Commission on Intergovernmental Relations
Larry Schroeder, Metropolitan Studies Program, Syracuse University
Robert Hill, Director, Research Department, National Urban League
George Gilder, Tyringham, Massachusetts
John Palmer, Acting Assistant Secretary for Planning and Evaluation, Department of Health, Education, and Welfare.

Senator MOYNIHAN. Good afternoon, ladies and gentlemen.

First of all, let me apologize for being late. We had a vote, and I was held up on the floor.

This is a hearing of the Subcommittee on Public Assistance of the Senate Finance Committee on Welfare Reform Perspectives. As all of you, I am sure, know, a welfare bill has passed the House and is now before this committee.

Later this year, Senator Long has indicated that there will be formal hearings on that legislation. I had in mind, in anticipation of these full committee hearings on the specific legislation, that it would be useful to spend an afternoon and a morning discussing general aspects of this subject, which has been at, or near the top of the legislative agenda of the Nation for 15 years now. I have been involved with it, and have found that this subject has eluded any large or satisfactory resolution.

It is to this general question of the nature of the issue, the difficulties in obtaining consensus, and the changes, if any, that have occured but which might have slipped by unnoticed, that we address ourselves today. In addition, we are here to determine what we should look for in the legislative proposals that we are going to have before us.

I have an opening statement, which I will put in the record, as if read.

It might be of interest to some of you because it contains data which have been developed for the committee by Mathematica Policy Research on the fiscal flows resulting from the bill passed by the House in response to the proposal submitted to Congress by President Carter.

[The statement follows. Oral testimony continues on p. 88.]

FROM THE OFFICE OF

Senator Daniel Patrick Moynihan

New York

For Immediate Release
Wednesday, AM
Feburary 6, 1980

Contact: Tim Russert
Vicki Bear
202/224-4451

OPENING STATEMENT

of

SENATOR DANIEL PATRICK MOYNIHAN, CHAIRMAN

SUBCOMMITTEE ON PUBLIC ASSISTANCE

COMMITTEE ON FINANCE

February 6, 1980

The stated topic of these hearings is "how to think about welfare reform for the 1980's". Implicit in that phrase is a hypothesis that we shall test during the course of these two days: the possibility that the assumptions, objectives and analytic modes that have characterized most deliberations about welfare reform for the past decade and more may not be adequate or appropriate for the years ahead. To examine this proposition -- which I offer only as a hypothesis, not as a conclusion -- we have invited a number of distinguished witnesses who have knowledge about various facets of the subject and various perspectives on it.

I wish to make clear that this is not a "legislative hearing" in that our purpose is not to elicit specific comments on particular bills or proposals before the Finance Committee. That will occur at the full Committee level at a later date, when it will be possible for public witnesses to offer their comments and suggestions. As Senator Long stated on the Senate floor on January 31, "The Senate Committee on Finance is going to hold hearings on welfare and we shall cover the area that the Senator has mentioned, because this is a very important matter. It is of tremendous significance and importance to every State and every segment of the Nation and, in due course, we shall make our recommendations from the full committee."

Even as we save for another day the detailed consideration of specific proposals, however, we obviously have in the back of our minds today one bill with a unique status: H.R. 4904, the welfare reform bill that was passed by the House of Representatives in November. The passage by the House of a welfare reform bill is a large event that automatically commands our attention. It is not unreasonable, therefore, to suggest that in the course of these hearings we shall be comparing -- silently if not explicitly -- what we will be learning from our witnesses with what we know of that bill as well as with what we know and can learn about the present condition of public assistance in the United States.

The bill that has been sent us by the House closely resembles the cash assistance proposals that the Carter administration made last spring. (To be sure, the administration's proposals included a second bill, dealing with jobs, that still awaits action in both chambers.) It is a bill that is instantly recognizable by anyone who has followed the development of American social policy during the forty-five years since passage of the Social Security Act itself. Its two essential provisions would require all states to attain certain standards -- pertaining to benefit levels in the one case, inclusion of intact families in the other -- that have long been optional for them. The federal government would assume the entire cost of compliance with those requirements. The first of these would affect 13 states, the second 24 states.

These requirements embody elements of two important principles that have long been part of proposals to "reform" the welfare system and that I have long endorsed. First, the idea of a national floor under benefit levels so that no American need try to exist below a certain standard. Second, the idea that cash assistance for "families with dependent children" not be confined to single parent families but, rather, be available also to intact families that are nevertheless "dependent" on the society for their subsistence.

I must point out that neither principle is wholly honored in this bill. Eligibility for cash assistance is still confined to families with children -- single people and childless couples being excluded -- and intact families only qualify for aid if they have minimal resources. In short, H.R. 4904 does not provide a guaranteed annual income for every American.

This proposal -- and others like it -- is gravely deficient in another respect that causes me to ask whether -- even to hypothesize that -- the assumptions and objectives that have undergirded our past deliberations are themselves lacking.

To state a complex point as simply as possible: this proposal is oblivious to the needs of those states and regions that have struggled to achieve a decent level of common provision for their people. It is oblivious to the needs of the dependent and indigent residents of those states and regions. It is oblivious to the condition of the state and local governments in those regions. It is oblivious to the needs and concerns of their taxpayers.

Indeed, it is worse than oblivious. It expects the taxpayers of those states and regions to pay substantial sums to improve the lot of persons who live elsewhere. We have accepted that mission and that challenge in the past, and we would not decline it now if there were any serious attention to our own needs embedded in these proposals, too.

A.F.D.C. recipients in New York -- and we have 1.2 million of them -- have not had an increase in their living allowances since 1974. This means that inflation has cut their standard of living about in half. Not because the state of New York is any less concerned about their condition. But because it can no longer afford to bear the price of alleviating that condition.

Yet H.R. 4904 would not improve benefit levels in New York and other states like it. It would not provide the state and its localities any significant resources with which to do so themselves. Rather, it would throw tens of thousands of families off the federally-assisted welfare program.

I offer in evidence Table 6 from the recent analysis of H.R. 4904 that was provided at my request by the Congressional Research Service and carried out by Mathematica Policy Research, Inc. Using a series of reasonable assumptions about the growth of population and family income, this table projects A.F.D.C. caseloads in fiscal 1982 (including recipients of the "unemployed parents" program) under current law and under H.R. 4904. The caseloads are shown in family units:

TABLE 6

PROJECTIONS OF AFDC AND AFDC-UP CASELOAD IN FY 1982
(thousands of units participating during year)

Census Division	State	AFDC Current Law	AFDC HR 4909	AFDC Percent Change	AFDC-UP Current Law	AFDC-UP HR 4904	AFDC-UP Percent Change
New England	Massachusetts	127	118	- 7	13	29	123
	Rhode Island	19	18	- 5	1	2	100
	Connecticut	54	50	- 7	2	5	150
	Maine	22	21	- 5	0	6	*
	New Hampshire	9	9	0	0	3	*
	Vermont	7	6	-14	1	1	0
	Total	238	222	- 7	17	46	171
Mid-Atlantic	New York	439	367	-16	17	57	235
	New Jersey	156	150	- 4	7	23	229
	Pennsylvania	238	213	-11	19	45	137
	Total	833	730	-12	43	125	191
East North Central	Ohio	173	179	3	28	59	111
	Indiana	60	65	8	0	19	*
	Illinois	256	233	- 9	18	36	100
	Michigan	207	208	0	27	54	100
	Wisconsin	64	67	5	5	23	360
	Total	760	752	- 1	78	191	145
West North Central	Minnesota	52	47	-10	4	12	200
	Iowa	37	32	-14	4	11	175
	Missouri	83	78	- 6	0	4	*
	North Dakota	6	5	-17	0	5	*
	South Dakota	7	7	0	0	3	*
	Nebraska	15	15	0	0	3	*
	Kansas	29	26	-10	2	5	150
	Total	229	210	- 8	10	43	330

(continued)

TABLE 6 (continued)

PROJECTIONS OF AFDC AND AFDC-UP CASELOAD IN FY 1982
(thousands of units participating during year)

Census Division	State	AFDC Current Law	AFDC HR 4909	AFDC Percent Change	AFDC-UP Current Law	AFDC-UP HR 4904	AFDC-UP Percent Change
	Delaware	12	11	- 8	0	2	*
	Maryland	68	77	13	3	10	233
	District of Columbia	26	23	-12	0	0	0
	Virginia	71	67	- 6	0	25	*
South Atlantic	West Virginia	25	30	20	2	7	250
	North Carolina	92	101	10	0	44	*
	South Carolina	52	59	13	0	22	*
	Georgia	83	109	31	0	31	*
	Florida	119	128	8	0	58	*
	Total	548	605	10	5	199	3880
	Kentucky	50	60	20	0	29	*
East South Central	Tennessee	66	82	24	0	43	*
	Alabama	67	88	31	0	10	*
	Mississippi	66	66	0	0	20	*
	Total	249	296	19	-	102	-
	Arkansas	37	37	0	0	18	*
West South Central	Louisiana	75	81	8	0	38	*
	Oklahoma	34	33	- 3	0	23	*
	Texas	118	158	34	0	70	*
	Total	264	309	17	-	149	-

(continued)

TABLE 6 (continued)

PROJECTIONS OF AFDC AND AFDC-UP CASELOAD IN FY 1982
(thousands of units participating during year)

Census Division	State	AFDC Current Law	AFDC HR 4909	AFDC Percent Change	AFDC-UP Current Law	AFDC-UP HR 4904	AFDC-UP Percent Change
	Montana	7	7	0	1	3	200
	Idaho	7	8	14	0	4	*
	Wyoming	3	3	0	0	1	*
Mountain	Colorado	36	39	8	2	4	100
	New Mexico	20	23	15	0	4	*
	Arizona	20	22	10	0	9	*
	Utah	15	14	- 7	3	7	133
	Nevada	4	6	50	0	2	*
	Total	112	122	9	6	34	467
	Washington	51	53	4	6	14	133
	Oregon	48	42	-13	8	16	100
Pacific	California	532	456	-14	65	148	128
	Alaska	5	5	0	0	1	*
	Hawaii	18	17	- 6	1	4	300
	Total	654	573	-12	80	183	129
	U.S. Total	3883	3824	- 2	238	1072	350

SOURCE: Mathematica Policy Research, Inc. and Social and Scientific Systems, Inc. simulation dated January 20, 1980.

This table repays scrutiny. It indicates that 72,000 single parent families in New York who could expect to be receiving federally-assisted welfare payments in 1982 under current law would not receive them under H.R. 4904. To be sure, some 40,000 more "intact families" would be aided. But what of those who would lose eligibility? Is the state expected to forget them? And what of the hundreds of thousands of other families who would get no improvement in their living standard? Is the state expected to forget them, too, just because Washington has?

New York is not the only such state. Virtually every state (and region) that has been regarded as relatively humane in its provision for the needy would experience a similar withdrawal of federal support, particularly for single parent families.

By contrast, the Mathematica analysis indicates that Alabama's welfare caseload would grow (including intact families) by 31,000 households, which is to say by 47 percent; Texas' would increase by 93 percent; Louisiana's by 59 percent; Tennessee's by 89 percent; Arizona's by 55 percent; Olkahoma's by 65 percent.

If the first question to be asked about a welfare proposal is what it would do for needy people, the second is who is to pay for the costs of whatever additional benefits are provided. In this connection, I should like to call attention to Table 3 of the same Mathematica analysis, which starts from the assumption that the estimated $2.65 billion in additional federal outlays caused by H.R. 4904 would be borne by the equivalent of a "surcharge" on the federal personal income tax. That may or may not turn out to be true,

TABLE 3

PROJECTIONS OF FISCAL FLOWS DUE TO TITLE I OF HR 4904 IN FY 1982
(dollar amounts in millions)

Census Division	State	Additional Federal Expenditures for AFDC, AFDC-UP Food Stamps, EN, and Hold Harmless	Personal Income Tax Surcharge to Finance Additional Expenditures	Difference between Additional Expenditures and Tax Surcharge	Ratio of Additional Expenditures to Tax Surcharge
New England	Massachusetts	43.7	75.3	- 31.6	0.58
	Rhode Island	3.3	10.6	- 7.3	0.31
	Connecticut	10.6	47.2	- 36.5	0.23
	Maine	17.7	9.4	8.3	1.88
	New Hampshire	3.6	9.0	- 5.5	0.40
	Vermont	- 1.0	4.3	- 5.4	-0.24
	Total	77.9	155.8	- 78.0	0.50
Mid-Atlantic	New York	25.1	258.5	-233.4	0.10
	New Jersey	51.6	105.3	- 53.7	0.49
	Pennsylvania	50.5	136.1	- 85.6	0.37
	Total	127.2	499.9	-372.7	0.25
East North Central	Ohio	103.0	134.0	- 31.1	0.77
	Indiana	50.5	64.4	- 13.9	0.78
	Illinois	59.9	158.5	- 98.5	0.38
	Michigan	107.7	120.8	- 13.1	0.89
	Wisconsin	43.5	55.4	- 11.9	0.79
	Total	364.6	533.1	-168.5	0.68
West North Central	Minnesota	17.0	46.8	- 29.8	0.36
	Iowa	13.0	32.5	- 19.5	0.40
	Missouri	6.2	53.8	- 47.6	0.12
	North Dakota	6.6	6.0	0.6	1.09
	South Dakota	7.3	5.3	2.0	1.37
	Nebraska	17.9	17.7	0.1	1.01
	Kansas	5.1	26.8	- 21.7	0.19
	Total	73.1	188.9	115.9	0.39
South Atlantic	Delaware	4.9	8.1	- 3.2	0.61
	Maryland	43.7	68.9	- 25.2	0.63
	District of Columbia	1.8	12.6	- 10.8	0.14
	Virginia	44.6	68.3	- 23.6	0.65
	West Virginia	34.1	16.2	17.9	2.10
	North Carolina	123.6	51.4	72.2	2.41
	South Carolina	102.4	24.9	77.4	4.11
	Georgia	189.4	50.9	138.4	3.72
	Florida	167.8	91.6	76.1	1.83
	Total	712.3	392.9	319.2	1.81

(continued)

TABLE 3 (continued)

PROJECTIONS OF FISCAL FLOWS DUE TO TITLE I OF HR 4904 IN FY 1982
(dollar amounts in millions)

Census Division	State	Additional Federal Expenditures for AFDC, AFDC-UP Food Stamps, EH, EITC and Hold Harmless	Personal Income Tax Surcharge to Finance Additional Expenditures	Difference between Additional Expenditures and Tax Surcharge	Ratio of Additional Expenditures to Tax Surcharge
East South Central	Kentucky	95.6	31.0	64.6	3.08
	Tennessee	156.7	39.7	117.0	3.95
	Alabama	115.1	32.3	82.7	3.56
	Mississippi	118.4	17.4	101.0	6.80
	Total	485.8	120.4	365.3	4.03
West South Central	Arkansas	51.3	16.7	34.6	3.07
	Louisiana	123.4	35.6	87.8	3.46
	Oklahoma	24.5	29.6	- 5.0	0.83
	Texas	309.3	141.2	168.1	2.19
	Total	508.5	223.1	285.5	2.28
Mountain	Montana	7.3	7.7	- 0.3	0.95
	Idaho	7.6	8.3	- 0.7	0.92
	Wyoming	2.6	4.7	- 2.2	0.54
	Colorado	11.9	35.5	- 23.6	0.33
	New Mexico	23.4	11.9	11.4	1.96
	Arizona	35.5	26.7	8.8	1.33
	Utah	6.3	13.0	- 6.7	0.49
	Nevada	6.3	9.3	- 3.0	0.67
	Total	100.9	117.1	- 16.3	0.86
Pacific	Washington	27.9	48.2	- 20.3	0.58
	Oregon	13.4	27.7	- 14.3	0.48
	California	144.1	321.2	-177.1	0.45
	Alaska	2.5	9.9	- 7.3	0.26
	Hawaii	12.1	12.0	0.1	1.01
	Total	200.0	419.0	219.1	0.48
	U.S. Total	2650.2	2650.2	0.0	1.00

SOURCE: Mathematica Policy Research, Inc., and Social and Scientific Systems, Inc., simulation dated January 20, 1980.

but this mode of analysis is no less applicable to the current federal tax burden. In other words, if one were to suppose that the alternative to H.R. 4904 is an across-the-board cut in the personal income tax totalling $2.65 billion, this table approximates the costs to taxpayers in each state of adopting the program rather than the tax cut.

The first column shows the additional federal spending (compared to current law) in each state that would result from H.R. 4904. Every state (except, unaccountably, Vermont) shows at least some increase and in the case of a number of states, primarily in the South, that increase is quite substantial. The second column estimates the share of the additional federal costs that would be supplied by each state's taxpayers. The third column shows the difference, and the fourth expresses the ratio between the first two. If one examines the third column, it clearly shows that five of the nine census divisions have a net "gain" from this collection and distribution of resources, whilst the other four would experience a net "loss". By far the largest such regional loss is the mid-Atlantic, and by far the largest such loss for a single state is that of New York, which also -- not surprisingly -- has the lowest "ratio" (again except for Vermont). The fiscal drain from the three states of the mid-Atlantic region is roughly equivalent to the net "gain" in federal resources by the four states of the East South Central region.

To repeat, I favor the improvement of benefit levels in the states and regions whose benefit levels would be increased by this bill, and I favor the inclusion of intact families in those states that do not now include them. But I find it at least slightly perplexing that those of us generally disposed to favor this legislation are generally found in states whose residents have little to gain and much to lose from it, while many of those whose states and citizens stand to gain the most are at best indifferent to the principles on which the legislation rests.

It is my profound hope that these hearings will begin the process that will end in the passage by the Senate of a sound welfare reform bill. But as I have briefly sketched in these remarks, and as I expect to understand better in the course of these hearings, there is something missing from the major reform proposal now before us.

Congressional Research Service
The Library of Congress

Washington, D.C. 20540

February 4, 1980

TO : Honorable Daniel Patrick Moynihan

FROM : P. Royal Shipp
Senior Specialist in Social Welfare
Education and Public Welfare Division

SUBJECT : Report Analyzing State Fiscal Flows and Fiscal Relief Resulting From the Social Welfare Reform Amendments of 1979 (H.R. 4904)

On May 11, 1979 you wrote asking the Congressional Research Service (CRS) "to provide the Finance Committee and others with estimates of State-by-State fiscal impacts of the Administration's welfare proposal and other major proposals." To respond to your request in time for hearings by the Subcommittee on Public Assistance of the Committee on Finance, and to obtain competent technical assistance in developing and using a microsimulation model necessary to do the analysis, CRS contracted with Mathematica Policy Research, Inc. (MPR) to carry out a first phase of the analysis.

In partial completion of this contract MPR, working with the assistance of CRS analysts, has completed a report that shows the estimated impact of Title I of H.R. 4904 on State fiscal flows and fiscal relief. A copy of this report is attached.

The report's analytical work extends beyond other analyses of H.R. 4904 and other welfare reform proposals, which used similar methodologies but which did not examine State-by-State impacts. The microsimulation model used is similar to those used in the previous analyses, and is subject to the same limitations inherent in all attempts to simulate future events. Such limitations are identified at appropriate places in the report.

Despite these caveats, we believe that the MPR report presents information and analysis which should be useful to the Congress as it considers proposals for changing the welfare system.

AN ESTIMATE OF THE FISCAL FLOWS AMONG STATES IMPLIED BY TITLE I OF THE SOCIAL WELFARE REFORM AMENDMENTS OF 1979 (HR 4904)

by

Myles Maxfield, Jr.
David Edson

January 22, 1980

The research reported herein was performed pursuant to a contract with Congressional Research Service.

Submitted to:

Division of Education and Public Welfare
Congressional Research Service
Library of Congress
Contract No. CRS-79-80

Submitted by:

Mathematica Policy Research Inc.
2101 L Street, N.W.
Suite 416
Washington, D.C. 20037

ACKNOWLEDGEMENTS

The project manager of this study, Richard A. Hobbie of the Congressional Research Service (CRS), worked closely with the authors throughout the project. Valuable advice and assistance was also received from P. Royal Shipp, Chief, Income Maintenance Section, Education and Public Welfare Division, CRS. The programming was perfomed by Allen Kendall and Helen Cohn of Social & Scientific Systems, Inc. Tom Spock and Nancy Causino of MPR aided in the conduct of the project, and Cheryl America and Connie Blango prepared the manuscript.

PREFACE

In order to increase the comparability of this study with similar studies performed by the Congressional Budget Office (CBO) and the Department of Health, Education, and Welfare (DHEW) and in order to reduce the cost and time necessary to complete the study, we made use of the results of several previous model development and data base development projects of MPR, CBO, and DHEW. In this study we modified the existing Microanalysis of Transfers to Households (MATH) model, maintained by MPR, so that it simulated the AFDC, AFDC-UP, Food Stamps, General Assistance, Emergency Needs, and EITC programs under the Social Welfare Reform Amendments of 1979. We also used a Survey of Income and Education data base that had been aged to FY 1982 by DHEW. When simulating the current AFDC, AFDC-UP, and General Assistance programs in FY 1982, we used the projections of total program expenditures constructed by CBO.

Although using these earlier results as inputs to this study helped achieve the objectives of comparability and timely completion, it also limited our ability to tailor the inputs specifically for the analytic purposes of this study. Limitations of the inputs and the resulting potential biases in the results are discussed in the text.

With these inputs, we have for this study modeled the AFDC, AFDC-UP, General Assistance, Emergency Needs, and EITC programs specified in HR 4904 and simulated the labor supply response of the beneficiaries to these changes within the MATH model. We have also simulated the existing AFDC, AFDC-UP, General Assistance, and EITC programs on the FY 1982 data base. Lastly, we have simulated the income tax surcharge and computed the tables which constitute the primary results of the study.

CONTENTS

LIST OF TABLES

I

INTRODUCTION AND SUMMARY

In November 1979, the House of Representatives approved and passed on for the consideration of the Senate a bill (HR 4904) which reforms 1/ several current public assistance programs, principally the Aid to Families with Dependent Children (AFDC) program (Title IV-A of the Social Security Act). The bill's major revisions of AFDC include 1) requiring all state AFDC programs to provide coverage for families whose primary earner is unemployed, 2) requiring states to observe a national benefit floor set by Congress, 3) revising the formula used to compute AFDC payments to a participating family, and 4) providing for state fiscal relief through reducing the state matching percentage, imposing a maximum on state AFDC expenditures, and changing the AFDC benefit formula. HR 4904 resembles the welfare reform program designed by the Carter administration (HR 4321 and HH 4425) for consideration by the House, with the exception that HR 4904 does not create or alter any programs that provide public service employment for low-income families. 2/

The notion of a fiscal flow is that the residents of each state may be viewed collectively as a single entity that both receives federal welfare

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1/ In this study, the term reform refers to changes in existing law described in the Social Welfare Reform Amendments of 1979 (HR 4904).

2/ Vee Burke and Richard A. Hobbie, "The President's 1979 Welfare Reform Program Compared with Current Law: Changes Proposed by The Social Welfare Reform Amendments of 1979 (HR 4321/S 1290) and the Work and Training Opportunities Act of 1979 (HR 4425/S 1312)" Washington D.C.: Congressional Research Service, August 1979); and Social Welfare Reform Amendments of 1979, Report from the Committee on Ways and Means No. 96-451 (Washington, D.C.: Government Printing Office, September 1979).

payments from the AFDC program and pays federal taxes to finance the AFDC program. Since the distribution of welfare benefits is in general not distributed across states in the same way that tax liabilities are, in the aggregate, the residents of some states may pay more into AFDC as federal taxes than they get from AFDC as federal welfare payments. From the point of view of the residents of the state (as opposed to the government), these are called net paying states. The residents in the aggregate of other states may receive more welfare payments than they pay as taxes for the program. These are the net receiving states. If it is assumed that the collection of 50 states is a closed financial system, i.e., no one outside the 50 states either receives a welfare payment or pays taxes from the program and welfare payments are not financed by increasing the federal deficit, the financing of the welfare program may be viewed as a flow of funds from net paying states to net receiving states.

This study estimates which states would be net paying states and which would be net receiving states with respect to the changes in the cost of AFDC, the EITC, Food Stamps and the expanded Emergency Needs (EN) program implied by HR 4904. The estimation assumes that the change in cost to the federal government of AFDC, AFDC-UP, Food Stamps, EITC, and EN is entirely financed by a federal personal income tax surcharge set at a flat rate. Although HR 4904 does not contain or require such a tax surcharge, the study assumes it because it provides a method of financing the welfare reform that is both simple to model and proportional to presurcharge income tax liabilities. 1/

Secondly, the study estimates the amount of fiscal relief, which is the decrease in state expenditures on the AFDC, AFDC-UP, and General Assistance

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1/ Although a welfare reform may be financed with revenues from other types of taxes, the difficulty of allocating them to residents of each state within the existing models precludes their use in this study. Payroll taxes are not used because the AFDC and AFDC-UP programs are financed from general revenues.

programs which would accrue to each state from the implementation of HR 4904. Fiscal relief is estimated because, although the bill guarantees a minimum amount of fiscal relief, the actual relief may be somewhat larger than the specified minimum in some states. Fiscal relief may be greater than the minimum because of the decrease in state shares of AFDC financing, because of the state portion of the $200 million federal funds for the Emergency Needs program, and because of reduced welfare payments in some states due to the revision of the payment formula.

If HR 4904 were enacted, this study indicates that:

1) Welfare benefits would be redistributed from the high-benefit states to low-benefit states. This impact is a result of the reform design which reduces the inequities of payment standards across states without producing a large increase in federal expenditures for AFDC and AFDC-UP.

2) Fiscal relief would be experienced by every state government, with the largest amounts going to states with the largest prereform welfare expenditures.

3) The additional tax liabilities of an income tax surcharge designed to finance the additional federal expenditures under HR 4904 would be greatest in those states with the largest population of high-income taxpayers.

4) The state-to-state variation of the additional tax liability would be reduced if the fiscal relief received by state governments would be passed on to taxpayers in the form of reduced state taxes. This results from the fact that many states which contain large populations of high-income taxpayers are also states which would receive the largest amounts of fiscal relief.

5) The change in welfare payments would combine with the change in tax liabilities to produce a change in disposable income of residents among each state. The disposable income of the residents of states with both a high AFDC standard of need and a large population of high-income taxpayers and which do not pass their fiscal relief on to taxpayers would be reduced by the reform. The disposable income of residents of other states would be increased.

6) If the fiscal relief to governments were passed on to taxpayers the state-to-state variation of the impact on disposable income would be reduced.

The next section presents the model and data base used to estimate fiscal flows and fiscal relief. The following section presents the results, a summary, and conclusions. A comparison of the model and results of this study with those of the Congressional Budget Office and those of the Department of Health, Education, and Welfare is presented in Appendix A. A technical documentation of the data base and the model of HR 4904 is contained in Appendix B.

II

THE MODEL AND DATA BASE

Overview

The estimates of fiscal flows and fiscal relief are made by simulating the changes of AFDC and of the Earned Income Tax Credit (EITC) contained in HR 4904 and applying those reforms to a sample of families from each of the 50 states. The effect of the reforms on the Emergency Needs, General Assistance, and Food Stamp programs was also estimated. The data base, discussed below, represents the projected population in FY 1982. Since the current AFDC program is not observed in that year, it must be simulated along with the reformed program. With both the existing and reformed AFDC programs simulated, i.e., participants in each program chosen and payments computed for each participating family, the difference between the cost of the two programs is computed for the nation and for each state. The cost of a program is taken to be the sum of all the simulated payments plus administrative costs.

The second step in the estimation is the simulation of a federal personal income tax surcharge which generates additional federal revenue sufficient to finance the additional federal welfare expenditures. The federal income tax program of 1979 is simulated on the 1982 data base, resulting in an estimate of federal income tax revenues in that year. The surcharge rate is computed as the ratio of the additional federal expenditures implied by the reform to the estimated total federal tax revenue. Finally, the simulated income tax liability of each tax-paying unit is increased by the surcharge, and the surchange is totaled within each State. The state totals of the increased federal tax liability are compared to the state totals of the increased federal expenditures on the reform plan, producing an estimate of the fiscal flows resulting from the implementation of Title I of HR 4904 in FY 1982.

The Data Base

The most recent survey of income and family structure using a sample designed to represent the population in each state is the Survey of Income and Education (SIE), which was fielded by the Census Bureau from April through May, 1976. The survey instrument is similar to that of the Current Population Survey except that the SIE sample is approximately 150,000 households, three times as large as that of the CPS. Each family member is asked about his or her income and labor market activity during the calendar year 1975. Family structure, age, race, sex, education and other demographic characteristics are recorded as of the date of the interview. The Census Bureau assigns a sample weight to each family in the SIE such that weighted counts of the sample provide estimates of the population in the nation and each state.

Since the SIE represents conditions which existed in the Spring of 1976 and since much of HR 4904 would be implemented in the early 1980's, the SIE data base was "aged" to represent FY 1982. The aging process has four phases: 1) demographic trends, 2) income amounts, 3) unemployment rate, and 4) prereform income tax and transfer programs.

Demographic Changes

The demographic aging process was performed using Census Bureau Series II projections of the population by age, sex, household size and household type (two-parent, female-headed, other). The person and family sample weights on the SIE were multiplied by growth rates designed to reproduce the population projections along the four dimensions. The procedure increased the non-institutionalized civilian population by 5.3% to 222.8 million persons. Income and demographic growth rates were assumed not to vary from state to state. This does not mean, however, that the population of every state was modeled to grow at the same rate because the demographic composition varies state to state and the modeled growth rates vary across demographic groups. Total income did not grow at the same rate for each state because composition by income type varies state to state and the modeled inflation factors vary by income type. Thus some proportion of the state-to-state variation in population and income growth is accounted for in the model. The portion of that variation that is not taken into account may bias the results of the study, although even the direction of the bias cannot be determined without additional empirical analysis. The bias is not predictable because for at least some states the model will underestimate income growth (biasing the estimates of program cost upward) and underestimate population growth (biasing the estimates of program costs downward). The net bias may be in either direction. 1/

Income Changes

Each source of income of each adult in the SIE is inflated from CY 1975 to FY 1982 in such a way that the weighted sums of the SIE income amounts equal the national income projections, made in January 1979, for FY 1982 by the Office of Management and Budget (OMB). Table 1 presents the OMB projection for the nation. Government pensions, private pensions, and other types of income not listed in Table 1 are inflated using the Consumer Price Index (CPI).

1/ Additional simulations under alternative assumptions could be performed; however, time and resource constraints did not permit such sensitivity analysis in this study.

TABLE 1
FISCAL YEAR 1982 NATIONAL INCOME PROJECTIONS
BY OMB (JANUARY 1979) USED IN AGING THE SIE*

Type of Income	National Total (billions)	
	CY 1975	FY 1982
Wages and Salaries	$755.35	$1,573.00
Nonfarm Self-Employed	62.83	101.25
Farm Self-Employed	23.17	23.48
Private Rent	22.32	26.20
Private Interest	115.60	229.30
Personal Dividends	32.40	65.20
Social Security (OASDI) and Railroad Retirement	69.87	142.91
Unemployment Insurance	17.54	9.68
Workers' Compensation	4.42	8.49
Veterans' Payments	11.72	12.69
Consumer Price Index	161.20	246.64

*Note: The figures in this table differ from those in table B-1 because these figures are for the total population and the figures in B-1 are for the civilian noninstitutionalized population. Also, the figures may differ because of differences in the aging and projection methods used by DHEW and OMB, respectively. Finally, the figures in this table for FY 1982 may differ from other independent projections because of differences in assumptions and methods.

SOURCE: Department of Health, Education, and Welfare, Memorandum "Economic Control Totals for FY 1982 SIE," February 22, 1979.

Unemployment Rate

The SIE was fielded during a severe recession which resulted in an unemployment rate estimate from the data base of 8.5%. This high unemployment rate is reduced to 5.2% in FY 1982 by statistically choosing those unemployed people in the sample most likely to get a job and then imputing job characteristics to them. 1/

1/ The 5.2% unemployment rate was an FY 1982 projection by OMB made in January 1979 and was used by DHEW to age the data base. OMB and CBO projections of the unemployment rate made more recently than January, 1979 are higher than 5.2%. Higher unemployment rates would result in a larger projected cost and caseload of HR 4904.

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The technical procedure for lowering the unemployment rate is described in a recent paper by Kevin Hollenbeck. 1/

Prereform Tax and Transfer Programs

Projections of income from the AFDC, SSI, Food Stamps, EITC and General Assistance programs are made by simulating the programs on the aged SIE data base. The simulation falls into two phases: eligibility and participation. Eligibility in the programs is simulated using program rules and regulations in effect in 1979 with the exception that the payment support levels are inflated to FY 1982. The AFDC need standard and maximum payments for each state are projections to FY 1982 based on the historical relationship between these figures and the Consumer Price Index. 2/ The state AFDC standards are presented in Appendix B. The eligibility phase produces estimates of the number and types of families who could receive benefits if they were to apply and estimates of the size of their payment if they were to participate. The simulated program costs include the costs of administering the program. Administrative costs of the prereform AFDC program in FY 1982 are computed by allocating the Congressional Budget Office (CBO) estimate of total AFDC administrative costs to the states in proportion to the state's share of total national benefit payments. 3/ The states and the federal government share the administrative costs of the prereform AFDC program equally.

1/ Kevin Hollenbeck, The Comparative Static Work Experience Data Adjustment Algorithm (CSWORK), Project Report Series PR 78-13 (Washington, D.C.: Mathematica Policy Research, Inc., 1977).

2/ Congressional Budget Office, Memorandum "AFDC Need Standards and Maximum Payment for Fiscal Year 1980 and 1984", dated April 1, 1979.

3/ Further analysis could incorporate more realistic state variations in the proportion of total costs which are administrative costs.

In the participation phase of the simulation, participant families are chosen from among the population of eligibles in such a way that the CBO projections (April 1, 1979) of the total national caseloads and program payments are approximated. 1/ The rates of participation in the model vary by state and by family type (two-parent, female-headed). The national total caseload and payments projections are displayed in Table 2. The projected caseload is of the number of families ever paticipating during the year. This concept of participation is consistent with the simulation of a full year of program operation and cannot be compared to monthly caseload data published from administrative records.

TABLE 2

PROJECTIONS OF THE NATIONAL COST AND CASELOAD OF AFDC, AFDC-UP, AND GA BY CBO USED IN THE SIMULATION OF FY 1982 PARTICIPANTS

Program	Families Participating at Some Time During Year (millions)	Payment Total (billions)
AFDC	4.214	$12.587
AFDC-UP	0.238	0.659
General Assistance	1.110	1.698

SOURCE: Congressional Budget Office, Memorandum "Data Elements for Aging Contract", May 14, 1979 and Congressional Budget Office, Memorandum "Items P and Q on Work Schedule", February 23, 1979. The figures are the arithmetic midpoints of CBO projections for FY 1980 and FY 1984.

The simulated national tax amounts and transfer amounts for each state are presented in Appendix B. The simulation of federal personal income tax is

1/ The CBO projections were made under economic assumptions that were not identical to those used in the aging of income and the unemployment rate. In spite of this inconsistency, the CBO projections were considered to be more accurate and detailed for the current program transfer amounts than any alternative projection.

based upon a zero bracket amount of $2300 for a single tax unit and $3400 for a joint tax unit, a personal exemption of $1000, and tax brackets and rates in effect in 1979. The simulated Earned Income Tax Credit for joint tax units with dependents is based upon 1979 law providing for a 10% subsidy on earnings up to $5000, a constant subsidy of $500 on earnings between $5000 and $6000, and a reduction of the subsidy on earnings above $6000 at a rate of 12.5% of earnings exceeding $6,000. Social Security tax is simulated based upon a 1982 tax rate of 6.7%. The rates are applied to a 1982 wage and salary income base up to $32,100 per year. 1/ The base tax rate for self-employed earnings is simulated at a 1982 rate of 9.35%. 2/

The Model

Just as for the simulation of current transfer programs, described above, the model of the welfare reforms contained in HR 4904 consists of an eligibility phase and a participation phase. In the eligibility phase, each family in the SIE sample is tested to determine whether it fulfills the categoriacl requirements of the program. For those that do, a welfare payment is computed using the program's payment formula. Those categorically eligible families which are computed to have a positive payment are considered to be means eligible for the program.

The monthly benefit formula under HR 4904 for single-parent families is modeled to be: 3/

$$P = S - .66(E - \$70 - .2E) + MIN(CC, \$160\ K) + LBD$$

1/ This figure is the intermediate assumption of the 1979 Report of the Social Security Trustees.

2/ Railroad retirement and federal government retirement taxes are also simulated.

3/ The formula for two-parent families is:

$$P = S - (E - \$70 - .2E) + LBD$$

where P is the payment, S is the state payment standard, E is earned income, \$70 indicates that the first \$70 of monthly earnings is disregarded, .2E is work-related expenses set to be 20% of earnings, CC is child care expenses which are reimbursed up to a maximum of \$160 (indexed to FY 1982 using the CPI) per child, K is the number of children, and LBD is the low-benefit disregard in the state. The principal changes from the prereform AFDC benefit formula are that in the prereform formula only the first \$30 of earnings are disregarded, all work-related expenses including child care expenses are disregarded and the low-benefit disregard is not in the formula. 1/ The low-benefit disregard specified in HR 4904 is an income disregard in those states whose combined support level from AFDC and Food Stamps is less than 75% of the federal poverty level. A family's income is disregarded up to a maximum of the difference between the combined Food Stamp and AFDC support level and 75% of the federal poverty level.

Postreform administrative costs of AFDC were estimated by the Department of Health, Education, and Welfare to account for the establishment of monthly reporting by participating families, mechanical data processing, and other administrative improvements. 2/ States are liable for fifty percent of administrative costs directly associated with the payment of benefits, twenty-five percent of operating costs associated with data processing improvements, and twenty-five percent of the cost of implementing improved administrative procedures.

1/ The full standard test in the AFDC program, which utilizes a less generous benefit formula for determining eligibility for new applicants, is not simulated because the data base does not permit an accurate differentiation of new versus continuing participants throughout the simulated year. These data limitations require that AFDC be modeled with eligibility to the breakeven.

2/ Richard Michel, memorandum dated December 3, 1979, Department of Health, Education, and Welfare.

Other features of the model of the postreform AFDC program include the treatment of EITC payments as earned income. 1/ The asset test contained in H.R. 4904 is not simulated because of the difficulty of forecasting how states will set their asset limits within the range allowed by the federal provisions (between $750 and $1750) and because of the limited data in the SIE on family assets. The absence of a modeled asset test will bias the estimates of program costs upward. The generalization of the AFDC-Unemployed Father program to an AFDC-Unemployed Parent program is simulated in all states. A two-parent family is eligible under the AFDC-UP program if the primary earner (modeled as the parent with the higher annual earnings) is unemployed. The "100 hour rule", for defining unemployment in the prereform AFDC-UF program is replaced with a $500 (inflated to FY 1982 using the CPI) 2/ per month limit on earnings. He or she is not considered unemployed if earnings exceed the limit. The 30-day waiting period under the prereform AFDC-UF program is not in effect under the reform program. Any job search required by the reform program is not simulated. The combined AFDC and Food Stamps support level for each state are simulated to be the projected FY 1982 prereform support levels or 65% of the federal poverty level, whichever is higher.

The SIE data do not permit the simulation of the reform of the accounting period and redetermination period of AFDC contained in HR 4904. The model also does not simulate the WIN program providing any new jobs for those primary

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1/ P.L. 95-600, the Revenue Act of 1978, repealed the disregard of EITC payments in AFDC and other federally funded programs, effective January 1, 1980. The reform plan would count advanced EITC payments for which the assistance recipient would be eligible as earnings. The model of the current AFDC program was not updated to reflect the provisions of P.L. 95-600 and disregarded EITC payments. The model of the reform program treated all EITC payments as earnings.

2/ HR 4904 allows the $500 figure to take into account changes in the CPI and in the federal minimum wage. This study assumes the inflation factor to be the CPI.

earners who are not eligible for WIN services under the prereform program. The Medicaid program and its interactions with the reform of the AFDC program are also not modeled. Not taking these things into account is likely to bias the estimates of the costs of HR 4904 downward.

The postreform Earned Income Tax Credit is modeled to equal 11% of earnings up to $500, $550 from $5000 to $7000, and at higher income levels it is reduced by 13.75% of the excess of the family's adjusted gross income over $7000. The Food Stamps cash out for SSI recipients is not modeled. No changes to the SSI programs are modeled. The benefit levels of the General Assistance program are assumed to be unaffected by the reform. However, the costs and caseload of GA are affected because eligibility and participation in the AFDC-UP and EN programs are determined prior to the determination of GA eligiblity. The EN program is assumed to have the same eligibility requirements as GA, except that families must contain children and total family income must be less than twice the poverty level in order to be eligible. Participants in the EN program are federally funded up until the maximum federal EN funds for the state are expended. GA participants who either do not qualify for EN, or who qualify for EN in states which have exhausted their federal EN allocation, are considered to be postreform GA families and are funded by the state.

The state percentage share of the costs of the AFDC program is modeled to be 45% of the ratio of the square of the state's per capita income to the square of the total U.S. per capita income, subject to the limitation that the federal percentage share is between 50% and 78%. A table of state percentage shares is presented in Appendix B. For single-parent families and two-parent families in which one parent is incapacitated the state share of the postreform AFDC cost equals 90% of the prereform share. For two-parent families in which the primary earner is unemployed the state share is 70% of the prereform share. The contribution of each state to the AFDC program is modeled to have an upper limit of 95% of the product of AFDC expenditures in 1979 and the percentage growth rate of total national AFDC expenditures between 1979 and 1982. The federal share of AFDC costs is assumed to be the residual after the state shares are computed.

The Emergency Needs program, as noted above, is financed by the federal government up to a maximum federal amount in each state, after which the program is financed entirely by the state. The maximum federal payment in each state is computed in proportion to the state's share of the national AFDC caseload and the state's share of the national AFDC expenditure. A table of the maximum federal payments to states for Emergency Needs appears in Appendix B. Administrative costs of Emergency Needs are assumed to be the same fraction of total costs as they are in the postreform AFDC program. Administrative costs are shared between the federal and state governments in the same proportion as are the Emergency Needs and General Assistance benefit costs.

Postreform participation probabilities are listed in Table B-7. The probabilities for AFDC single-parent, AFDC two-parent, and Emergency Needs/General Assistance units are the same as the prereform probabilities. Rates for AFDC-UP parents in states with prereform UP programs were obtained by increasing the prereform rate by 30%. 1/ Rates for AFDC-UP unemployed parent families in states without a prereform UP program are estimated by first computing a participation rate for single-parent families under prereform law and multiplying by the average ratio of the UP participation rate to AFDC single-parent rate for states

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1/ The 30% increase is arbitrary and is a reasonable "guess" as to how participation rates may change as a result of HR 4904. This increase is the same as that assumed by CBO and DHEW. The use of participation rates of the AFDC-UP program in other states in the same Census Division may introduce bias to the extent that the state in question is dissimilar to its neighboring states.

with UP programs in the same Census region. The product is then increased by 30%, consistent with the treatment of the AFDC-UP participation rates in states which currently operate such a program.

The simulation model assumes that the postreform program is in full operation in FY 1982. This may not be the case if it is first implemented close to the beginning of FY 1982 and if the administrative reforms are slow to be implemented at the local level. The model estimates fiscal flows among the 50 states and the District of Columbia. Other U.S. territories, most significantly Puerto Rico, are excluded from the analysis. Families whose income is changed by the program reform are modeled to alter their work effort in response to changes in their total disposable income and to changes in their effective wage rate caused by the program reform. A person's effective wage rate is influenced by the program reform through the program benefit reduction rate, or the rate at which the payment is reduced for every additional dollar of earnings. The gross hourly wage rate must be decreased by the rate at which earnings are taxed and by the program benefit reduction rate in order to arrive at a net, or effective, hourly wage rate. The modeled labor supply response is based on parameters estimated by Stanford Research Institute and the Department of Health, Education, and Welfare from the Seattle and Denver Income Maintenance Experiments. 1/

After the postreform payment and labor supply are computed for a participating family, the resulting changes in AFDC, EN, GA, EITC and Food Stamp payments are computed, as are changes in earnings, total income, and federal income taxes. As noted above, the additional federal AFDC expenditures are assumed to

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1/ Michael C. Keely, Philip K. Robins, Robert G. Spiegelman, and Richard W. West, The Labor Supply Effects and Costs of Alternatve Negative Income Tax Programs: Evidence from the Seattle and Denver Income Maintenance Experiments; Part I, The Labor Supply Response Function, Research Memo No. 38 (Menlo Park, Calif., Stanford Research Institute, 1977).

be financed by a federal personal income tax surcharge. The surcharge rate is computed as the ratio of additional federal expenditures required by the plan to the total federal personal income tax revenue. This rate is applied to each family's federal income tax liability to compute the family's surcharge. One limitation of this procedure is that since the SIE is a household survey, the simulated tax amounts are allocated to states based on where fami'ies live, rather than based on where the taxes are paid. The two allocation schemes may be different in situations of significant commutation across state boundaries.

The output of the model consists of changes in welfare expenditure of each state and of the federal government, changes in AFDC caseloads by state, fiscal relief for each state, and the difference between the additional federal AFDC payments to residents of each state plus the associated aministrative costs and the amount of federal income tax surcharge paid by state residents.

III

OVERALL FISCAL IMPACTS

The primary emphasis of this study is to examine the impact of Title I of HR 4904 on fiscal flows and fiscal relief. Tables 3 and 4 show the impacts.

In order to derive state-by-state estimates of fiscal flows and fiscal relief, it was first necessary to estimate the impact of the plan on various welfare programs. Tables 5 through 8 present these data on the current law and reform plan for aggregate expenditures in the AFDC, AFDC-UP, Food Stamps, EN, and GA programs and the total tax expenditures on the EITC.

Further analysis relates the concepts of fiscal flows and fiscal relief in a way that depicts total potential impact on state taxpayers and beneficiaries, assuming that fiscal relief would be passed on by state governments to their citizens. This requires the introduction of three additional concepts (See table 9) that appear along with the federal tax surcharge and state fiscal relief: (1) the additional total benefits as the sum of additional federal benefits and fiscal relief passed on the the states' beneficiaries of public goods and services; (2) the change in total taxes (federal and state) as the sum of the federal tax surcharge plus the fiscal relief passed on to the states' taxpayers; and (3) the change in post-tax, post-transfer income as the sum of the additional federal benefits and the change in federal taxes (fiscal flow) plus the fiscal relief passed on to the states' taxpayers.

Fiscal Flows

Table 3 presents the estimates of fiscal flows among states implied by Title I of HR 4904. States are grouped by Census Division (New England, Mid-Atlantic, East North Central, West North Central, South Atlantic, East South Central, Mountain Pacific) in all the tables in this section. As will be seen below, the fiscal flows and fiscal relief of the states within the same region are often quite similar. Table 3 presents the net additional federal payments accruing to the residents of each state due to the reform. The figures are the difference between federal benefits under current programs and the projected federal benefits under the reform programs. The second column presents the federal personal income tax surcharge levied against the residents of each state, which is 0.77% of presurcharge tax liability. The third column presents the absolute difference between the additional federal benefits and the surcharge, and the fourth column contains the ratio of additional benefits to the surcharge for each state.

It is important to note at this point that the figures presented in these tables are statistical estimates based upon a clustered random sample and on many assumptions about the behavior of state governments and welfare recipients. The estimate for a particular state, therefore, has a statistical error due to the statistical nature of the model and due to the sampling error of the data base. State of the art statistical techniques are not adequate for determining precise estimates of these errors, but the sampling error is probably on the order of ± 10% to ± 20% around the reported estimates. 1/ While the estimates for a particular state may be somewhat imprecise, the regional patterns of fiscal flows and fiscal relief which are evident in the tables are estimated with significantly more precision, principally because of the larger sample sizes. Thus the following interpretation of the results focused on patterns among

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1/ The sample structure of the SIE was designed to result in a constant coefficient of variation of the estimate of the number of children in poverty in each state.

TABLE 3

PROJECTIONS OF FISCAL FLOWS DUE TO TITLE I OF HR 4904 IN FY 1982
(dollar amounts in millions)

Census Division	State	Additional Federal Expenditures for AFDC, AFDC-UP Food Stamps, EN, and Hold Harmless	Personal Income Tax Surcharge to Finance Additional Expenditures	Difference between Additional Expenditures and Tax Surcharge	Ratio of Additional Expenditures to Tax Surcharge
New England	Massachusetts	43.7	75.3	- 31.6	0.58
	Rhode Island	3.3	10.6	- 7.3	0.31
	Connecticut	10.6	47.2	- 36.5	0.23
	Maine	17.7	9.4	8.3	1.88
	New Hampshire	3.6	9.0	- 5.5	0.40
	Vermont	- 1.0	4.3	- 5.4	-0.24
	Total	77.9	155.8	- 78.0	0.50
Mid-Atlantic	New York	25.1	258.5	-233.4	0.10
	New Jersey	51.6	105.3	- 53.7	0.49
	Pennsylvania	50.5	136.1	- 85.6	0.37
	Total	127.2	499.9	-372.7	0.25
East North Central	Ohio	103.0	134.0	- 31.1	0.77
	Indiana	50.5	64.4	- 13.9	0.78
	Illinois	59.9	158.5	- 98.5	0.38
	Michigan	107.7	120.8	- 13.1	0.89
	Wisconsin	43.5	55.4	- 11.9	0.79
	Total	364.6	533.1	-168.5	0.68
West North Central	Minnesota	17.0	46.8	- 29.8	0.36
	Iowa	13.0	32.5	- 19.5	0.40
	Missouri	6.2	53.8	- 47.6	0.12
	North Dakota	6.6	6.0	0.6	1.09
	South Dakota	7.3	5.3	2.0	1.37
	Nebraska	17.9	17.7	0.1	1.01
	Kansas	5.1	26.8	- 21.7	0.19
	Total	73.1	188.9	115.9	0.39
South Atlantic	Delaware	4.9	8.1	- 3.2	0.61
	Maryland	43.7	68.9	- 25.2	0.63
	District of Columbia	1.8	12.6	- 10.8	0.14
	Virginia	44.6	68.3	- 23.6	0.65
	West Virginia	34.1	16.2	17.9	2.10
	North Carolina	123.6	51.4	72.2	2.41
	South Carolina	102.4	24.9	77.4	4.11
	Georgia	189.4	50.9	138.4	3.72
	Florida	167.8	91.6	76.1	1.83
	Total	712.3	392.9	319.2	1.81

(continued)

TABLE 3 (continued)

PROJECTIONS OF FISCAL FLOWS DUE TO TITLE I OF HR 4904 IN FY 1982
(dollar amounts in millions)

Census Division	State	Additional Federal Expenditures for AFDC, AFDC-UP Food Stamps, EN, EITC and Hold Harmless	Personal Income Tax Surcharge to Finance Additional Expenditures	Difference between Additional Expenditures and Tax Surcharge	Ratio of Additional Expenditures to Tax Surcharge
	Kentucky	95.6	31.0	64.6	3.08
East South Central	Tennessee	156.7	39.7	117.0	3.95
	Alabama	115.1	32.3	82.7	3.56
	Mississippi	118.4	17.4	101.0	6.80
	Total	485.8	120.4	365.3	4.03
	Arkansas	51.3	16.7	34.6	3.07
West South Central	Louisiana	123.4	35.6	87.8	3.46
	Oklahoma	24.5	29.6	- 5.0	0.83
	Texas	309.3	141.2	168.1	2.19
	Total	508.5	223.1	285.5	2.28
	Montana	7.3	7.7	- 0.3	0.95
	Idaho	7.6	8.3	- 0.7	0.92
	Wyoming	2.6	4.7	- 2.2	0.54
Mountain	Colorado	11.9	35.5	- 23.6	0.33
	New Mexico	23.4	11.9	11.4	1.96
	Arizona	35.5	26.7	8.8	1.33
	Utah	6.3	13.0	- 6.7	0.49
	Nevada	6.3	9.3	- 3.0	0.67
	Total	100.9	117.1	- 16.3	0.48
	Washington	27.9	48.2	- 20.3	0.58
	Oregon	13.4	27.7	- 14.3	0.48
Pacific	California	144.1	321.2	-177.1	0.45
	Alaska	2.5	9.9	- 7.3	0.26
	Hawaii	12.1	12.0	0.1	1 01
	Total	200.0	419.0	219.1	0.48
	U.S. Total	2650.2	2650.2	0.0	1.00

SOURCE: Mathematica Policy Research, Inc., and Social and Scientific Systems, Inc., simulation dated January 20, 1980.

groups of similar states rather than on an exhaustive interpretation of the results for each state.

The third and fourth columns of table 3 indicate that Title I of HR 4904 results in a fiscal flow from the states on the North East, North Central, and far West to states in the South. The residents of New York, California, and Illinois are projected collectively to pay $509 million more as a surchage than they receive in the form of additional federal benefits. Residents of North Carolina, South Carolina, Georgia, Florida, Kentucky, Tennessee, Alabama, Mississippi, Arkansas, Louisiana, and Texas collectively are projected to receive approximately $1.01 billion more in additional federal benefits than they pay as a surcharge. Many states in the Midwest and Mountain regions have an approximate balance between additional federal benefits and the tax surcharge.

Net paying states appear to be those with higher current welfare need standards, a current AFDC-UP program, and a large population of high-income taxpayers. A high needs standard in current welfare programs and a current AFDC-UP program implies that the reform would result in less additional federal payments than otherwise. A large population of high-income taxpayers would pay a relatively large portion of the surcharge. The combination of relatively little additional federal benefits plus a relatively large surcharge payment implies a fiscal flow out of the state. On the other hand, the combination of low current welfare benefit levels, the absence of a current AFDC-UP program, and a relatively small population of high-income taxpayers implies a fiscal flow into the state.

Fiscal Relief

Estimates of fiscal relief are presented in table 4. The first column contains the estimtas of state expenditures on current AFDC, AFDC-UP, and GA programs in FY 1982. The second column contains projected state expenditures for the same programs under HR 4904; and the final column presents the absolute decrease of state expenditures resulting from the reform.

The estimated amount of fiscal relief varies directly with the amount of state expenditures on current programs. The budgets of the states of California, New York, and Illinois are projected to experience $483 million in fiscal relief. The budgets of the twenty-five states in the South Atlantic, East South Central, West South Central, and Mountain Census Divisions are collectively projected to experience $43 million in fiscal relief. Fiscal relief as a proportion of state expenditure on current programs is 15% for New York, 11% for California, and averages approximately 5% for the states in the South.

Program Impacts

Tables 5 through 8 present estimates of the cost and caseload of HR 4904 by state. The cost of AFDC and AFDC-UP is projected to increase by 3% or $410 million and 279% or $1419 million respectively for a total increase of $1.8 billion. Federal expenditures in FY 1982 are projected to increase from $6.6 billion to $8.5 billion, or by $1.9 billion, and state expenditures are projected to decline from $5.7 billion to $5.6 billion.

TABLE 4

STATE FISCAL RELIEF (millions)

Census Division	State	current law: State expenditures on AFDC, AFDC-UP and GA	HR 4904: State expenditures on AFDC, AFDC-UP and GA	Fiscal Relief
	Massachusetts	293.7	253.3	40.4
	Rhode Island	39.7	34.5	5.2
New England	Connecticut	163.8	145.9	17.9
	Maine	24.1	20.0	4.1
	New Hampshire	14.0	12.8	1.2
	Vermont	11.4	9.1	2.3
	Total	546.7	475.6	71.1
	New York	1653.1	1395.8	257.3
Mid-Atlantic	New Jersey	328.2	284.1	44.0
	Pennsylvania	619.2	520.7	98.5
	Total	2600.5	2200.6	399.8
	Ohio	359.8	318.4	41.4
	Indiana	52.9	50.4	2.5
East North Central	Illinois	582.2	502.2	80.0
	Michigan	597.1	548.4	48.6
	Wisconsin	154.5	140.7	13.8
	Total	1746.5	1560.1	186.3
	Minnesota	117.7	101.9	15.8
	Iowa	66.2	59.0	7.2
	Missouri	103.3	88.1	15.2
West North Central	North Dakota	9.0	8.7	0.4
	South Dakota	8.7	8.0	0.7
	Nebraska	16.8	15.9	0.9
	Kansas	58.0	50.4	7.6
	Total	379.7	332.0	47.8

(continued)

TABLE 4 (continued)

STATE FISCAL RELIEF (millions)

Census Division	State	current law: State expenditures on AFDC, AFDC-UP and GA	HR 4904: State expenditures on AFDC, AFDC-UP and GA	Fiscal Relief
South Atlantic	Delaware	19.4	17.3	2.1
	Maryland	81.8	77.8	4.0
	District of Columbia	39.4	33.2	6.1
	Virginia	79.2	75.5	3.7
	West Virginia	18.8	17.9	0.9
	North Carolina	51.6	49.4	2.2
	South Carolina	13.8	13.1	0.6
	Georgia	35.2	33.5	1.7
	Florida	86.2	82.2	4.0
	Total	425.4	399.9	25.3
East South Central	Kentucky	27.1	25.9	1.2
	Tennessee	24.1	23.0	1.1
	Alabama	28.1	26.7	1.4
	Mississippi	15.1	14.4	0.7
	Total	94.4	90.0	4.4
West South Central	Arkansas	20.5	19.6	0.9
	Louisiana	41.2	39.4	1.8
	Oklahoma	32.4	31.2	1.2
	Texas	38.4	36.6	1.8
	Total	132.5	126.8	5.7
Mountain	Montana	9.3	7.9	1.4
	Idaho	7.8	7.4	0.4
	Wyoming	3.9	3.7	0.2
	Colorado	42.7	40.4	2.3
	New Mexico	12.1	11.5	0.6
	Arizona	19.8	19.0	0.8
	Utah	22.2	20.2	2.0
	Nevada	4.0	3.8	0.2
	Total	121.8	113.9	7.9

(continued)

TABLE 4 (continued)

STATE FISCAL RELIEF (millions)

Census Division	State	current law: State expenditures on AFDC, AFDC-UP and GA	HR 4904: State expenditures on AFDC, AFDC-UP and GA	Fiscal Relief
	Washington	141.7	133.0	8.8
	Oregon	76.6	67.2	9.4
Pacific	California	1181.9	1035.9	146.0
	Alaska	8.5	8.1	0.4
	Hawaii	98.2	89.1	9.1
	Total	1506.9	1333.3	173.7
	U.S. Total	7554.3	6632.2	922.0

SOURCE: Mathematica Policy Research, Inc. and Social and Scientific Systems, Inc. simulation dated January 20, 1980.

Table 5 presents the total expenditures (both state and federal) for the AFDC and AFDC-UP programs by state. The figures indicate that the expenditures in states which have relatively high need standards and a current AFDC-UP program are reduced by HR 4904, and expenditures in states which have relatively low needs standards and no AFDC-UP program are increased. Expenditures for AFDC in New York and California are projected to decrease by 13% and 11% respectively. Expenditures in southern states increase by between 36% and 213%. The decline in expenditures in the high needs standard states results from a combination of factors. First, the needs standards in those states are not raised by the reform, whereas those in the low need standard states are raised to the federal minimum need standard. Second, the effective benefit reduction rate of AFDC is likely to be increased by the reform. The effective benefit reduction rate for AFDC is made different from the nominal rate of 67% by child care and other work-related expenses and their positive correlation with earnings. For every additional dollar earned (for which the nominal rate would reduce the benefit by 67¢), work-related expenses increase by approximately 25¢ on average. 1/ The result is that under the current payment formula the final benefit declines by only 42¢, rather than by 67¢, for every extra dollar of earnings. In the reformed payment formula, the method of computing other work-related expenses as 20% of earnings will result in the payment being reduced by an average 47¢ for every additional dollar earned for those claiming the maximum child care deduction, rather than the reduction of 42¢ under the current payment formula.

1/ Myles Maxfield, "Determinants of AFDC Work Related Expenses," (Washington, D.C.: Mathematica Policy Research, Inc., 1975).

TABLE 5
TOTAL EXPENDITURES FOR AFDC AND AFDC-UP IN FY 1982
(dollar amounts in millions)

Census Division	State	AFDC current law	AFDC HR 4904	AFDC percent change	AFDC-UP current law	AFDC-UP HR 4904	AFDC-UP percent change
New England	Massachusetts	462	426	- 8	24	63	162
	Rhode Island	61	55	-10	2	4	100
	Connecticut	243	235	- 3	5	7	40
	Maine	51	53	4	-	12	-
	New Hampshire	26	25	-4	-	3	-
	Vermont	31	27	-13	3	3	0
	Total	874	821	- 6	34	92	171
Mid-Atlantic	New York	2137	1858	-13	43	121	181
	New Jersey	502	484	- 4	7	38	443
	Pennsylvania	777	695	-10	42	92	119
	Total	3416	3037	-11	92	251	173
East North Central	Ohio	485	494	2	51	112	120
	Indiana	123	139	13	-	27	-
	Illinois	813	765	- 6	45	71	58
	Michigan	861	850	- 1	52	113	117
	Wisconsin	299	286	- 4	11	53	381
	Total	2581	2534	- 2	159	376	136
West North Central	Minnesota	188	170	-10	5	22	340
	Iowa	133	117	-12	5	22	340
	Missouri	225	205	- 9	-	3	-
	North Dakota	17	15	-12	-	7	-
	South Dakota	19	18	- 5	-	6	-
	Nebraska	36	47	30	-	3	-
	Kansas	81	69	-16	2	9	350
	Total	699	641	- 8	12	72	400

(continued)

TABLE 5 (continued)
TOTAL EXPENDITURES FOR AFDC AND AFDC-UP IN FY 1982
(dollar amounts in millions)

Census Division	State	AFDC current law	AFDC HR 4904	AFDC percent change	AFDC-UP current law	AFDC-UP HR 4904	AFDC-UP percent change
South Atlantic	Delaware	29	30	3	2	3	50
	Maryland	152	176	16	5	19	280
	District of Columbia	70	64	- 8	-	1	-
	Virginia	179	181	1	-	42	-
	West Virginia	52	80	54	3	11	267
	North Carolina	141	209	48	-	60	-
	South Carolina	48	128	167	-	27	-
	Georgia	94	248	153	-	44	-
	Florida	195	292	50	-	69	-
	Total	960	1408	47	10	276	2660
East South Central	Kentucky	83	137	65	-	44	-
	Tennessee	73	193	164	-	49	-
	Alabama	92	196	113	-	18	-
	Mississippi	64	167	161	-	26	-
	Total	312	693	122	-	137	-
West South Central	Arkansas	66	90	36	-	27	-
	Louisiana	124	200	61	-	55	-
	Oklahoma	85	71	-16	-	37	-
	Texas	110	344	213	-	84	-
	Total	385	705	83	-	203	-
Mountain	Montana	18	19	6	-	7	-
	Idaho	20	20	0	-	7	-
	Wyoming	7	7	0	-	1	-
	Colorado	84	89	6	5	7	40
	New Mexico	36	52	44	-	7	-
	Arizona	32	52	62	-	15	-
	Utah	52	48	-8	3	11	267
	Nevada	8	12	50	-	1	-
	Total	257	299	16	8	56	600

(continued)

TABLE 5 (continued)
TOTAL EXPENDITURES FOR AFDC AND AFDC-UP IN FY 1982
(dollar amounts in millions)

Census Division	State	AFDC current law	AFDC HR 4904	AFDC percent change	AFDC-UP current law	AFDC-UP HR 4904	AFDC-UP percent change
	Washington	209	209	0	11	34	209
	Oregon	157	138	-12	14	33	138
Pacific	California	1926	1705	-11	163	373	129
	Alaska	17	17	0	-	2	-
	Hawaii	107	100	- 6	5	18	260
	Total	2416	2169	-10	193	460	138
	U.S. Total	11903	12313	3	508	1927	279

SOURCE: Mathematica Policy Research, Inc. and Social and Scientific Systems, Inc. simulation dated January 20, 1980.

The higher benefit reduction rate has two effects. It lowers the payment to participating families with earnings and it lowers the breakeven point of the program. The breakeven point is the level of income just sufficient to reduce the payment to zero. Both of these effects reduce the total expenditure on AFDC. The first effect reduces payments to participating families and the second effect reduces the number of participating famlies. Table 6 shows the caseload of AFDC for New York is projected to decrease by 16% and that of California by 14%. The caseloads of states in the South are projected to increase by approximately 20% on average. The caseloads in southern states increase because the influence of the required higher standard of need plus the effect of implementing an AFDC-UP program are stonger than the influence of the higher effective benefit reduction rate.

The federal and total expenditures on AFDC, AFDC-UP, Food Stamps, GA, EN, and EITC are presented in table 7. The additional federal monies for the EN program and the more generous EITC under the reform result in many more states receiving an overall increase in expenditures than is the case for AFDC and AFDC-UP alone. The pattern of high need standard states receiving a relatively small, or negative, increase in expenditures which is apparent in table 6 is also evident in table 7.

Table 8 contains the total EITC payments plus tax reductions by state. In the nation as a whole, the EITC payments plus tax reductions are projected to increase by 36% from $1.05 billion to $1.43 billion. The percentage increases by state are fairly uniform, ranging from 25% in Alaska to 45% in South Carolina and Nevada with an average of approximately 35%.

TABLE 6

PROJECTIONS OF AFDC AND AFDC-UP CASELOAD IN FY 1962
(thousands of units participating during year)

Census Division	State	AFDC Current Law	AFDC HR 4909	AFDC Percent Change	AFDC-UP Current Law	AFDC-UP HR 4904	AFDC-UP Percent Change
New England	Massachusetts	127	118	- 7	13	29	123
	Rhode Island	19	18	- 5	1	2	100
	Connecticut	54	50	- 7	2	5	150
	Maine	22	21	- 5	0	6	*
	New Hampshire	9	9	0	0	3	*
	Vermont	7	6	-14	1	1	0
	Total	238	222	- 7	17	46	171
Mid-Atlantic	New York	439	367	-16	17	57	235
	New Jersey	156	150	- 4	7	23	229
	Pennsylvania	238	213	-11	19	45	137
	Total	833	730	-12	43	125	191
East North Central	Ohio	173	179	3	28	59	111
	Indiana	60	65	8	0	19	*
	Illinois	256	233	- 9	18	36	100
	Michigan	207	208	0	27	54	100
	Wisconsin	64	67	5	5	23	360
	Total	760	752	- 1	78	191	145
West North Central	Minnesota	52	47	-10	4	12	200
	Iowa	37	32	-14	4	11	175
	Missouri	83	78	- 6	0	4	*
	North Dakota	6	5	-17	0	5	*
	South Dakota	7	7	0	0	3	*
	Nebraska	15	15	0	0	3	*
	Kansas	29	26	-10	2	5	150
	Total	229	210	- 8	10	43	330

(continued)

TABLE 6 (continued)

PROJECTIONS OF AFDC AND AFDC-UP CASELOAD IN FY 1982
(thousands of units participating during year)

Census Division	State	AFDC			AFDC-UP		
		Current Law	HR 4909	Percent Change	Current Law	HR 4904	Percent Change
South Atlantic	Delaware	12	11	- 8	0	2	*
	Maryland	68	77	13	3	10	233
	District of Columbia	26	23	-12	0	0	0
	Virginia	71	67	- 6	0	25	*
	West Virginia	25	30	20	2	7	250
	North Carolina	92	101	10	0	44	*
	South Carolina	52	59	13	0	22	*
	Georgia	83	109	31	0	31	*
	Florida	119	128	8	0	58	*
	Total	548	605	10	5	199	3880
East South Central	Kentucky	50	60	20	0	29	*
	Tennessee	66	82	24	0	43	*
	Alabama	67	88	31	0	10	*
	Mississippi	66	66	0	0	20	*
	Total	249	296	19	-	102	-
West South Central	Arkansas	37	37	0	0	18	*
	Louisiana	75	81	8	0	38	*
	Oklahoma	34	33	- 3	0	23	*
	Texas	118	158	34	0	70	*
	Total	264	309	17	-	149	-

(continued)

TABLE 6 (continued)

PROJECTIONS OF AFDC AND AFDC-UP CASELOAD IN FY 1982
(thousands of units participating during year)

		AFDC			AFDC-UP		
Census Division	State	Current Law	HR 4909	Percent Change	Current Law	HR 4904	Percent Change
	Montana	7	7	0	1	3	200
	Idaho	7	8	14	0	4	*
	Wyoming	3	3	0	0	1	*
Mountain	Colorado	36	39	8	2	4	100
	New Mexico	20	23	15	0	4	*
	Arizona	20	22	10	0	9	*
	Utah	15	14	- 7	3	7	133
	Nevada	4	6	50	0	2	*
	Total	112	122	9	6	34	467
	Washington	51	53	4	6	14	133
	Oregon	48	42	-13	8	16	100
Pacific	California	532	456	-14	65	148	128
	Alaska	5	5	0	0	1	*
	Hawaii	18	17	- 6	1	4	300
	Total	654	573	-12	80	183	129
	U.S. Total	3883	3824	- 2	238	1072	350

SOURCE: Mathematica Policy Research, Inc. and Social and Scientific Systems, Inc. simulation dated January 20, 1980.

TABLE 7

PROJECTIONS OF FEDERAL AND TOTAL EXPENDITURES FOR AFDC, AFDC-UP, FOOD STAMPS, EN AND GA IN FY 1982
(dollar amounts in millions)

Census Division	State	Current Law		HR 4904		Change in Expenditures		Percent Change in Expenditures	
		TOTAL	FEDERAL	TOTAL	FEDERAL	TOTAL	FEDERAL	TOTAL	FEDERAL
New England	Massachusetts	676	382	673	419	- 3	37	0	10
	Rhode Island	101	62	98	64	- 3	2	- 3	3
	Connecticut	335	171	324	178	- 11	7	- 3	4
	Maine	89	65	100	80	11	15	12	23
	New Hampshire	48	34	49	36	1	2	2	6
	Vermont	50	39	47	37	- 3	- 2	- 6	- 5
	Total	1299	753	1291	814	- 8	61	- 1	8
Mid-Atlantic	New York	3178	1525	2921	1525	-257	0	- 8	0
	New Jersey	772	444	770	486	- 2	42	0	9
	Pennsylvania	1384	765	1322	801	- 62	36	- 4	5
	Total	5334	2734	5013	2812	-321	78	- 6	3
East North Central	Ohio	979	619	1025	707	46	87	5	14
	Indiana	251	198	291	241	40	43	16	22
	Illinois	1403	821	1369	867	- 34	46	- 2	6
	Michigan	1272	675	1320	772	48	97	4	14
	Wisconsin	417	263	440	300	23	37	6	14
	Total	4322	2576	4445	2887	123	310	3	12
West North Central	Minnesota	322	204	317	215	- 5	11	- 2	5
	Iowa	194	128	195	136	1	8	1	6
	Missouri	410	307	393	305	- 17	- 2	- 4	- 1
	North Dakota	33	24	38	29	5	5	15	21
	South Dakota	43	35	49	41	6	6	14	17
	Nebraska	77	60	91	75	14	15	18	25
	Kansas	152	94	144	94	- 8	0	- 5	0
	Total	1231	852	1227	895	- 4	43	0	5
South Atlantic	Delaware	51	32	53	36	2	4	4	13
	Maryland	267	185	300	222	33	37	12	20
	District of Columbia	114	74	108	75	- 6	1	- 5	1
	Virginia	333	254	366	291	33	37	10	15
	West Virginia	134	116	165	147	31	31	23	27
	North Carolina	398	346	505	455	107	109	27	32
	South Carolina	178	164	272	259	94	95	53	58
	Georgia	360	325	534	500	174	175	48	54
	Florida	536	449	680	598	144	149	27	33
	Total	2371	1945	2983	2583	612	638	26	33

(continued)

TABLE 7 (continued)

PROJECTIONS OF FEDERAL AND TOTAL EXPENDITURES FOR AFDC, AFDC-UP, FOOD STAMPS, EH AND GA IN FY 1982
(dollar amounts in millions)

Census Division	State	Current Law		HR 4904		Change in Expenditures		Percent Change in Expenditures	
		TOTAL	FEDERAL	TOTAL	FEDERAL	TOTAL	FEDERAL	TOTAL	FEDERAL
	Kentucky	259	232	344	318	85	86	33	37
East South Central	Tennessee	259	235	404	381	145	146	56	62
	Alabama	284	255	386	360	102	105	36	41
	Mississippi	239	224	350	335	111	111	46	50
	Total	1041	946	1484	1394	443	448	43	47
	Arkansas	194	174	239	219	45	45	23	26
West South Central	Louisiana	342	300	454	415	112	115	33	38
	Oklahoma	197	165	214	183	17	18	9	11
	Texas	653	615	929	893	276	278	42	45
	Total	1386	1254	1836	1410	450	456	32	12
	Montana	45	36	50	42	5	6	11	17
	Idaho	45	37	50	43	5	6	11	16
	Wyoming	16	13	18	15	2	2	13	15
Mountain	Colorado	148	106	154	114	6	8	4	8
	New Mexico	104	92	123	112	19	20	18	22
	Arizona	107	87	136	117	29	30	27	34
	Utah	88	66	90	70	2	4	2	6
	Nevada	22	18	26	23	4	5	18	28
	Total	575	455	647	536	72	81	13	18
	Washington	331	190	345	212	14	22	4	12
	Oregon	215	139	216	149	1	10	0	7
Pacific	California	2795	1613	2752	1716	- 43	103	- 2	6
	Alaska	28	20	30	22	2	2	7	10
	Hawaii	176	78	178	89	2	11	1	14
	Total	3545	2040	3521	2188	- 24	148	- 1	7
	U.S. Total	21109	13554	22451	15819	1342	2263	6	17

SOURCE: Mathematica Policy Research, Inc., and Social and Scientific Systems, Inc., simulation dated January 20, 1980.

TABLE 8

PROJECTIONS OF TOTAL EXPENDITURES FOR EITC PAYMENTS IN FY 1982
(dollar amounts in millions)

Census Division	State	Current Law	HR 4904	Percent Change
	Massachusetts	20.5	26.9	31
	Rhode Island	4.3	5.7	33
New England	Connecticut	10.4	14.0	35
	Maine	6.8	9.3	37
	New Hampshire	4.0	5.3	33
	Vermont	2.9	4.0	38
	Total	48.9	65.2	33
	New York	68.1	92.7	36
Mid-Atlantic	New Jersey	26.7	35.6	33
	Pennsylvania	37.4	53.1	42
	Total	132.2	181.4	37
	Ohio	43.9	58.0	32
	Indiana	21.2	29.5	39
East North Central	Illinois	39.8	54.0	36
	Michigan	35.4	47.2	33
	Wisconsin	18.9	25.6	35
	Total	159.2	214.3	35
	Minnesota	15.8	21.5	36
	Iowa	11.9	16.9	42
	Missouri	25.9	35.1	36
West North Central	North Dakota	3.8	5.3	39
	South Dakota	4.9	7.0	43
	Nebraska	7.8	10.6	36
	Kansas	9.0	12.8	42
	Total	79.1	109.2	38
	Delaware	2.1	3.0	43
	Maryland	16.2	22.0	36
	District of Columbia	3.6	4.8	33
	Virginia	17.8	25.6	44
South Atlantic	West Virginia	9.3	13.0	40
	North Carolina	42.4	57.8	36
	South Carolina	15.5	22.5	45
	Georgia	37.1	51.7	39
	Florida	50.7	69.1	36
	Total	194.7	269.5	38

(continued)

TABLE 8 (continued)
PROJECTIONS OF TOTAL EXPENDITURES FOR EITC PAYMENTS IN FY 1982
(dollar amounts in millions)

Census Division	State	Current Law	HR 4904	Percent Change
	Kentucky	26.2	35.6	36
East South Central	Tennessee	30.1	40.6	35
	Alabama	25.1	34.4	37
	Mississippi	21.2	28.6	35
	Total	102.6	139.2	36
	Arkansas	16.8	23.9	42
West South Central	Louisana	22.2	30.4	37
	Oklahoma	17.1	23.8	39
	Texas	82.9	115.5	39
	Total	139.0	193.7	39
	Montana	4.5	6.0	33
	Idaho	4.9	6.7	37
	Wyoming	1.7	2.3	35
Mountain	Colorado	11.5	15.3	33
	New Mexico	8.2	11.4	39
	Arizona	12.5	16.8	34
	Utah	5.6	7.5	34
	Nevada	2.9	4.2	45
	Total	51.8	70.2	36
	Washington	12.8	17.8	39
	Oregon	10.9	14.9	37
Pacific	California	111.6	151.8	36
	Alaska	1.2	1.5	25
	Hawaii	3.3	4.4	33
	Total	139.8	190.4	36
	U.S. Total	1047.4	1432.9	37

SOURCE: Mathematica Policy Research, Inc. and Social and Scientific Systems, Inc. simulation dated January 20, 1980.

Potential Total Impacts on State Taxpayers and Beneficiaries

The results of the study are summarized in table 9. The first column contains estimates of the total change in expenditures, both federal and state, on the AFDC, AFDC-UP, Food Stamps, EN, GA, and EITC programs resulting from the reform. The figures indicate that program recipients in states with the highest AFDC and AFDC-UP need standards experience a decline in total payments: down $232 million in New York, $46 million in Pennsylvania, $20 million in Illinois, and $3 million in California. The program recipients in states with a low AFDC standard of need experience a relatively large increase in total payments: for example, up $189 million in Georgia, $155 million in Tennessee, and $309 million in Texas. The recipients in states with a moderate standard of need experience a modest increase of payments: for example, up $60 million for Ohio, $17 million for Nebraska, and $10 million for Colorado.

The change in expenditures of the state by AFDC, AFDC-UP, and GA are presented in the second column. The change in state expenditures is fiscal relief to the state governments. Fiscal relief is greatest for states with the highest AFDC and AFDC-UP standard of need: $275 million for New York, $98 million for Pennsylvania, $80 million for Illinois, and $146 million for California. States with a low standard of need receive the statutory minimum fiscal relief: for example, $1.7 million in Georgia, $1.1 million in Tennessee, and $1.8 million in Texas.

State governments experiencing a reduction in program expenditures (i.e., receiving fiscal relief) may choose to pass the relief on to the taxpayers of the state in the form of reduced state taxes or to pass the relief on to the residents of the state in the form of more public goods and services provided by the state government, or to increase the balance of the state budget. The most likley case is that the fiscal relief from HR 4904 to a state would result

TABLE 9

SUMMARY OF PROJECTIONS (dollars amounts in millions)

Census Division	State	Change in Total Payments for AFDC, AFDC-UP, Food Stamps, EN, GA, and EITC a/	Change in State Expenditures on AFDC, AFDC-UP (State Fiscal Relief)	Change in Total Tax Liability if Fiscal Relief Not Passed on to Taxpayers (Surcharge)	Change in Total Tax Liability if Fiscal Relief Passed on to Taxpayers (Surcharge & Fiscal Relief)	Change in Post-tax, Post-Transfer Income if Fiscal Relief Not Passed on to Taxpayers (Fiscal Flow)	Change in Post-tax, Post-Transfer Income if Fiscal Relief Passed on to Taxpayers (Fiscal Flow & Fiscal Relief)
New England	Massachusetts	3	40	75	35	- 32	8
	Rhode Island	- 2	5	11	6	- 7	- 2
	Connecticut	- 7	18	47	29	- 37	-19
	Maine	13	4	9	5	8	12
	New Hampshire	2	1	9	8	- 5	- 4
	Vermont	- 2	2	4	2	- 5	- 3
	Total	7	71	156	85	- 78	- 7
Mid-Atlantic	New York	-232	257	259	2	-233	24
	New Jersey	7	44	105	61	- 54	-10
	Pennsylvania	- 46	99	136	37	- 86	13
	Total	-271	400	500	100	-373	27
East North Central	Ohio	60	41	134	93	- 31	10
	Indiana	48	3	64	61	- 14	-11
	Illinois	- 20	80	158	78	- 99	-19
	Michigan	60	49	121	72	- 13	36
	Wisconsin	30	14	55	41	- 12	2
	Total	178	186	533	347	-169	17
West North Central	Minnesota	1	16	47	31	- 30	-14
	Iowa	6	7	33	26	- 19	-12
	Missouri	- 8	15	54	39	- 48	-33
	North Dakota	6	0	6	6	1	1
	South Dakota	8	1	5	4	2	3
	Nebraska	17	1	18	17	0	1
	Kansas	- 4	7	27	20	- 22	-15
	Total	- 26	48	189	141	-116	-68
South Atlantic	Delaware	3	2	8	6	- 3	- 1
	Maryland	39	4	69	65	- 25	-21
	District of Columbia	- 5	6	13	7	- 11	- 5
	Virginia	41	4	68	64	- 24	-20
	West Virginia	35	1	16	15	18	17
	North Carolina	122	2	51	49	72	70
	South Carolina	101	1	25	24	77	76
	Georgia	189	2	51	49	138	140
	Florida	162	4	92	88	76	80
	Total	687	25	393	368	319	343

(continued)

TABLE 9 (continued)

SUMMARY OF PROJECTIONS (dollar amounts in millions)

Census Division	State	Change in Total Payments for AFDC, AFDC-UP, Food Stamps, KN, GA, and EITC a/	Change in State Expenditures on AFDC and AFDC-UP (State Fiscal Relief)	Change in Total Tax Liability if Fiscal Relief Not Passed on to Taxpayers (Surcharge)	Change in Total Tax Liability if Fiscal Relief Passed on to Taxpayers (Surcharge & Fiscal Relief)	Change in Post-tax, Post-Transfer Income if Fiscal Relief Not Passed on to Taxpayers (Fiscal Flow)	Change in Post-tax, Post-Transfer Income if Fiscal Relief Passed on to Taxpayers (Fiscal Flow & Fiscal Relief)
East South Central	Kentucky	94	1	31	30	65	66
	Tennessee	155	1	40	39	117	118
	Alabama	114	1	32	31	83	84
	Mississippi	118	1	17	16	101	102
	Total	481	4	120	116	365	370
West South Central	Arkansas	52	1	17	16	35	36
	Louisiana	120	2	36	34	88	90
	Oklahoma	24	1	30	29	- 5	- 4
	Texas	309	2	141	139	168	170
	Total	505	6	223	217	286	292
Mountain	Montana	7	1	8	7	0	1
	Idaho	7	0	8	8	- 1	- 1
	Wyoming	3	0	5	5	- 2	- 2
	Colorado	10	2	35	33	-24	-22
	New Mexico	22	1	12	11	11	12
	Arizona	33	1	27	26	9	10
	Utah	4	2	13	11	- 7	- 5
	Nevada	5	0	9	9	- 3	- 3
	Total	91	8	117	109	-16	- 9
Pacific	Washington	19	9	48	37	-20	-11
	Oregon	5	9	28	17	-14	- 5
	California	- 3	146	321	175	-177	-31
	Alaska	2	0	10	10	- 7	- 7
	Hawaii	3	9	12	3	0	9
	Total	26	174	419	245	-219	-44
	U.S. Total	1727	922	2650	1727	0	922

SOURCE: Mathematica Policy Research, Inc. and Social and Scientific Systems, Inc. simulation dated January 20, 1980.

NOTE: Figures may not add exactly because of rounding error.

a/ This column equals the Additional Federal Expenditures for AFDC, AFDC-UP, Food Stamps, KN, and Hold Harmless in table 3 minus state fiscal relief in column 2 of this table.

in some increase in state public goods and services, some reduction of state taxes or some foregone increase in state taxes, and some increase in state budget balances. The proportions of the fiscal relief allocated to the three uses is likely to vary from state to state. 1/ Although predicting the response of the state governments to the receipt of fiscal relief from HR 4904 is outside the scope of this study, the third and fourth columns of table 9 show the total change in tax liabilities required to finance HR 4904 of the taxpayers of each state under the two polar assumptions that none of the fiscal relief is passed on to taxpayers (column 3) and that all of the fiscal relief is passed on to taxpayers (column 4). The figures in column 3 are the state total of the federal income tax surcharge, and the figures of column 4 are equal to the surcharge less fiscal relief, reported in column 2.

The aggregate tax liability of taxpayers in each state is higher after the reform in every state, even if fiscal relief is passed on to taxpayers. The additional tax liability with no fiscal relif passed on is distributed across states in proportion to the prereform federal personal income tax liability, with taxpayers in the Southern and Mountain states paying the smaller surcharge amounts. The distribution of increased tax liabilities, assuming fiscal relief is passed on to taxpayers, is different from the distribution of the surcharge. The difference is due to the fact that several of the states with the largest surcharge amount are also those with the largest fiscal relief. New York taxpayers pay $259 million in surcharge and get $257 million in reduced state taxes from fiscal relief, resulting in a net incremental tax liability of $2 million.

1/ A study of Antirecession Fiscal Assistance grants by the Treasury Department and Peat, Marwick, Mitchell & Co. found that on average 68% of the grants resulted in increased public goods and services, 20% in reduced taxes, and 12% in increased state budget balances. An Analysis of the Antirecession Fiscal Assistance Program (Washington, D.C.,: Peat, Marwick, Mitchell & Co., April, 1978).

Taxpayers in California, on the other hand, incur net additional taxation of $175 million after fiscal relief is passed on. Since the fiscal relief to states in the South is such a small fraction of the surcharge, passing the fiscal relief on to taxpayers results in little difference betwen the net and gross additional tax liability: $49 million net additional tax liability for Georgia, $39 million for Tennessee, and $139 million for Texas.

The final two columns of table 9 present the total change in post-tax, post-transfer income of residents in each state. These figures incorporate the influences of both the change in program expenditures and the change in tax liability of state residents. Since the change in tax liability is computed for the two polar cases described above, the change in disposable income is also computed assuming that no fiscal relief is passed on to taxpayers (column 5) and assuming that all of the fiscal relief is passed on (column 6). If fiscal relief is not passed on, fiscal flows are from states with a high AFDC standard of need and a large population of high-income taxpayers to states with a low standard of need and a relatively small population of high-income taxpayers.

Assuming that fiscal relief is passed on to state taxpayers changes the distribution of fiscal flows. Passing on fiscal relief alters the impact of HR 4904 on disposable income of residents of New York by changing the impact from $-233 million to $24 million. That of California residents changes from $-177 million to $-31 million, and that of Illinois changes from $-99 million to $-19 million. Again in the Southern states, the addition of fiscal relief has a small impact on the change in disposable income because fiscal relief is a relatively small amount. Disposable income in Georgia increases by $138 million without fiscal relief and increases by $140 million with fiscal relief. The figures are $117 million and $118 million for Tennessee, and $168 million and $170 million for Texas.

Conclusions

The implementation of HR 4904 is estimated to have the following impacts:

1) Welfare benefits would be redistributed from the high-benefit states to low-benefit states. This impact is a result of the reform design which reduces the inequities of payment standards across states without producing a large increase in federal expenditures for AFDC and AFDC-UP.

2) Fiscal relief would be experienced by every state government, with the largest amounts going to states with the largest prereform welfare expenditures.

3) The additional tax liabilities of an income tax surcharge designed to finance the additional federal expenditures under HR 4904 would be greatest in those states with the largest population of high-income taxpayers.

4) The state-to-state variation of the additional tax liability would be reduced if the fiscal relief received by state governments would be passed on to taxpayers in the form of reduced state taxes. This results from the fact that many states which contain large populations of high-income taxpayers are also states which would receive the largest amounts of fiscal relief.

5) The change in welfare payments would combine with the change in tax liabilities to produce a change in disposable income of residents among each state. The disposable income of the residents of states with both a high AFDC standard of need and a large population of high-income taxpayers and which do not pass their fiscal relief on to taxpayers would be reduced by the reform. The disposable income of residents of other states would be increased.

6) If the fiscal relief to governments were passed on to taxpayers the state-to-state variation of the impact on disposable income would be reduced.

APPENDIX A

A COMPARISON OF THE HR 4904 PROGRAM EXPENDITURE ESTIMATES WITH THOSE OF CBO AND DHEW

One of the important by-products of estimating the fiscal flows and fiscal relief of HR 4904 is an estimate program expenditures resulting from the reform in 1982. This represents the third major study providing such estimates, the first two being estimates of the Congressional Budget Office and the Department of Health, Education, and Welfare. 1/ All three studies used similar microsimulation models to determine program expenditures, yet each produced a somewhat different estimate. The difference is caused by three factors: 1) the differences in what is being estimated, 2) differences in the data bases, and 3) differences in the models.

What Is Being Estimated

The cost estimates of CBO and DHEW were $3.5 billion and $2.8 billion respectively. They include the estimated costs of several reforms in HR 4904 which were not estimated in this study. The cost estimates which are most comparable to the $2.7 billion estimated in this study are $2.9 billion for CBO and $2.2 billion for DHEW. The program expenditure estimates reported in this study reflect the changes in eligibility and benefit computations for AFDC, hold harmless payments, the Emergency Needs program, changes in food stamp benefits, and the extension of earned income tax credit. Principal elements not included in the estimates presented here are changes in Medicaid costs,

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1/ Social Welfare Reform Amendments of 1979, Report of the Committee on Ways and Means, No. 96-451 (Washington, D.C.: Government Printing Office, September 20, 1979), pp. 76-85.

the cost of the WIN program, and the cost of the WIN tax credit. In addition, the estimates do not include any reforms to the SSI program. These exclusions make the esitmate reported here smaller in general than those of CBO and DHEW.

The Data Bases

The most significant source of the differences between the program expenditure estimates is that the three studies used different data bases. Both the original survey data and the aging techniques are different. As described in the main body of the text, this study uses the SIE aged to FY 1982 using OMB projections of income amounts, CBO's projections of current transfer program costs, Census Bureau projections of population characteristics, and a 5.2% unemployment rate. CBO used a 1978 CPS data base aged to 1980 using their own projections and a 6.8% unemployment rate. DHEW used an unaged SIE to first estimate the percentage changes in the cost of the reform relative to current law in 1975. The percentage changes were then applied to cost projections of FY 1982 current law to determine FY 1982 reform law costs. The DHEW projections assume an unemployment rate of 4.3%.

The CBO projections of income amounts and the unemployment rate are somewhat less optimistic than those used in this study, resulting in the CBO program cost estimate being higher than the estimate reported here. The DHEW assumptions of a low unemployment rate and that the percentage change in costs due to the reform are unaffected by changes in population composition result in the DHEW cost estimate being lower than that of CBO.

The Model

The simulation model of HR 4904 used by CBO differs from the model used in this study in several ways:

1) The CBO model does not allow for a reform-induced labor supply response by program participants.

2) The CBO model does not allow for the primary earner of a two-parent eligible family to be the wife of the family.

3) The CBO model includes a procedure for choosing participants from among eligible families which reproduces historical patterns of participation somewhat more accurately.

The first two model differences cause the CBO cost estimates to be biased downward. The inaccuracies of the participation algorithm used in this study result in an underestimate of the number of participating two-parent families. Without additional empirical investigation the magnitudes of biases are difficult to assess.

The DHEW model is similar to that used in this study. It simulates a labor supply response to the reform, allows the wives in two-parent eligible families to be the primary earners, and uses a participation algorithm similar to that used in this study.

Summary

The difference between the program expenditure estimates produced in this study and those of CBO may be attributed primarily to the differences in how the two models treat labor supply response, female heads of two-parent families, and participation among eligible families. The difference between these results and those of DHEW are primarily caused by the more complete and accurate aging of the date base used in this study.

APPENDIX B

TECHNICAL DOCUMENTATION OF THE DATA BASE
AND THE MODEL OF CURRENT LAW AND TITLE I OF HR 4904

Data Base

The data base used in this study is the Survey of Income and Education aged to reflect the anticipated demographic and anticipated economic characteristics of the civilian, non-institutionalized national population in fiscal year 1982. The aging procedure was performed by the Department of Health, Education, and Welfare. Characteristics of the aged file are summarized in table B-1.

Model

Estimates of current law and the impact of the reform law (HR 4904) were made by using the Micro Analysis of Transfers to Households (MATH) microsimulation model maintained by Mathematica Policy Research, Inc. 1/ Payroll tax liabilities were imputed to individuals on the data base by the Department of Health, Education, and Welfare. Table B-2 shows the parameters used in the simulation. The results from the simulation of prereform and postreform federal income tax simulations are detailed in table B-3 and table B-4.

Projections of income from the AFDC, SSI, Food Stamps, Emergency Needs, and General Assistance programs were made by first determining program eligibility and then selecting participants from the pool of eligible families.

1/ A detailed technical discussion of the model is contained in MATH Technical Description, Pat Doyle, ed., (Washington, D.C.: Mathematica Policy Research, Inc. 1979).

TABLE B-1
SUMMARY OF CHARACTERISTICS OF THE SIE AGED TO FY 1982

POPULATION

Noninstitutionalized civilian population	222.8 million

EMPLOYMENT

Unemployment Rate (Annual Retrospective)	5.16 percent

INCOME

Source	Amount (FY 82 dollars)
Wages	$1612.3 billion
Self-Employed Nonfarm	95.7
Self-Employed Farm	13.3
Social Security (OASDI) and Railroad Retirement	127.3
Rental Income	9.3
Interest Income	57.1
Dividend Income	4.6
Government Pension Income	28.7
Workers' Compensation	8.2
Veterans' Compensation and Pensions	9.2
Private Pensions	20.0
Unemployment Compensation	9.7
Other	13.9

SOURCE: Department of Health, Education, and Welfare simulation dated April 27, 1979.

TABLE B-2

PAYROLL TAX SIMULATION PARAMETERS AND
RESULTS FOR FISCAL YEAR 1982

	Simulation Year FY 1982
Tax Rates	
OASDHI - Employee	.0670
OASDHI - Self-Employed	.0935
Federal Civil Service	.0700
Earnings Ceilings	
OASDHI ($)	32,100
Federal Civil Service	___
Simulated Amounts (in millions)	
OASDHI	
Number of Contributors	102.82
Total Contributions[1] ($)	97,990.34
Railroad Retirement	
Number of Contributors	0.65
Total Contributions[1] ($)	992.95
Federal Civil Service	
Number of Contributors	3.40
Total Contributions[1] ($)	5241.37
Total Number of Contributors	106.87
Total Contributions[1] ($)	104224.66

SOURCE: Department of Health, Education, and Welfare simulation dated May 15, 1979.

[1]Employee share.

TABLE B-3

FISCAL YEAR 1982 FEDERAL INCOME TAX FILING UNITS AND TAX PAYMENTS INCLUDING PREREFORM EITC

FITTYP	ROUTINE	IDENT		FLGUT	DEPS.	TAX TABLE
1	(306)	FSIJTX1 SECONDARY	INDIVIDUALS, OTHER RELS. FILING JOINT RETURNS	6(3)	0	JTX
2	(307)	FSFJTX1	SUBFAMILY & SECONDARY FAMILY HEAD UNITS FILING JOINT RETURNS	6(2)	NOPN1	JTX
3	(308)	FSFTX1	SUBFAM. & SECONDARY FAM. HEAD UNITS FILING SINGLE RETURNS	6(5)	NOPN1	TX
4	(309)	FNHTX1	NON-HEAD HOUSEHOLD MEMBERS FILING SINGLE RETURNS	6(6)	0	TX
5	(310)	FPJTX1	PRIMARY HEAD UNITS FILING JOINT RETURNS	6(1)	NOPN2	JTX
6	(311)	FPSSTX1	PRIMARY HEAD UNITS FILING SURVIVING SPOUSE RETURNS	6(4)	NOPN2	JTX
7	(312)	FPHHTX1	PRIMARY HEAD UNITS FILING HEAD OF HOUSE-HOLD RETURNS	6(4)	NOPN2	HTX
8	(313)	FPTX1	PRIMARY HEAD UNITS FILING INDIVIDUAL RETS.	6(4)	NOPN2	TX
9	(314)	FPRJTX1	PRIMARY FAMILY NON-HEAD MEMBERS FILING JOINT RETURNS	6(7)	0	JTX

FITTYP 1: UNWEIGHTED TOTALS	1 FSIJTX1	2 FSFJTX1	3 FSFTX1	4 FNHTX1	5 FPJTX1	6 FPSSTX1	7 FPHHTX1	8 FPTX1	9 FPRJTX1	TOTAL FIT 1
TAX UNITS	130.	817.	620.	24559.	89225.	0.	9405.	21421.	253.	146430.
PERSONS IN UNIT	130.	1594.	620.	24559.	177633.	0.	9405.	21421.	253.	235615.
DEPENDENTS: TOTAL #	0.	815.	2021.	0.	114852.	0.	21464.	766.	0.	139918.
TAXPAYERS	0.	2.	1.	0.	0.	0.	0.	0.	0.	3.
NON-CONTRIBUTORS	0.	14.	81.	0.	24116.	0.	3931.	270.	0.	28412.
UNDER AGE 14	0.	744.	1794.	0.	69971.	0.	11715.	34.	0.	84258.
FEDERAL TAXES PAID ($)	552952.	2597711.	954910.	38350086.	512655984.	0.	17996245.	69650243.	450482.	643208612.
WEIGHTED TOTALS ('WEIGHT' = 4)										
TAX UNITS	48140.	341240.	290174.	10677050.	47426432.	0.	5335037.	11633382.	112627.	75864048.
PERSONS IN UNIT	48140.	665275.	290174.	10677050.	94832272.	0.	5335037.	11633382.	112627.	123593920.
DEPENDENTS: TOTAL #	0.	332794.	986622.	0.	58751792.	0.	12638207.	343768.	0.	73053152.
TAXPAYERS	0.	687.	23.	0.	0.	0.	0.	0.	0.	709.
NON-CONTRIBUTORS	0.	5587.	28017.	0.	9762721.	0.	1748537.	114419.	0.	11659281.
UNDER AGE 14	0.	302019.	886373.	0.	38818544.	0.	7737302.	19499.	0.	47763712.
FEDERAL TAXES PAID ($1000)	259844.	1040561.	418301.	17534366.	274547131.	0.	9959641.	39548570.	186254.	343494667.
TAX UNITS NOT CONTRIBUTING	20229.	100977.	200092.	12275051.	4425881.	0.	692322.	5088480.	93847.	22897056.

SOURCE: Mathematica Policy Research, Inc. and Social and Scientific Systems, Inc. simulation dated January 20, 1980.

TABLE B-4

FISCAL YEAR 1982 FEDERAL INCOME TAX FILING UNITS AND TAX PAYMENTS INCLUDING POSTREFORM EITC

FITTYP	ROUTINE	IDENT		FLGUT	DEPS.	TAX TABLE
1	(306)	FSIJTX1	SECONDARY INDIVIDUALS, OTHER RELS. FILING JOINT RETURNS	6(3)	0	JTX
2	(307)	FSFJTX1	SUBFAMILY & SECONDARY FAMILY HEAD UNITS FILING JOINT RETURNS	6(2)	NOPN1	JTX
3	(308)	FSFTX1	SUBFAM. & SECONDARY FAM.HEAD UNITS FILING SINGLE RETURNS	6(5)	NOPN1	TX
4	(309)	FNHTX1	NON-HEAD HOUSEHOLD MEMBERS FILING SINGLE RETURNS	6(6)	0	TX
5	(310)	FPJTX1	PRIMARY HEAD UNITS FILING JOINT RETURNS	6(1)	NOPN2	JTX
6	(311)	FPSSTX1	PRIMARY HEAD UNITS FILING SURVIVING SPOUSE RETURNS	6(4)	NOPN2	JTX
7	(312)	FPHHTX1	PRIMARY HEAD UNITS FILING HEAD OF HOUSE-HOLD RETURNS	6(4)	NOPN2	HTX
8	(313)	FPTX1	PRIMARY HEAD UNITS FILING INDIVIDUAL RETS.	6(4)	NOPN2	TX
9	(314)	FPRJTX1	PRIMARY FAMILY NON-HEAD MEMBERS FILING JOINT RETURNS	6(7)	0	JTX

FITTYP 2: UNWEIGHTED TOTALS	1 FSIJTX1	2 FSFJTX1	3 FSFTX1	4 FNHTX1	5 FPJTX1	6 FPSSTX1	7 FPHHTX1	8 FPTX1	9 FPRJTX1	TOTAL FIT 2
TAX UNITS	130.	817.	620.	24559.	89248.	0.	9404.	21421.	253.	146452.
PERSONS IN UNIT	130.	1594.	620.	24559.	177680.	0.	9404.	21421.	253.	235661.
DEPENDENTS: TOTAL #	0.	815.	2021.	0.	114852.	0.	21464.	766.	0.	139918.
TAXPAYERS	0.	2.	1.	0.	0.	0.	0.	0.	0.	3.
NON-CONTRIBUTORS	0.	14.	81.	0.	24116.	0.	3931.	270.	0.	28412.
UNDER AGE 14	0.	744.	1794.	0.	69971.	0.	11715.	34.	0.	84258.
FEDERAL TAXES PAID ($)	552952.	2597711.	954910.	38350086.	512228692.	0.	17742156.	69647863.	450482.	642524851.
WEIGHTED TOTALS ('WEIGHT' = 4)										
TAX UNITS	48140.	341240.	290174.	10677050.	47437408.	0.	5334413.	11633382.	112627.	75874400.
PERSONS IN UNIT	48140.	665275.	290174.	10677050.	94854528.	0.	5334413.	11633382.	112627.	123615552.
DEPENDENTS: TOTAL #	0.	332794.	986622.	0.	58751792.	0.	12638207.	343768.	0.	73053152.
TAXPAYERS	0.	687.	23.	0.	0.	0.	0.	0.	0.	709.
NON-CONTRIBUTORS	0.	5587.	28017.	0.	9762721.	0.	1748537.	114419.	0.	11659281.
UNDER AGE 14	0.	302019.	886373.	0.	38818544.	0.	7737302.	19499.	0.	47763712.
FEDERAL TAXES PAID ($1000)	259844.	1040541.	418301.	17534366.	274314579.	0.	9808270.	39547083.	186254.	343109177.
TAX UNITS NOT CONTRIBUTING	20229.	100977.	200092.	12275051.	4414764.	0.	692945.	5088680.	93847.	22886560.

SOURCE: Mathematica Policy Research, Inc. and Social and Scientific Systems, Inc. simulation dated January 15, 1980.

Program eligibles were families which met categorical requirements and which received benefits on the basis of income levels as observed on the data base. Eligibles were identified by the MATH model using prereform and postreform categorical criteria and the payment needs standards described in table B-5 and table B-6.

Participating families were chosen from the population of eligibles in such a manner that estimates of prereform participation approximated control projections. The participation rates used for prereform laws were the basis for the postreform rates. The relatively simple participation algorithm used here insures technical consistency between prereform and postreform estimates.

The algorithm prevented higher-income families from participating by comparing total non-welfare income for each means-eligible family with the family's guarantee (the benefit they would receive under current law in the absence of any income). The resulting number of means-eligible families were then compared to the control number of participants and a set of participation probabilities derived. These probabilities, which vary by state and filing unit type (single-parent AFDC, two-parent AFDC-UF, and GA) are merely the ratio of controls to means-eligibles and do not vary by welfare income reporting status or benefit amount. Only means-eligible families are selected as participants.

The ratio of family income to family guarantee used to screen out higher income families is determined by practical rather than theoretical considerations. The ratio is that which provides a set of probabilities which result in the most reasonable number of participants and benefits when compared to national controls.

The participation rates applied for prereform and postreform law are listed in table B-7. The eligible population used to derive these rates passed income screens of three times the guarantee for AFDC-UF and GA families. No income

TABLE B-5

STATE AFDC MAXIMUM PAYMENTS AND FAMILY SIZE ADJUSTMENT FACTORS
(based on family of four)

Census Division	State	Current law MAXPAY7 $	Current law ADJAR %	reform law MAXPAY7 $	reform law ADJAR %
	Massachusetts	5110	15	5112	15
	Rhode Island	5194	15	5196	14
New England	Connecticut	7419	15	7421	15
	Maine	4900	21	4901	21
	New Hampshire	4565	12	4566	12
	Vermont	7084	14	7086	14
Mid-Atlantic	New York	7221	15	7223	15
Mid-Atlantic	New Jersey	4883	17	4884	16
	Pennsylvania	4955	15	4956	15
	Ohio	4385	17	4386	17
	Indiana	3934	19	3936	16
East North Central	Illinois	4498	16	4500	16
	Michigan	6130	16	6132	16
	Wisconsin	7095	14	7098	14
	Minnesota	5806	15	5808	15
	Iowa	5998	15	6000	15
West North Central	Missouri	4594	16	4596	16
	North Dakota	5020	18	5022	18
	South Dakota	4456	12	4457	12
	Nebraska	5495	16	5497	16
	Kansas	4607	12	4608	12
	Delaware	4306	18	4308	18
	Maryland	3712	18	3714	14
South Atlantic	District of Columbia	4361	18	4362	18
	Virginia	4661	14	4662	14
	West Virginia	2987	17	3496	12
	North Carolina	2633	10	3496	12
	South Carolina	1650	19	3496	12
	Georgia	1775	15	3496	12
	Florida	2759	17	3496	12

(continued)

TABLE B-5 (continued)

STATE AFDC MAXIMUM PAYMENTS AND FAMILY SIZE ADJUSTMENT FACTORS
(based on family of four)

Census Division	State	Current law MAXPAY7 $	Current law ADJAR %	reform law MAXPAY7 $	reform law ADJAR %
	Kentucky	3125	21	3496	12
East South Central	Tennessee	1901	17	3496	12
	Alabama	2303	20	3496	12
	Mississippi	1679	20	3496	12
	Arkansas	3137	15	3496	12
West South Central	Louisiana	2754	21	3496	12
	Oklahoma	4781	18	4782	18
	Texas	1679	19	3496	12
	Montana	5182	25	5184	24
	Idaho	5153	15	5154	15
	Wyoming	4097	10	4098	10
Mountain	Colorado	4247	17	4248	17
	New Mexico	3149	16	3496	12
	Arizona	2759	18	3496	12
	Utah	5980	17	5982	18
	Nevada	4193	16	4194	16
	Washington	6737	15	6739	15
	Oregon	6166	16	6168	16
Pacific	California	6508	16	6510	16
	Alaska	5896	11	5898	11
	Hawaii	8895	14	8898	14

SOURCE: Pat Doyle, "Creation of a 1980 Data Base for Purposes of Determining the Relative Impact of the Social Welfare Reform Amendments of 1979" (Washington, D.C.: Mathematica Policy Research, Inc., 1979, p. 22), 1980 parameters inflated to 1982 dollars.

TABLE B-6

STATE LOW BENEFIT DISREGARDS AND UNIT SIZE ADJUSTMENT FACTORS
(based on family of four)

Census Division	State	LBD	ADJ
	Massachusetts	0	0
	Rhode Island	0	0
New England	Connecticut	0	0
	Maine	1	- 265
	New Hampshire	158	.44
	Vermont	0	0
	New YOrk	0	0
Mid-Atlantic	New Jersey	0	0
	Pennsylvania	1	- 13.5
	Ohio	338	- .38
	Indian	787	- .02
East North Central	Illinois	233	- .44
	Michigan	0	0
	Wisconsin	0	0
	Minnesota	0	0
	Iowa	0	0
	Missouri	127	- .85
West North Central	North Dakota	1	-128.5
	South Dakota	1	- 39.5
	Nebraska	0	0
	Kansas	116	.42
	Delaware	415	- .43
	Maryland	1227	.16
	District of Columbia	362	- .41
	Virginia	62	- .68
South Atlantic	West Virginia	1227	.16
	North Carolina	1227	.16
	South Carolina	1227	.16
	Georgia	1227	.16
	Florda	1227	.16
	Kentucky	1227	.16
East South Central	Tennessee	1227	.15
	Alabama	1227	.16
	Mississippi	1227	.16
	Arkansas	1227	.16
West South Central	Louisiana	1227	.16
	Oklahoma	1	-183.5
	Texas	1227	.16

(continued)

60-582 O - 80 - 6

TABLE B-6 (continued)

STATE LOW BENEFIT DISREGARDS AND UNIT SIZE ADJUSTMENT FACTORS

Census Division	State	LBD	ADJ
	Montana	1	- 359.5
	Idaho	0	0
	Wyoming	625	.34
Mountain	Colorado	425	- .24
	New Mexico	1227	.16
	Arizona	1227	.16
	Utah	0	0
	Nevada	530	- .14
	Washington	0	0
	Oregon	0	0
Pacific	California	0	0
	Alaska	0	0
	Hawaii	0	0

SOURCE: Pat Doyle "Creation of a 1980 Data Base for Purpose of Determining the Relative Impact of the Social Welfare Reform Amendments of 1979" (Washington, D.C.: Mathematica Policy Research, Inc., 1979, p. 17), 1980 parameters inflated to 1982 dollars.

TABLE B-7

PRE-REFORM AND POST-REFORM AFDC AND GA PARTICIPATION PROBABILITIES

(percent)

Census Division	State	current & reform AFDC-1-parent	current & reform AFDC-2-parent	current only AFDC-UP	reform only AFDC-UP	current & reform GA
New England	Massachusetts	42.4	100.0	41.9	100.0	55.0
	Rhode Island	28.2	100.0	22.0	28.6	59.
	Connecticut	16.0	80.2	16.8	21.8	61.
	Maine	69.4	100.0	0.0	63.5	30.
	New Hampshire	46.6	71.1	0.0	45.2	25..
	Vermont	53.0	63.3	18.8	24.5	0.0
Mid -Atlantic	New York	50.2	89.4	34.5	44.9	95.5
	New Jersey	45.8	100.0	57.6	74.8	100.0
	Pennsylvania	46.2	100.0	100.0	100.0	100.0
East North Central	Ohio	51.2	100.0	100.0	100.0	72.1
	Indiana	29.3	100.0	0.0	57.5	0.0
	Illinois	35.0	100.0	72.7	94.5	100.0
	Michigan	32.6	100.0	66.6	86.6	61.6
	Wisconsin	30.5	100.0	31.8	41.4	10.4
West North Central	Minnesota	25.4	100.0	33.2	43.2	33.4
	Iowa	62.9	100.0	29.9	38.8	0.0
	Missouri	46.8	100.0	00.1	1.2	100.0
	North Dakota	56.8	100.0	0.0	57.5	80.0
	South Dakota	30.2	100.0	0.0	57.5	6.3
	Nebraska	9.1	86.3	16.3	21.2	0.0
	Kansas	47.9	100.0	44.1	57.3	27.9
South Atlantic	Delaware	38.7	100.0	100.0	100.0	73.9
	Maryland	86.9	100.0	83.8	100.0	100.0
	District of Columbia	100.0	100.0	100.0	100.0	100.0
	Virginia	40.0	81.7	0.0	91.9	100.0
	West Virginia	100.0	100.0	61.5	80.0	100.0
	North Carolina	60.9	78.8	0.0	88.4	100.0
	South Carolina	30.2	100.0	0.0	100.0	6.3
	Georgia	42.6	100.0	0.0	100.0	100.0
	Florida	40.7	81.9	0.0	91.9	0.0
East South Central	Kentucky	61.9	100.0	0.0	100.0	0.0
	Tennessee	43.0	100.0	0.0	100.0	0.0
	Alabama	85.4	100.0	0.0	100.0	0.0
	Mississippi	94.8	100.0	0.0	100.0	100.0
West South Central	Arkansas	43.2	100.0	0.0	100.0	0.0
	Louisiana	34.1	100.0	0.0	100.0	100.0
	Oklahoma	51.9	68.8	0.0	77.2	100.0
	Texas	15.3	67.5	0.0	75.8	0.0

(continued)

TABLE B-7 (continued)

PRE-REFORM AND POST-REFORM AFDC AND GA PARTICIPATION PROBABILITIES

(percent)

Census Division	State	current & reform AFDC-1-parent	current & reform AFDC-2-parent	current only AFDC-UF	reform only AFDC-UF	current & reform GA
Mountain	Montana	15.9	85.5	21.7	28.2	11.1
	Idaho	10.7	66.3	0.0	38.0	0.0
	Wyoming	48.4	54.6	0.0	31.3	8.7
	Coloardo	56.4	100.0	31.4	40.9	1.8
	New Mexico	39.3	92.0	0.0	52.7	62.4
	Arizona	61.4	56.9	0.0	32.6	100.0
	Utah	15.5	84.9	45.9	59.7	12.1
	Nevada	0.0	45.0	0.0	25.8	0.0
Pacific	Washington	31.9	80.2	42.0	54.6	23.1
	Oregon	45.2	100.0	49.2	64.0	1.8
	California	36.1	100.0	63.2	82.1	14.4
	Alaska	16.5	94.0	0.0	42.9	0.0
	Hawaii	46.0	100.0	33.0	53.9	88.6

SOURCE: Mathematica Policy Research, Inc. and Social and Scientific Systems based on simulation dated December 21, 1979 and Janauary 3, 1980.

screen was applied to the AFDC population. Sensitivity testing showed that lowering the income screen reduced caseload to unacceptable levels. Raising the screen increased the eligible population but allowed more low-benefit units to be selected for participation, resulting in an unacceptably low total benefit amount.

Note that for programs in many states, the participation probability for means eligibles is equal to 1. This is because for some states, the projected control totals exceed the number of means-eligible individuals observed on the file.

Federal percentage shares of the costs of prereform and postreform AFDC are presented in table B-8. These percentages are applied against simulated benefit amounts to determine federal and state fiscal liabilities.

Administrative costs for AFDC are estimated by relating projected national administrative costs to total benefit payments. Costs are allocated to the states in proportion to the state's share of total national benefits. General Assistance and Emergency Needs administrative costs are assumed to be the same fraction of total costs as they are in AFDC. Total administrative costs are detailed in table B-9. The administratative cost of the Food Stamp program are not estimated.

HR 4904 insures state fiscal relief by limiting postreform state spending for AFDC. The model simulates this provision by applying the maximum expenditures listed in table B-10 against postreform state liabilities. States also receive fiscal aid through Emergency Needs block grants. Maximum grant amounts to the states are listed in table B-11.

TABLE B-8

PERCENT OF TOTAL AFDC BENEFITS THAT ARE FEDERALLY FINANCED

Census Division	State	Current AFDC and AFDU	Reform AFDC	Reform AFDU
New England	Massachusetts	51.62	56.46	66.13
	Rhode Island	57.00	61.30	69.90
	Connecticut	50.00	55.00	65.00
	Maine	69.74	72.77	78.82
	New Hampshire	62.85	66.57	74.00
	Vermont	68.02	71.22	77.61
Mid-Atlantic	New York	50.00	55.00	65.00
	New Jersey	50.00	55.00	65.00
	Pennsylvania	55.11	59.60	68.58
East North Central	Ohio	55.46	59.91	68.82
	Indiana	57.86	62.07	70.50
	Illinois	50.00	55.00	65.00
	Michigan	50.00	55.00	65.00
	Wisconsin	58.53	62.68	70.97
West North Central	Minnesota	55.26	59.73	68.68
	Iowa	51.96	56.76	66.37
	Missouri	60.66	64.59	72.46
	North Dakota	50.71	55.64	65.50
	South Dakota	63.80	67.42	74.66
	Nebraska	53.46	58.11	67.42
	Kansas	52.35	57.12	66.65
South Atlantic	Delaware	50.00	55.00	65.00
	Maryland	50.00	55.00	65.00
	District of Columbia	50.00	55.00	65.00
	Virginia	57.01	61.31	69.91
	West Virginia	70.16	73.14	79.11
	North Carolina	67.81	71.03	77.47
	South Carolina	75.43	77.89	82.80
	Georgia	65.82	69.24	76.07
	Florida	56.55	60.90	69.59

(continued)

TABLE B-8 (continued)

PERCENT OF TOTAL AFDC BENEFITS THAT ARE FEDERALLY FINANCED

Census Division	State	Current AFDC and AFDU	Reform AFDC	Reform AFDU
East South Central	Kentucky	69.71	72.74	78.80
	Tennessee	68.88	71.99	78.22
	Alabama	72.58	75.32	80.81
	Mississippi	80.61	82.55	86.43
West South Central	Arkansas	72.06	74.85	80.44
	Louisiana	70.45	73.41	79.32
	Oklahoma	65.42	68.88	75.79
	Texas	66.42	69.78	76.49
Mountain	Montana	61.10	64.99	72.77
	Idaho	63.58	67.22	74.51
	Wyoming	53.44	58.10	67.41
	Colorado	53.71	58.34	67.60
	New Mexico	71.84	74.66	80.29
	Arizona	45.55	51.00	61.89
	Utah	68.98	72.08	78.29
	Nevada	50.00	55.00	65.00
Pacific	Washington	51.64	56.48	66.15
	Oregon	57.29	61.56	70.10
	California	50.00	55.00	65.00
	Alaska	50.00	55.00	65.00
	Hawaii	50.00	55.00	65.00

SOURCE: Social and Rehabilitation Service, Characteristics of State Plans for Aid to Families with Dependent Children Under: the Social Security Act Title IV-A (Washington, D.C.: U.S. Department of Health, Education, and Welfare, 1978, p. 238). The matching percentages for FY 1980 and FY 1981 which have been published in the Federal Register, Vol. 44, No. 36, February 21, 1979, pp. 10553, were not yet implemented in the model at the time the study was undertaken.

TABLE B-9

AFDC ADMINISTRATIVE COSTS

Prereform		
Total Administrative Cost	($million)	1480
Simulated Benefit Payments	($million)	10931
Ratio of Administrative Cost to Benefits		.13539
Federal Share (percent)		50
Postreform		
Benefit Payment Related Costs		
Total Administrative Costs	($million)	1476
Simulated Benefit Payments	($million)	12682
Ratio of Administrative Costs to Benefits		.11638
Federal Share (percent)		50
Data Processing Related Costs		
Total Administrative Costs	($million)	15
Simulated Benefit Payments	($million)	12682
Ratio of Administrative Costs to Benefits		.00118
Federal Share (percent)		75
Administrative Improvement Costs		
Total Administrative Costs	($million)	67
Simulated Benefit Payments	($million)	12682
Ratio of Administrative Costs to Benefits		.00528
Federal Share (percent)		75

SOURCE: Current Law--Congressional Budget Office, An Analysis of the Administration's Social Welfare Reform Amendments of 1979, (Staff Draft Analysis, Washington, D.C.: October 1979)
Reform Law--Department of Health, Education and Welfare, Memorandum, December 3, 1979.

TABLE B-10

STATE EXPENDITURE MAXIMUMS FOR AFDC AND AFDC-UP UNDER REFORM LAW

Census Division	State	Amount
New England	Massachusetts	196.6
	Rhode Island	22.5
	Connecticut	103.6
	Maine	12.9
	New Hampshire	8.1
	Vermont	8.9
Mid-Atlantic	New York	912.0
	New Jersey	212.6
	Pennsylvania	307.9
East North Central	Ohio	199.7
	Indiana	43.3
	Illinois	359.2
	Michigan	382.0
	Wisconsin	107.7
West North Central	Minnesota	72.3
	Iowa	55.1
	Missouri	73.9
	North Dakota	7.1
	South Dakota	6.0
	Nebraska	13.9
	Kansas	33.2
South Atlantic	Delaware	13.2
	Maryland	65.2
	District of Columbia	29.4
	Virginia	64.4
	West Virginia	13.9
	North Carolina	38.0
	South Carolina	9.8
	Georgia	27.0
	Florida	70.9
East South Central	Kentucky	21.0
	Tennessee	18.8
	Alabama	21.4
	Mississippi	10.4
West South Central	Arkansas	15.7
	Louisiana	30.8
	Oklahoma	24.7
	Texas	30.3

(continued)

TABLE B-10 (continued)

STATE EXPENDITURE MAXIMUMS FOR AFDC AND AFDC-UP UNDER REFORM LAW

Census Division	State	Amount
Mountain	Montana	6.2
	Idaho	6.2
	Wyoming	2.4
	Colorado	34.3
	New Mexico	8.7
	Arizona	14.6
	Utah	14.6
	Nevada	3.3
Pacific	Washington	88.6
	Oregon	61.0
	California	874.6
	Alaska	7.1
	Hawaii	47.0
TOTAL		4812.3

SOURCE: Computed by Mathematica Policy Research, Inc., and Social and Scientific Systems, Inc. based on simulation dated January 8, 1980.

TABLE B-11

EMERGENCY NEEDS PROGRAM BLOCK GRANTS FOR FY1982
(million of dollars)

Census Division	State	Amount
New England	Massachusetts	8.1
	Rhode Island	1.0
	Connecticut	2.9
	Maine	1.1
	New Hampshire	0.4
	Vermont	0.4
Mid-Atlantic	New York	26.9
	New Jersey	9.1
	Pennsylvania	12.8
East North Central	Ohio	8.8
	Indiana	2.6
	Illinois	13.2
	Michigan	13.5
	Wisconsin	4.3
West North Central	Minnesota	2.8
	Iowa	1.9
	Missouri	3.3
	North Dakota	0.3
	South Dakota	0.4
	Nebraska	0.7
	Kansas	1.4
South Atlantic	Delaware	0.6
	Maryland	3.5
	District of Columbia	1.8
	Virginia	2.8
	West Virginia	1.1
	North Carolina	3.2
	South Carolina	1.8
	Georgia	3.0
	Florida	3.6
East South Central	Kentucky	2.7
	Tennessee	2.2
	Alabama	2.4
	Mississippi	1.9
West South Central	Arkansas	1.3
	Lousiana	2.9
	Oklahoma	1.6
	Texas	3.9

(continued)

TABLE B-11 (continued)

EMERGENCY NEEDS PROGRAM BLOCK GRANTS FOR FY1982
(million of dollars)

Census Division	State	Amount
	Montana	0.3
	Idaho	0.4
	Wyoming	0.1
Mountain	Colorado	1.4
	New Mexico	0.8
	Arizona	0.7
	Utah	0.7
	Nevada	0.2
	Washington	3.0
	Oregon	2.6
Pacific	California	30.4
	Alaska	0.3
	Hawaii	1.4

SOURCE: Social Welfare Reform Admindments of 1979, Report from the Committee on Ways and Means No. 96-451 (Washington, D.C.: Government Printing Office, September, 1979), p. 134.

-69-

Senator MOYNIHAN. The subject of these hearings, as I said, is how to think about welfare reform for the 1980's. Most of the welfare legislation in this Congress is in a traditional mode, preserving the characteristic of the Social Security Act. We have debated this genre of legislation since the enactment of the original act in 1935; we enlarge the provisions, retaining the basic model of financing them. We have gradually extended some programs from being optional to being mandatory; this is exemplified by the proposal to require that all States have AFDC–U, a program that has already been adopted by 26 of them.

This kind of pattern has recurred; measures come along, and are made optional. They gradually are adopted, and then reach the point where most States have adopted them. The question then becomes, should this program be required of all States? These constitute, in many ways, the continuing agenda; it is an agenda replete with ideas that were implicit in the legislation when it was first adopted in 1935.

A new subject that has come on the horizon, and I think is very much with us now, has to do not so much with the raising of benefit levels in States and jurisdictions where they are low, but has to do with the question of financing the continuation of programs in the States which typically have been the first to give relatively high benefits and to adopt the heretofore optional proposals.

The point is that this has become a question of political economy, and has attained a level of some crisis in many jurisdictions in the country. Certainly this is true of the State which I represent, the State of New York, where, after having given among the highest levels of benefits, and the most extensive coverage, we appear to have reached a point where there are no longer the resources in the State's economy to maintain those standards of common provision. In New York, the basic allowance of welfare recipients, of which there are 1.2 million, has not been increased since 1974. The effect of this is to reduce almost by half the purchasing power of those families.

It is these and other matters which we are here to discuss. And we are here to listen. I will do most of the listening. We are going to have a valuable set of hearings when this is over, and we are going to publish them for the other members of the Finance Committee, and anyone else who would like to read them, and we will see if we can recognize any general concensus on the subject, any interesting developments, and hopefully, some fresh ideas.

I regret to have to say that Prof. Martin Anderson of the Hoover Institution at Stanford University, who would have been our first witness, cannot be here as these hearings had to be changed from this morning to this afternoon because of a meeting of the Senate Intelligence Committee, which I had to attend.

I have his statement, which he would have included in the record at this point. I would like to include it in the record, and I would like to read, just for my own edification and yours, the first sentence: "The welfare policy debate of the past decade often reminds of an observation once by Friedrich Nietzsche that 'many are stubborn in pursuit of the path they have chosen, few in pursuit of the goal.'" It is not a bad reflection with which to begin.

[The prepared statement of Professor Anderson follows:]

WELFARE REFORM PERSPECTIVES

Senate Finance Committee
Subcommittee on Public Assistance
Hearings: February 6, 1980

Martin Anderson
Senior Fellow
Hoover Institution
Stanford University

The welfare policy debate of the past decade often reminds me of an observation once made by Friedrich Nietzsche that "many are stubborn in pursuit of the path they have chosen, few in pursuit of the goal." The onset of a new decade seems to be an occasion when we are generally more willing to reexamine where we are, where we would like to go, and how to go about getting there from here. I think it is particularly appropriate to hold hearings on "How to Think About Welfare Reform for the 1980s" and, as you suggest, to take another look at the "assumptions, objectives and analytic modes that have characterized most deliberations about welfare reform over the past decade" before we once again are forced to spend hours, days, and perhaps weeks of analysis trying to penetrate the mysteries of the latest Rube Goldberg plan for "welfare reform" emanating from HEW.

The direction that welfare policy reform takes in the decade of the 1980s will be powerfully influenced by the objectives of the people espousing that reform, and by the validity of the assumptions and premises that all parties bring to the analysis of welfare. Last month I contributed an essay on welfare reform, based on my recent book, Welfare, to a volume which attempts to deal with a number of policy questions facing this country in the 1980s.[1] Reprints of this essay have been provided to the staff director of the Committee, and I would just like to take this time to briefly summarize the main findings and conclusions. Like all findings and conclusions, they may raise more questions than they provide answers, and many of the qualifications and details can be found in the essay and in the book.

First, the 'war on poverty' that began in 1964 has been largely won. The growth of jobs and income in the private economy, combined with an explosive increase in government spending for welfare and income transfer programs, has virtually eliminated poverty in the United States. Any Americans who truly cannot care for themselves are now eligible for generous government aid in the form of cash, medical benefits, food stamps, housing, and other services.

There may be great inefficiencies in our welfare programs, the level of fraud may be very high, the quality of management may be terrible, the programs may overlap, inequities may abound, and the financial incentive to work may be virtually nonexistent. But if we step back and judge our vast array of welfare programs by only two basic criteria:

-- the completeness of coverage for those who really need help, and

-- the adequacy of the amount of help they do receive

the picture changes dramatically. Judged by these two standards alone our welfare system has been a brilliant success.

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1 The United States in the 1980s, edited by P. Duignan and A. Rabushka, Hoover Institution Press, 1980, 868 pp., $20.00.

We should now begin thinking about how to revise our welfare strategies to deal with the problem of preventing poverty, to make programs more effective and efficient, to eliminate those programs that are not needed, to reexamine once again whether welfare is most efficaciously run by the federal government, state governments, local governments, or private institutions and individuals.

The virtual elimination of poverty over the past decade and a half has had costly social side effects. The proliferation of welfare programs has created very high effective marginal tax rates for the poor. There is, in effect, a "poverty wall" that destroys the financial incentive to work for millions of Americans. And as long as we rely heavily on financial incentives to induce people to leave welfare and become self-supporting, the problem will remain.

As far as the American public is concerned the overwhelming majority--upwards of 80 to 90 percent--favor some form of government welfare programs for those who cannot care for themselves. But at the same time they also favor large cuts in welfare spending because of their firm conviction that many welfare recipients are ripping the system off.

They flatly reject the concept of any form of a guaranteed income by a two-to-one margin. And, while they view welfare as a serious problem, there are many other public issues that they hold to be far more important and critical.

In spite of the fact that the public is not very interested in grandiose welfare reform plans, and is flatly opposed to a guaranteed income, there has been a loud and insistent clamor for radical welfare reform. It is important to note and remember that this clamor for radical welfare reform comes essentially from a small group of committed ideologues who want to institute a guaranteed income under the guise of welfare reform.

A radical welfare reform plan may not appear to make much sense when judged by ordinary welfare reform criteria. But it may prove to be logically brilliant when viewed as a plan to eliminate economic dependency, equalize incomes, and end the necessity of having to work for a living.

Of particular relevance to any consideration of a radical welfare reform plan of the kind sent to the Congress by President Nixon and President Carter are:

(1) recent findings that the institution of a guaranteed income would cause a substantial reduction in the work effort of low-income workers, and a substantial increase in family break-up.

(2) the growing awareness among welfare experts that radical welfare reform is politically impossible today. No radical welfare reform plan can be devised that will simultaneously yield minimum levels of welfare benefits, financial incentives to work, and an overall cost to the taxpayers that are politically acceptable.

The kind of welfare reform that is possible in the 1980s demands that we build on what we have. It will require that we reaffirm our commitment to the philosophical approach of giving aid only to those who cannot help themselves, while abandoning any thoughts of radical welfare reform plans that will guarantee incomes. What can be accomplished in the way of welfare reform depends, to a large degree, on what the American people want. And right now they want reform that ensures adequate help to those who need it, eliminates fraud, minimizes cost to the taxpayers, and requires people to support

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themselves if they can do so.

I would like to suggest for consideration in the 1980s a welfare program that would:

(1) Reaffirm the needy-only philosophical approach to welfare and state it as explicit national policy.

(2) Increase efforts to eliminate fraud and abuse.

(3) Establish and enforce a fair, clear work requirement.

(4) Remove inappropriate beneficiaries from the welfare rolls, e.g., strikers and college students.

(5) Step up efforts to enforce support of dependents by those who have the responsibility and are shirking it.

(6) Improve the efficiency and effectiveness of welfare administration.

(7) Shift more responsibility for welfare reform from the federal government to state and local governments and to private institutions and individuals.

Senator MOYNIHAN. I also have a paper which Dr. Anderson has written on welfare, which is in a series called "The United States in the 1980's." This should be made part of the record at this point.

[The pamphlet follows. Oral testimony continues on p. 138.]

Welfare Reform

Martin Anderson

The United States in the 1980s

Hoover Institution Stanford University

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The Hoover Institution at Stanford University consists of a specialized library and archival depository as well as a center devoted to advanced interdisciplinary study on domestic and international affairs in the twentieth century. Since its founding by Herbert Hoover in 1919, the Institution has become an international center for documentation and research on problems of political, economic, and social change throughout most of the world.

Centrally located on the Stanford campus, the Hoover Tower and the Lou Henry and Herbert Hoover Memorial buildings house a library of about 1.5 million volumes and one of the largest private archives in the world, consisting of about four thousand collections. In addition to Stanford students, faculty, and resident staff, users of the library and archives include scholars from all over the world who come to do research in the outstanding area collections on Africa and the Middle East, East Asia, Eastern Europe and Russia, Latin America, North America, and Western Europe.

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Welfare Reform
Martin Anderson

VI

POVERTY IN THE UNITED STATES

In the early 1960s the United States, after eight years of peace and steadily increasing prosperity, roused itself and threw its considerable resources into two mighty efforts—bringing freedom to the people of South Vietnam and prosperity to the poor in America. At first the efforts on both fronts were tenuous and tentative. Then the tragic death of John Kennedy thrust Lyndon Johnson into the presidency. With characteristic force and impetuosity, and eager to establish himself as one of our great presidents, Johnson rapidly and dramatically escalated both wars.

We are all too familiar with the consequences of the war in Vietnam. Thousands of Americans were killed or maimed, billions of dollars were spent, and the Vietnamese people now live under a totalitarian regime with fewer freedoms than before. But most of the nation has lost sight of Johnson's other war. Our deep ignorance concerning what happened in the war on poverty is matched only by our acute awareness of all that happened in Vietnam.

As the war on poverty began to gain momentum in 1965, federal, state, and local governments together were spending over $77 billion a year on social welfare programs. Most of this government spending was for social security benefits and education. Just slightly over $6 billion was being spent on direct welfare. The task of eliminating poverty was viewed as extraordinarily difficult, if not impossible. At that time, some 33 million Americans were officially classified as poor. The poverty line

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This essay draws on Martin Anderson's, *Welfare: The Political Economy of Welfare Reform in the United States* (Stanford: Hoover Institution Press, 1978).

was then a little over $3,000 a year for a family of four. Each year it was adjusted upwards to account for inflation. Tens of billions of dollars would have to be given to all those below the official poverty line if they were to catch or surpass that ever upward-moving standard that divided the country into the poor and the nonpoor.

And the money was given. An almost bewildering array of Great Society programs was launched, all with the central purpose of transferring tax dollars from the middle- and high-income classes to the low-income class. Millions of government checks, for tens of billions of dollars, were printed and mailed and cashed. The most ambitious attempt to redistribute income ever undertaken in the United States had begun.

As the efforts to combat poverty accelerated, a peculiar thing occurred. The harsh criticism of government efforts to reduce poverty that were prevalent in the early 1960s did not diminish. In fact, after the federal government officially declared war on poverty, the criticism of welfare seemed to grow in step with the proliferation of antipoverty programs. Welfare programs were denounced as stingy, unfair, demeaning to recipients, contributing to the breakup of families, and so narrow in their coverage that many poor Americans were destitute, some of them actually starving. Even the specter of hunger in America was raised on the evening television news. The people most knowledgable about our welfare programs denounced the entire welfare system, calling it a dismal failure, bankrupt, a mess in need of total reform. The more government seemed to do, the worse the situation seemed to become.

The most serious charge was that the war on poverty, in spite of the billions being spent, was not achieving its main goal: to raise poor people's incomes above the poverty line. As the monetary costs of waging wars both at home and abroad mounted, inflation began to take its toll. The official poverty line was adjusted upwards each year for inflation. But as the economy grew and welfare programs expanded and poor people's incomes increased, it appeared that the line they had to cross moved ahead of them at about the same pace.

According to the official government statistics, there has been virtually no change in the poverty level since 1968. For the entire period from 1968 to 1975 the proportion of Americans in poverty apparently hovered around 12 percent. In fact, the Census Bureau reports that there were 500,000 more poor people in 1975 than there were in 1968. Essentially we have been told that while some progress was made in reducing poverty during the early 1960s, little, if any, progress has been made since 1968.

Most of us, not having the capability or the desire to conduct our own census, accept what we have been told.

Yet one wonders. The United States is the richest nation in the world. Its citizens are, by and large, uncommonly generous and benevolent. Individuals contribute billions of dollars every year in small, private acts of charitable giving. Private charitable institutions spend billions more. Federal, state, and local governments spend tens of billions of dollars every year on welfare and income transfer programs. The economy has been growing steadily, creating more and more jobs. Is it possible that some 26 million people still live in abject poverty, having "extremely low incomes"; that one-eighth of this great nation is literally poor?

In 1970 Edward Banfield, professor of government at Harvard University, wrote:

> Some statisticians believe that most figures used considerably exaggerate both the number of persons whose incomes are low year after year and the lowness of their incomes. The poor (and the nonpoor as well) generally underreport their incomes, perhaps because they do not always know how much they receive or perhaps they are unwilling to tell. Also, every survey catches some people who at that particular time are below their normal incomes. (Thus, in 1960 it was found that in the large cities consumers with incomes under $1,000 were spending $224 for every $100 of income received . . .) Even if one takes the reported incomes as given, questions of interpretation arise. One economist, using the same figures as the Council of Economic Advisers, cut its estimate of the amount of poverty in half—from 20 percent of the population to 10 percent.[1]

In early 1975, Roger Freeman, senior fellow at the Hoover Institution at Stanford University, wrote,

> The annual income surveys of the Bureau of Census materially underreport income and . . . cash (money) income omits income in kind . . . Low-income persons get food stamps, housing subsidies, medical benefits, etc., none of which are counted as income . . . This makes income appear lower than it actually is . . . In other words, an unknown number of persons and families have a money income below the official poverty level in a particular year but may not be poor in any meaningful sense of the word.[2]

The welfare experts have all known this, probably for the last fifteen or twenty years. But few, if any, have had a clear idea of the extent of the understatement of income and how it varied from the rich to the poor. The Census Bureau continued to publish its erroneous statistics, all the while giving itself deniability by pointing out in some obscure part of the text that "the underreporting and nonreporting" should be taken into account when using its statistics.

Back in 1965, the in-kind income of welfare recipients was relatively small, and even with the acknowledged underreporting of income the degree of overstatement of poverty was perhaps negligible. But as the value of in-kind income grew over the years, and as the level of actual poverty fell, the total amount of in-kind income not counted and income not reported accounted for a larger and larger percentage of what was officially reported as poverty.

Over the years, the discrepancy between what was actually happening to the poor in America and what the statisticians in Washington were telling us grew wider and wider. Finally the "poverty gap" in the official Census Bureau statistics became so apparent that it was almost embarrassing to use the numbers. Almost—for virtually without exception everyone went on using them.

There have been sporadic attempts to correct the numbers. Academicians, and even the Census Bureau itself, attacked parts of the problem. In 1972, for example, the bureau reported that it had obtained only "87.0 percent of all wage and salary income, 81.7 percent of all social security benefits, and 65.5 percent of all public assistance benefits."[3] But the results of such studies, though helpful, never gave any clear indication of the order of magnitude by which the official government statistics overstated poverty.

Some analysts began making educated guesses. In 1976 John Palmer and Joseph Minarik of the Brookings Institution, two acknowledged welfare experts, speculated that "a definition of household income that both includes the recipients' cash valuation of in-kind benefits and adjusts for underreporting of cash income would probably reflect a current poverty rate close to 5 percent rather than the official level of 12 percent."[4]

But guesses, even by prudent experts, can't be used as a sound basis for national policy. Finally, in frustration, Congress, using its newly formed research arm, the Congressional Budget Office (CBO), decided to answer for itself the question, How much poverty is there in the United States?

The results were startling. Using exactly the same poverty line as the venerable Census Bureau, the fledgling CBO reported in mid-1977 that its analysis showed less than 14 million Americans in poverty in fiscal 1976—only 6.4 percent of the population.

There are two reasons why these new figures differ so radically from the traditional ones of the Census Bureau. First, the new congressional study counts the value of noncash welfare benefits in determining the yearly income of poor people. Over $40 billion a year is spent by the federal government alone on food stamps, day care, public housing, school lunches, medicaid, and medicare. The Census Bureau statistics ignore these billions in benefits; the Congressional Budget Office statistics do not. Any income statistics that ignore the gigantic sums spent by government on welfare and income transfer programs that provide in-kind benefits are simply not valid. As Alice Rivlin, the director of the CBO, has said, "You can argue whether the line for determining poverty ought to be higher or lower . . . But you can't argue that because benefits don't come in the form of cash, they're not benefits."[5]

The second reason involves the underreporting of income. The Census Bureau acknowledges it, and has some rough estimates of what it is for various categories of income, but they are not reflected in the final statistics. The Congressional Budget Office, using the estimates of underreporting, makes adjustments that are reflected in its final estimate of poverty.

In late 1977 Morton Paglin, professor of economics and urban studies at Portland State University, refined the poverty corrections even further. In addition to the kind of corrections made in the CBO study, he corrected for the fact that the Census Bureau neglects to account for households because it unrealistically assumes "that there are no economies of scale and no income sharing unless the persons making up the unit are all related by blood or marriage."[6] The simulation model used by Paglin to estimate the effect of in-kind welfare benefits on the poverty level is similar to the one used by the CBO—with one further refinement. The empirical data base was used to allocate benefits by program and household size, and the simulation was not performed until "the last stage when assumptions about multiple benefits must be made."[7]

Paglin's more refined, more recent estimates of poverty are even more startling than those of the CBO. By his calculations *only 3.6 percent* of Americans were poor in 1975.[8]

Whereas the official level of poverty reported by the Census Bureau has been essentially constant since 1968, the revised poverty estimates by both the CBO and by Professor Paglin agree that (1) there has, in fact, been a *steady decline* in the poverty level since 1968, and (2) the degree of poverty had shrunk to very low levels by 1975.

And this is what one would expect as a result of the massive amount of welfare spending. As Paglin notes, "The [welfare] transfers have been on a sufficiently massive scale to effect a major reduction in the poverty population. It would have been amazing if they had not done so. What is surprising is the lack of recognition of this accomplishment. Social scientists have generally accepted and have given wide currency to the official poverty estimates. It is time for the statistical veil to be lifted so that the poverty problem can be seen in its true dimensions."[9]

Some welfare experts are beginning to change their minds about the extent of poverty in the United States. Reflecting on the revised CBO statistics, Alice Rivlin commented, "The nation has come a lot closer to eliminating poverty than most people realize."[10] Sar Levitan, a professor of economics at George Washington University who has written extensively on the welfare programs of President Johnson's Great Society, concluded in early 1977 that "if poverty is defined as a lack of basic needs, it's almost been eliminated."[11]

The results of the studies by the CBO and Paglin should not be surprising to anyone familiar with the growth of our economy and the increase in our welfare and income transfer programs over the past decade or so. Ever since Lyndon Johnson declared a war on poverty in 1964, two powerful forces have been pushing more and more Americans out of poverty.

The first, and perhaps most important, force is the strong, sustained economic growth of the private sector. The gross national product more than doubled from $688 billion in 1965 to $1,710 billion in the third quarter of 1976. This gain of over $1 trillion in GNP was accompanied by 18 million new jobs. Over 89 million Americans were employed at the end of 1976. The growth in family income was equally dramatic: from about $7,700 in 1965, the average family income more than doubled to $15,546 in 1975. Even after making allowances for inflation, higher taxes, and a sharp increase in restrictive government regulation, the private economy produced millions of new jobs and significantly higher wages and salaries. Many of these new jobs and higher paychecks undoubtedly went to people classified as poor when the war on poverty began and to others who would have become poor in the meantime.

The second major force removing people from poverty is the vast and growing array of government welfare and income transfer programs. Since the war on poverty began there has been an explosive growth in social welfare spending. Total government spending on all social welfare programs increased from $77 billion in 1965 to $286 billion in 1975, close to a fourfold increase in a decade. Spending on direct welfare programs has grown even faster. In 1965 the combined spending of federal, state, and local governments on public welfare was just over $6 billion. By 1975 it was over $40 billion, almost seven times greater.

When President Nixon took office, 48 percent of the fiscal 1969 federal budget was being spent on defense and 30 percent on health, education, and income security. In fiscal 1977, after eight years of Republican administration, the percentages were *exactly reversed:* 30 percent of the federal budget was spent on defense and 48 percent on health, education, and income security.

The number of people remaining in poverty is very small and it grows smaller every day. The growth of social welfare programs—Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), food stamps, child nutrition, day care, public housing, medicaid and medicare, tuition aid, and social security—has been so comprehensive and diffuse that virtually all people who cannot truly care for themselves or their families are eligible for a wide variety of cash grants and services that provide a decent and adequate standard of living.

As surprisingly low as the revised estimates of poverty are, the actual figures may be considerably lower. The poverty statistics still contain large numbers of undergraduate and graduate students, some wealthy people living off assets who report no income, recipients of income from illegal activities such as robbery, drug traffic, prostitution, and gambling who obviously aren't eager to report to any government agency, and other people who simply don't like to tell anyone what their true level of income is. Workers who enter or leave the labor force sometime during the year may have substantial earnings that would place them well above the poverty line. Yet they may be counted as officially poor. When the census count is made early in the year, those questioned are asked how much income the family had during the last calendar year. Someone beginning work on, say, October 1, with an annual salary of $12,000 would be able to report actual earnings of only $3,000 during that calendar year, and thus would be included among the poor. And there are even a few people who deliberately choose not to earn more, even though they are capable of doing so, in order to enjoy a particular life-style that requires a good deal of free time.

As Robert Haveman, fellow of the Institute for Research on Poverty at the University of Wisconsin, wrote in 1977: "The day of income poverty as a major public issue would appear to be past . . . A minimum level of economic well-being has by and large been assured for all citizens."[12]

The war on poverty has been won, except for perhaps a few mopping-up operations. The combination of strong economic growth and a dramatic increase in government spending on welfare and income transfer programs for more than a decade has virtually wiped out poverty in the United States.

There will be isolated instances where a person is unaware of being eligible, or is unjustly denied aid by a welfare bureaucrat, or simply chooses not to accept the social stigma of being on welfare. But these cases are the exceptions. In fact, just the opposite concern—those getting welfare who have no right to it—is the one that seems to be growing.

When the policymakers were passing and implementing the welfare programs that are currently on the books, their deliberations, it must be remembered, took place in the context of a deep and widely held belief that poverty was widespread and highly intractable to their previous efforts. The welfare and income transfer programs now in place have developed a momentum of growth that is unlikely to slow down in the near future.

We have built up an array of programs and resources to attack a poverty "army' of 25 to 30 million poor people. The "enemy" is no longer there, but the attack goes on unabated. We have built up such a large arsenal of welfare programs, and their momentum of growth is so strong, that we may soon pass into an overkill capability with regard to government measures to combat poverty. Perhaps we already are there.

The main goal of welfare in the United States, at least as perceived and understood by the vast majority of Americans, is to provide a decent, adequate level of support, composed of both cash and services, to all those who truly cannot care for themselves. The key criteria by which to judge the efficacy of welfare programs are two: the extent of coverage and the adequacy of support.

Coverage of the eligible welfare population is now almost universal—if one is sick, or is hungry, or cannot work, or is blind, or has small children to care for, or is physically disabled, or is old—then there are dozens of welfare programs whose sole purpose is to provide help.

And the level of help is substantial. The average mother on AFDC with three children qualifies for about $6,000 a year. In some rare cases in high-paying states, this amount can go so high as to be equivalent to an annual before-tax income of over $20,000. Virtually all people who are eligible qualify for government checks and government-provided services that automatically lift them out of the official ranks of poverty.

The "dismal failure" of welfare is a myth. There may be great inefficiencies in our welfare programs, the level of fraud may be very high, the quality of management may be terrible, the programs may overlap, inequities may abound, and the financial incentive to work may be virtually nonexistent. But if we step back and judge the vast array of welfare programs, on which we spend tens of billions every year, by two basic criteria—the completeness of coverage for those who really need help, and the adequacy of the amount of help they do receive—the picture changes dramatically. Judged by these standards our welfare system has been a brilliant success.

The war on poverty is over for all practical purposes. We should now begin thinking about how to revise our welfare strategies to deal with the problem of preventing poverty, to make programs more effective and efficient, to eliminate unnecessary programs, and to focus more on the social problems that widespread welfare dependency will bring.

THE POVERTY WALL

The virtual elimination of poverty in the United States has not been accomplished without costly social side effects. The most important and potentially troublesome effect is the almost complete destruction of work incentives for the poor on welfare. The nature of our new welfare programs and the massive increases in welfare payments have combined to sharply reduce, and in some cases eliminate altogether, any financial incentive for welfare recipients either to get a job or to attempt to increase their current low earnings. The welfare system has so distorted incentives to work that people on welfare now face higher effective marginal tax rates on earned income than even those making $100,000 a year or more.

This destruction of work incentives is a direct and necessary consequence of the drive to eliminate poverty. All our major welfare programs are "income-tested," meaning that the amount of welfare received in cash or in services is dependent on the amount of money the welfare recipient earns. When someone on welfare begins to earn money, or increases his or her earnings, it is assumed that the need for welfare declines, and the amount of welfare payments or services is reduced according to a formula appropriate to the welfare programs providing benefits.

If a welfare recipient is receiving money and services from two or more programs, the earning of additional income has a multiplier effect on net take-home "pay." If a person is receiving benefits from three different programs, there will be three separate benefit reductions as soon as the new income is reported.

Most of our welfare programs were designed and developed to take care of the needs of a particular poor segment of the society, and often little or no thought seems to have been given to the effect of their interaction with other welfare or public assistance programs. The result is a cumulative negative effect on a poor person's incentive to work that is devastating.

For example:

> In New Jersey an unemployed man with a wife and two children receiving public assistance and food stamps would add only $110 to this net monthly income if he took a full-time job paying $500 a month. In addition, he would lose eligibility for medicaid, which pays an average of $52 a month for the medical bills of an AFDC family in New Jersey. A Tennessee father who is eligible for food stamps and the unemployment insurance maximum gains only $4 a week by taking a part-time job paying $75 a week. A New Jersey mother of three receiving benefits from medicaid, aid to families with dependent children, food stamps, and public housing would gain only about 20 percent of the total income derived from taking a full-time job paying as much as $700 or even $1,000 a month.[13]

A reduction in the amount of one's welfare check has the same effect on one's net pay as the payment of taxes. The amount of the welfare reduction, when expressed as a percentage of new or additional earnings, is equivalent to a marginal tax rate on earned income. Perhaps it should be called a "welfare tax." In the first example cited above, the effective marginal tax rate is 88 percent; in the second it is 95 percent; and in the third, 80 percent.

In 1972 the Joint Economic Committee of Congress conducted a comprehensive review of welfare programs in the United States. Martha Griffiths, chairman of the Subcommittee on Fiscal Policy that conducted the study, made this comment on the results of some of its studies: "Current government programs can discourage work effort and result in intolerably little improvement in the income of the beneficiaries . . . These are the equivalent of confiscatory tax rates."[14]

The incredibly high marginal tax rates paid by those on welfare are a serious and direct disincentive to work. Why should someone work 40 hours a week, 50 weeks a year for, say, $8,000 when it would be possible not to work at all for, say, $6,000? People on welfare may be poor, but they are not fools. Any rational calculation of the net returns from working by someone on welfare would discourage any but the most doggedly determined.

To further compound the problem, poor people are subject to regular federal, state, and city income taxes when their earnings move over the poverty level. For instance, in 1976 they had to pay 5.85 percent of their earnings in social security taxes. And when the typical family of four had earnings of over $6,900 a year it had to begin to pay federal income taxes. Many states have income taxes that start at fairly low levels of income. And then, of course, there are a number of cities with income taxes, especially those with high welfare populations like New York City. These tax rates are combined with the tax rates resulting from welfare reduction, and they all apply at the critical range of income where a person is just beginning to feel self-sufficient. The tax rates are not directly additive, because welfare programs such as AFDC and food stamps compute benefits due on net earnings after income taxes have been deducted.

Little can be done about the problem. The elimination of all federal, state, and local taxes up to, say, $10,000 of annual income would be prohibitively expensive in terms of lost tax revenues, for—to be fair—taxes for everyone earning income within that range, including those not on welfare, would have to be eliminated.

There are only two ways to eliminate the high tax rates implicit in our current array of welfare programs. One is to sharply reduce the basic welfare payment; the other is to hold the basic payment where it is and simply lower the rate at which welfare benefits are reduced as income rises. There are serious problems with both alternatives. The first, lowering the welfare payments, is politically impossible today. The second, lowering the welfare reduction rate, would increase the cost of welfare to taxpayers by such phenomenal sums—tens of billions of dollars a year—that it has no better chance of becoming a political reality than the first.

For better or worse, high marginal tax rates are a necessary and enduring part of our current welfare system. The policymakers had no other choice. As the extent and level of welfare escalated rapidly during the last decade, they had to keep the marginal rate of taxation on welfare and public assistance very high in order to avoid massive increases in the number of Americans eligible for welfare and the spectacular cost that would have followed.

But the acceptance of these high, incentive-destroying tax rates has had an unforeseen cost. With scarcely anyone noticing it, the poor people in this country have been deeply entangled in a welfare system that is rapidly strangling any incentive they may have had to help themselves and their families by working to increase their incomes.

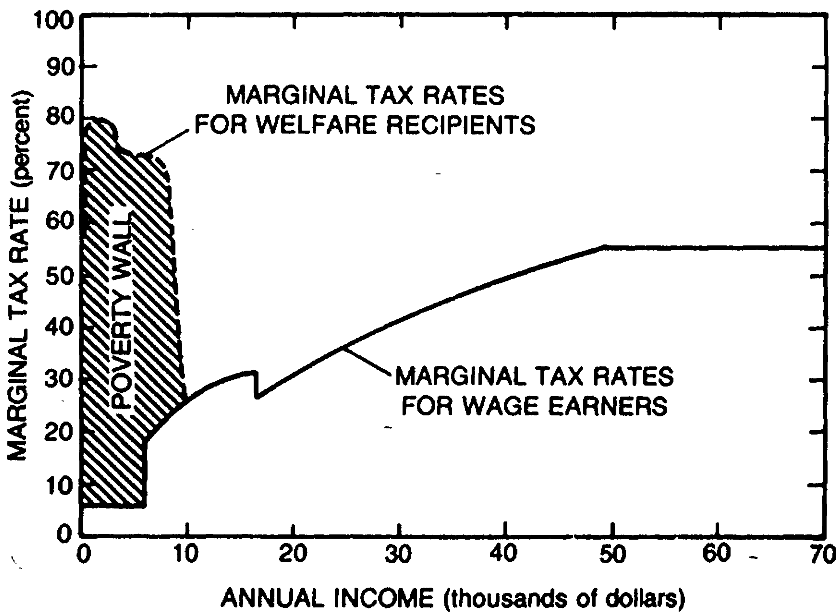
Few deny the depressant effect high marginal tax rates have on the incentive to work and earn more money. Partly in recognition of this fact, the top federal tax rate on earned personal service income was recently lowered from 70 to 50 percent. But as tax disincentives were being reduced for the nonpoor, our welfare programs moved in the opposite direction. In the headlong rush to help poor people, we have created a situation where the poor of America are subjected to significantly higher rates of taxation than the nonpoor.

We have, in ironic consequence of our massive effort to eradicate poverty from the land, virtually destroyed any financial incentive that the poor may have had to improve their economic condition. We have, in effect, created a *poverty wall* with our tax and welfare system that, while assuring poor people a substantial subsistence level of income, destroys their incentive to work and sentences them to a life of dependency on the government dole.

The gross disparity between the tax disincentives faced by welfare recipients and by working people not on welfare is shown graphically in Figure 1. The working head of a typical family of four pays three major taxes on earned income—social security tax, state income tax, and federal income tax. The heavy solid line in Figure 1 represents the total marginal tax rate that such a family pays on wages and salaries as a result of these three taxes. The total marginal tax rate attributable to the combination of these three taxes in 1976 begins at a little below 6 percent, increases to over 19 percent at $6,100 of income, then climbs steadily to

FIGURE 1

Marginal Tax Rates for Welfare Recipients and for Wage Earners



almost 32 percent at $16,500. At this point it drops by 5.85 percent because of the income limitation on the social security tax. Then it begins to climb once again until it peaks at 61 percent for $49,800 of annual income. For any additional earned income over $49,800, the marginal rate remains constant at 61 percent.

The tax burden facing the poor person on welfare is dramatically different. The poverty wall effectively prevents many of the poor from ever leaving that status. Perhaps even sadder, it may even take away the hope of doing so.

The nature of the poverty wall that confronts any particular welfare family is determined largely by where the family lives and the number of welfare programs it benefits from. The various combinations possible are almost endless, but a typical case can effectively illustrate the order of magnitude of the marginal income tax rates these families are subject to when welfare benefits are reduced because of increased family income. One such example was recently constructed by Henry Aaron of the Brookings Institution to show the nature of the tax rates faced by an AFDC family of four that also received medicaid benefits, food stamps, and housing assistance.[15]

As Aaron points out,

> The marginal tax rates are high and capricious. On all earnings from $576 to $8,390 per year, the family eligible solely for AFDC and medicaid faces a tax rate of 67 percent. Eligibility for food stamps and housing assistance raises the tax rate as high as 80 percent, and brings it to 73 percent over the income range from $4,000 to $8,300. When earnings reach $8,390, the family is removed from the welfare rolls and at that instant loses $1,000 medicaid benefits and, if eligible, a $288 food stamp bonus.[16]

The dotted line in Figure 1 traces the course of the effective marginal tax rates that face a typical welfare family thinking either about going to work or about trying to increase earnings. Although the nature of the marginal tax rates will vary widely from family to family, depending on the welfare programs they receive benefits from, the relative order of magnitude of the tax rates they face compared with those of nonwelfare workers is clearly shown. Up to earnings of approximately $8,400 a year, welfare recipients typically face effective marginal tax rates that are far, far higher than those faced by the typical working family, in that same range, not receiving welfare. In fact, the tax rates are substantially higher than for all workers not on welfare, regardless of income. It is only when the earned income of welfare recipients reaches about $10,000 a year that they achieve the same tax status as other working Americans.

There is one additional tax rate complication that should be noted here. In 1975 an *earned income credit* was added to the federal income tax code. Its basic purpose was to increase the financial incentive to work for the heads of low-income families by giving them money as a reward for working. Past changes in the deductions, exemptions, and credits of the federal income tax have given massive financial relief to poor families by eliminating all federal taxes on incomes of less than $6,100 a year. This special "credit" eliminated federal taxes on all incomes up to $6,900 and added a new twist.

The earned income credit applies only to earnings up to $8,000 a year. A family with no income receives no "credit." But, beginning with the first dollar earned, a family gets an earned income credit equal to 10 percent of all earnings up to $4,000 a year. If earnings are $1,000, the "credit" is $100; the maximum "credit" is $400 for earnings of $4,000. Because there are no federal income taxes to be paid within that income range, the "credit" is translated into a federal payment. If a family earns $1,000 and files a federal tax return, the federal government will mail it a check for $100. If the earnings are $4,000, the check will be for $400. For earnings between $4,000 and $8,000 the amount of the earned income credit declines. For earnings of $5,000 the "credit" is reduced to $300; for earnings of $6,000 it is $200; for earnings of $7,000 it is $100; and at $8,000 the "credit" is phased out completely.

The earned income credit is, in effect, a separate welfare program run through the Internal Revenue Service. The federal government now pays low-income workers a bonus of 10 percent on all earnings up to $4,000, and then decreases the size of the bonus by 10 percent as earnings increase to $8,000. In 1976, "$1.3 billion was transferred to 6.3 million low-income tax units" through this so-called tax credit.[17]

One notable result of the earned income credit is a *negative* total marginal income tax rate of 4.15 percent on all earned income of less than $4,000 a year. But once the family passes the magic $4,000 level, the marginal tax rate leaps dramatically by 20 percent to just under a positive 16 percent. At $6,100 of income the normal federal income tax comes into play, and the result is an additional sharp increase: between $6,000 and $7,000 the total marginal income tax rate is 29.2 percent; between $7,000 and $8,000 it is 31.8 percent.

The range of earnings from $4,000 to $8,000 is a critical one in terms of work incentives. For many people it is here that the struggle to escape from poverty and welfare will take place. Unfortunately, the earned income credit has instituted a potentially destructive barrier that low-income workers must now deal with. Over a $2,000 span of income, the marginal income tax rate increases over 33 percentage points—from a negative 4.15 percent to a positive 29.2 percent. Instead of facing the kind of gradually rising marginal tax rate shown in Figure 1, many low-income workers, because of the earned income credit, must now cope with an abruptly steep "tax wall" that is similar to the one confronting their more unfortunate brothers and sisters on welfare.

The earned income credit will probably not become a permanent part of the federal income tax, but until it is removed it will severely distort the financial incentive effects of the federal income tax. When the effects of the earned income credit are combined with those of social security taxes and state income taxes, the path of the total marginal tax rate is wondrous to behold, resembling the profile of a roller coaster far more than a sober financial chart.

Thus, while poverty was being virtually eliminated during the last decade or so, a poverty wall of high taxation was erected in front of millions of Americans. As more and more reliance was placed on using financial incentives to work to induce people to leave the welfare rolls, government welfare policies themselves raised an effective psychological barrier to their gainful employment. As one staff study prepared for the Joint Economic Committee's study of welfare put it, "In contrast to the rhetoric of Government officials exhorting recipients to work for their income, the Government itself imposes the largest barrier to work."[18]

In effect we have created a new caste of Americans—perhaps as much as one-tenth of this nation—a caste of people free from basic wants but almost totally dependent on the state, with little hope or prospect of breaking free. Perhaps we should call them the Dependent Americans.

THE CLAMOR FOR WELFARE REFORM

As the number of welfare programs multiplied and the number of people receiving welfare checks and benefits grew, as the amount of the welfare payments increased, as the number of people living in poverty dropped precipitously, one might have reasonably expected to hear a round of cheers for this unprecedented attack on poverty. But this did not happen. The voices of praise were silent. Instead the welfare system was denounced by nearly all those who cared enough about what was going on to comment and write about it. The more money that was transferred from the taxpayers to those without incomes, the more the criticism grew.

Books were written about welfare reform. President Johnson made the war on poverty his major domestic concern. President Nixon proposed a "Family Assistance Plan" as his domestic policy centerpiece.

George McGovern tried to get his campaign moving in 1972 by proposing $1,000 a year for everyone. Hundreds of academic studies poured forth. President Ford tried to develop a plan in 1974, and President Carter, on taking office in 1977, quickly made welfare reform one of his first domestic priorities.

Yet in spite of the powerful pressures for welfare reform, the wonderfully detailed plans that were put forth, and the support of the media, little was accomplished in the way of major, substantial change. The welfare system grew and prospered along traditional lines, almost immune to the mounting chorus of criticism. It is surprising that no radical change took place and that so little credit was given to the system for what it was accomplishing. Perhaps the answer to this anomaly lies in the nature of the several philosophical approaches to welfare that exist in this country, and in the relative power of the groups that hold these views.

There are essentially three philosophical approaches to welfare in the United States. The first is the **private charity** approach. Holders of this view maintain that the state has no business appropriating other people's money to give to those deemed poor. They believe that private charitable organizations and acts of private giving could do the job effectively and with a greater sense of personal caring than the government, and that these private efforts would increase to the extent that government diminished its role in welfare. In today's society the private charity view is held seriously by only a small percentage of the population, and, except for the important supplemental role of private charity, has little effect on government policy.

A second philosophical view, the **needy-only** approach, holds that persons who, through no fault of their own, are unable to care for themselves or for their families should receive help from the government. The role of government is seen as a limited one. Welfare payments should go only to needy people, and the amount of the payment should be in proportion to their need. If someone is able to work, welfare should be denied. People on the welfare rolls should be helped and encouraged to become self-sufficient by whatever reasonable means are available and effective. Being on welfare is viewed as a state of dependency, an acknowledgment that one is not able to take care of oneself without help from others. The needy-only approach is taken by the overwhelming majority of Americans. It has been the traditional approach to welfare in this country for many years, and support for it is widespread and deep.

The third philosophical approach is a relative newcomer to the United States. Only within the last two decades or so has it been discussed seriously and gained support. Its premises are that everyone has a right to a basic level of income, that the government should guarantee to every citizen a level of cash income high enough for him or her to live in moderate comfort, and that no restrictions whatsoever should be placed on the use of the money. This is the **guaranteed income** approach to welfare. Some holders of this view seem to believe that people basically like to work, that they will do so whenever they are sufficiently rewarded, and that even mild incentives will encourage them to leave the welfare rolls and improve their standard of living.

At the heart of the guaranteed income approach is the premise that people have a *right* to a certain level of income completely independent of their ability to earn. Under a guaranteed income there is no attempt to differentiate between those who cannot help themselves and those who can. The system automatically provides benefits to everyone. It is assumed that no stigma can be attached to those who cannot take care of themselves, as everyone would have the same minimum level of income by right. In special cases of extreme need, the basic income guarantee can be augmented. What distinguishes this view from the traditional view of welfare in the United States is its assumption of starting with a base income guarantee for everyone, and then building up and out from that base.

Although these three approaches to welfare exist side by side, only two of them—the needy-only approach and the guaranteed income approach—are serious contenders for the hearts and minds of welfare policymakers. Private charity is almost universally approved, but few support it as the total answer to poverty. One can make a logical, theoretical case for the private charity approach, but it is not politically viable at this time.

The clamor for welfare reform and the controversy surrounding it stem largely from a deep conflict in the philosophical views of the two remaining groups. The first group—supporting the needy-only approach—contains the large majority of the American people. They believe there is a clear role for government to play in providing cash benefits and services to the poor, especially to the blind, the disabled, and the aged, but they reject the concept of a guaranteed income by large margins in poll after poll. Their views on welfare, however, are passive. They don't demonstrate; they don't study the welfare system; they don't write or make speeches about it. Their power lies in their votes, at the polls. They will tolerate and even enthusiastically support a political candidate who pledges to improve welfare—who pledges to see that the really needy get adequate help and to end the welfare abuse and fraud they suspect permeates the entire welfare system.

But they will turn on the candidate who proposes to guarantee an annual income, with their money, to someone who is capable of working and doesn't feel like it. They have a realistic, traditional view of life. They believe there are many people, perhaps even themselves, who, if guaranteed an income, would simply cease working and loaf. And they do not understand, and probably never will understand, why they should work to support someone who prefers not to work.

The advocates of a guaranteed income are different. The number of advocates and supporters of this philosophical approach is small, but as a group they are very influential. They come from the universities, the welfare agencies that administer the programs, the media, and the government. Some of them are welfare recipients. What they lack in the raw political power of votes, they make up for with the effectiveness and persistence of their advocacy. They study the welfare system, they develop the programs and draft the legislation, they administer the programs and then they criticize them. They write and speak and make their views known, both to the media and to policymakers. On occasion they have been known to demonstrate.

Almost without exception, the calls for sweeping "welfare reform" over the past fifteen years or so have come from the supporters of some form of a guaranteed income. What they consider to be reform, however, differs markedly from what the holders of the needy-only approach consider to be reform. The advocates of a guaranteed income want to radically change the current welfare system from welfare for the needy only to a guaranteed income for all. Almost everyone else sees welfare reform as something that will ensure that those who need help get help, as something that will remove from the welfare rolls those who are defrauding the system, and will make the programs more efficient and less costly to the taxpayers.

The greatest difficulty faced by the proponents of a guaranteed income is the fact that the vast majority of the American people don't accept the idea. Most Americans cannot understand why they should work and support others who, though capable, are not working. They feel it is morally wrong. As Henry Hazlitt once stated, "If you claim a 'right' to an income sufficient to live in dignity, whether you are willing to work or not, what you are really claiming is a right to part of somebody else's earned income. What you are asserting is that this other person has a duty to earn more than he needs or wants to live on, so that the surplus may be seized from him and turned over to you to live on. This is an absolutely immoral proposition."[19]

As far as the American public is concerned, the idea of a guaranteed income has been crisply rejected in every known public opinion poll that has dealt with the issue. There is little popular support for the principle of a guaranteed income and a decided lack of interest in the subject. As Aaron Wildavsky and William Cavala stated in 1970, "Policies that provide unearned income run counter to widely held and deeply felt American values, such as achievement, work, and equality of opportunity. The large tax increase or drastic reallocation of public funds required to guarantee income has few supporters."[20]

THE EFFECT OF WELFARE ON WORK

One of the most important questions that should be asked about any radical welfare reform plan that promises to guarantee incomes is: What effect will it have on the work effort of the poor? Most Americans still believe strongly in the work ethic. If millions of low-income Americans "retired" from the labor force to live on their income guarantees, there is little question that intense political controversy would follow. Those receiving the guarantee could become a powerful political force, demanding and getting ever-increasing benefits. There would certainly be some negative effect on the economy if large numbers of people stopped working or reduced the number of hours they worked.

A major reduction in the work effort of the low-income population would have endless ramifications—socially, economically, and politically—and the speculation on what the consequences of these ramifications might be is also endless. There seems to be little disagreement with the proposition that any substantial reduction in the work effort of the low-income population would pose the danger of profound, far-reaching social and economic consequences. There is, however, a great deal of uncertainty about whether guaranteeing incomes would really cause the recipients to stop working en masse. And speculation on the possible consequences is idle unless we have sufficient reason to suspect that it might, in fact, happen.

Most people have what, to them, seems a common-sense view of a guaranteed income. If someone has the option of working or not working to obtain the same or virtually the same amount of income, all other things being equal, he will choose not to work. In some cases, of course, social factors such as the work ethic, pride, and what his neighbors might think will induce him to keep on working. But what if a guaranteed income plan should become so widespread that many of his fellow workers in the same income bracket choose not to work, and the social pressure directed against him becomes a pressure not to work? In recent years we have seen such a change in our welfare system. Partly because of the sharp increase in the number of people on welfare, and partly because of the efforts of "welfare rights" groups, the stigma of being on welfare seems to have been substantially attenuated. Many on welfare today feel no compunction whatsoever about receiving it, often asserting that they have a right to it. Some workers, who gain great psychological satisfaction from their work, may choose to continue what they are doing in spite of the guarantee. But how many low-income jobs provide that kind of satisfaction? Without actually trying a nationwide guaranteed income, and relying on what we know (or what we think we know) of human nature, it seems reasonable to assume that the fears of large numbers of people quitting work to live off the dole are not unfounded, and that such a possibility is fraught with dangers for our society.

We know that if we raise the effective tax rate closer and closer to 100 percent, a person's incentive to work diminishes. At 100 percent he gets nothing but whatever psychological pleasure there is in the work. Conceivably, under certain circumstances he might continue to work as the rate surpassed 100 percent. But this would be an unusual case.

What happens when a person is guaranteed the same amount of income, or some amount close to it, whether he works or not? A priori, we would expect that as the amount he received moved closer and closer to the amount he would receive if he worked, he would work less and less. If the amount of guaranteed income surpassed the amount he could earn by working, the disinclination to work would be even greater. The higher the guarantee relative to the amount he could earn by working, the less inclined the person would be to work—except, of course, for the psychological benefits involved.

The effect of increased income on a person's work effort has been studied intensely by economists for many years, and among them there is almost unanimous theoretical agreement that a guaranteed income would cause significant numbers of people to cease working or reduce the number of hours worked. But no matter how convinced we may be in our own minds that many people would gladly swap the cacophony of an alarm clock at 7 o'clock every morning and the necessity of doing what someone else wants them to do 40 hours a week, 50 weeks a year, for a leisurely rising time and the freedom to pursue their personal interests, we are still not completely sure what would happen if a real guaranteed income should come to the United States.

Advocates of a guaranteed income themselves have few qualms about the possible adverse affects on our society. Commenting on the psychological aspects of a guaranteed income, psychoanalyst Erich Fromm, an ardent advocate of such a plan, acknowledges that "the most obvious question is whether a guaranteed income would not reduce the incentive to work," but then quickly lays this concern to rest as he continues, "Man, by nature, is not lazy, but on the contrary, suffers from the results of inactivity. People might prefer not to work for one or two months, but the vast majority would beg to work . . . Misuse of the guarantee would disappear after a short time, just as people would not overeat on sweets after a couple of weeks, assuming they would not have to pay for them."[21]

In spite of such enthusiastic professional opinion, a few nagging doubts do remain. Have the economists been wrong in their theory all these years? Are the common-sense instincts of the average American in error? Will a large segment of our society, perhaps as many as 30 or 40 million people, now on welfare or earning relatively low incomes proceed much as they did before they discovered that a reasonably high level of income is guaranteed, whether they work or not? Or will they stop working in substantial numbers?

As with all social policy there is no sure answer. There is no foolproof way to know what the social and economic consequences of a new, radical social welfare plan will be until many years after we implement it. When the military draft was ended by President Nixon in 1971, many people feared that our military strength would be sharply reduced as both the number and the quality of recruits dropped. They also predicted an all-black army, an army composed of the children of the poor, or one made up of the misfits of our society. Fortunately, their predictions were wrong. When a national urban renewal program began back in 1949, many scholars, politicians, and social commentators confidently predicted the rebirth of our nation's cities. But no one predicted that urban renewal would scarcely renew a city block, let alone a city, that it would worsen housing conditions for the very people it set out to help, that it would destroy four homes, most of them occupied by blacks, for every home it built—most of them to be occupied by middle- and upper-income whites.[22]

In the case of the guaranteed income, we are more fortunate. During the last decade or so an impressive body of data has been painstakingly accumulated by scholars and government analysts that allows us to predict the consequences of a guaranteed income with far more confidence than was possible for other social policies in the past. These studies concern the behavior of people, in particular welfare recipients and low-income workers, under conditions that simulate to some degree the conditions that would exist under a guaranteed income. Individually, their results are rather tentative and inconclusive. Taken together, their findings are inescapably clear—and alarming.

There have been three major types of research studies that attempt to estimate the effect of radical welfare reform plans on the work effort of the poor and the near-poor. The first type is based on an analysis of existing welfare programs, of how people now on welfare have changed, or not changed, their attitude toward work. The second type, called the "cross-section" study, is essentially an economic and statistical analysis of large quantities of survey data showing how people tend to behave when faced with cash transfer payments and increasingly high marginal tax rates. The third type is composed of a series of direct experiments in which selected families were "given" a form of a guaranteed income and their actions were closely observed and analyzed. All three types of studies have the same goal: to judge the effect of guaranteed welfare payments on the work effort of those who would receive them.

The ultimate purpose of the studies and experiments is to predict what would happen if a guaranteed income were established in the United States. Making such a prediction is fraught with difficulties and uncertainty. The studies and experiments cover different groups of people, under different circumstances, in different parts of the country, at different times. The specific nature of any guaranteed income can vary depending on the level of the basic income guarantee and the tax rate imposed on income earned by recipients of the basic guarantee. A precise prediction of what would happen if such a radical social scheme were tried is impossible, but it is entirely feasible to construct an "order of magnitude" prediction that can give us a reasonably accurate idea of the direction and approximate extent of the social consequences that would flow from a guaranteed income.

As to the direction that these changes would take, the studies and experiments are all in agreement. Regardless of whether it is a study of an existing welfare program, or an economic and statistical analysis of survey data, or a controlled guaranteed income experiment; regardless of whether one considers the work response of husbands, or of wives, or of female heads of families, the results are consistent: a reasonable level of a guaranteed income causes low-income workers to *reduce* the number of hours they work, and the larger the amount of the guarantee relative to their income, the more they tend to stop working. The high tax rates that would be a necessary part of any politically feasible guaranteed income plan would also cause low-income workers to reduce the number of hours they work; and the higher the marginal tax rate the more they would tend to stop working. As the report on the results of experiments in Seattle and Denver concludes, "The empirical results indicate that both disposable income and net wage changes induce husbands, wives, and female heads of families to reduce their labor supply. These results are statistically significant, are consistent with economic theory, and are relatively large, indicating that behavior is influenced by changes in incentives."[23]

What many people have suspected for some time is true. Poor people, like those with higher incomes, make rational economic decisions. If their income is little affected by working more, they will not work very much more. If their income is little affected by working less, then they will work less. This is not to say that the poor value idleness, but they do value leisure, just as much as the nonpoor. Whether they will spend that leisure time profitably or not we do not know. But it seems fair to say that bowling, fishing, working around the house, writing poetry, or, in some cases, just loafing for awhile, are clearly more attractive than many low-income jobs. The question is not will low-income people reduce their work effort if guaranteed an income with large implicit tax rates; the question is how much they will reduce it.

The actual amount of work reduction that would occur as a consequence of a guaranteed income will never be known for sure unless we implement one and live with it for a decade or so. But based on the best evidence we now have—from studies of existing welfare programs, from economic and statistical analyses of survey data, and from six major guaranteed income experiments—we can be reasonably sure that the institution of a guaranteed income will cause a substantial reduction (perhaps as much as 50 percent) in the work effort of low-income workers. As long feared by the public, and recently confirmed by independent research studies, such a massive withdrawal from the work force would have the most profound and far-reaching social and economic consequences for our society.

THE IMPOSSIBILITY OF RADICAL WELFARE REFORM

For over fifteen years a number of economists and social science theorists have put forth plans for radically altering our welfare system from its current purpose of helping needy people to guaranteeing incomes for everyone. The long string of specific proposals includes Milton Friedman's negative income tax (1962), Robert Theobald's guaranteed income (1965), James Tobin's guaranteed income plan (1965), R. J. Lampman's subsidy plan (1967), Edward Schwartz's guaranteed income (1967), the negative income tax plan of President Johnson's Income Maintenance Commission (1969), President Nixon's Family

Assistance Plan (1969), George McGovern's $1,000-a-year plan (1972), Great Britain's credit income tax (1972), and HEW's Income Supplementation Plan (1974). The plans provided for minimum income guarantees ranging from $1,500 to $6,000 a year for a typical family of four. The effective marginal tax rates ranged from 50 percent to well over 100 percent. The costs of the plans ranged from several billions to over $50 billion a year. All would have added tens of millions of people to the welfare rolls.

A common thread running through each of these plans is the planner's dream of simplification. The welfare system we now have is difficult to understand and difficult to administer. It has multiple programs, varying payments, and regulations that vary from state to state. It is very complex. The radical reform plans would replace it with a single system that purportedly would be easy to understand and easy to administer, with the same payments and regulations applying to the entire country.

The current welfare system can be likened to a rugged terrain of hills, mountains, and valleys, a wonderfully complex array of programs, payment levels, and eligibility rules that change as one moves from city to city, from state to state. It can be argued that this is as it must be, a complex welfare system dealing with the very complex problem of the poor in America. This view is shared by a small, but influential group of welfare experts. One of them, Senior Fellow Richard Nathan of the Brookings Institution and formerly Deputy Undersecretary for Welfare of HEW, asserts flatly, "The existence of a 'welfare mess' tends to be overstated. Any system that provides aid to people in the lowest-income groups, who are highly mobile and often have limited job and literacy skills, is going to be difficult to administer."[24]

All of the radical welfare reform plans would like to level the hilly and mountainous terrain of the current welfare system, replacing it with broad, flat plains. One critical element in all these plans is the height of the plain that would replace the hills and mountains. If it is set lower than any of the hilltops and mountain peaks, welfare payments will be reduced for hundreds of thousands, perhaps millions, of Americans. If the new welfare plan is raised to the highest peaks and all the valleys are filled in, welfare payments will be sharply increased for millions of Americans and the costs will be extraordinarily high. There is no way out of this dilemma.

But the demography of low-income America has not hindered the quest for a guaranteed income plan that will work. Like medieval alchemists searching for the universal solvent, some modern social scientists continue to search for a feasible guaranteed income plan—a plan that will simultaneously provide a decent level of help for the poor, guarantee a basic income for all, have a reasonable cost, and be acceptable to the voting public. All would agree that such a plan is difficult to find; perhaps a more interesting question is whether such a plan is possible.

All radical welfare reform schemes have three basic parts that are politically sensitive to a high degree. The first is the basic benefit level provided, for example, to a family of four on welfare. The second is the degree to which the program affects the incentive of a person on welfare to find work or to earn more. The third is the additional cost to the taxpayers.

There are many other important aspects of welfare programs and the plans to reform them, but each of the above three is critical to the chance of any particular reform plan passing Congress and being signed into law by the president. To become a political reality the plan must provide a decent level of support for those on welfare, it must contain strong incentives to work, and it must have a reasonable cost. *And it must do all three at the same time.* If any one of these parts is missing or deficient, the reform plan is nakedly vulnerable to anyone who wishes to attack and condemn it.

The typical welfare family of four now qualifies for about $6,000 in services and money every year. In higher-paying states, like New York, a number of welfare families receive annual benefits ranging from $7,000 to $12,000, and more.

There is no way that Congress, at least in the near future, is going to pass any kind of welfare reform that actually reduces payments for millions of welfare recipients. Even the most hardy welfare skeptics in Congress will shy away from this possibility. The media response would be virtually unanimous: the "reform" would be denounced as cruel and mean-spirited. Countless documented case examples would soon drive the point home to everyone watching the evening television news. Even if Congress were to pass a cut in welfare benefits for millions of Americans, no president could resist vetoing the bill.

Any radical welfare reform plan has to ensure that virtually no one now validly covered under any of our welfare programs would suffer any loss or reduction in benefits. This is especially true of programs for the blind, the aged, the disabled, and those on AFDC. The minimum level of support provided for a family of four by any reform plan must approach the level of payments in states like New York and California, where a large segment of the welfare population lives, a level that averages approximately $6,000 a year.

A second major consideration concerning the political feasibility of any radical welfare reform plan is the "welfare tax rate." All current welfare programs that are income-tested provide for a reduction in the amount of the welfare payment when the recipient of those payments begins either to earn money or to earn more money. And all of the proposed radical welfare plans incorporate some schedule of welfare payment reductions as a function of increasing income—the more you earn, the less you get from the taxpayers.

This welfare tax rate has the same effect on the financial incentive to work as normal taxes. As noted earlier, the financial incentive for a welfare recipient to get a job, or to earn more money, is directly related to how much the person earns and how much welfare benefits are reduced because of those earnings. If a welfare recipient earns an additional $1,000 a year and his welfare check is reduced by, say, $200, the result is precisely the same as if he had to pay $200 in federal income taxes on $1,000 of income. In both cases the effective tax rate would be 20 percent. If welfare benefits are reduced $500 for every $1,000 increase in earnings, the tax rate would be 50 percent; if they are reduced $700 for every $1,000 increase in earnings, the tax rate would be 70 percent, and so on.

A person's desire for additional income is unquestionably diminished when he realizes that he can keep only half or a quarter of it for himself. To make the financial incentive to work the main instrument for inducing potentially self-sufficient people to leave the welfare rolls and rise out of poverty, and then to impose on those people incentive-destroying rates of taxation far above that of the average worker, is unconscionable and clearly contrary to the expressed goals of welfare reform.

Any radical plan for the reform of welfare that does not ensure a strong financial incentive to work is vulnerable to the same charges that were leveled at President Nixon's Family Assistance Plan by the Senate Finance Committee with such devastating effect in 1969.

Exactly what constitutes a strong financial incentive to work is open to debate, for a marginal tax rate that may discourage one person from working could easily have little or no effect on someone else. But in general terms we can say that low marginal tax rates, from zero to, say, 15 or 20 percent, seem to have a relatively minimal effect on work effort; that as tax rates move up into the region of 40, 50, or even 60 percent, an increasing number of people are adversely affected; and that as tax rates approach the confiscatory levels of 80, 90, or even 100 percent and more, the work disincentive becomes very powerful.

Plans containing truly effective financial work incentives would entail tax rates not exceeding 15 or 20 percent. Tax rates as high as 50 percent might be politically tolerable in today's context, but would not be effective in motivating people on welfare to work. Any radical welfare reform plan having tax rates that begin to stray up into the category of 70 and 80 percent and above has practically no chance of gaining political acceptance. All some enterprising senator or congressman would have to do to demolish the plan would be to construct a few charts showing how welfare recipients' take-home benefits changed as they began to work and earn more money. It would quickly be proven that the financial incentive to work was almost nonexistent.

A third major consideration affecting the political feasibility of any radical welfare reform plan is the cost. The amount of money that any welfare reform plan can add to the federal budget and still be politically acceptable is a function of many factors and changes constantly. Among other things it is a function of whether people believe the amount now spent on welfare is sufficient or not, of how high welfare reform is on the public's list of spending priorities, and of the fiscal condition of the federal budget.

The current circumstances and the prospects for change are not encouraging. A 1976 nationwide Harris poll indicated that 58 percent of the public felt that spending on welfare could be cut by one-third without serious loss. The danger of double-digit inflation and high unemployment threatened by the huge budget deficits being incurred by the federal government is causing every new spending proposal to come under the strictest scrutiny. A major radical welfare reform plan could be financed only by increasing taxes, cutting expenditures on other federal programs, or borrowing money—or some combination of these.

The politically acceptable cost of welfare reform is difficult to estimate with precision. But given the public's attitude toward welfare spending in particular, and the widespread opposition to higher taxes in general, to spending cuts in other federal programs, and to increased federal budget deficits, there seems to be little hope of mobilizing the public support necessary for a substantial increase in welfare spending. In fact, any increase in federal spending for welfare reform may be out of the question in the near future.

For any radical welfare reform program to succeed politically—to be passed by the Congress and signed into law by the president—three necessary major conditions must be met: 1) total welfare benefits for a typical family of four cannot fall much below $6,000 a year; 2) the total effective marginal tax rate on welfare recipients' earnings should not exceed 50 percent, and cannot exceed 70 percent; and 3) there should be no substantial additional cost to the taxpayers.

The three basic elements involved in any radical welfare reform plan—the level of benefits, the marginal tax rate, and the overall cost to the taxpayers—are *inextricably linked to one another.* If the level of benefits is increased, and the tax rate is held constant, the overall cost must increase; if the overall cost is held constant, the tax rate must increase. If the tax rate is decreased, and the overall cost is held constant, the level of benefits must decrease; if the level of benefits is held constant, the overall cost must increase. If the overall cost is decreased, and the level of benefits is held constant, the tax rate must increase; if the tax rate is held constant, the level of benefits must decrease.

It is impossible to change any one of these three main variables without affecting the others. Setting the values for any two of them automatically determines the other one. There is a direct mathematical relationship among all three variables—minimum benefit levels, tax rate, and cost—that is fixed for any particular radical welfare reform plan, a relationship that cannot be broken.

When any two of the three basic elements of radical welfare reform are set at politically acceptable levels, the remaining element becomes unacceptable. For example, if both the minimum welfare benefit level and the tax rate are set so they will be acceptable in today's political context, the cost of radical welfare reform balloons into tens of billions of dollars, adding millions of Americans to the welfare rolls. On the other hand, if the welfare benefit level is set at a politically tolerable level, and the overall cost is held down, the result is a tax rate that approaches confiscatory levels and destroys the financial incentive to work. And, finally, if the cost is acceptable and the tax rate is low enough to create a strong financial incentive to work, welfare benefits must be reduced to such a low level that the plan would have no chance whatsoever of being enacted. *There is no way to achieve all the politically necessary conditions for radical welfare reform at the same time.*

As long as Americans believe that poor people who cannot help themselves deserve a decent level of welfare support, that people's incentive to work should not be taken away from them, and that to increase their taxes to give money to someone who may not feel like working is unthinkable, the kind of radical welfare reform being discussed in some of today's best and brightest intellectual circles is going to remain an ideological fantasy, bereft of friends in the hard world of politics.

In addition to the three major determinants of political feasibility just discussed there are other factors that reduce the chances for political success of any radical welfare plan that attempts to guarantee incomes. First, any such plan would add millions of Americans to the welfare rolls. The lower the welfare tax rate, or the rate at which welfare benefits are reduced as earned income increases, the higher the annual income a person can have and still remain on welfare. Because of the existing distribution of income in the United States, even slight increases in the level of income a person can have and still qualify for welfare would make millions of additional people eligible. As Leonard Hausman has pointed out, "It is impossible, under any scheme, to maintain low cumulative tax rates while extending substantial cash and in-kind transfers to the working poor without also extending the coverage of these programs to middle-income brackets."[25]

Second, as indicated earlier, any form of a guaranteed income would cause a substantial amount of work reduction among low-income workers that could easily run as high as 50 percent, and possibly be even higher. While scarcely appreciated now, this could well turn out to be the most politically damaging aspect of a guaranteed income.

And finally, there are certain to be unanticipated social effects. For example, one striking result of the guaranteed income experiments was a sharp increase in the number of broken marriages for the low-income families who took part in the experiments. This unexpected phenomenon is ironic, as one important virtue often claimed for a guaranteed income is the strengthening of the family. The measured results of the Seattle-Denver guaranteed income experiments revealed that the incidence of marriage breakup for whites, who had been given an income guarantee of $3,800 a year, increased 430 percent during the first six months of the experiment. Over the entire two-year period studied, family breakup—relative to the control group—increased 244 percent for whites, 169 percent for blacks, and 194 percent for Chicanos.

Apparently many low-income women had been dissatisfied with their marriages but had remained with their families because they were unable to support themselves. When a guaranteed income gave them a sufficient degree of financial independence, even though only for a few years, they left.

One could argue that these marriage breakups were a good thing: the couples were unhappy together, and the guaranteed income made it possible for them to separate or get divorced. On the other hand, there may be quite a few taxpayers who won't understand why their tax money should be used to subsidize the breakup of marriages, especially those that involve children.

If the insoluble conflict among the goals of adequate welfare benefit payments, low marginal tax rates, and low budget cost is ignored—as it can be—there still remains a delicate task for the politician who supports such radical welfare reform. In the next election, he is the one who will have to answer his opponent's charge that he voted for welfare "reform" that lowered welfare benefits for hundreds of thousands, or even millions, of poor people, or that subjected welfare recipients to higher tax rates approaching confiscatory levels, or that added billions of dollars to the welfare budget. He is the one who will have to explain why so many more Americans went on welfare, why so many of them stopped working, and, perhaps, why so many of their marriages broke up.

Politically, it's all very risky.

WHY PRESIDENT CARTER'S PLAN FAILED

Congressional leaders informed President Carter on June 22, 1978 that his proposed welfare reform plan was dead for that session of Congress. There was not even enough support in the House to pass a compromise bill costing less than half the $20 billion price of the original bill.

Why did this much-heralded "reform" plan fail? The core of any valid welfare reform is the number of people affected and how they are affected. One of the first items the Congressional Budget Office tackled when it began its analysis of President Carter's Program for Better Jobs and Income (PBJI) was what it called the program's "distributive impact," namely: 1) how the program would affect "the distribution of [welfare] recipients and benefits by income level," and 2) "the number and types of families that would gain or lose benefits relative to the current welfare system."[26]

The preliminary results were astonishing. According to the estimates of the CBO, approximately 44 million Americans currently receive some form of welfare aid from such programs as Aid to Families with Dependent Children, Supplemental Security Income, state general assistance, the earned income tax credit, and food stamps. Carter's welfare reform plan would have increased this number by almost 22 million,[27] so that some 66 million Americans would have been receiving welfare. That is just about one-third of the nation.

The massive increase in welfare spending over the past ten to fifteen years has dramatically reduced poverty in the United States—so much so that there are few poor people left. Would Carter's plan, by adding $20 billion to the annual welfare budget, have substantially increased welfare payments to these poor? The answer is no.

The welfare changes proposed by President Carter would have had an unexpected effect. As Table 1 shows, the vast majority of those who

TABLE 1

Distribution of Welfare Recipients by Pre-Welfare Family Income Classes under Current Welfare Policy and under President Carter's Welfare Reform Plan (PBJI)

Family Income Class	Number of People Receiving Benefits under Current Welfare Policy[a]	Number of People Receiving Benefits under Carter's Reform Plan	Number of People Added by Carter's Reform Plan	Percent Increase
Less than $5,000	25,600,000[b]	26,900,000	1,300,000	5
$5,000 to $9,999	12,000,000	16,300,000	4,300,000	36
$10,000 to $14,999	3,600,000	15,200,000	11,600,000	322
$15,000 to $24,999	2,600,000	6,600,000	4,000,000	154
More than $25,000	600,000	1,000,000	400,000	67
TOTAL	44,400,000	66,000,000	21,600,000	49

Source: Robert D. Reischauer, Assistant Director for Human Resources and Community Development, Congressional Budget Office, statement to Task Force on Distributive Impacts of Budget and Economic Policy, Committee on the Budget, "Preliminary Analysis of the Distributional Impacts of the Administration's Welfare Reform Proposal," October 13, 1977, page 13, Table 2(a). Preliminary estimates as of October 12, 1977. Based on earlier CBO studies, an average family size of 2.824 was used to convert numbers of families to people.

[a]Includes Aid to Families with Dependent Children, Supplemental Security Income, state general assistance, food stamps, and the earned income tax credit.

[b]Number of people rounded to nearest 100,000.

would have received welfare checks for the first time were in the middle-income group; and a few were in the upper-income group. The number of people from families with pre-welfare incomes of less than $5,000 a year would have increased only slightly (5 percent), under the proposed reform. As we move up into the higher-income classes, however, Carter's welfare reform would have a greater impact. The number of people included in families earning between $5,000 and $10,000 a year would have increased by 36 percent.

But the greatest impact was to be in the income brackets between $10,000 and $25,000. Carter's plan would have given welfare benefits, including earned income tax credits, to 11.6 million more Americans who come from families earning between $10,000 and $15,000 a year, an increase of 322 percent in the number of families. And 4.3 million Americans who now receive no welfare and come from families with incomes between $15,000 and $25,000 a year would also have benefited—a 154 percent increase (see Table 1).

The CBO's analysis of how the distribution of welfare benefits would have changed under Carter's proposed welfare reform clearly and dramatically shows that most of the new beneficiaries under PBJI would have come from America's middle-income class. There was to have been a minimal effect on people in poverty. Of the almost 22 million additional people who would have received welfare, 74 percent would have come from families having incomes of over $10,000 a year, and more than 94 percent from families with incomes that exceed $5,000 a year. Carter's welfare plan, in its broad thrust, would have focused on aiding people not now receiving any welfare.

In summation, the welfare reform that President Carter originally proposed in 1977 would have probably cost somewhere in the neighborhood of $20 billion a year more than our current welfare system. Nearly 22 million more Americans would have received some form of welfare. Effective marginal tax rates would have remained very high and acted as a serious disincentive to work. The administrative complexity of welfare would have been compounded and more welfare workers would have probably been needed to handle the increased caseload. The problems caused by the separate existence of medicaid, day care, and housing assistance programs were ignored. An examination of the gainers and losers under PBJI shows clearly that those who need welfare the least would have gained in the greatest numbers; those who truly cannot care for themselves and are now on welfare would have benefited little. The thrust of Carter's plan was to further the idea of a guaranteed income, expanding welfare into the heart of the middle class of America. This was not welfare reform. It was a potential social revolution of great magnitude, a revolution that, had it come to pass, could have resulted in social tragedy.

Those who followed past efforts at radical welfare reform were not surprised that President Carter's plan failed like the rest. From past experience, however, one can with some confidence predict that new plans will soon spring, phoenix-like, from the intellectual ashes of the old ones.

WHAT CAN BE DONE

There are two ingredients necessary to a successful program of welfare reform. First, it must be built on a clear and accurate perception of the current nature of the welfare system in the United States; and, second, it must be guided by a deep appreciation for the attitudes of Americans toward caring for people who cannot care for themselves. A plan for radical welfare reform that assumes the current system is virtually a total failure and does not take into account the public's hostility toward any form of a guaranteed income will ultimately fail, if not in the halls of Congress, then later, during its implementation. But if the reform plan builds on the strengths of our current welfare system and embraces a philosophical approach that is familiar to and accepted by the American people, its chances of success are high.

The experience of more than a decade clearly shows that the American public will accept changes in the welfare system if they move in the direction of reorienting the system toward the needy-only approach to welfare. A program of reform that increases benefits to the truly needy, controls costs to the taxpayers, eliminates fraud and abuse, and provides strong encouragement for people on welfare to become self-supporting is entirely feasible—socially, economically, and politically. The legislative details of such a plan would be numerous and complex, matching in size and complexity the array of welfare programs we now have. The welfare system is constantly changing in small ways as the regulations governing its implementation are adjusted by the welfare bureaucrats. Any reform specifics would depend on the current state of each of the programs.

There are, however, some relatively timeless principles that could guide the detailed development of any national welfare reform plan. If we begin with the premise that any serious plan for welfare reform must be politically, economically, and socially feasible, we are forced to operate within certain constraints: the plan must be consistent with what most Americans believe welfare should do, it must have a reasonable cost, and it must efficiently and effectively provide an acceptable level of welfare benefits to the truly needy.

There are at least seven guiding points for such a program:

Point One: Reaffirm the needy-only philosophical approach to welfare and state it as explicit national policy. A welfare program can succeed only if it is basically in line with what most people believe is right. In the short run it might be possible to pass legislation that would institute a guaranteed income for all or, at the other extreme, simply eliminate all government welfare programs over a period of time and allow private charitable efforts to take care of people in need. But neither of these approaches will work unless preceded or accompanied by massive changes in deeply held public beliefs. A major change in either direction is possible, but until such change begins to occur any move to reform welfare that is not based on the needy-only approach will be inherently unstable and destined to fail.

Further, there must be a clear statement of national welfare policy as a guide for those who formulate the specific laws and regulations governing the welfare system. With no clear, well-defined principles the criteria for judging specific changes in welfare programs are murky, leaving advocates, pressure groups, government officials, and politicians relatively free to support or oppose specific changes, guided only by their own personal philosophical views on what our welfare system should ultimately be. The mere promulgation of a national welfare policy would not eliminate this, but the presence of clear principles against which specific actions could be judged by outside observers would certainly attenuate such tendencies.

Point Two: Increase efforts to eliminate fraud. Perhaps the one single thing about our current welfare system that most infuriates the typical American is the flagrant fraud perpetrated by a sizable percentage of welfare recipients.

The extent of fraud and dishonesty has been clearly and irrefutably documented numerous times in recent years. For example, a HEW study of New York City in 1973, corroborated by a parallel study conducted by the General Accounting Office, showed that in the AFDC program alone, over 10 percent of the recipients were ineligible for any payment whatsoever and 23 percent were being overpaid (8 percent were underpaid). A California study, conducted in 1972, revealed that 41 percent of the state's welfare recipients were either ineligible or overpaid. Admittedly, some of these welfare irregularities are due to administrative error on the part of the welfare bureaucracy. But there is no question that hundreds of millions, probably billions, of dollars are taken from taxpayers every year and given to people who have no legal right to receive them.

Few Americans begrudge a truly needy person the money and services that our welfare programs provide, but most are enraged at the thought of someone who is fully able of caring for himself smugly cashing a government welfare check at the local supermarket. For many Americans welfare reform means only one thing—apprehend those who are defrauding the system and remove them from the welfare rolls.

Perhaps no other single issue has contributed more to the low status of welfare recipients than the public's conviction that a high percentage of those on welfare don't deserve it. Because there is no practical way to identify welfare cheats, a certain portion of the hostility generated by those who abuse the welfare system gets directed at all who receive welfare. As long as fraud is widespread, anyone on welfare is suspect to some degree in the minds of many people. A substantial reduction of welfare fraud would result in large cost savings and would greatly help restore confidence in and respect for the system. And it would wipe away the stigma of cheating from those who validly receive welfare.

Point Three: Establish and enforce a fair, clear work requirement. A welfare system based on the needy-only approach requires some means of ensuring that only those who truly cannot help themselves receive aid. During the last decade or so we have come to rely heavily on financial incentives to induce people on welfare to work if they are able to do so. Unfortunately, this has produced the dilemma of the poverty wall. There is no feasible way that the very high effective marginal tax rates imposed on the poor by our current welfare system can be reduced. The radical welfare reform plans proposed would only exacerbate the problem. Any significant reduction in welfare tax rates, significant enough to create an effective financial work incentive, would either be prohibitively expensive or result in a very low basic welfare payment.

We have gotten ourselves into the position of relying on a work incentive technique that is *unworkable*. Financial work incentives are fine in theory, but in the current welfare situation the constraints of cost and benefit levels have rendered them virtually useless. As a practical matter the financial work incentives produced by marginal tax rates of well over 70 percent are negligible—and there is no politically feasible way to decrease the rates enough to make them effective.

There is a way out of this dilemma, but it requires that we reexamine our commitment to using financial incentives to encourage people to remove themselves voluntarily from the welfare rolls and find work. The idea of using financial incentives to induce people to get off the welfare rolls is faulty in principle. It attempts to persuade people to do something they should be required to do. If we assume that our welfare system is to provide help to the needy only, it then follows that either a person has a valid need for welfare payments and should be on the welfare rolls or that person does not have a valid need for welfare payments and should not be on the welfare rolls. If persons are capable of self-support, both for themselves and for their families, they should not expect to receive any money from other members of the society who work and pay taxes. There is no reason people should be given financial incentives to do what they rightfully should be doing anyway.

The basic principle involved here is one of independence versus dependence. If a person is capable of taking care of himself, he is independent and should not qualify for any amount of welfare. To the extent that a person is dependent—that is, to the extent that he cannot care for himself—to that extent he qualifies for welfare. If he can earn part of what he needs, then he has an obligation to work to that extent.

The major difficulty with such a principle is its implementation. For someone must judge whether or not the welfare recipient is capable of work. But difficult as this may be, it can be done. As in all judicial-type decisions, there are things that reasonable persons can reach agreement on. It will, however, require a shift away from the growing trend toward a more automatic, check-mailing type of welfare operation to a more personalized, people-oriented kind of welfare administration that emphasizes both the authority and the responsibility of local government.

In sum, we must abandon the idea of depending on financial incentives to induce people to leave the welfare rolls. Instead, our welfare programs should be guided by the simple principle that a person gets welfare only if he or she qualifies for it by the fact of being incapable of self-support. If they don't qualify, they have no right to welfare. Rather than being encouraged to find work, they should be given reasonable notice and then removed from the welfare rolls.

Point Four: Remove inappropriate beneficiaries from the welfare rolls. There are certain categories of welfare recipients whose eligibility, while legal, is questionable. With the needy-only principle as a guideline the welfare rolls should be examined carefully and the regulations changed to exclude any groups who fail to qualify. Two prime candidates for disqualification would be workers who strike and then apply for welfare benefits claiming loss of income, and college students who queue up for food stamps.

Point Five: Enforce support of dependents by those who have the responsibility and are shirking it. Too often we fail to ask why people are on welfare. In many cases the answer is simple: a father deserts his family with the clear knowledge that because of the way the law works there is little chance that he will ever be called to account. Today a high percentage of families receiving welfare payments have an absent parent who could contribute to their support. Although increased efforts have been made in recent years to remedy this situation, it is time to reassert strongly the old idea that both the father and the mother have a responsibility to care for their children.

This kind of child support enforcement could substantially lower welfare costs. During 1976, the first year the federal government made any serious effort to track down runaway welfare fathers, the Department of HEW collected some $280 million. It is estimated that such collections could mount as high as $1 billion a year by 1980.

For every absent parent who can be required to contribute to the support of his or her spouse and children we could remove, on the average, three or four people from the welfare rolls. If only as a matter of justice, parents who desert their families should be tracked down, across state lines if necessary, and required to provide a reasonable level of support.

Point Six: Improve the efficiency and effectiveness of welfare administration. Almost everyone seems to agree that the administration of the welfare system could be greatly improved—in effectiveness, efficiency, and responsiveness. The necessity for major improvements in countless areas of administration has been repeatedly documented. Reports and tales of gross mismanagement have become almost commonplace; shocking revelations no longer seem capable of rousing a benumbed public. For example, in 1976 New York State's welfare inspector general estimated that "nearly $1 billion, or almost one-sixth," of welfare-related costs in New York, were "being dissipated through recipient and vendor fraud, administrative error or unnecessary and overbilled services."[28] A billion dollars a year being lost through bad management in one large state would have been a page one scandal not too many years ago. The *New York Times* carried the story on page 29.

Administration is perhaps the most unexciting, intractable area in which to initiate welfare reform. People's eyes glaze over at the first mention of reorganization, revised regulations, and improved personnel administration. But dull as the area may be to most, it is of critical importance to any effective welfare reform plan. Welfare reform cannot succeed until and unless administrative reform is made a matter of top national priority, unless clear standards of performance are set, and until those standards are rigorously enforced by rewarding those welfare managers who succeed and penalizing those who fail.

Point Seven: Shift more responsibility for welfare from the federal government to state and local government and to private institutions. The question of which level of government—federal, state, or local—is best able to perform a particular function, or indeed whether the function should not be attended to by government at all but instead be left to private initiative, is one that has perplexed scholars and policymakers for a long time. When President Eisenhower took office in early 1953, one of his first acts was to establish a national commission of distinguished Americans (among them Oveta Culp Hobby, Clark Kerr, Hubert Humphrey, and Wayne Morse) to study this problem and recommend to him a set of specific actions. The commission worked intensively for almost two years and concluded:

> Assuming efficient and responsible government at all levels—National, State and local—we should seek to divide our civic responsibilities so that we leave to private initiative all the functions that citizens can perform privately; use the level of government closest to the community for all public

> functions it can handle . . . [and] reserve National action for residual participation where State and local governments are not fully adequate, and for the continuing responsibilities that only the National Government can undertake.[29]

Public opinion polls now indicate strong support for such a shift. A 1976 nationwide Harris survey posed a number of propositions and asked whether the statement applied more to the federal government or to state government. The results revealed that the majority of the American people felt that state government was "closer to the people" (65% to 12%); state governments could "be trusted more" (39% to 15%); state governments "really care what happens to people" (36% to 14%); the federal government "is more out of touch with what people think" (56% to 12%); and the federal government "gives the taxpayer less value for the tax dollar" (44% to 23%).[30]

Another national Harris poll, designed expressly to determine how the American public feels about the role of state and local governments, produced results more directly relevant to the issue of welfare. When asked what level of government—state, local, or federal—should make key policy decisions in regard to welfare, the American public favored state and local governments over the federal government by a margin of 56 percent to 39 percent. Five percent were undecided.[31]

I can think of no more appropriate place to apply the progressive principles of decentralizing government than to our welfare system. It has been argued, and fairly so, that a good deal of the waste and inefficiency in our welfare programs, the growing impersonalization, and the strong desire to automate the whole thing, is directly linked to the increased federal role in welfare. As authority over welfare has become centralized in Washington, the policymakers have become increasingly remote and isolated from the welfare recipients. As government, at all levels, has taken a greater and greater role in welfare, people seem to have become more reluctant to contribute to private charitable institutions.

We can arrest this trend toward a centralized, impersonal welfare bureaucracy by moving on two fronts. First, we should encourage people to take a more active role in charitable endeavors by allowing them a tax credit for charitable contributions, perhaps with some limit as to the maximum credit that could be taken. If it is considered good to use a tax credit to finance political campaigns, wouldn't it be even better to use one to encourage the growth of private charity? In addition, the current limit on the amount of charitable contributions that is deductible in computing taxable income should be raised significantly. If pursued properly, such a combined policy of credits and deductions for charitable contributions would gradually reduce government's role, while at the same time increasing the total resources available for welfare.

Second, for the continuing, large role in welfare that would remain for the government in the near future, an effort should be made to transfer both authority and responsibility for welfare programs, and the resources used to fund those programs, from the federal government to state and local governments. On balance, the closer the level of government is to the people, the more efficient and effective our social welfare programs are apt to be. As Dan Lufkin concluded, after serving for two years as Connecticut's first commissioner of environmental protection, "The more the administration of policies and programs is brought down to the state and local level, the better the people will be able to judge who is fair, who is honest, who is creative, and who is productive and efficient."[32]

A comprehensive welfare reform plan that hewed to these seven basic principles could go far toward restoring equity and efficiency to our welfare system. Its cost would be minimal and, in fact, could even lead to reductions in welfare expenditures. The latent public support for such a plan is clearly there. What is missing is the strong national commitment for this kind of welfare reform that can come only from a White House initiative.

Practical welfare reform demands that we build on what we have. It requires that we reaffirm our commitment to the philosophical approach of giving aid only to those who cannot help themselves, while abandoning any thoughts of radical welfare reform plans that will guarantee incomes. The American people want welfare reform that ensures adequate help to those who need it, eliminates fraud, minimizes cost to the taxpayers, and requires people to support themselves if they can do so.

NOTES

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30. *Current Opinion* (Roper Public Opinion Research Center), September 1976, p. 89.

31. Dan W. Lufkin, *Many Sovereign States: A Case for Strengthening State Government—An Insider's Account* (New York: David McKay Co., 1975), p. 225, Table 15.

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Senator MOYNIHAN. Senator Dole hoped to be here, and will from time to time be onhand. He is required to be where I am also supposed to be, at the meeting of the Conference Committee on the Windfall Profits Tax in the Longworth Building. He has asked that I include in the record, an opening statement by him, which concerns, among other things, the Family Welfare Improvement Act, S. 1382, which he has cosponsored along with our distinguished chairman, Senator Long, and our colleagues, Senators Talmadge, Packwood, and Boren of the Finance Committee.

[The opening statement of Senator Dole follows:]

OPENING STATEMENT OF SENATOR DOLE

Once again the distinguished Chairman of the Public Assistance Subcommittee is performing a unique service to the Congress and the country by convening informational hearings to explore thinking on the direction which welfare reform should take in the 1980s. The Senator from Kansas appreciates the opportunity to consider these ideas and commends the Chairman for making the opportunity available.

Several months ago, Senator Moynihan was responsible for similar hearings which brought to our attention the findings of an extensive research project to test the effects of a guaranteed income. The results of that project, the Seattle-Denver Income Maintenance Experiment, are still being studied, but the preliminary findings indicate that individuals work less and families break up more often under a guaranteed income plan. Frankly, the first result was expected by many of us, but the second is an unpleasant surprise.

Regardless of what final determinations are made from a study of the results of the Seattle-Denver experiment, I believe we have learned four important lessons. First, there is a lot we do not know about the effects of welfare policy changes on individuals and families covered by public assistance programs. Second, even relatively minor changes in welfare programs may have a significant impact on the behavior of program participants. Third, there are real dangers in moving in the direction of greater federalization of welfare programs and the guaranteeing of incomes. Fourth, and perhaps more important, there is a compelling need to thoroughly test whatever changes we decide on before moving to broad implementation of new welfare policies. A review of the prepared testimony of the witnesses who will appear at these hearings indicates that a number of experts agree.

I believe that State and local governments are the best laboratory we have for testing new ideas for public aid and for coordinating public and private efforts to serve the disadvantaged. Giving these government entities greater control over welfare programs will assure the kind of flexibility which accommodates innovation and, consequently, leads to successful program performance. Furthermore, since there is a better perspective at these levels of government, assistance programs can be limited to the truly needy and targeted more effectively to meet the needs of these individuals.

The Family Welfare Improvement Act, S. 1382, which I have cosponsored with our distinguished Chairman, Senator Long, and with Senators Talmadge, Packwood and Boren of the Finance Committee, is the result of our belief in the ability of the States to improve public assistance. We support the block grant/decentralization/demonstration approach to welfare reform because it offers the greatest advantages for decreasing dependency, controlling costs and improving the quality of life both for those in need and for taxpayers. On the other hand, the blanket federal approach to welfare reform leads to widespread redistribution of income and attacks the underlying private enterprise/incentive aspects of our economy and our political system. Those aspects are vital to our political and economic freedom and should not be destroyed in the name of "welfare reform."

Again, I commend the Chairman for providing this opportunity to discuss the latest thinking on welfare issues in preparation for future Committee action on welfare reform. We can learn a great deal from these hearings.

Senator MOYNIHAN. With that, we go directly to our second witness scheduled to appear, Mr. Anthony Morelli, who is vice president of the Economic Development Council of the city of New York.

Mr. Morelli, good afternoon, and we welcome you to the committee.

STATEMENT OF ANTHONY MORELLI, VICE PRESIDENT, ECONOMIC DEVELOPMENT COUNCIL OF NEW YORK CITY, INC., ACCOMPANIED BY WILBUR K. AMONETTE

Mr. MORELLI. Mr. Chairman, I have with me today Mr. Wilbur Amonette, who is also with the Economic Development Council, and has been working with me in our work on the Human Resources Administration in New York.

Senator MOYNIHAN. Mr. Amonette, good afternoon, and we welcome you.

I wonder if I could interrupt you just a moment to say that as you all observed, my good friend and colleague, Senator Heinz has been able to appear.

I wonder if you would like to say something?

Senator HEINZ. Mr. Chairman, I will put a statement in the record. I just want to commend you for holding the hearings on welfare reform. You have assembled a very distinguished group of witnesses, very comprehensive. I might add that I think it is only fitting that you, not only because of your own expertise in this area, but because of your scholarly reputation, should be holding these hearings.

I might add that I not only look forward to hearing from the witnesses, but I look forward to hearing your observations, statements, questions, which I find are often given with just the appropriate amount of rhetorical flourish, which I mean as a compliment, Mr. Chairman.

Senator MOYNIHAN. The Chair records that this is meant as a compliment. [Laughter.]

Senator HEINZ. The junior Senator from Pennsylvania appreciates that recognition, and I do not wish to take any more time.

[The prepared statement of Senator Heinz follows:]

PREPARED STATEMENT BY SENATOR JOHN HEINZ

Mr. Chairman, first, I would like to compliment the junior Senator from New York for his initiative and hard work in arranging these hearings on welfare reform, and I particularly want to congratulate the distinguished Senator for the quality of witnesses he has assembled for this occasion. As was to be expected of a man of scholarly temperment, Senator Moynihan has scheduled not only witnesses who are familiar with the technical minutia of welfare programs, but also individuals who will provoke thought upon the principles and priorities relating to our welfare system. I might add that it is only fitting that Senator Moynihan, recognized as a national expert on welfare issues, should be leading these hearings. Unlike some hearings, I look forward not only to the statements and responses of the witnesses, but also even more to the statements, questions and learned comments of the Chairman of this Subcommittee, who has a well deserved reputation for appropriate rhetorical flourish, which, I hasten to add, is meant as a compliment.

For myself, Mr. Chairman, I come to these hearings, which, of course, are a prelude to full Finance Committee hearings on welfare reform, with no fixed preconceptions, and no magic solutions to our welfare situation. Rather I come seeking answers to some fundamental questions regarding our approach to welfare as a nation. These questions include:

Where exactly do we stand now in our national effort to eliminate poverty; what, if any, basic needs of our citizenry remain unmet?

What is the appropriate role of the Federal government, and what, if anything, needs to be done to better assist the states and localities in the welfare area?

How can we best balance our desire for rationality and efficiency in the administration of our welfare system against the need for equity, humaneness, and the assurance that all those truly in need will be reached?

What specific steps can we take to reduce the incidence of unqualified individuals taking advantage of the welfare system, and thereby ripping off the hard-working taxpayer?

What is the best way to break the cycle of welfare dependency, and assist individuals on welfare to become productive members of our society?

Finally, should we be thinking about fundamental and far-reaching reforms of our welfare system, or are modest, incremental changes the only realistic approach?

Mr. Chairman, it is my conviction that our present welfare system needs to be, can be, and must be improved. Far too many individuals are not getting the help they need; far too many individuals are getting help they neither deserve nor need; and far too many individuals are caught in a Kafkaesque web of welfare dependency from which there appears no escape.

I, therefore, again, commend you for your initiative in commencing these hearings which will give us all an opportunity, prior to getting into the merits of specific legislation, to reflect upon where we have been, where we are going, and where we want to go in the area of welfare reform.

Thank you, Mr. Chairman.

Senator MOYNIHAN. Gentlemen, will you proceed?

Mr. MORELLI. Thank you, Senator.

I have presented testimony for entering into the record, and what I would like to do is to just very briefly read a summary of that testimony.

Senator MOYNIHAN. You may do just as you wish.

Mr. MORELLI. The Economic Development Council is an independent nonprofit organization established in 1965 to help bring the capabilities of the business community to bear on vital urban problems, in order to help improve the city of New York's economic climate.

In 1970, we developed the concept of utilizing loaned executives from private companies to form task forces that worked with city departments to help improve their management effectiveness. Because the salaries of these loaned executives are paid by their own companies, we are able to provide high level management expertise to New York City government at low cost.

The Economic Development Council had such a task force working within the New York City Human Resources Administration from 1972 to 1974, and again from 1976 to the present time. Our experience has provided ample opportunity to observe the extremely complicated and difficult problems faced by the city of New York in administering its welfare program.

The problems in New York City are magnified, not only because of the case load and program costs are so high, but also because New York is one of the few municipalities in the country that directly administers welfare programs.

New York's Human Resources Administration manages programs that involve $3.2 billion of annual expenditures, has a staff of over 20,000 employees, and numbers its total clients in the millions. In many cases, New York's problems cannot be solved by the city alone, but reflect and result from the complexity of the welfare process as a whole, reflecting as it does the Federal and the State levels of government.

It should be recognized that I am speaking today from the perspective of our experience with New York City, without any attempt to analyze the Federal or State agencies. This testimony will point out some of New York City's problems, and some suggestions which should be considered in preparing future Federal legislation.

We are, of course, aware that any system that deals with the problems of the poor in a city as large as New York will, of necessity, be complex and expensive to administer. In summarizing these problems, it is almost impossible to portray accurately the administrative difficulties that exist.

In addition to the federally related problems I will list, New York must also operate under the extensive control of New York State for both Federal and State mandated programs. It must operate in a political environment in which its clients wield considerable political power and regard welfare as a right.

In addition, the Civil Service regulations and extensive labor union power create situations that increase the difficulty of effective administration. Finally, they are caught up in the financial crisis which makes their contribution to Federal and State mandated programs an open-ended financial liability that has the potential to disrupt the city's precarious financial plans for future solvency.

I would like to briefly summarize the major problems involving the Federal level that inhibit New York City's ability to manage welfare programs effectively:

First, the complexity and frequency of change of the eligibility and grant level determination criteria imposed on the city, which force its high error rates, creates excessive administrative costs, confuses clients and staff, and encourages attempts at frauds.

To illustrate the problem, I will leave with you a copy of the current procedure manual used by the income maintenance clerks in New York City, which is there on Mr. Amonette's right. I will also leave a copy of the decision tabled project, which is a pilot test in New York State that attempts to codify the rules and regulations into a more logical sequence. Finally, I will leave a copy of the 27-page workbook used for public assistance, medicaid and food stamps.

Second the problem involves the tripartite administrative control system involving the Federal, State governments in addition to New York City. The funding formula for the three-level structure discriminates against the city of New York, and creates administrative problems by fragmenting the responsibility for monitoring, control, and decisionmaking.

Third, the third problem is the fragmentation of the organizational structure at the local level, which reflects the fragmentation at the Federal level. Funding policies seem to encourage building organization components for each new program that is mandated.

Fourth, Federal program requirements, especially those involving quality control, often fail to consider the unique problems of administration facing large cities.

Fifth, requirements for due process, protection of individual rights, and encouragement of maximum participation in programs, and the mandating of community participation in policymaking have created administrative and financial problems in New York City.

Sixth, the time requirements for implementation of new mandated programs or major changes in existing programs are often unrealistic and do not reflect delays in promulgation of rules and regulations by Federal and State agencies, nor do they reflect the difficulty of implementing such changes or programs in a major computerized system.

In order to reduce some of the administrative organization and management problems in New York City, and hopefully other major cities with similar problems, we offer the following suggestions:

First, Congress should provide a clear, basic policy directive for future welfare legislation that will reduce the need for the adoption of piecemeal and sometimes confusing legislation. The policy should replace the present patchwork programs which have developed over many years through numerous legislative changes and amendments, with a cohesive plan that could function effectively in a long-range future. The policy should be comprehensive in addressing the needs of the poor, the reduction of dependency on welfare, the adequate financing of the program allow for maximum local flexibility, and reduce the need for numerous future modifications of policy. The policy should require only limited interpretation by the regulatory agencies to insure of implementation as intended.

Second, sufficient Federal financial aid should be provided on an equitable basis for all mandated programs, so as to avoid exacerbating the financial crisis situations and the incurrence of discriminatory tax liabilities, as occurs in New York City. Any formula for calculating the Federal financial share for mandated programs should reflect the relative cost of living as well as the overall impact on the local taxpayers.

Third, in developing future policy, Congress should consider the reorganization of those Federal agencies that are now responsible for parts of the total spectrum of support for the poor. In addition to a review of the appropriateness of the present organization configuration of the Department of Health, Education, and Welfare, consideration would be given to transferring to them responsibility for the food stamp program, and employment programs. These are now administered by the Department of Agriculture and the Department of Labor. We believe that a properly structured single Federal agency should have responsibility for all programs relating to assisting the poor, and reducing their dependency on government.

Fourth, the required levels of quality for major urban areas should take into consideration unique situations such as the problems caused by large, illegal alien populations, the adequacy of the State quality control review, and the volume and turnover in the population of clients. These factors tend to preclude many major urban areas from achieving the same quality levels as other communities. Unless these special factors applying to New York City are taken into consideration, it would be discriminatory toward New York City to invoke penalties on the basis of a single national targeted error rate. At the least there should be uniform and standard quality control criteria established to insure accurate measurement of error rates for all States using the same criteria. This will establish reliable measures of relative quality levels which can be compared in light of any unique situation as illustrated above.

Fifth, future Federal legislation should be less concerned with detail requirements for programs, and should place more emphasis on the achievement of realistic goals and targets through local initiatives. This approach should be designed to allow local government to seek the most effective methods of operation. It should also reduce the burden of obtaining detailed approvals for many of the administrative decisions that must be made by the local unit of government in order to implement new programs. Finally, there should be moderation in forcing local units of government to encourage participation in programs.

Sixth, impact statements for proposed programs should be required which will identify potential problems in implementing and operating major new programs. It is essential that such impact statements take into account the financial and administrative implications for the local unit of government that will be required to operate the mandated programs. Also, in the future, all programs that are mandated should include reasonable schedules for implementation, and provide for pilot testing in major urban areas.

In conclusion, we should point out that the city of New York has made substantial progress in meeting Federal standards of performance and quality in the face of very difficult situations. We at the Economic Development Council are continuing to work with the Human Resources Administration to improve its administration even further.

In spite of such progress, we believe it is important that Congress and the Department of Health, Education, and Welfare consider the unique problems of New York and other major cities when enacting new legislation or promulgating rules and regulations. It is a difficult task to pass, on a national basis, legislation that insures equality for all local units of government. However, the major urban centers in our country contain the majority of citizens who must be provided for under the legislation, and the programs designs created by such legislation must be established with consideration of the capacity of State and local agencies to effectively manage and carry them out.

Good, sound administration makes more effective use of limited resources and provides the maximum benefit to the poor at any level of expenditure. Welfare reform for the 1980's should represent a complete overhaul of the existing programs and provide for efficient and equitable implementation in all States.

Senator MOYNIHAN. We thank you for the example, as well as for your good testimony. We asked you to address questions of administration and management, and you did so like an administrator and a manager.

Mr. Amonette came along with some formidable looking documents. I think that as an economy measure, we will not include those in the record as if read.

Let's talk about this a bit, first of all, to make a point that I know Senator Heinz will be interested in. In the mathematica projections of fiscal flows resulting from H.R. 4904, (the bill passed by the House) in fiscal year 1982, they made an estimate of the additional Federal expenditures.

Then, they took the hypothetical case that there would have to be a surcharge on the Federal personal income tax to pay for this program—Federal taxes will pay for it in one way or another—and they calculated on this basis where the taxes would come from and where the expenditures would go. They also estimated the ratio of additional expenditures to the tax surcharge. In other words, they have projected for every dollar of tax, how much in benefits the different States would receive.

New York State, under this proposal, would receive 10 cents of benefits for every dollar of tax under the new program. The happy Commonwealth of Pennsylvania would receive 37 cents for every dollar.

When was the last time that you were able to say with complete candor, Senator Heinz, that Pennsylvania has gotten back 37 cents for every dollar it sent to Washington?

Senator HEINZ. It has never happened before, and knowing the way that the Senate and the House work together, it is not likely to happen in the future.

Senator MOYNIHAN. You will be down at the 10-cent level with New York. Neighbors have to share adversity.

Would you like to question our witnesses?

Senator HEINZ. Mr. Chairman, let me defer to your line of inquiry, because we do have a lot of people to hear from.

Senator MOYNIHAN. I will ask two questions that I know are important to what we are going to have to consider.

Senator Dole indicated in his opening statement that he and Senator Long and others have introduced a bill, which would provide bloc grants to the States for welfare expenditures.

There would be different variations of this, but basically this bill says: Here is the amount of money you are getting for welfare now—some would include food stamps and some would not—and it is yours to manage as you will, with an index for cost of living increases. If you spend more, you pay for it yourself, and if you spend less, you keep it.

I suppose that this is the maximum of local flexibility, and you have been urging that there be such flexibility. How would you feel about the bloc grant approach which, whatever else, is the most radical proposal in administrative terms, and in terms of the basic structure of the Social Security Act that has come along in a long time. It would make a change. It is not tireless tinkering. This is not incrementalism. This is a change.

Mr. MORELLI. Basically, we would be in favor of it. The only problem that we would anticipate is that even though the funds would be made available under a bloc grant, the whole effort could be undermined if the Federal regulatory agencies then began specifying and promulgating all kinds of rules and regulations that programs had to accomplish certain things.

It depends upon how it gets implemented. But in general, we agree with the approach. In fact, we think that more and more of the Federal money should be going in that direction, and that the Federal Government should operate almost like a contractor and pay for certain services. The local units of government, if they can operate it effectively, will realize the difference, and if they cannot, then they will have to make it up.

Senator MOYNIHAN. There are those who agree with you, and those who very much don't. That is why you have gotten into this business only temporarily, I hope.

Let me ask you about the very serious matter of error rates. As you know, there was a time when New York City was thought to be a place where practically anybody who wanted to go on welfare, did so. There was just a statement, "I am eligible," and it was accepted.

Now, of course, the rolls of those on welfare have been declining. AFDC has been declining in New York somewhat, partly as a result of the freezing of payments. There has to be a certain kind of ceiling that presses down gradually, but, there has also been a very considerable effort at managing the program better.

Do you think that it is working? Do you think that some of the decline in the total numbers reflects better administration, or is it demographic and economic?

Mr. MORELLI. I think that it is a little of everything. There has been a definite increase in the level of quality, going from about 17-percent ineligible rate in around 1974 to under 7 percent now. The problem is, how much further can that error rate go in a city such as New York, where you tend to have a lot of factors that work against a lower quality rate?

Senator MOYNIHAN. A uniform national error rate does not reflect reality. There are profoundly different conditions of application in a small town in Vermont than in Brooklyn.

Mr. MORELLI. But there are financial incentives being considered for localities or States that have error rates below certain percentages. That is where it does not recognize the uniqueness of New York City.

Senator MOYNIHAN. As you know, Congressman Michel has introduced an amendment that would require States to reduce their error rate to 4 percent. Is that something cities such as Philadelphia and New York could realistically attain?

Mr. MORELLI. My personal opinion is that 4 percent would be impossible in New York.

Senator MOYNIHAN. In effect, it is a penalty imposed on New York City. You know in advance that you are not going to get there. Seventeen percent is too high, but you are dealing with a bilingual, often transient population, in a densely populated part of the world. There are going to be mistakes. Even a small mistake, I suppose, counts as a mistake, because you don't assess the enormity of the mistake. A 4-percent rate is just a penalty on urban centers.

How do you do in Pennsylvania on error rates?

Senator HEINZ. Lately, we have been living in fear that it would be discovered that the previous administration, which was under another Governor I hasten to add, as being the fourth or fifth worst in the United States. Happily since then the error rate has improved dramatically.

Senator MOYNIHAN. But there is an irreducible minimum rate of error in any large and complex enterprise. Insurance companies have error rates. They know what they are, and they know what is tolerable. To ask what cannot be done is to penalize.

Of course, if you have a bloc grant approach, the error rate is something that decreases your costs rather more than if it is a shared activity. That is one of the problems, I suppose. If an error costs you one-part of the dollar amount involved, the pressure to reduce error is not as great as if it cost you the full amount. That is as much as I understand my business economics.

Mr. MORELLI. If I may make one other point about New York. The fact that the error rate for New York City is calculated on the basis of the State's quality control effort. Part of the problem is reflected in the fact that New York State does a very comprehensive job on investigating quality levels in New York City. I would tend to think that in a State where the welfare system is administered by the State itself, that the executives on the quality control effort might not be as thorough as it is in New York for a variety of reasons. That coupled with all the other problems that face New York makes reduction below that 7 percent very difficult.

Senator MOYNIHAN. A very clear point.

Senator Heinz?

Senator HEINZ. Two questions, both of which I know Senator Dole is particularly interested in. He was tied up on the floor first of all at 2 o'clock, and then the Windfall Profits Conference has convened over at the Longworth.

The first question is whether you believe that a decentralized approach to welfare reform, which gives greater control to the State and local governments, would help to alleviate problems that the city of New York has encountered in administering welfare programs. You were touching on this, I think, in part just a moment ago.

Mr. MORELLI. It is a very difficult question to answer, because it depends on the definition of "decentralization."

Any kind of welfare program in this country has got to involve a great deal of Federal funds. I don't think that the Federal Government would be in a position to decentralize to the point where they would fund programs without really having any control over them. You have to have some control.

Really, the definition of "decentralization" is the question.

Senator HEINZ. One of the two alternatives that will be before the full committee will be this bloc grant approach. While there is a set of basic guidelines—I am no expert on the bloc grant approach—I don't think that it would be accurate to say that there are very highly specific error rates and standards that are built into that. There is flexibility in that, as I understand it.

Mr. MORELLI. Basically, it does follow what we are recommending. We are recommending the same thing. So, I guess, in that context decentralization would be something that we would support.

Mr. HEINZ. New York State, and New York City, more specifically, both the State and the city, are interested in fiscal relief. Would a bloc grant be as effective a fiscal relief mechanism as the alternative of a higher Federal match for welfare programs?

Mr. MORELLI. I really could not answer that at this point. I don't know what the bloc grant financing will involve.

Senator MOYNIHAN. I suppose it is a question of the numbers used.

Senator HEINZ. Senator Moynihan has proposed a variety of programs.

Senator MOYNIHAN. Sooner or later, whatever happens, I will have proposed it, I think. This is the only thing that I can say.

Senator HEINZ. You are doing fine, Mr. Chairman, along that parameter, no problems at all. [Laughter.]

Senator MOYNIHAN. Thank you, Mr. Morelli, and thank you, Mr. Amonette.

[The prepared statement of Mr. Morelli follows. Oral testimony continues on p. 170.]

ECONOMIC DEVELOPMENT COUNCIL OF NEW YORK CITY, INC.

200 MADISON AVENUE NEW YORK, N.Y. 10016 (212) 949-0800

TESTIMONY OF

ANTHONY M. MORELLI

BEFORE THE

U. S. SENATE SUBCOMMITTEE

ON

PUBLIC ASSISTANCE

February 6, 1980

EXECUTIVE SUMMARY

The Economic Development Council of New York City, Inc. has had over seven years' experience in helping the Human Resources Administration of New York City improve its operations. During that time, we have observed several problems affecting their ability to organize and administer in the most effective, efficient and economical manner.

These problems may be summarized as follows:

(1) The complexity and frequency of change of the eligibility and grant level determination criteria imposed on New York City inhibits its ability to achieve lower error rates, creates excessive administrative costs, confuses clients and encourages attempts at fraud.

(2) In New York City, the welfare system is under a tripartite administrative control system involving Federal, State and City levels. The funding participation formula discriminates against the city. The three-level structure also creates problems by fragmentating the responsibility for monitoring, control, and decision-making.

(3) Organizational fragmentation of programs at the Federal level is reflected in fragmentation of the organization at the local level.

(4) Program requirements often fail to consider the unique problems of administration facing large cities.

(5) Requirements for due process, protection of individual rights, encouragement of maximum participation in programs, and the promotion of community participation have created administrative and financial problems in New York City.

(6) The time requirements for implementation of new mandated programs or major changes in existing programs are usually unrealistic because they do not reflect problems inherent in high volume, mechanized systems.

In response to these problems, we offer the following recommendations:

(1) Congress should develop a comprehensive, basic policy direction for the future which will reduce the need for continual piece-meal legislation to patch up the existing fragmented programs.

(2) All Federally-mandated programs should provide sufficient and equitable financial aid to prevent discriminatory tax liabilities for citizens of major urban areas.

(3) The administrative structures at the Federal level should be reviewed to insure the least amount of fractionalization in providing support and remediation services to the poor.

(4) All future Federal legislation and regulation should recognize the existence of unique urban problems when using quality levels as a factor in determining financial reimbursement.

(5) Federal legislation and regulation [illegible] maximum local flexibility to meet mandated goals.

(6) Impact statements and pilot testing should be required for all proposed programs to identify and correct problems before they are implemented nation-wide.

STATEMENT OF

ANTHONY M. MORELLI

BEFORE THE U. S. SENATE
PUBLIC ASSISTANCE SUBCOMMITTEE
OF THE
COMMITTEE ON FINANCE

I am ANTHONY M. MORELLI, Vice President and Task Force Chairman of the Economic Development Council of New York City, Inc. The Economic Development Council is an independent, non-profit organization established in 1965 to help bring the capabilities of the business community to bear on vital urban problems in order to help improve the City's economic climate.

In 1970, we developed the concept of utilizing executives loaned from private companies to form task forces that work with City Departments to help improve their management effectiveness. Because the salaries of these loaned executives are paid by their own companies, we are able to provide high-level management expertise to New York City government at no cost.

The Economic Development Council had such a task force working within the New York City Human Resources Administration from [illegible] through 1974, and again from 1976 through the present. I was a member of the staff of the first task force and served as Chairman of the second task force from 1976 through 1979. During our task force assistance, we have completed over 90 projects utilizing about 50 person-years of on-loan executive time. It is important to note that our task force work has not extended to direct involvement in the policy-making activities of the Administration. Rather, we have concentrated our assistance in translating policy into effective management operations.

Our seven years' experience in helping the Human Resources Administration has provided ample opportunity to observe the extremely complicated and difficult problems faced by the City of New York in administrating its welfare programs. In many cases, these problems cannot be solved by the City alone but reflect and result from the complexity of the welfare process as a whole, involving as it does Federal, State and City levels of government, including at each level the legislative, executive and judicial branches. The problems in New York are magnified, not only because the number of cases and the program costs are larger than in any other community in the country, but also because New York is one of the few municipalities in the country that directly administers welfare programs. New York's Human Resources

Administration manages a program which involves expenditures of over $3.2 billion annually, has a staff of over 20,000, and numbers its total clients in the millions.

This testimony will point out some of those problems affecting New York City which should be considered in preparing future Federal legislation. We are, of course, aware that any system that deals with the problems of the poor in a city as large as New York will, of necessity, be complex and expensive to administer. However, those citizens who ultimately bear the cost of such programs are entitled to assurance that the programs are being provided in the most efficient, effective, and economical manner possible.

The success of any administrative structure is its ability to produce its output at the lowest cost and highest level of quality. The ability of New York City to achieve this objective in the administration of welfare programs is largely dependent upon policies and practices mandated by Congress as interpreted by Federal agencies. In addition, New York City's administration of welfare is also affected by requirements imposed by the New York State Legislature as interpreted by various agencies of the State. In the following remarks, I will confine myself to those Federal actions and requirements that bear upon the cost and quality of delivering welfare and social services in New York City.

I will cover six basic problem areas and then offer some suggestions.

The first major problem which affects both the cost and the quality of Welfare, Medicaid, Food Stamps, and Social Services delivery is the complexity of the present program process for determining eligibility. The present criteria for eligibility and budget are so complex as to defy verification, objective evaluation, and routine determination. The initial eligibility determination for each of the major program areas calls for separate applications involving so many rules and regulations promulgated by both the Federal and State governments, that it is difficult for $9,600-per-year clerical employees engaged in the eligibility process to be able to arrive at higher quality levels. For example, we found in 1974, and again in 1979, that the welfare eligibility and budget process calls for the application of over 750 different rules in determining eligibility and grant level for clients of the New York City welfare programs, including Aid for Dependent Children (AFDC), Home Relief (HR), and emergency assistance. The same complexities can be found in the Medicaid and the Food Stamp application processes. In the way of comparison, it takes a New York State quality control reviewer four days to evaluate each case, utilizing a variety of data files that are not accessible to the New York City Income Maintenance clerk, who interviews and processes paperwork for an average of 2.5 new clients per day.

In addition, each major program has variations in the treatment of client assets and income that create administrative problems. For example, in some cases, an eligible client is permitted to own a car. In other cases, he or she may not. Under the Food Stamp and Medicaid Programs, a client may own a home. But under Public Assistance, the recipient must assign his or her interest in the home to qualify for aid. Income allowances vary according to age, program, and family configuration. The entire situation is made even more difficult by the frequency with which rules and regulations are changed. This results in increased clerical training requirements. Clerical errors increase and technical errors also increase through changing of eligibility criteria for clients who were eligible under the old rules but are no longer eligible under the new rules. Take the recent changes in Food Stamp regulations. The attached exhibit by the Deputy Administrator for the City's Income Maintenance Program serves as a case demonstration that the changes emanating from the Federal level defy effective and efficient implementation at the local levels. Although New York City has made enormous progress in reducing its public Assistance ineligibility rate from 18 per cent in 1973 to 7 per cent in 1979, there is serious doubt about its ability to make further substantial improvement under present conditions.

A second major problem for New York City arises from the tripartite administration and funding of mandated and voluntary programs. With tripartite responsibility, effective management of finance and administration by the City has become almost impossible. The financial problems include the formulas that set ceilings on the Federal share of AFDC and Medicaid costs. New York City pays 25 per cent of the costs of these programs, based upon the per capita income of New York State. This formula discriminates against New York City. It also requires the City to provide funds in its budget for expenditures over which it has no control. We are aware of, and support, pending legislation designated to rectify the formula and provide an equitable share of Federal funding for New York City. Even with the proposed legislation, the threatening aspect of both AFDC and Medicaid from the City's standpoint is the potential inherent in both programs for major increases in caseloads with only limited control over benefit levels or the criteria for eligibility. These Federally mandated programs do not consider the City's ability to pay. Over recent years, New York City has been fortunate to have a declining AFDC enrollment, but,if economic situations were to change adversely, the additional financial burden could seriously disrupt the City's hopes for financial recovery and could compromise the State's credit standing.

In addition to the obvious financial inequities in the present tripartite system, a number of administrative problems at the local level also reflect this division of responsibility. The City is required to adhere to regulations issued by the Federal and State authorities and must respond to their requirements with respect to monitoring and information. The major administrative problem arising from the three levels of participation reflects the fact that only the City is involved with the delivery function, whereas the Federal and State authorities function as regulatory, control, and monitoring agencies. The control and monitoring bureaucracy at both Federal and State levels has created difficult situations by requiring that approvals and authorizations be obtained before various actions can be taken by the Human Resources Administration. In many cases, requests for decisions must escalate through several levels of State and Federal bureaucracies before decisions are made. Specifically, EDC has been involved in such problem areas as the Child Support Collection and Enforcement Program, the Food Stamp Program, and the Welfare Payment Systems. Enhancement of these programs involved the development of major computer systems that required decisions and approvals by Federal and State authorities at various stages of development. The inability to receive these approvals on a timely basis led to serious delays in implementation and incurred substantial additional costs.

A third major obstacle to increased local efficiency is the fractionalization that occurs at the highest Federal levels. Three entirely separate Federal departments exert jurisdiction over the Human Resources Administration. The Food Stamp Program is administered by the Department of Agriculture; employment programs are administered by the Department of Labor; and social and economic assistance programs come under the responsibility of HEW. These separate authorities create several coordination problems at the local administrative level. Programs developed by each of these Federal entities tend to have their own eligibility criteria and rules and regulations, which sometimes conflict with each other and cause the City administrative problems both in training and in quality control. In addition, the organization of the City's Human Resources Administration itself tends to reflect the organization structures of the Federal Department of Health, Education and Welfare, and of the New York State Department of Social Services. The departmental structures of these organizations each have their own areas of responsibilities and tend to foster the same configurations at the local level. As new programs are created by the Federal and, to some degree, the State governments, rules and regulations are promulgated in such a way as to encourage the creation of distinct organization units within the local unit of government. The willingness to reimburse administrative costs without appropriate attention to cost-effectiveness tends to encourage over-specialization of organization missions and the resultant duplication of support and administrative groups. In addition, Federal and State organizations frequently take a tunnel-vision approach to dealing with programs. Each department or agency concerned with a particular facet of the problems faced by the poor tends to develop programs to remedy those particular symptoms. Again, this encourages fractionalization in the allocation of resources and the establishment of duplicative administrative structures.

A fourth problem we have encountered concerns the attempt at nationwide uniformity of process without recognition of the need for consideration of the problems of high-volume, highly mechanized systems. Most programs appear to be mandated without sufficient pilot-testing or consideration of the unique problems of the major cities. For example, the mandates for reduction in the rate of eligibility errors do not reflect the particular difficulties of a city such as New York faced with problems of illegal aliens, high volume of cases, excessive political pressure, and a large unionized administrative structure. Nor do these mandates reflect the extraordinary number of State rules and regulations and the stringency of quality control analysis that separates New York City from other cities.

Fifth, the legitimate concern for due process, guarantee of individual rights, and full community participation, when carried to extremes, has led to situations that preclude administrative efficiency. Administrative problems are created by requirements for notifications, fair hearings for all terminations of benefits, encouragement of maximum individual participation, and the dissemination of information about programs. These are then further compounded by the threat of financial disallowances for non-conformance. Typical of the constraints under which the programs must operate are restrictions on the use of tax and other confidential information for control and enforcement. It took New York City almost five years to have the Social Security Administration mechanically match their wage records with the City's welfare payment files to detect fraud and ineligibility errors.

A sixth problem concerns the insufficient time allowed in the requirements for implementing new programs or modifying existing programs. The translation of the requirements of a new law into specific rules and regulations is a complex and time-consuming task that makes compliance with statutory implementation dates difficult in major urban areas. Part of this problem can be illustrated by the 1977 legislation for Food Stamps, which was implemented in 1979.

Although it might seem that sufficient time was allowed, the regulations were not issued until six months before the required date of implementation. New York City has made great strides in computerizing its operations to handle its large volume of cases and the detailed record-keeping that is required. However, this success carries with it the difficulty of re-programming computers to accomodate frequent changes in rules and regulations while insuring the integrity of the computer systems. These changes in major computerized systems generally take much more time and effort than do changes in manual procedures.

In reflecting on these problems, it is almost impossible to portray accurately the administrative difficulties that exist in this area. In addition to the Federally-related problems already discussed, New York City must also operate under the extensive control of New York State for both Federal-and State-mandated programs. It must operate in a political environment in which its clients wield considerable political power and regard welfare as a right. In addition, the Civil Service regulations and extensive labor union power create situations that increase the difficulty of effective administration. And finally, they are caught up in the financial crisis, which makes their contribution to Federal and State-mandated programs an open-ended financial liability that has the potential to disrupt the City's precarious financial plans for future solvency.

In order to reduce some of the administrative, organizational, and management problems that should be addressed by legislative changes, we offer the following suggestions:

First, Congress should provide a clear, basic policy directive for future welfare legislation that will reduce the need for the adoption of piece-meal, and sometimes conflicting, legislation. The policy should replace the present patch-work programs, which have developed over many years through numerous legislative changes and amendments, with a cohesive plan that could function effectively in the long-range future. The policy should be comprehensive in addressing the needs of the poor, the reduction of dependency on welfare, the adequate financing of the program, allow for maximum local flexibility and reduce the need for numerous future modifications in the policy. The policy should require only limited interpretation by the regulatory agencies to insure implementation as intended.

Second, sufficient Federal financial aid should be provided on an equitable basis for all mandated programs so as to avoid exacerbating financial crisis situations and the incurrence of discriminatory tax liabilities, as occurred in New York City. Any formula for calculating the Federal financial share for mandated programs should reflect the relative cost of living as well as the overall impact on the local tax program.

Third, in developing future policy, Congress should consider the reorganization of those Federal agencies that are now responsible for parts of the total spectrum of support for the poor. In addition to a review of the appropriateness of the present organization configuration of the Department of Health, Education and Welfare, consideration should be given to transferring to them responsibility for the Food Stamp and employment programs. These are now administered by the Department of Agriculture and the Department of Labor. We believe that a properly structured, single Federal agency should have responsibility for all programs relating to assisting the poor and reducing their dependency upon government.

Fourth, the mandated levels of quality for major urban areas should take into consideration the unique situations such as: problems caused by a large illegal alien population, the adequacy of the State quality control review, and the volume and turnover in the population of clients. These factors tend to preclude major urban areas from achieving the same levels of quality as other communities. Unless these special factors applying to New York City are taken into consideration, it would be discriminatory toward New York City to invoke penalties on the basis of a national targeted error rate. At the least, there should be uniform and standard quality control criteria established to insure accurate measurement of error rates for all states using the same criteria. This will establish reliable measures of relative quality levels which can be compared in light of any unique situations as illustrated above.

Fifth, future Federal legislation should be less concerned with detailed requirements for programs and should place more emphasis on the achievement of realistic goals and targets through local initiatives. This approach should be designed to allow local initiatives to seek the most effective methods of operations. It should also reduce the burden of obtaining detailed approvals for many of the administrative decisions that must be made by the local unit of government in order to implement new programs. Finally, there should be more moderation in forcing the local units of government to encourage participation in programs.

Sixth, impact statements for proposed programs should be required which will identify potential problems in implementing and operating major new programs. It is essential that such impact statements take into account the financial and administrative implications for the local unit of government that will be required to operate the mandated programs. Also, in the future, all programs that are mandated should include reasonable schedules for implementation and provide for pilot testing.

In conclusion, we should point out that the City of New York has made substantial progress in meeting Federal standards of performance and quality in the face of very difficult conditions. We at the Economic Development Council are continuing to work with the Human Resources Administration to help improve its administration even further. In spite of much progress, we believe it is important that Congress and the Department of Health, Education and Welfare consider the unique problems of New York and other major cities when enacting new legislation or promulgating rules and regulations. It is a difficult task to pass, on a national basis, legislation that insures equality for all local units of government. However, the major urban centers in our country contain the majority of citizens who must be provided for under the legislation, and the program designs created by such legislation must be established with consideration of the capacity of state and local agencies to effectively manage and carry them out. Good, sound administration makes use of limited resources and provides the maximum benefit to the poor at any level of total expenditure. Welfare reform for the 80's should represent a complete overhaul of the existing programs and provide for efficient and equitable implementation in all states.

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MEMORANDUM

THE CITY OF NEW YORK
HUMAN RESOURCES ADMINISTRATION

DATE: December 12, 1979

TO: Mr. Stanley Brezenoff
Administrator/Commissioner

FROM: Herb Rosenzweig, Deputy Administrator HR
for Income Maintenance Programs

SUBJECT: Compliance with Food Stamp Regulations

I would like to bring to your attention three situations which demonstrate the difficulties that we ~~have in~~ complying with Food Stamp regulations. These difficulties are not caused so much by the regulations themselves as with the ever changing interpretations of the regulations by USDA and NYSDSS staff and by the inadequate advance notice provided whenever the interpretations change.

1. Situation 1 - Childcare Deduction

Some p.a. recipients receive payment for childcare expenses they incur as part of their regular p.a. check. Recipients whose children are enrolled in ACD-funded day care centers, however, do not. In these cases, we cut a separate two-party check made out to the day care center. Thus Mrs. Jones, whose child goes to an ACD-funded day care center, might get a regular p.a. grant of $470 and a separate check made out to the day care center for $70. Mrs. Smith, who has the same size family, pays the same rent, and has the same childcare expenses but did not send her child to an ACD-funded center would get a p.a. grant of $540 out of which she would pay $70 to the day care provider.

Our computer calculates the Food Stamp benefit differently for these two cases; although in the example given they would receive the same amount of Food Stamps. In calculating Mrs. Jones' benefit, we would use an unearned income (the p.a. grant) of $470 and give no childcare deduction (since the check for childcare is made out to the day care center instead of Mrs. Jones). In calculating Mrs. Smith's benefit, we would use an unearned income of $540 and then allow a $70 childcare deduction. The result is the same as long as Mrs. Smith's childcare expenses do not exceed the $90 maximum set in the Food Stamp regulations.

In January and February 1979, USDA and NYSDSS approved our procedures and computer programs related to the budgeting of childcare expenses. These procedures took effect on March 1, 1979.

In February 1979, NYSDSS wrote to USDA to obtain an interpretation of a clause in the regulations related to reimbursement of childcare expenses of employed ADC recipients who receive an increased p.a. grant to cover the costs of childcare (Mrs. Smith's situation).

Much correspondence between USDA and NYSDSS ensued. Finally, in September 1979, USDA wrote to NYSDSS advising that in this one situation, childcare is to be treated as exempt income. In other words, they wanted us to calculate Mrs. Smith's benefit using a p.a. grant of $470 ($540-$70) with no childcare deduction.

NYSDSS issued a letter to Commissioners on October 1, 1978 advising of the new policy and requiring that local districts change over to the new rule. The letter also stated that the interpretation was retroactive to March 1, 1979, and that all affected p.a. cases, whether currently active or closed, be identified and issued retroactive benefits.

We informed NYSDSS that the change required modifications to our computer program and procedures for staff and a staff training program. We stated that we would implement the change effective January 1, 1980 at the same time we would be implementing other changes in regulations.

We also informed NYSDSS that we are unable to easily identify the affected cases, that mass mailings are difficult to administer and that it is not proper to change a regulation retroactively. This issue has not been resolved.

In October and November, we shared with NYSDSS and USDA staff by letter and in meetings, our specifications for modifications to the computer program and our procedures for staff. The childcare issue was discussed in great detail, and USDA and NYSDSS approved the computer plan and procedures.

We have completed the computer system modifications, have issued procedures and have trained the staff in the IM Centers and FFR Sites.

On December 7, 1979, NYSDSS informed us that they received a letter on December 6, 1979 from USDA that reinterprets the regulation back to the way it was interpreted in March 1979.

2. <u>Situation 2 - Rounding Procedures</u>

Food Stamp regulations provide that cents be rounded down to the next lowest whole dollar amount at every step of the Food Stamp benefit calculation.

In January and February 1979, both USDA and NYSDSS approved our procedures and computer programs for rounding amounts, and the procedures and computer programs took effect on March 1, 1979.

In September 1979, NYSDSS informed us that there was an error in our procedures because we did not round down weekly amounts prior to conversion to semi-monthly amounts. We informed NYSDSS that it was not possible to do this as the actual semi-monthly dollars and cents are used by the computer system for calculating p.a. grants, and that if we rounded weekly amounts, p.a. grants would be issued in the incorrect amount.

In October 1979, USDA issued a proposed regulation on rounding designed to change the current regulation. In the preamble to the regulations, USDA indicated that it would like to allow States to decide which of three rounding methods would be used in the State. The reason given was that many States that used the same computer system for p.a. and Food Stamps were unable to implement correctly the prior regulation. The preamble also stated that USDA planned to issue the final regulation in time for the January 1980 calculation change.

In October and November 1979, we sought guidance from NYSDSS and USDA regarding use of the proposed regulation. We were informed that the regulation would be issued and that we should plan to implement the new regulation effective January 1, 1980. We shared computer specifications and procedures for staff with USDA and NYSDSS, and these were approved. The computer programs were modified, procedures issued, and staff trained and the Food Stamp Offices have already started to use the new procedures. The IM Centers and FPR staff will begin to follow the new procedures on January 2, 1980.

On December 7, 1979, NYSDSS informed us that USDA will not issue the final regulation in time for a January 1980 implementation date, and in fact, may issue a regulation that is substantially different than the one proposed.

3. <u>Situation 3 - Recoupments</u>

Food Stamp regulations require that we use the actual amount of the grant issued to the recipient as income in cases where we are recouping. Thus, if Mrs. Jones' p.a. grant was $430, and we are recouping $40 per month, we send her $390 per month, and we base her Food Stamp benefits on $390 per month income.

In January and February 1979, USDA and NYSDSS approved our procedures and computer programs related to the handling of recoupments.

In October 1979, NYSDSS advised Commissioners by letter that USDA has reinterpreted the regulation, and that certain types of recoupments will continue to be excluded, but other types of recoupments must be included in the Food Stamp calculation. This change is to be effected immediately. Our computer system, however, is unable to distinguish different types of recoupment and we are, therefore, unable to comply with this directive.

If we were advised of this interpretation earlier, such as in 1978 when the regulations were promulgated, we could have put together a plan to identify the different types of recoupment. We now find ourselves out-of-compliance in thousands of cases, and there will be a long lead time necessary to develop and implement plans to bring us into compliance.

These three examples serve to illustrate the continuing problems that we face in trying to comply with Food Stamp regulations, and reduce the error rate. We bent over backwards to be sure that what we were doing was in compliance with the regulations. We made sure that we had a sign-off by NYSDSS and USDA on our procedures before we modified our computer programs and trained the staff. Then, overnight, either NYSDSS and/or USDA changed their mind, and we were instantly out-of-compliance. Not only do we have to rechange the computer system and retrain the staff, but we are also subject to law suits from advocate groups demanding retroactive benefits.

You are aware of the immense effort we are making to improve the operation of the Food Stamp Program. Staff in the Income Maintenance Centers and the Office of Data Processing have been working long hours under very tight deadlines for the past year to implement the new regulations. Although the constant tension has taken its toll, we are dedicated to meeting the commitments we have made to reduce errors and vulnerability to fraud. We cannot afford, however, to have our energies sapped away and our efforts obliterated by this unnecessary and unreasonable vacillation by NYSDSS and USDA staff.

I believe that you should bring this issue up with Commissioner Blum when you meet with her next, and that you should jointly approach USDA to get assurances that we will not be held to be out-of-compliance in the three areas mentioned above. In addition, we should press USDA and NYSDSS to make all changes in the regulations (and their interpretations) of the regulations, effective with either the January or July ATP's, when changes in the standard deduction, the maximum issuance levels, the benefit tables, and the maximum childcare and shelter cost deductions are effected.

cc: M. Burdick
M. Davis
J. Krauskopf
B. Solowitz

Senator MOYNIHAN. Now it is the personal pleasure of the chairman to ask Mr. Philip Toia to come to the witness table. Mr. Toia is one of our most distinguished public servants who, I am pleased to say, has lately found happiness with the Chase Manhattan Bank.

Mr. Toia was the Director of the Budget for the State of New York, which I suppose is the second most demanding such position in the United States. He was Director of Human Resources, as I recall. Then, having stood from the perspective of the State capital, having watched the turmoil in the city, he became so bold as to go down and be deputy mayor of the city itself. No one in our time has been so directly involved in as many aspects of the subject, and we welcome you.

Senator HEINZ. Mr. Chairman, if I might just observe that his job might very well be the most demanding in the entire Western Hemisphere. At least the Director of OMB has an unlimited, or so he appears to believe, pool of money to work with. But that is not the case in New York State. I suppose, if you compared the budget of New York State to all the other countries in the Western Hemisphere, I don't know whether it would exceed it, but it would be close, indeed.

Senator MOYNIHAN. Mr. Toia, will you proceed, sir.

STATEMENT OF PHILIP TOIA, VICE PRESIDENT, MUNICIPAL FINANCE, CHASE MANHATTAN BANK

Mr. TOIA. As both members of the committee, both the chairman and Senator Heinz, know, I have been here before on one issue or another. I am speaking to you, really, on the basis of my experience as the former budget director, social services director, and social services commissioner, and deputy mayor for finance of the city.

I have a brief statement that I would like your permission to enter into the record. I would prefer to paraphrase the statement, and then respond to questions or comments.

Senator MOYNIHAN. Please do.

Mr. TOIA. I am speaking to a narrow issue this afternoon, and that is the cost of the program to State and local governments, in particular to New York State and New York City. I will try to present some data which shows the scale of the problem, just by using some casual numbers as New Yorkers are wont to do from time to time, and to discuss the costs and how those revenues are generated in New York State and New York City, and what it costs to pay for public assistance in our State.

In order to set the stage, I would like to refresh your memory as to the population of our State, the numbers of persons on public assistance, and the same two figures for the city. In New York State the population was roughly, at the last census, 18.2 million people. That figure will be revised very shortly. Of those 18.2 million people, over 1.2 million receive Federal assistance and public assistance.

An additional 166,000 receive general assistance, which in New York State is called Home Relief. For the purposes of a budget director, or a deputy mayor for finance, or any person involved in the fiscal cost of public assistance, we have to include those persons as people receiving public assistance, which runs the number up to 1.4 million people, or about 8 percent of the total population of New York State, with the heavy concentration in three burroughs of the city of New York.

The city of New York itself has 7 million people. As the mayor of the city has said on more than one occasion, you name the problem, you name the issue, you name the group, and we have a million of them. In this case, it is true, again, in that of that 7 million, over 1 million people in the city receive public assistance. Over 800,000 of those are in the Federal category. The rest are in our general category of Home Relief.

So for New York City, given a population of 7 million, and a number to be determined soon for 1980 we hope to be somewhat in excess of 7 million people, over 14 percent of that population is receiving public assistance of one type or another, with an extremely heavy concentration in those three boroughs of the Bronx, Manhattan, and Brooklyn, which ties in very closely with the Senator's comments to the previous witness of the difficulty of the administration of this program, which I am not to speak to.

The concentration of those numbers of person in an income maintenance center, the attendant disruption, disorder, chaos that occur when masses of people are looking for timely assistance in moments of crisis and emergency, is ample cause for a different assessment of the process by which error is related, or at least a recognition that error may occur more frequently in urban areas similar to New York City.

If I may tag to that, Mr. Chairman, I would agree that it would be very, very difficult, based on my past experience in the State and the city, to get the error rate below 5 percent.

There is a massive effort underway in the State now to automate the system, to put up the elaborate computer system which we started with your support 5 years ago, to try to get a profile and screen in each of those agencies, so that the applicant indicators are flashed on the screen, so the income maintenance workers makes no mistakes. The arithmetic errors are caught immediately on line.

It does take time. It will take several years before that system is implemented throughout New York City, and without that system the city just cannot get below 5 percent on the error rate.

The public cost of supporting those numbers of people is staggering in our State. I am not speaking to the supportive services that go along with it. I am not speaking to the medical assistance programs, the educational assistance programs, the employment programs, the public access programs, housing assistance, and so forth. I am only speaking to the cash benefits programs.

In New York State, the most recent budget year indicated that $1 billion of State tax levy was used for the State's of the public assistance category. That is $1 billion, and those are taxes.

Most of the taxes flow under the general fund, and are not earmarked for public assistance. But to give an example of what is involved in our State, I have taken from the budget the sales tax, personal income tax, business taxes, and a variety of other small taxes, to indicate the revenue source and the amount. Then I have indicated what percentage of those taxes the State would have to use, and does have to use to pay for its welfare costs.

In the sales tax alone, we collect $2.5 billion in New York State. In order to pay for welfare, public assistance, over 39 percent of that alone would be required to pay the $1 billion. With the personal income tax, it would be 20 percent of the total personal income tax figure, and so forth. Business taxes, over half of all businesses taxes are necessary to pay that $1 billion. When you add the other major taxes, there is not enough in that total pile of parimutuel, real estate, estate and gift, and miscellaneous receipts to pay for the welfare total.

I am not trying to imply that the elimination of the State share would result in the State cutting taxes by those percentages, because in fact it would not. It may cut taxes, as is the Governor's and the legislators prerogative, but in the past, as the State has testified, any relief that the Governor and the State receive, they have indicated that the first priority would be to extend that relief to local governments. I believe that was the commitment that the Governor made when he was last here testifying in this area.

With respect to New York City, in addition to the $1 billion raised by the State, the city of New York must raise from locally generated taxes $360 million to pay for its share of its total public assistance, both home relief and AFDC costs.

To raise that $360 million, the city has available to it seven major revenues.

Real estate tax, which is our largest, over $3 billion comes in, that has been a flat tax for the past several years. It has not been growing, as previous testimony before your other committees has indicated.

Our personal income tax, our sales taxes, and the variety of corporation stock transfer and commercial taxes represent a much smaller amount of money as far as total revenue of the city.

When one looks at the total pile available, and the amount necessary to retire the welfare burden, you find that there are four taxes—stock transfer, commercial rent and occupancy, other business, and water and sewer charges—that in and of themselves would not pay the total bill. A large portion of our personal income tax is required.

One could, again given some relief to the local community and New York State, surmise that this relief would give the city breathing room. In fact, it would give the city breathing room. It would give the city a number of options. One would be to reduce tax; two, to reduce debt, which is probably even more pressing on the city, in order to enhance its return to the public credit markets.

The infrastructure of New York City, as has been amply demonstrated time and time again, is crumbling and needs repair. This money could be used as an expense item, not to incur future debt, but to rebuild that infrastructure here and now, without resorting to the credit markets.

Some of the vital services cut during the city's fiscal crisis could either be restored or maintained at their present level.

I have, as a last, to restore our waterfront, which I think is our most neglected resource in the city, and it is a resource that could easily avail itself of something less than $360 million of relief, and generate a potential income and rennaissance in the city that could spread throughout Manhattan from the Battery up beyond Central Park.

I am trying to make only one point during the course of this testimony, that the cost to the city and to the State is, indeed, staggering; that the revenue sources available to both the State and the city are limited, are not growing, and are under pressure from tremendous groups and needs in other areas, in addition to welfare.

In looking at what this $1 billion of State money, and $360 million of city money buys, one has to shrug the shoulder and ask: Why since 1974 the welfare grant has in fact been frozen. The maximum grant for a family of four in New York City is still $476 as it was in 1974. One could add food stamps value, which as calculated only a mathematician can work it out, and they expect a poor clerk in the income maintenance center to do it. In any event that food stamp value added to the $476 would probably be less than $100 a month in food stamp value if you are at a maximum grant.

The market basket for a family of four in New York City is over $90 a week, and that is $390 a month for food in New York City. What was perceived as generous in 1974 cannot be considered generous by today's standards, and the effect of that is that we are paying a tremendous amount of money for a welfare benefit that is no longer, in the eyes of the people who are involved in the program, adequate to meet today's needs.

Mr. Chairman, that concludes my testimony.

Senator MOYNIHAN. I do very much thank you for that statement.

May I just say that you heard my report of the mathematical analysis of the legislation we have before us. Evidently, it would not provide any substantial resources to the State or the city. It would give only a nominal 5 percent in additional aid. But even this is accompanied by increased costs in other places, and thus the additional money would "wash out." There would still be no provision for increasing the basic welfare grant.

That is the problem I think we are trying to address at some level. What do you do with a mature public sector that does not try to think up new provisions, but only ways of maintaining those that it has.

May I ask you the question that we asked Mr. Morelli? We have a bloc grant proposal before us, which is much favored by some Senators. Have you had a chance to think about that, and have you any comment about it?

The alternative is to do nothing, or to do what the President said he would do, to assume the local costs. As you recall, the Democratic platform said that we would assume the State and local costs, and the President's only firm commitment to Mayor Beame was to assume the local costs.

Between these two alternatives, the full Federal assumption of local costs and block grant, which is a better choice?

Mr. TOIA. I have a schizoid approach, and the approach stems from my present position.

Senator MOYNIHAN. You are entitled to all the mental aberrations that are known, after the job that you have done.

Mr. TOIA. From the perspective of the public side, and from the perspective as once having been spokesman for the Governor and the mayor on this issue, there is no question that if there were an order of priority, fiscal relief must come first to the State and to the city.

Within the broader network, and I am going to address myself from the State perspective, because we have a house divided, as you understand, in New York City with respect to upstate, as to whether a bloc grant or fiscal relief would be the most equitable way of taking care of the upstate counties, with respect to New York City, making sure that the burden is evenly carried, and the rewards are evenly distributed, if any rewards should come.

With respect to the State's perspective, and hearing the Governor testify before, fiscal relief has to come first. Whether or not the fiscal relief comes in a bloc grant, or whether it is a straight redistribution of the formula, is dependent in large measure as to who may become disenfranchised if the bloc grant has different eligibility criteria for participation. I am not familiar, Mr. Chairman, with the criteria.

Senator MOYNIHAN. Right, and that is a specific, and that is what you look for when you read the bill.

You would agree that it is not just welfare which is so expensive. If the city of New York did not have to pay for medicaid there would be another half billion dollars a year saved.

Mr. TOIA. Senator, the combined public assistance, medicaid, and city subsidy for the medically indigent using our metropolitan hospitals, is over $1 billion. As you know, $1 billion a year to New York City would enable us to retire our deficit, meet a balanced budget this year and, as has been quoted, we could lend Chrysler money. [Laughter.]

Senator MOYNIHAN. I have an image on that point, which is that a billion minutes ago St. Peter was 10 years dead. It is a big number. We get used to it, but we probably should not get too comfortable with it.

Mr. TOIA. I believe that he was the first proponent of welfare reform.

Senator MOYNIHAN. Yes, and it has been waiting ever since.

There really has come to be a situation, in which what has been known as fiscal relief, and might be interpreted as help for the property taxpayers, is also now needed for in the care of children and their mothers.

I have been frankly interested to observe that now that times are hard, the enthusiasm for this subject seems to have dissipated, for this subject itself seems to have disappeared. There is a strange silence about the fact that in New York City today, we apparently expect children on welfare to eat half as much as they did 6 years ago.

A decade ago, you could arouse a good demonstration on this. Now that the money has run out, an awful lot of talk about yielding power to the powerless has disappeared, especially because it costs more than the people are able to pay.

I think that this question must be redefined in terms of these 1.2 million dependent women and children. They have been lost in this, and this does not do any of us credit.

Let me ask you this. How is it that New York State has never, in all these years of progressive Governors and legislators, assumed the city's costs, as say Illinois has done? or California now has done. There is no answer to this question.

Mr. TOIA. Thank God, there is no answer.

The question had been raised several times as part of the State welfare reform proposals stemming from Governor Rockefeller and Governor Cary. As you know, it is imbedded in the State constitution that the costs shall be borne evenly by the State and the counties.

Senator MOYNIHAN. No, I did not know that.

Mr. TOIA. It is in the constitution. It is constitutional language. In order for the constitutional language to be changed, as you know, it is a fairly involved process.

With State assumption of the costs, one would assume that it would go State administration of the program, since, as was previously testified here, if you are paying for something, you are apt to run it better than if someone else gives you the money, and you run it for them.

There has been some resistance in the counties upstate to give up the administration of the program to the State. So there is a constitutional issue that has to be addressed through the amendments process.

Senator MOYNIHAN. I see. It sounds awful, when you confess that you did not know something, as if it were a surprising thing to learn of something I did not know.

Mr. TOIA. Senator, I am sure that when you were in the chamber, this issue was raised by the upstate contingent, but it was buried in other arguments. I believe there was a rate reduction at the time, and that was the issue that came prominent.

Senator MOYNIHAN. I believe the proposed 1967 constitution had a change in this respect. But the constitution was not adopted.

That does make a difference in what you can ask the State. That procedure is a very elaborate one as you know.

Clearly, it is a formula of the 1930's, when it was good public administration theory and good political practice to introduce these programs and say: "The Federal Government will pay half. You pay half. If you want to keep your benefit levels low, that is all right." A half century has passed now, and it is time that this formula changed.

This ought to be the elemental change. Welfare is clearly not a burden evenly distributed. If programs are to be federally mandated, then they to be substantially funded by the Federal Government, don't you think?

Mr. TOIA. Yes, sir. That was the argument that we have brought here several times.

Senator MOYNIHAN. You brought it year in and year out. Absent that one direct, simple, straight answer, we have to live with the increasing difficulties of cities in the Northeast. We are just beginning to find that other cities are having the same trouble as we are having, and it is not going to go away until we change this political economy.

We should have done it for medicaid when we had a chance, but we were a little too flush in 1965. I remember those years down here, when nothing was too expensive. When medicaid was passed, we opted for every known provision.

Then, of course, the city of New York has had its share of responsibility because when you no longer pay for a program, you also give up administering it, and there is a certain sense of losing control. There are different unions involved. We have created enough of our own problems, but the Federal Government has not helped us with them in this decade.

Have you followed the bill that passed the House of Representatives at all, so that you would want to comment on it?

Mr. TOIA. Senator, I have not.

Senator MOYNIHAN. You have had enough such sorrow in your time. It would not, I think, be reassuring to you. It just provides no fiscal relief. It increases benefits in 13 States, and you know where they are. It mandates AFDCU in 24, and you know where they are. The sponsor of the bill is the Senator from New York, the State which is supposed to pay for it. It is supposed to be a privilege to enhance the lives of people in other parts of the country. It is certainly a responsibility, but it is not a pleasure.

Mr. Toia, I thank you very much, sir. You know how much you are admired by this committee, and we observe with pleasure that you made it from one cake of ice to another, and you have crossed the watery deep. You have now found yourself in the safe bosom of private enterprise, from whence you will again return to public service. But no one can say that you have not paid your dues, and comported yourself with the greatest honor.

We thank you for coming to this committee.

Mr. TOIA. Thank you, Mr. Chairman.

[The prepared statement of Mr. Toia follows:]

Statement Of

Philip L. Toia

Mr. Chairman, members of the subcommittee, I appear before you today as a former Deputy Mayor for Finance for New York City and former Commissioner of Social Services and Budget Director for New York State. I would like to discuss one aspect of the public assistance program -- that is, the cost of that program to state and local government. In particular, my remarks refer to New York State and to New York City and will draw upon my experience in the fiscal area of the governments of both the State and the City.

As part of my testimony, I will present data that illustrate the scale of the public assistance problem in New York State and will offer comparisons between costs to the State and the City. I will also describe the various revenue sources which must be accessed in order to pay for the public assistance.

New York State receives approximately 50% Federal reimbursement toward the costs of public assistance. The remaining share is split evenly between the state government and local governments. Thus, each county, with few exceptions, pays 25% of the costs of public assistance. The City of New York is treated as one county for purposes of reimbursement.

In order to better understand what is involved in New York State and in the City, a review of some population statistics is necessary. New York State population is approximately 18,200,000 persons. Of that figure, over 1,275,000 persons receive federally reimbursed public assistance benefits. An additional 166,000 persons receive locally funded general assistance payments; this program is called Home Relief in New York State. A total of over 1,400,000 persons are therefore receiving "public" assistance statewide and, thus, almost 8% of the total population of New York State is on "welfare".

The New York City population is estimated to be in excess of 7,000,000 persons. (How much in excess we shall learn when the results of the 1980 census are made public.) Of the 7,000,000 plus persons in the city, 885,000 receive federally reimbursed public assistance and an additional 118,000 receive home relief -- resulting in a total of 1,003,000 persons who are receiving "public" assistance. Over 14% of the estimated population of the City is on "welfare". One out of seven persons receives cash benefits, with a heavy concentration in three boroughs particularly.

The public cost of supporting such a large number of persons is staggering. I am not speaking of the wide variety of support services which exist to render health care, educational assistance, employment assistance, housing assistance, social work services and various access programs. I speak only to the cash benefits program.

New York State budget figures show that the State share of public assistance programs is about $1,000,000,000 per year.

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To raise $1,000,000,000, the State must look to its traditional revenue sources, in this case, taxes. Most of these taxes flow into the general fund and are not specifically earmarked for welfare, but to illustrate the effect on state resources, I will identify the revenues from the State's major taxes.

		(in millions)
Sales Tax		$2,582
Personal Income Tax		4,930
Business Taxes		1,911
- Corporation Franchise	991	
- Corporate Utility	489	
- Insurance	195	
- Banking	179	
- Unincorporate Business	57	
Estate & Gift Taxes		155
Pari-Mutual Taxes		120
Real Estate Taxes		10
Miscellaneous Receipts		519

The following table shows the approximate percentages of the tax revenues needed to pay the State's share of welfare payments.

Sales Tax	39%
Personal Income Tax	20%
Business Taxes	52%
Estate & Gift Taxes)	
Pari-Mutual Taxes)	
Real Estate Taxes)	125%
Miscellaneous Receipts)	

I do not mean to imply nor should one conclude that the elimination of the State's share would result in the elimination of four (4) major taxes; or a halving of total business taxes; or a 20% reduction in personal income taxes; or a 39% reduction in sales taxes. Obviously, given such relief, a thoughtful State Legislature might look at a wide range of tax reductions affecting capital investments, and might possibly redirect emphasis toward infra-structure rehabilitation and incentives to commercial and

....3

industrial growth.

If, however, the State Legislature chose to apply any type of relief directly to tax revenues, New York State taxpayers would immediately lose their premier position as the most heavily taxed group of people in the continental U.S. I doubt seriously if that loss of this reputation would engender any real opposition.

In addition to the $1,000,000,000 raised by the State for public assistance, the City of New York raises from locally generated taxes approximately $360,000,000 to pay for its share of cash benefits. Of this amount, approximately $238,000,000 is for AFDC and $116,000,000 is for Home Relief.

To raise the $360,000,000 needed for public assistance, the City has available to it the following revenues:

	(in millions)
Real Estate Tax	$3,130
Personal Income Tax	719
Sales Tax	1,005
General Corporation Tax	484
Stock Transfer	274
Commercial Rent & Occupancy	205
Other Business	337
Water & Sewer Charges	239

Most of these taxes, as in the case of State revenues, and are not earmarked for welfare. For illustrative purposes, the following table shows the approximate percentages of these revenues needed to pay the City's share of welfare payments:

.....4

Real Estate Tax	11%
Personal Income	50%
Sales Tax	35%
General Corporation Tax	75%
Stock Transfer	130%
Commercial Rent & Occupancy	180%
Other Business	108%
Water & Sewer Charges	150%

One could surmise that the relief to the City from its welfare burden would provide breathing room and allow the City to do one or a combination of the following:

- o reduce taxes
- o reduce debt, both short and long term
- o rebuild infrastructure
- o restore some vital services cut during the City's fiscal crisis
- o provide incentives to economic development
- o restore the waterfront

As in the case of the State, if all of the relief were passed on directly as tax relief, New York City residents would join the balance of their brethren in the State and forego their status as the most highly taxed citizens in the country.

By now, I hope that I have made my point -- the cost of welfare in New York State is staggering. Public assistance expenditures necessarily comprise a major portion of the total taxes raised; and the total burden already imposed on the taxpayer is the highest in the land.

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One might conclude that all of that money matched by another large amount of Federal funds results in a rather generous, perhaps even luxurious, grant level. The facts are these: Since 1974, New York State has had, in effect, a frozen grant level. The maximum grant for a family of four consists of a basic payment of $258 per month plus rent as actually paid up to a rent ceiling that varies from county to county. In New York City the maximum shelter allowance (rent) for a family of four is $218 per month or a combined maximum grant of $476 per month. Nassau county has a higher shelter allowance than New York City; the other counties have lower shelter allowances. For six years, this basic grant has been unchanged. What might have been considered generous in 1974 has been decimated by inflation and by most accounts is in need of review and recalculation.

The unfortunate result of all this is that New Yorkers are facing an awesome cost for welfare, the highest bill in the nation, and they are providing a level of benefits that are no longer adequate in the eyes of those professionals closest to the problem.

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Senator MOYNIHAN. Now we will hear from Prof. Leonard Hausman from the Florence Heller School of Brandeis University.

Professor Hausman, we welcome you as a person who has followed this subject from the academic side of things for a good while, and we have asked you to speak to a subject we have been touching on the trends and adequacy of welfare benefit levels under current law.

STATEMENT OF PROF. LEONARD HAUSMAN, FLORENCE HELLER SCHOOL, BRANDEIS UNIVERSITY

Mr. HAUSMAN. Thank you, Senator Moynihan. I appreciate your invitation.

Real welfare benefits across the country, across a broad expanse of States, are in stark retreat, and I think that is the major news that ought to inform welfare reform deliberations in the coming years. You pointed this out with respect to your State, but unfortunately the retreat in real welfare benefits is far more extensive than New York.

Between the years 1973 and 1978, the years for which we have data, real welfare benefits declined——

Senator MOYNIHAN. May I ask as an old professor, who is "We"? Is that an editorial "we," or is it a project you are working on?

Mr. HAUSMAN. My colleague, Barry Friedman, and I have done this work.

Senator MOYNIHAN. It is you and Professor Friedman?

Mr. HAUSMAN. Yes. We also had assistance from others, and I need not mention their names. It was principally Barry Friedman.

In AFDC, that component of welfare, benefits have declined between 1973 and 1978 in 12 of the 20 States represented on the Senate Finance Committee. Unfortunately, we do not number that many at the Heller School, so we had to select a sample of States, and that seemed like a convenient one.

I think the big picture, as most people have drawn it in recent years, is that of enormous explosion in social welfare expenditures between fiscal 1969 and the current period. In effect, social welfare expenditures have gone up in current dollar terms from about $65 billion to $305 billion by fiscal 1981.

So the big picture that everybody sees is that Federal expenditures on social welfare programs have increased enormously, have gone from about 35 to 53 percent of the budget for fiscal 1981, and that is certainly a very important thing to see.

Against that, I think what has to be seen is the more recent retreat in per capita benefits and in benefits available to a particular recipient through the AFDC, food stamp and medicaid programs, the only ones on which I concentrated today, principally because those are the ones from which the nondisabled, nonaged poor draw their support, if they don't have their own sources of income.

The benefits have declined not only in a large number of states, but they have declined rather extensively—my numbers are a little bit different from yours. In the States with the largest declines, 4 of the 20 on your committee, the retreat has been marked by a fall in real terms of between 24 and 33 percent in AFDC between 1973 and 1978.

Unfortunately, we did not have the time to investigate trends in participation. So I think that if you are interested in investigating this question, you must call on someone not only to look at the benefits available to particular household units, but also how many of them are participating now as a proportion of the eligible population.

We don't have those numbers. It is true that the numbers on AFDC have declined from about 10.8 to 10.3 million between 1973 and 1978, but whether that reflects a declining participation rate or not, I don't know because I don't know the base number against which the two should be compared.

Senator MOYNIHAN. I don't think so. At least, I remember predicting that it would decline. If you kept the demographics constant, you would still have some decline. It is a good point, and I will ask that question of HHS—HHS is what HEW used to be. But in the same manner as before, the answer will not be forthcoming.

Mr. HAUSMAN. It is not only in AFDC in which real benefits are in stark retreat. In the food stamp program, there is an indexing of benefits. It is important, though, to look at the package of benefits. On the one hand, when you combine the two, you see a moderating effect of food stamps on real benefit decline over the period 1973 to 1978. However, one thing is missed by looking at real benefits in those 2 years, and that is the fact that as food stamps increase as a proportion of the income available to the poor family, you have a distorting effect on their budgets.

In the State of Georgia which is represented on your committee as well as elsewhere in this town, for example, 46 percent of the benefits available to a four-person family come through the food stamp program. That is probably unduly high.

I think that if we keep accelerating benefits in the food stamp program through the indexing process, and don't do that through the other programs, you are going to see black markets developing in food stamps because they are not going to be valued at their face value by people receiving benefits from those two programs.

Senator MOYNIHAN. If I could just interject. Bear in mind that food stamps are 100 percent federally funded. Thus, the higher proportion of food stamps in your total welfare benefits, the lower the proportion the State has to pay.

Mr. HAUSMAN. That is right.

I don't know what goes on in the minds of the decisionmakers across our country. It certainly seems like a plausible explanation of what has been materializing, or is likely to materialize. I think, though, that they will see some untoward effects, and I really think that this might bring into question the viability of these programs as people get to wonder about flourishing black markets in food stamps. I don't think that that necessarily is far off, but it is only speculation.

More drastic in percentage terms than the retreat in AFDC, and the package of AFDC and food stamps, is that observed in medicaid. Two numbers, just to put it before you simply, Senator Moynihan.

One is that poor children receiving medicaid, benefits per child, adjusted for inflation, declined in 15 of the 20 States represented on the Senate Finance Committee. For adults on AFDC, and

AFDC-UF, between 1973 and 1976—data are only available to us through that year—medicaid benefits per adult declined in real terms in 19 of the 20 States. Some of the declines are really substantial. Let's start at the top of the list.

Senator MOYNIHAN. Look at Wisconsin, at the bottom of the list, 46 percent.

Mr. HAUSMAN. There are several there in the forties. You see Pennsylvania there and you see Georgia there, so you see three. On the child side, the left-hand side of the table, you see several there in the thirties and forties.

Senator MOYNIHAN. Again, Wisconsin, a State which would think of itself as being prosperous and progressive.

Mr. HAUSMAN. I think what Wisconsin is doing, if you want me to interject a speculative explanation, they are holding up AFDC benefits over time, and they are letting the declines and retreats take place through the medicaid program.

I don't know. I have no familiarity at all with that State, but just looking at the numbers that we developed in the last 10 days, that seems to be the case.

So when you combine information on these three programs, again the ones principally responsible for supporting the nonaged, nondisabled poor, at least in 14 of the 20 States represented on the Senate Finance Committee real benefits per capita have declined, as I have said, often nontrivially. That ignores, again I must reiterate because we don't have the information, any effects on participation coming through administrative changes in recent years.

The thrust of what I want to say is really in that area, but I will make a few other remarks, and I will keep them brief, along a secondary line.

One is that the fiscal pressures, to which you have alluded several times, are real, and they are real across a number of States. It is interesting that if you look at tables 1, 2, and 3, you see big declines in Pennsylvania. Yet, in 1978 Pennsylvania was spending about 41 percent above the national average per $1,000 of per capita income on welfare programs.

So Pennsylvania's expenditures on welfare have increased steadily from 1969 to 1973, through 1978. So overall, they are spending more and more on welfare, including medicaid. But their benefits per capita are declining, and rather substantially.

I think that the declines that we have observed are just the beginning. We wrote several years ago about the first signs of welfare retreat, and now it is more widespread. I think that as economic and resulting fiscal pressures come to bear across Northeast and North Central States, you will see more and more retreat.

It is interesting, though, that the retreat so far observed is not confined to those States. You have States like Louisiana, Georgia, and Texas in which per capita income is growing more rapidly than it is in States like New York, Pennsylvania, and Rhode Island.

Yet, in States like Texas and Georgia, there also has been a fairly serious retreat. So that now in Texas they are spending less per $1,000 of per capita income on welfare programs than they were in 1973. In Pennsylvania, it has gone up.

So I think that as economic growth is relatively worse in certain States, the so-called Frostbelt States, you will see more of this. Interestingly, as the client pool goes down in the Southern and Southwestern States, and resources go up, you see the same kind of decline selectively there, too. I think the big declines, though, in the future will be in the Frostbelt States.

The second secondary point has to do with the types of families in which growth will be more pronounced in the years to come, and that has to do with the growth of the one-parent families. This is not something on which I am expert, and it is again not news to too many people, but the growth of one-parent families through the channels of teenage pregnancy, retention of children, nonabortion, nonadoption, and through separation and through divorce is substantial. We are proliferating one-parent families much more rapidly than we are two-parent families, and such families have a high incidence of poverty, two out of three among black one-parent families, and two out of five among white.

I think that a lot of research and public attention has been devoted to the work avoidance problem. For two-parent families, welfare programs basically do not come within the reach of income available to them through nonwelfare sources. Even if AFDC-UF were mandated at fairly generous levels of benefits, participation in that program would not be very substantial, perhaps approaching 200,000 families.

The last point I would make goes back to what Mr. Morelli said, and that is that I think management is a big thing. I think that we should preserve an array of income transfer programs. I think that consolidation should come on the front of management. I don't think that HEW necessarily has taken the right approach up until now. I am comforted by what I see in the Social Welfare Reform Amendments.

I think you need a variety of programs to achieve a variety of sometimes conflicting objectives. Just to do away with programs cuts down your flexibility. What you need to do in order to save public resources is consolidate management. There ought to be a welfare IRS as there is an IRS, and it ought to be comprehensive across the $300 billion of programs.

Senator MOYNIHAN. That is very powerful testimony, Professor Hausman. Let me thank Professor Friedman for his work, too. Is he here?

Mr. HAUSMAN. No, he is not. He is teaching. Some of us still tend to our other responsibilities.

Senator MOYNIHAN. That is very extraordinarily powerful testimony, and it will make a real impact on this committee.

What do you think is going on? For the female-headed families, that is a striking figure; the number of female-headed families is growing at a rate of 8 to 10 times that observed for two-parent families.

Years ago, when I could do these things, I did some work on this and saw this coming. But I thought that it would long since have leveled off, and it has not. It keeps growing, and it is well past the point where I thought that it would be by 1980. Indeed, I thought this problem would be over, but it is not.

Mr. HAUSMAN. No, I think a serious welfare problem is this growing pool of needy people that is just not attended to. I think teenage pregnancy, first of all, is much more widespread. I think that we have an epidemic in that. Then I think the fact that the children are either not aborted, without making a comment on whether that is right or wrong, that is not my business. Then, the children are not given up for adoption. Again, it is not my business to comment on the rectitude of that. But the fact of the matter is that the result of that is that we have one-parent families, and they almost invariably end up in poverty.

Senator MOYNIHAN. Yes.

Mr. HAUSMAN. That is serious.

Senator MOYNIHAN. No one knows what to do about that. Since no one knows what to do about it, the preferred strategy is to deny that it exists. The avoidance of this fact has been a huge official industry in Washington for 15 years.

One of the reasons there is so much emphasis on work in welfare is because it is avoiding the fact of those who are on welfare. On all sides there is a massive avoidance. It is much in evidence in academe, and it begins in academe I sometimes think. It is certainly a glum thing.

I know you have been interested in welfare rights movements, and things like that. Why do you think there has been such a collapse of all that activity? It is nonexistent as far as I can tell.

Mr. HAUSMAN. Of welfare rights?

Senator MOYNIHAN. Yes.

Mr. HAUSMAN. I guess you have asked a question on which I would prefer to yield to you as a political scientist. I think a lot had to do with the fact that the movement developed in the context of the civil rights era, and there was a very dynamic, unusually bright and effective leader, George Wiley. Once he was lost here in a drowning accident in the Chesapeake Bay, there was no longer effective leadership.

Senator MOYNIHAN. He left that activity before he died.

Mr. HAUSMAN. I think it is hard to know. There is one other thing. I always thought that a union security clause for that organization was the phenomenon in welfare programs of special needs. What Wiley knew how to use was that provision in State programs which allowed people to establish extra benefits on the basis of a dietary problem, or a particular furniture problem, or whatever. People got to understand that if they participated in that organization there would be real results rather quickly observed.

Once we went to flat grants across the States, I think we really took out of welfare, or the AFDC component of it, the NWRO union security clause. I think that a lot had to do with that fact.

Wiley really realized that, when he used to talk. We had some meetings up at Brandeis with him in the late 1960's when he used to talk about reforming welfare. Even when he talked about having programs with very generous benefit levels, one thing that he never wanted to surrender was the provision for special needs.

Senator MOYNIHAN. He was a friend of mine. After his marriage—he was on the faculty at Syracuse when I was—he and his wife came to our house for champagne. He certainly was an extraordinary man.

It certainly would not have been the analysis at the time that this whole phenomenon was the result of the charismatic quality of one person, such that absent that one person there would be no such activity. Indeed, he had been effectively divorced from this activity at the time he unhappily had a boating accident.

I am wondering about the retreat from welfare issues, and the vanishing of welfare militancy. You would think that the people who are becoming worse off would get upset, but it is just the opposite.

Do you know enough about Texas to have any sense of why there was a reduction in welfare?

Mr. HAUSMAN. I did not have time in preparing the testimony to investigate the explanations for these retreat by State. I don't know.

Senator MOYNIHAN. You could spend your life trying to figure out something like that, and not ever have a satisfactory answer.

Mr. HAUSMAN. If anything, if I may add this, I would suggest that given the time that we had, and the serious results that we were able to come up with, at least what I would call serious results, I think that what we have done suggests the need for more work in this area.

I think that some people may think that the problem may be confined to one particular location or another, and that really is not the case.

Senator MOYNIHAN. I will take the opportunity of being in the Chair and having the last word in these things. I have omitted to observe that one of my predictions came true. On July 3, 1970, I was speaking at the Urban Coalition here in Washington, and I said that if we did not get a guaranteed income bill passed that year, we would not get it in this decade. I was not proved wrong.

The absolutely mindless notion of the future direction of social policy resulted in a squandered opportunity, and here we see the results of it.

Let me ask you, Danzinger and Plotnik were working on the effects of the distribution of income in the United States, and the growth in one-parent families and their growing impoverishment. There is a study of that, isn't there?

Mr. HAUSMAN. Yes. They tried to look at how Government programs have affected the distribution of income. One would expect that as Federal expenditures alone went from 35 to 52 percent of the budget, there would be a big impact.

There has been a substantial impact, but a lot of it is being offset by these demographic developments. What they have tried to do is to analyze these demographic developments. One thing to which they point with some emphasis is the growth of one-parent families.

Senator MOYNIHAN. It is the dirty secret of social policy, and it is behind an awful lot of data which are represented as other things because we cannot allow what in fact is.

Mr. HAUSMAN. I think their data are rather interesting. If you will permit me a personal word, Senator Moynihan. I thought that your proposal for the family assistance program should have been enacted, and I tried very hard to persuade George of that. In the end, I think that he was interested in a compromise. He used to tell me that. I don't know how well he communicated that, or if he did at all. But I think that it was a terrible mistake, and I think that it would have headed off a lot of what we have today.

Senator MOYNIHAN. It might have. It certainly was designed to. Certainly it was well intended, but you never know what the results would have been. There was a profoundly mistaken calculation at that time that politics was becoming more radical rather than more conservative.

Thank you very much for remarkable testimony which will be shown to my colleagues, I can assure you.

Mr. HAUSMAN. Thank you for your invitation, and also on behalf of my teacher colleague.

[The prepared statement of Mr. Hausman follows. Oral testimony continues on p. 204.]

Testimony Delivered By

Barry L. Friedman
and
Leonard J. Hausman*

* Economists on the faculty of the Heller School, Brandeis University. We thank Cecile Papirno for her assistance in preparing this testimony.

SUMMARY

Real welfare benefits are in stark retreat. Despite the absence of data that would enable us to estimate the effects of the recent serious inflation, it is clear that price increases since 1973 have taken a devastating toll on income transfers available to the poor. Although nominal benefits have actually risen in some cases in AFDC, Food Stamps, and Medicaid, the principal programs from which the non-aged non-disabled poor derive income support, benefits adjusted for price increases--"real benefits"--declined significantly between 1973 and 1978.

In the large majority of the 20 states represented on the Senate Finance Committee, AFDC, AFDC plus Food Stamps, and Medicaid benefits adjusted for inflation all declined between 1973 and 1978. Real AFDC benefits declined in 12 of the 20 states. Medicaid benefits for poor children fell in 15 of the 20 states. Medicaid benefits for adults on AFDC/AFDC-UF declined in 19 of the 20 states. These results do not even account for the impact of inflation in 1979.

The decline in benefits in these three major welfare programs has not been trivial. In AFDC, retreat has been marked by declines as large as 24 to 33 percent in real benefits in four of the states. Combining Food Stamps with AFDC moderates the extent of the drop, but falls between 9 and 14 percent are observed in the states with the most

serious declines. In Medicaid, real benefits have gone down as much as 37 to 47 percent in the brief period between 1973 and 1976. The moderating effects of the Food Stamp program masks the fact that the program probably is distorting family budgets, as Food Stamps become a larger proportion in real terms of the combined benefit. In Georgia, for example, Food Stamp benefits constituted 46 percent of combined AFDC-Food Stamp benefits in 1978.

Some states have struggled to maintain or increase benefits in AFDC and Medicaid since 1973. Such states in the Northeast and North Central regions, experiencing relatively sluggish economic growth, find it increasingly difficult to finance stability or expansion in welfare. If benefits have not retreated universally until now in these states, it is not unreasonable to speculate that they will as inflation continues during the impending recession and further into the eighties.

A. Welfare in Retreat

In analyses of developments in the social welfare system, emphasis in recent years has been on the unusual expansion of social welfare programs. To be sure, between fiscal 1969 and 1981, federal expenditures on social welfare programs falling into four budget categories--education and employment, health, income security, and veterans benefits--will have risen from \$65 billion to \$305 billion. This expansion means that such programs will account for 53 percent of total federal expenditures in fiscal 1981 as opposed to 35 percent in 1969. Much of this expansion materialized in the "social insurance" programs. Payments from OASDI, for example, rose by more than \$80 billion during the period. In the

AFDC, Food Stamp, and Medicaid programs, the explosion in costs resulted largely from increases in participation in the programs; and, in the case of Medicaid, because of both the well known medical care cost inflation as well as increases in participation. Whatever the channels of expansion, AFDC/AFDC-UF cost roughly $3 billion in fiscal 1969 and will cost $13 billion in fiscal 1981; Food Stamp costs will have gone up from $1 billion to $7 billion; and Medicaid costs will have risen in this period from $4 billion to $24 billion.

Against this backdrop of an enormous expansion in social welfare expenditures, the data on welfare programs reveal recent declines in per person real benefits--first selective, now more widespread--in the AFDC/AFDC-UF, AFDC plus Food Stamps, and Medicaid programs. These cutbacks in per person benefits adjusted for inflation are documented in Tables 1, 2, and 3.

1. AFDC/AFDC-UF

Changes in AFDC benefits adjusted for inflation were estimated by using data on benefits in the various states available to families of four with no other income. Such benefits are the "largest amounts paid" per month to families with no income (We annualized the benefits.) Although the average amounts paid to families with no income would be preferable, data were not available through any source. However, we see no reason why the pattern over time in "largest amount paid" should differ significantly from that in average amount paid a family with no income. AFDC benefits available in each state in 1973 were adjusted for differences in costs of living among the respective largest metropolitan areas in each of the 20 states. Where data were not available on the relative cost of living in a state's largest metropolitan area, data for the geographically closest such area were used. AFDC benefits available in each state in 1978 were adjusted first for differences in the cost of living across the 20 states and then for changes in the national cost of living between 1973 and 1978. All adjustments were based on data on the "Lower Budget" for a four-person family compiled by the BLS.

Declines in AFDC/AFDC-UF benefits adjusted for inflation--"real" benefits--appeared in 12 of the 20 states examined between the calendar years 1973 and 1978. These cuts ranged from two percent in Rhode Island to 33 percent in Georgia.

The declines in real AFDC benefits observed in Table 1 show no obvious geographical pattern. Benefits in Texas and Georgia fell, respectively, 30 and 33 percent in the five-year period. In New Jersey and Pennsylvania, the drop in real benefits, large enough in percentage terms at 18 and 16 percent, respectively, surpassed in absolute dollar terms those observed in Texas and Georgia. Similarly, the fall in real benefits in Alaska and Oregon are quite large.

While benefits were falling in 12 of the 20 states, they rose in the others. These increases were quite substantial in Delaware, Connecticut, Missouri and Oklahoma. In three of these four, the increases came from low bases. Otherwise, the increases were small. Comparing benefits across states, it should be noted that, within our 20-state sample, the differences in real AFDC benefits between states actually widened. In 1973 the ratio of real benefits in the highest to lowest state was 2.32

TABLE 1

AFDC Benefits For Families of Four in Selected States[a)]
In 1973 and 1978
(In Constant 1973 Dollars)[b)]

State	1973	1978	Percent Change Between '73 & '78
1. Alaska	3061	2318	-24
2. Connecticut	3424	4016	17
3. Delaware	1754	2281	30
4. Georgia	2043	1377	-33
5. Hawaii	2489	3620	45
6. Kansas	4067	3098	-24
7. Louisiana	1467	1600	9
8. Minnesota	4028	3609	-10
9. Missouri	1935	2242	16
10. Montana	2759	2739	1
11. New Jersey	3775	3095	-18
12. New York	4008	3886	-3
13. Oklahoma	2504	2831	13
14. Oregon	3821	3161	-17
15. Pennsylvania	3833	3220	-16
16. Rhode Island	2869	2816	-2
17. Texas	1826	1282	-30
18. Virginia	3041	2772	-9
19. Wisconsin	3624	3843	6
20. Wyoming	2808	2559	-9

a) Benefits in current dollars are "largest amounts paid" in the respective states. The data are drawn from an annual publication of the USDHEW, National Center for Social Statistics, Aid to Families With Dependent Children, DHEW Publication # (SRS)76-03200, NCSS Report D-2.

b) Benefits in each state are adjusted both for differences in the cost of living across states in a particular year as these are reflected in differences in the cost of attaining the BLS Lower Standard of Living budget for that year; as well as for changes over time in the cost of that living standard that result from inflation. The data used to adjust for differences in costs of living across states as well as over time come from the USDOL, Bureau of Labor Statistics, Handbook of Labor Statistics, 1975, Tables 141 and 144 and Bureau of Labor Statistics News (April 29, 1979) Tables 1 and 4.

to one, while in 1978 it was 3.13 to one. Some re-ordering of the states by size of their benefits also can be seen in Table 1.

Unfortunately, data on benefits adjusted for inflation offer an incomplete picture of how the generosity of AFDC has changed over time. Data on participation rates are important if the picture is to be filled out. This information could not be derived by us in the brief period that we were given to develop our testimony.

2. Food Stamps

Inflation should have had no impact on real benefits derived from the Food Stamp program between 1973 and 1978 because nominal benefits were adjusted throughout the period for increases in food prices. Changes in real benefits at the state level could arise only if the inflation rate ir a state was noticeably different from the national rate.

It is interesting, however, to consider changes in the value of the package of AFDC and Food Stamp benefits, since most beneficiaries of AFDC/AFDC-UF also receive Food Stamps. For each state, nominal net Food Stamp benefits were calculated for a family of four with no other income by correcting for the amount of the AFDC benefit, as does the actual Food Stamp program. The nominal net benefits then were adjusted for differences in the cost of food across states and over the 1973-1978 period. The real net Food Stamp benefit was then added to the real AFDC benefit.

The data in Table 2 indicate, as one would expect, that the fall in AFDC/AFDC-UF benefits was offset somewhat by a rise in Food Stamp benefits. This results from the way in which the two programs are integrated. That integration technique also partially offsets the increases in AFDC/AFDC-UF

TABLE 2

Combination of AFDC-Plus-Food Stamps Benefits for Families of Four[a)]
In Selected States in 1973 and 1978
(In Constant 1973 Dollars)[b)]

State	1973	1978	Percent Change Between '73 and '78
1. Alaska	3391	2977	-12
2. Connecticut	3658	4258	16
3. Delaware	2567	3042	19
4. Georgia	2868	2539	-11
5. Hawaii	3202	4031	26
6. Kansas	4280	3676	-14
7. Louisiana	2459	2646	8
8. Minnesota	4179	4036	-3
9. Missouri	2711	3025	12
10. Montana	3308	3377	2
11. New Jersey	3967	3595	-9
12. New York	4094	4153	1
13. Oklahoma	3282	3607	10
14. Oregon	4004	3627	-9
15. Pennsylvania	4074	3767	-8
16. Rhode Island	3266	3375	3
17. Texas	2819	2518	-11
18. Virginia	3496	3466	-1
19. Wisconsin	3923	4196	7
20. Wyoming	3376	3260	-3

a) Data on AFDC benefits are obtained from the source cited in Table 1, footnote a. Data on Food Stamps benefits are obtained from the Federal Register for the relevant years. Net Food Stamps benefits added to AFDC benefits are obtained by computing the Food Stamp bonus that a family would receive if its only income was AFDC benefits and if it had no special deductions.

b) Net Food Stamp benefits are adjusted and deflated by data on food prices for food consumed at home as priced in the BLS Lower Level budget. Data are obtained from the same source as that cited in Table 1, footnote b.

benefits observed for several states in Table 1. In spite of the moderating effects of the Food Stamp program, declines in welfare benefits are observed in 11 of the 20 states--with eight of the 11 showing drops over the period in excess of eight percent. Another consequence of the Food Stamp program is that differences across states are smaller when comparing the combined benefits than when looking at AFDC alone. For the combined benefit the ratio in real benefits between the highest and lowest states was 1.74 to one in 1973 and it actually declined to 1.69 to one in 1978. The Food Stamp program thus serves to even out differences between states, but only partially.

It is also important to note that the smaller declines in AFDC/plus Food Stamp benefits mask a growing problem: expenditures of the welfare poor increasingly will be restricted by their increasing reliance on Food Stamps. Such stamps require that purchases with them be exclusively of food. At some point, poor families with no other source of income could be forced to substitute purchases of food for preferred purchases of clothing or shelter. In Georgia, for example, Food Stamp benefits constituted in 1978 46 percent of combined AFDC and Food Stamp benefits. It is even conceivable that the rise in Food Stamp benefits as a proportion of total income could stimulate black markets in Food Stamps in Georgia and elsewhere. (It should be noted that in the BLS Lower Budget, food costs constitute only 30 percent of the budget.)

3. Medicaid

Most dramatic of all have been the reductions in real Medicaid benefits per recipient. The data in Table 3 cover only the period 1973

Table 3

Medicaid Benefits Per Recipient in Selected States[a)]

In 1973 and 1976[b)]

(In Constant 1973 Dollars)

State	Dependent Children 1973	1976	Percent Change	Adults on AFDC/AFDC-UF 1973	1976	Percent Change
1. Alaska	73	83	14	166	195	17
2. Connecticut	176	183	4	504	426	-15
3. Delaware	94	75	-20	257	237	-8
4. Georgia	120	90	-25	408	226	-45
5. Hawaii	141	109	-23	348	266	-24
6. Kansas	149	200	34	445	384	-14
7. Louisiana	115	73	-37	265	219	-17
8. Minnesota	203	210	3	473	446	-6
9. Missouri	95	92	-3	249	222	-11
10. Montana	170	132	-22	416	322	-23
11. New Jersey	180	155	-14	395	318	-19
12. New York	306	253	-17	454	377	-17
13. Oklahoma	188	165	-12	292	283	-3
14. Oregon	74	66	-11	197	183	-7
15. Pennsylvania	139	73	-47	246	147	-40
16. Rhode Island	183	138	-25	326	247	-24
17. Texas	123	109	-11	343	307	-10
18. Virginia	119	121	2	339	274	-19
19. Wisconsin	262	140	-47	503	274	-46
20. Wyoming	107	89	-17	265	254	-4

a) Benefits in current dollars are average benefits per recipients. The data are drawn from an annual publication of the USDHEW, The Health Care Financing Administration, Data On The Medicaid Program, Eligibility/Service/Expenditures: 1966-78 (revised edition) and 1979 (revised edition).

b) Benefits in each state are adjusted for differences in the cost of medical care across states in a particular year as well as for changes over time in the cost of medical care. Data on the cost of medical care are drawn from: USDOL, Bureau of Lalor Statistics, Handbook of Labor Statistics 1975-Reference Edition, Tables 141 and 144; Bureau of Labor Statistics News (April 29, 1979),Tables 1 and 4.

to 1976. More recent data unfortunately were not available to us. For this short period, reductions in benefits for poor children took place in 15 of 20 states; cutbacks for dependent adults were almost universal, materializing in 19 of 20 states. The declines in benefits were sizeable for both groups, reaching astonishing levels in excess of 45 percent in states like Pennsylvania, Wisconsin, and Georgia. Such reductions in real Medicaid benefits reflect the very rapid rate of medical cost inflation and have resulted from reductions in the number of services states covered through Medicaid as well as--and perhaps more importantly--from reductions in fees paid to providers. Cuts in fees either are outright or come about from long delays in payments made to providers.

B. Other Problems for Welfare Reform Debate

While our testimony highlights the retreat in welfare benefits resulting from inflation, we want to make brief mention of several other problem areas meriting attention in the upcoming legislative debates:

1. Retreat and Fiscal Pressures

Welfare retreat is likely to continue in those states whose commitments to welfare are relatively high and whose economic growth rates are particularly sluggish. Pennsylvania, for example, spends a total on public welfare programs that exceeds the average for all states by 41 percent.[1] Given Pennsylvania's relatively high commitment to welfare and the fact that its economic growth rate is much lower than that in states like Louisiana and Texas--by between one and two percentage points per year--the former state probably will continue to show falling real AFDC and Medicaid benefits in the years ahead. The voting public in Pennsylvania undoubtedly is experiencing frustration over its dashed expectations with respect to income growth. In this context, it is unlikely to be supportive of maintaining or expanding benefits to dependent persons out of state and local revenues. (Interestingly, welfare is in very stark retreat even in Texas, where welfare expenditures were at 56 percent of the average for all states in 1978 and where economic growth is relatively high).

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1. State Government Finances in 1978, Table 6, p. 22.

2. Growth in Dependency: One-Parent Families

Growth in the welfare sector in the coming decade largely will result from the remarkable growth in one-parent families, overwhelmingly female-headed, a high proportion of which will be poor. The last time that we reviewed the data, female-headed families were growing at a rate eight to ten times that observed for two-parent families. Teenage pregnancy, delivery, and non-adoption of children coupled with separation and divorce account for the trend. Two out of five families headed by a white female and two out of three families headed by a black female are poor before they are assisted by government programs. These poverty rates result from negligible support from the departing father and limited labor force participation on the part of the mother.

Recent research by three economists at the University of Wisconsin documents the enormous effects on the distribution of income in the U.S. of growth in one-parent families and their growing impoverishment.[2] Government programs cannot easily expand benefits to the needy in the current economic climate, if the number of needy continues to grow.

3. Is Work Avoidance A Serious Welfare Problem?

We do not consider work avoidance induced by welfare programs for the poor to be a major economic problem. All the studies that the Labor Department and HEW have financed suggest that the effect on male heads of households in the low income population of changes in benefits on the order of a thousand dollars per year have some effect, reducing work by one week per year. The effect of a $1,000 increase in benefits is

2. S. Danziger, R. Haveman, and R. Plotnick, Income Transfer Programs in the United States: An Analysis of Their Structure and Impacts, a paper prepared for U.S. Congress Joint Economic Committee, May 1979, pp.43-52.

more dramatic on female heads of household and much more dramatic on wives in two-parent households. But the labor force participation of female heads of families and of wives in two-parent families is relatively limited and insignificant in aggregate economic terms.

A recent study of the AFDC-UF program suggests that for most two-parent households even an expansion of the AFDC-UF program would have almost no effect. This is because two-parent households to a great degree are just beyond the reach of benefits of that program.[2] Currently, roughly 116,000 families receive AFDC-UF. If the Congress mandates for all states that current AFDC benefit levels be paid in an AFDC-UF program, there will be an expansion in that program by only 34,000 families. If the Congress mandates a nationwide AFDC-UF program at benefits equal to 75 percent of the poverty level, there will be but a 38,000 family expansion in the AFDC-UF program. If the Congress mandates a nationwide AFDC-UF program offering benefits at 100 percent of the poverty level, there will be only a 75,000 family expansion at a point in time in the AFDC-UF program. The cited analysis of the AFDC-UF program notes that you cannot look at the earnings of an individual parent in examining the relationship between the program and its effect on the family's work effort. Families piece together income, and it is that piecing together of income that really enables many families to go beyond the reach of benefits of the AFDC-UF program. Moreover, if one spouse loses a job, unemployment insurance frequently is the preferred source of income support.

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2. S. Danziger, R. Haveman, and R. Plotnick, Income Transfer Programs in the United States: An Analysis of Their Structure and Impacts, a paper prepared for U.S. Congress Joint Economic Committee, May 1979, pp.43-52.

It also is desirable to keep work avoidance induced by AFDC/AFDC-UF in perspective. A recent study estimated that the Old Age Insurance (OAI) program had an effect on work effort perhaps eight times as large as that which the AFDC program has.[3] Somewhere between a one-half and a one percent reduction in total hours worked in the economy results from the existence and design of OAI. The Unemployment Insurance (UI) program has an effect somewhat less dramatic than OAI. The best recent estimate is that the adverse effect on work of UI is about three times the adverse effect of AFDC and AFDC-UF. The estimate suggests that UI has an effect of delaying returns to work by an average of two and a half weeks per beneficiary per year. The Disability Insurance (DI) program has grown remarkably and we make almost no investigations whatsoever into its impact on work. In 1965, roughly 250,000 new DI cases were opened. In 1979, 600,000 new cases were opened. We cannot tell you what the expansion of the program has done to work effort. It probably is large relative to that of AFDC/AFDC-UF.

Undoubtedly, work avoidance is induced by AFDC/AFDC-UF. The "100 hour rule" in AFDC-UF and the "Medicaid notch" in that program as well as in AFDC merit serious attention. When a family has young children, reluctance to surrender a Medicaid card can pose <u>the</u> major barrier to work. Lastly, AFDC/AFDC-UF must be managed in a manner that does not erect barriers to re-employment: if a client knows that when she loses a part-time job her benefit will not be adjusted upwards

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3. James R. Hosek, <u>The AFDC-Unemployed Fathers Program and Welfare Reform,</u> paper prepared for USDHEW, Rand Corporation, Santa Monica, California, August 1979, p.ix-xi.

for several months, she will be hesitant to take that job in the first place.

4. Improving Welfare Management

The continued decentralized management of income transfer programs probably is a source of great waste. Programs such as Old Age Insurance, Unemployment Insurance, and AFDC/AFDC-UF all must monitor individual or family income over time. Many programs must monitor household composition over time. These are inherently difficult tasks, especially in income classes in which there is much change over time in household structure and income.

If these difficult tasks are to be performed well, they must be executed by an agency whose primary function is such monitoring. Will a housing agency ever monitor well a household's liquid assets? Why should it, if an objective of higher priority is a high occupancy rate? While it is desirable to maintain an array of different income transfer programs, managerial consolidation does not conflict with this concern and is technically feasible. This is a problem area that requires legislative and administrative attention.

Senator MOYNIHAN. Now we will hear Prof. David Chambers from the University of Michigan School of Law. Professor Chambers is going to speak to a question that nicely complements the matters we have just been discussing, which is making fathers pay.

I am here to tell you that the University of Chicago has just published his book, "Making Fathers Pay—The Enforcement of Child Support." Let me assure you that the University of Chicago is going to make you pay if you want a copy of it. It costs $25, but worth every penny, I have no doubt.

Good afternoon, Professor. We welcome you.

Mr. CHAMBERS. That will be in quotes on the back of every future copy that is printed. Thank you.

STATEMENT OF PROF. DAVID CHAMBERS, SCHOOL OF LAW, UNIVERSITY OF MICHIGAN

Mr. CHAMBERS. The last time I got involved at all with welfare reform was about 10 years ago. It was not a happy experience for me either. I was fresh into law teaching, after a period of working with the Kerner Commission.

Like Professor Hausman, the last speaker, I followed and defended the Family Assistance Plan, which you helped develop. After it passed the House, I forced my students to learn about it as if it were about to become law. My defense of it cost me most of my friends in the welfare rights movement.

After reading your own account of the history of that effort, I often wanted to swap war stories, telling you what it was like in the trenches trying to defend it. In any event, I hope that today's brief excursion back into welfare reform will be more felicitous.

In recent years, I have retreated to safer subjects like divorce, prisons, and abused children.

My recent work, as your kindly holding up my book indicates, has been with child support. The issue of the degree to which contributions from absent parents can offset total welfare costs is only a small part of your total concerns, but I have a few observations that may help.

I have spent most of my last 8 years studying divorced families and their financial problems in Michigan. Michigan's child support system stands out as probably the State with the longest successful record of collecting support from absent parents. I examined counties within Michigan to try to find out why some places collected so much more than others, and then within some counties trying to understand why some particular fathers paid so much more than others. I use "fathers" advisedly. We almost never encountered a mother under an order of support, and that reflects basic beliefs about distributions of responsibility long observed in this society.

My concerns in this study were not directly focused on welfare and welfare cases, but a high portion of the families at one time or another came within the ADC system, and some of the observations we had may be of use.

I have submitted a statement, which is rather lengthy, but let me just capture three or four points from it.

Senator MOYNIHAN. Please do, and it will be included as if read.

Mr. CHAMBERS. The first is about the current program called title IV-D of the present law. It is the program set up, with the encouragement of Senator Long, to compel the States to make much more ardent efforts at collecting support from absent parents.

That program, at least as measured in terms of dollars recovered, has been a great success. From its first year of operation until today, it has tripled the amount of dollars returned, to the point now of about $600 million recaptured from absent parents.

My own study suggests strongly that a continuation of that program can be expected to produce even higher rates of returns. Why is that so? The reason it is so is that if you look within the States, as they are paying under title IV-D, you find that a few States like Michigan are able to capture a very much higher portion of their welfare costs through collections than others.

Michigan offsets about 9 percent of its total costs through payments from absent parents. Many other States have now raised that level to 3 or 4 percent. New York is at about 4 percent. Everything in my study suggests that the reason why a State such as Michigan collects at such a high rate has nothing to do with its fathers being richer, and certainly nothing to do with their being more loving of their children. But rather, it has to do with Michigan's long history of careful organization to collect—warnings, and ardent pursuit.

Senator MOYNIHAN. Do I see here that they have been at this since 1921?

Mr. CHAMBERS. That is right, since 1921 Michigan has had an agency in each of its counties the primary responsibility of which has been collecting child support from absent parents.

As other States move toward mimicking Michigan's general approach, we can expect them to attain much higher collections. The trend over the last few years under the title IV-D program fairly demonstrates that.

Despite all that, my second point is that even in Michigan the child support system is essentially primitive, and unnecessarily cruel. Let me compare for a moment two different ways in which we collect money in our society.

With regard to income taxes, every State and the Federal government has adopted a system of deducting from wage earners' paychecks, before they get them, an amount to equal at the end of the year a projection of their tax liability. We take the same approach with Social Security taxes. We do not wait until people take the paycheck home.

Compare child support. What we do commonly is to pay people their wages. They cash the paycheck. Then the State has a system of enforcement that is intended to cajole or frighten the father into paying back part of it. It is not surprising that once that paycheck is cashed, people feel very strong competing demands on it, and our study confirmed that only by using very fearsome threats are we able to get the money back. More than threats. Within Michigan we jail thousands and thousands of men a year—about 5,000 or so in 1978.

My study among the 28 Michigan counties made it clear that those that collected at high rates did so because they maintained a well-organized system of enforcement, coupled with this heavy reliance on jail.

My own suggestion is that serious consideration ought to be given to a national system of wage deductions for child support that is comparable to the system we have for taxes. It would be awkward administratively, but in briefest outline it would require that employers learn through a national information bank whether there is an order of support, how much it is for, to deduct the ordered amount from the parent's wages, forward it back to the government which must have mechanisms to return it either to the State welfare department or the Federal Government or the parent.

I haven't any doubt that if such a system could be set and could be made to work, the number of dollars collected from parents and transmitted to children would greatly increase. A high portion of the dollars not collected today are due from parents who are working full-time.

There are, on the other hand, lots of drawbacks. There are drawbacks in terms of establishing an additional, or at least greatly augmented, Federal bureaucracy, problems of administrative complexity, of keeping track of changes in order size, and who has got an order out, and problems of privacy. I think that we all shrink from the notion of a Federal computer that knows about everybody's failed marriages and illegitimate children.

Senator MOYNIHAN. We don't have to have a computer. We have the FBI.

Mr. CHAMBERS. That is true. [Laughter.]

Indeed, that really is correct. The question about each of these alternative approaches is, what is the marginal increase in the intrusion on our privacy. For me the question of the wisdom of setting up this national system that I have just outlined has got to be viewed in terms of whether it is better or worse than what we have now.

My own view is that the wage deduction approach is wiser than the fear based system that we have now, the system in which in order to collect at the kinds of levels that Senator Long and others would like to see us do, we must rely on penal techniques.

Senator MOYNIHAN. That is a hard thing, going to prison.

Mr. CHAMBERS. It is a terrible thing.

Senator MOYNIHAN. It is no small event, going to prison when no crime has been committed.

Mr. CHAMBERS. To put it another way. Most of the time today when we put people into prison, we do so to get a person who is dangerous off the street, and keeping him for some period of time from doing something.

In this setting, when we put a person off the street for nonpayment, you can be absolutely certain that he will continue the behavior that we don't want. He will not be paying while he is there.

Senator MOYNIHAN. You can be sure that he will not be sending part of his paycheck home.

Mr. CHAMBERS. So, at least on the surface, jailing seems a little anomalous.

Senator MOYNIHAN. It is in the range of imprisonment for debt.

Mr. CHAMBERS. Exactly so. I think that it is a special debt. I don't have trouble on its face distinguishing it from the debt for a refrigerator, or something. But it has nonetheless the flavor of jailing a poor person for debt. It is poor people who end up being more heavily hit.

Senator MOYNIHAN. Yet you say in your paper that it does encourage the others.

Mr. CHAMBERS. "Poor encourager!"

Indeed, it was one of the sad events of my academic life to discover that jail could really work. The study, I think, demonstrates in a way that it has almost never been demonstrated with regard to any behavior regulated as criminal that the threat of a penal sanction can have a significant effect on the behavior of people who are never jailed.

A couple of other points, and then let me seal off. For all the increase that we can obtain in collections, either under title IV-D as it grows or under the type of system I suggest, we really need to remember there are great limits on what government can ever achieve collectively under the maximally successful system from parents who are absent.

In order to collect money from an absent parent, one must first identify him and get an order against him. With regard to illegitimate children that remains a significant problem, and not one that the wage deduction system addresses.

After he is identified, no system can collect the money from him unless he is working. Very high numbers of the persons who are parents of children receiving AFDC are not working. They are part of our large pool of unemployed young men.

Finally, even if there is an order, and even if the person is working, many of the fathers and mothers of children on AFDC are earning at such low levels that the portion of their income that they can ever be expected to pay will only offset a small portion of the cost of public assistance.

Once we recognize that we can only offset a small portion of the total welfare costs through child support collecting, I think it is an invitation to us to go back and think about whether we can have better success, or some equal success, through programs addressed to trying to keep families together in the first place. The movement—your ill-fated plan of a decade ago was a good beginning—toward bringing assistance to the intact family while it is intact, and before it is broken up, seems to me a hopeful strategy.

I am not at all certain of the relationship between income support and family break-up. I gather the evidence about that is equivocal. Partly, it is theology as much as anything that is leading me to urge that we keep our attention toward helping families first, and saving money second.

Thank you very much.

Senator MOYNIHAN. Thank you, sir. This is remarkable testimony, and will be welcomed by the chairman of our committee. It is not every day that I can report to him that a professor from the University of Michigan has been singing his praises.

We are going to read with great interest this book of yours, and think about this whole question of how to obtain a more efficacious system that does not depend upon this deterrence, which I suppose is the most primitive, outside of the stocks.

You say in your book that there is not a shred of support for the theory that requiring fathers or parents to support children is a deterrent to family breakup. May I say that it is an honor to have such candor in these matters.

We don't know much about this subject. I have been involved with this for a long time now, and I have tried to tell myself, and I have said over and again that there is not one shred of evidence that the AFDC program breaks up families. On the other hand, I have had five Presidents in a row tell me that it does.

It is interesting how something for which there is no evidence of any kind attains a state of official piety, and successions of White House staff members and Secretaries of HEW saying that it is good for business if the President thinks that, and the poor President signs it.

Mr. CHAMBERS. Let me say, conversely, at the time that this program title IV-D was proposed, then Secretary Weinberger and others testified in its support by saying over and over again that once we have an effective child support enforcement system in place, fewer families will break up, and fathers will be less likely to leave because they will know that it is coming. I am also pleased to say that there is not a shred of support for that, either.

Senator MOYNIHAN. That is what I was saying. I was referring to your evidence. That is not the way people behave. I don't know how people behave, but we know that it is more complicated than that.

On the other hand, there is nothing complicated about the fact that children have to be raised, and they have to be supported, and that parents have a responsibility. I would not be surprised to learn that in the aftermath of a sort of regular payment arrangement there would be a better relationship between father and children. It makes a relationship possible, at least.

Mr. CHAMBERS. It is plausible. Our data were all derived from files. These agencies had enormously rich files, but they did not have files on the day-to-day relations of parents and children.

Senator MOYNIHAN. It is plausible. Just because something is plausible, it does not follow that it is incorrect. Every so often you find something that is intuitively right.

If you have any thoughts on how we might organize a payroll deduction, let us know, won't you?

Mr. CHAMBERS. I think the point might have come to turn to others who are more knowledgeable than I about systems, the IRS——

Senator MOYNIHAN. Let's ask the Social Security Administration.

Mr. CHAMBERS. Ask them whether it is possible. I would be more than glad to chat with persons there if members of your staff or others could identify them. But I have about hit the limit of my knowledge of bureaucracy.

Senator MOYNIHAN. You certainly have enhanced the understanding of this committee, Professor Chambers. We appreciate your coming, and we thank you. May I presume to say that the chairman thanks you as well.

Mr. CHAMBERS. Thank you very much.

[The prepared statement of Mr. Chambers follows:]

PREPARED TESTIMONY OF DAVID L. CHAMBERS, PROFESSOR OF LAW, UNIVERSITY OF MICHIGAN

THE PLACE OF PROGRAMS FOR COLLECTING CHILD SUPPORT IN WELFARE PLANNING FOR THE 1980'S

Nearly all Americans believe that absent parents financially able to contribute to their minor children's support can justly be required to do so. This belief lies behind the child-support provisions of Title IV-D in the current program of Aid to Families of Dependent Children. It provides a similar foundation for compelling contributions from absent parents under plans for welfare legislation in the 1980's.

For much of the past eight years, I have been engaged in a study of child support payments by divorced parents—a study of who pays and who does not, of what systems of collection work and what systems do not.

The study was conducted in Michigan, a state with a long history of high child-support collections. The study, underwritten in large part by the National Science Foundation, drew on the files of a public agency in each Michigan county charged with collecting support. We examined random samples of divorced families with children in 28 Michigan counties, counties with widely varying rates of collections, to learn what factors explained high and low collections. We also took a particularly close look at the individual characteristics of divorced families with children in two counties and the events that occurred in their lives that might have affected payments of support. The results have been published in book form, "Making Fathers Pay: The Enforcement of Child Support" (University of Chicago Press 1979).

The study and the history to date of the Title IV-D programs suggest that programs for recouping expenses of public assistance through collections of child support can play a significant, though quite limited, role in welfare programs in the 1980's. They also suggest that some major changes in the ways of collecting support might wisely be considered.

Here briefly stated and then elaborated are four central points:

1. *Retaining the current title IV-D program: The potential for higher collections from absent parents.*—The level of child support collections through the Title IV-D program grows annually. Our study in Michigan suggests that those collections could grow significantly greater, even if Congress in revising or replacing the current AFDC system decided to retain a program identical to that established under Title IV-D.

2. *Creating a national system of wage deductions.*—Despite the prospects for continued growth, the current systems for support collection in our 50 states, including Michigan, are inherently doomed to collect far less from absent parents than many can afford to pay. Worse, to sustain even the moderate success that they currently achieve, the existing systems must cap a high level of organization to collect with a heavy reliance on jailing. Much higher collections with far less need to rely on penal sanctions could be achieved if Congress enacted a mandatory wage deduction system applicable to all parents under orders of support that worked much like the current tax-withholding system.

3. *Limits on the potential for higher child support collections.*—Even if Congress created a wage deduction system that worked to its maximum potential, a costly system of public assistance for families with an absent parent would still be necessary. We must not deceive ourselves. At is very best, we cannot expect any child support program, however designed, to recoup more than a small portion of the total costs of an adequate aid program for low-income families. Many absent parents of children receiving public assistance are unemployed or sporadically employed and even those parents working fulltime generally do not earn enough to meet even half the costs of maintaining their children in a different residence.

4. *Serving other goals than reducing government spending.*—In designing any program for the future, we must avoid measuring its success solely by the net decrease in government costs. Our overall goal, we must recall, is helping families with children and some techniques of child-support enforcement—such as the heavy reliance on jail and collecting support from men earning less than a Poverty Level income—may create harms for the very people we wish to help. Indeed, recognition of the inherent limits on recouping public assistance costs through child support collections may help us refocus our attention on programs that may help avoid family breakups in the first place, programs such as the provision of federal financial assistance to the low-income, two-parent family while it remains intact.

I. Retaining the current title IV-D program: The potential for higher collections from absent parents

In each year since its inception, the Title IV-D program has increased over the year before the number of dollars collected from absent parents of children receiving public assistance—from $203 million in fiscal 1976, the first full year of the program, to a figure three times as high, $596 million, in fiscal 1979. Put in other terms, the dollars collected from parents offset less than 2 percent of total AFDC expenditures in 1976; by 1979, the portion offset had risen to about 5.5 percent of costs. These returns were achieved at a cost of about $265 million dollars or a return of more than $2 dollars for every dollar spent.[1]

Even higher collections can be obtained from increased efforts in the future. That prediction seems safe from an examination of the experience of Michigan. In fiscal 1979, Michigan, an industrialized state with one of the nation's highest rates of unemployment, collected $80 million from absent parents of children receiving AFDC benefits. The $80 million represented about 9 percent of Michigan's AFDC costs, nearly twice the national average. The 9 percent figure should appear even more impressive on recognizing that Michigan's grant levels are among the nation's highest. Equally impressive is Michigan's costs in relation to its returns: The $80 million was recovered at a cost of slightly under $20 million dollars, a return of over $4 dollars for each dollar spent. Several other states—including, for example, California, Utah, Washington, and Oregon—have developed similar high rates of return.

By contrast, consider the states of New York, Pennsylvania, and Illinois. While each has increased their child-support collections dramatically over the years since the beginning of Title IV-D, each has so far been unable to recoup more than about 4 percent of their public-assistance costs. Indeed, Illinois still recoups less than 2 percent of its public-assistance costs.

Michigan's comparatively high rate of returns is not due to the fact that its fathers are richer or more concerned about their children. The high returns are rather due, without doubt, to Michigan's high degree of organization to collect and

[1] These and other Title IV-D figures are derived from the Fourth Annual Report to Congress of HEW's Office of Child Support Enforcement for the period ending Sept. 30, 1979.

its long history of serious and organized efforts that lead parents to know it takes its work seriously.

Since 1921, each Michigan county has contained an agency known as the Friend of the Court. This agency receives all payments from parents under orders of support (after a divorce or adjudication of paternity), remits those payments to the other parent or to the welfare department, and sends warnings and otherwise seeks to secure payments from parents in arrears. At the time that Title IV-D came into effect, Michigan was already recouping a higher portion of its welfare costs through child support than New York, Illinois or Pennsylvania has yet been able to achieve after four years of Title IV-D.

As we look to the future, we can expect substantially higher levels of collections as these states and others continue to move toward more substantial organization. There is no reason to believe that with time other industrialized states cannot come up to the level of returns of Michigan or California. Some of the Southern states, with large rural populations face much more entrenched levels of poverty. It is also the case that, in some, much higher portions of their caseloads are constituted of children born outside of marriage. I am reluctant to generalize from Michigan's experience to theirs. All that I can say is that these Southern states have also vastly increased their levels of collections since 1976.

The critical role of an effective organization to collect can also be shown by looking within the state of Michigan. In my own study, we found that there were vast differences in the rates of collections among Michigan's counties, ranging from 45 to 87 percent of all amounts due, despite the fact that all counties had the same local collecting agency called the Friend of the Court. We found that the principal factor that explained differences in rates of collections was not the general wealth of the counties' residents or the counties' unemployment levels but rather the degree and seriousness of the local agency's organized efforts to collect, as measured by their system of warnings and the extent of their use of penal sanctions to collect.[8] The better organized for collections, the higher the returns.

To be sure, organization and ardor to collect did not explain all the differences in collections among Michigan's counties. There was a further factor relevant to the concerns of this Committee: in general, agencies in heavily populated counties collected significantly less than their counterparts in less populated counties, even when the agencies in the larger counties worked as industriously at their collection efforts. The larger the population, the greater the problems. Consider, for example, Wayne County, which includes Detroit. Its Friend of the Court takes support collecting seriously, but collected only about half as much per case as was collected in some rural counties making comparable efforts.[9] Agencies in large urban centers simply encounter greater difficulty in making their enforcement system seem as immediate and threatening to the fathers in their caseloads.

On the other hand, it is not the case that Wayne's agency had nothing to show for its efforts. On the contrary, though Wayne's rate of collections looks modest when we compare it to other Michigan counties, its returns look high indeed when we compare it to most other large American cities. A quick comparison of collections of Detroit and New York City in AFDC cases can convey how much potential still lies for further efforts under Title IV-D:

TABLE 1.—1979 CHILD SUPPORT COLLECTIONS IN PUBLIC ASSISTANCE CASES (AFDC) IN WAYNE COUNTY, MICH. (DETROIT) AND NEW YORK CITY

	Monthly average number of cases	Collected	Average collected per case
Wayne County, Mich	83,000	$23,200,000	$280
New York City	[1] 300,000	17,200,000	57

[1] The New York City agency reports a total of 350,000 but believes that that number includes some closed cases and some cases counted twice. I have arbitrarily reduced the number to 300,000.

Why does Wayne County collect so much more? The answer is not simply that New York is larger. Population makes a difference but not that much. Nor is the

[8] Our findings, including the regression analyses that lie behind them, are included in chapter 6, "Making Fathers Pay."

[9] In 1974, the year we studied most closely, Wayne County collected an average of 45 percent of all that was due from all fathers under orders of support. Two small rural counties collected 85 and 87 percent of all due in the same year. The average rate of collections was 65 percent.

answer that New York City has failed to develop a large enough staff for the task. Its Title IV-D program employs substantially more employees than Wayne County in relation to the size of its caseload. In a conversation within the last week with Irwin Brooks, Assistant Commissioner, Department of Social Services, New York City, I learned some of the factors that might explain the differences. These include the fragmentation of the courts in the five boroughs, the lack of an adequate computer system to keep track of parents' payments and trigger the issuance of warning to delinquents, the absence until very recently of enough officers available to serve warrants, and finally the momentum Detroit enjoys from its long history of efforts.

II. Creating a national system of wage deductions

Michigan, it is true, collects more child support per case than most other states, but at heart Michigan's system is antiquated and, in some sense, cruel. It is antiquated because, like every other state, it depends on a system under which, in most cases, the state waits until after parents cash their paychecks and then tries to cajole or frighten them into paying their support. While Michigan does about as well as can be expected under this old-fashioned approach, more than 30 percent of divorced fathers under orders of support whose children received welfare paid nothing or nearly nothing during the year we studied in the 28 Michigan counties. In a few, the portion of nonpayers exceeded 40 percent. It is probable that most of these nonpaying parents were working for at least a substantial portion of the year in which they did not pay. These working fathers could not have avoided paying income or Social Security taxes, for the United States government requires their employers to make deductions before issuing the paychecks. Imagine the problems the government would have today if it permitted workers to receive their full paychecks and then expected them to send a check or mail order to the Treasury every Friday afternoon.

The current child-support system is unnecessarily cruel for a reason that is related to its antiquated form: Michigan's system collects as much as it does only because it caps its highly organized collection system with a heavy reliance on jail.[4] That's what it takes to induce many fathers to make the payments "voluntarily." Around four to five thousand parents are sentenced to jail in Michigan each year for contempt of court for failing to pay. In several Michigan counties, at least one in seven of all divorced fathers with children spends time in jail under sentence of contempt for failing to pay during the term of his order of support. To be sure, my study found that the jailing of the five thousand does appear to goad tens of thousands of other fathers into paying (the study is indeed one of the few to demonstrate that jail exerts general deterrent effects on any behavior), but this jailing record is nothing to be proud of. Even if these nonpaying parents can properly be considered intolerably neglectful, we should be reluctant to start jailing across the nation a high portion of our adult population. In fact, many, perhaps most, of the men who are actually jailed in Michigan are alcoholics and others with long histories of sporadic employment. In a painful way, they turn out, among the much larger number of nonpayers, to be the ones least likely to have been able to afford to pay in the first place. More significantly, the enormous rate of jailing and the misery it brings to men and their new families is probably unnecessary, for, as hinted above, an obvious alternative exists that can produce higher collections with far less need to rely on the threat of jail.

The alternative—obviously at least in the simplicity of the concept—would be a national system of deductions from the paychecks of wage earners under orders of support. The wage deduction is, of course, not a new idea in the child support setting. As of January 1979, legislation in forty-two states authorized courts to issue wage assignments against the employer of a parent under an order of support. The federal IV-D legislation permits such assignments for federal employees. When such assignments are in effect, they operate in many ways like tax withholding, but, though universally applauded by enforcement officials for their effectiveness, they are today limited in their uses and effects. In most states, including Michigan, the relevant statutes permit courts to impose a wage assignment only on parents already in default, and in all states a wage assignment ends when a person ceases to work for the employer against whom it was ordered. If the parent changes jobs, the

[4] Our findings about the impact of jail need to be carefully understood. We found that the use of jail made a difference in a county's overall collections only if the county also had an effective system of warnings to nonpayers. Courts in other parts of the country should not be misled into believing that they can boost collections greatly simply by beginning to jail nonpayers. Not at all. To exert any significant effect on collections, the jailing must be the capstone of a well-organized system of bookkeeping and reminders that cannot be put together overnight. See "Making Fathers Pay," pp. 90-97.

agency has to find the man and his new employer and repeat the legal process for obtaining a new assignment. It is thus perhaps not surprising that today, in most states, assignments are imposed in only a small portion of cases. In New York City, for example, wage assignments are currently in effect for no more than 5 percent of the fathers under orders of support in Title IV-D cases.

If Congress established a system under which withholding from wages occurred from the first moment of an order and traveled with the parent wherever he or she took work within the United States, the need for much of the current enforcement system might largely disappear. I am not an expert on bureaucratic systems and am thus on dangeroud ground in trying to prescribe the details of a program. Here nonetheless is one possible system, suggested for purposes of spurring discussion. Under this approach, the federal government would create a national computerized information bank tied to a worker's Social Security number. Court or public assistance agencies would provide information to the bank on the persons for whom withholding was required and the amount to be withheld. Employers in turn would be required to make a check on each new employee to learn whether an order of support was outstanding. They would then withhold the called-for amount and remit it to a state or federal transmitting agency. Under such a system, if the computer kept track of all the appropriate information, support payments would be nearly perfect except by the unemployed, the self-employed, and those able to evade the floating wage assignment by falsifying their Social Security numbers or by colluding with the employer. The problem in Michigan and elsewhere of fulltime workers making no payments would greatly diminish. Moreover, the dollar costs of the system would be substantial but almost certainly far lower than the policing system now required under existing programs.

An additional advantage of the assignment system over current systems is that it could be set up to allow judges to fix orders in terms of a percentage of the individual's earnings. Employers would deduct the fixed percentage of the worker's earnings, the dollar amount varying over time, just as they do with Social Security. Today, in nearly all states, courts set a fixed dollar amount as the order size. Although courts currently have the power to modify an order to reflect changes in earnings, the modification procedure is cumbersome and in many places infrequently used. The consequence is that, as men's earnings and their children's living costs rise, the order remains the same.

The federal legislation could also be set up to protect workers under orders of support from such large deductions that they are forced to live in poverty. This protection can be achieved in part through the shift suggested above from orders fixed in dollars to orders fixed in percentages of earnings. It could be achieved more fully by excluding a certain amount per hour from the wages subject to the wage deduction, before applying the wage-deduction percentage to the remainder. (The percentage taken of the remainder would then have to be higher than it would be if a fixed percentage were applied to the whole.) In any event, the federal government should not set up a system that routinely recoups money for itself by taking money from noncustodial parents living in poverty. Especially is this so when the United States has no general system of income support for nondisabled single individuals such as the low-income parent who is not living with his minor children.

A further virtue of this approach is that it would not reach the unemployed person. Today, judges in many parts of Michigan jail men who are unemployed but whom the judges believe could be working. To my view, in this era of high unemployment among blue-collar workers, the question of whether an unskilled person "could have been working" is not susceptible to the high standard of proof that we commonly require before jailing a person. In any event, there are sufficient incentives to seek employment for most men—the incentive to work so that they *themselves* can eat—that the additional prod of jailing seems a cruel redundancy.

A national compulsory deduction system would, however, have many troublesome aspects. While Title IV-D injects the federal government much more deeply into child-support collecting than ever before—including the active involvement, under certain circumstances, of the federal courts and the Internal Revenue Service—the deduction system would involve it much more deeply yet. It would also be cumbersome to administer, a fountain of details inviting errors. Unlike income-tax withholding, deductions for child support would be required only for certain employees. Worse, unlike income taxes, if the system were made available to families not receiving public assistance (as I would hope), support payments would have to be funneled to a third party, the custodial parent, a process likely to take several months. At varying intervals, as children reached majority, the amount to be withheld would change.

Some of these problems are not insuperable. The federal government could speed the process of passing payments through to the custodial parent and to state welfare departments by starting payments to recipients upon receiving notice that withholding had begun but without waiting until it actually received them. Similarly, withholding from the noncustodial parent could continue beyond the children's majority, if that were necessary to recoup the money advanced.[5]

Some other troubling aspects of a compulsory wage-assignment system would not be so fully remediable. Many Americans feel strongly about their right to decide for themselves what to do with their earnings. They would resent involuntary wage assignments for child support as much as they would resent involuntary deductions for their Master Charge bill, even though they could agree that it was reprehensible not to pay their bills. Whether seeing it as a right or an obligation, many noncustodial parents attach importance to their weekly act of writing a support check, viewing it as an occasion to demonstrate their love for their children. They would also point out that the automatic wage deduction would deprive them of their power to control the timing of payments, a power they need in order to counter the custodial parent's interferences with their rights to visitation.

A wage-deduction system would also involve another sort of federal intrusion on matters many consider private and personal. We can appropriately worry about a federal computer system carrying detailed information about the failed marriages or illegitimate children of millions of citizens. Today, in Michigan, some Friends of the Court hesitate to impose wage assignments in cases in which they fear that the father is likely to be fired by an employer who either does not want the bother of making an additional deduction or thinks ill of persons who are divorced or the parents of a "bastard." For example, in Genesee County, Michigan, an automobile manufacturing center, General Motors cooperated in full with the Friend of the Court with regard to wage assignments for its blue-collar workers but, in an odd form of class bias, regarded a wage assignment as a blot on the record for its white-collar workers. The problem of stigma and employer resistance could well continue under the system proposed here.

For all these reasons of administrative complexity and intrusions on privacy, it is easily understandable why only a bare majority of Michigan's Friends of the Court indicated to me in a mailed survey in 1974 that they would favor a modest change in Michigan law to permit the imposition of a wage assignment at the moment a support order first takes effect and before any arrearage develops. There was no uniform enthusiasm despite the fact that nearly all Michigan's Friends of the Court were strongly committed to improving collections of support. All, I believe, favored wage assignments for men substantially in arrears, for these men had lost their just claim to control the disposition of their earnings.

In the end, however, the issue when contemplating a mandatory deduction system is not the drawbacks of such a system in the abstract. Rather, it is whether a system of automatic deductions would be worse than the sin-based system that we have now—the system in which we dangle before parents the opportunity not to pay and, then, when they yield to the opportunity, clap them into jail by the thousands.

If state and federal governments remain committed to compelling long-absent parents to support their children and remain determined to enforce the obligation aggressively, I for one would choose the compulsory deduction system over the system now found in Michigan. It would be my preference only in part because it would almost certainly lead to even higher collections than Michigan and all other states obtain today but, in larger part, because of the doubts I have about the justness of a jail-based system and about the atmosphere that system creates.[6] The choice may seem easier because the new system does not yet exist. It is, however, hard to believe that a new system, however instrusive, could be as distasteful as one that depends heavily on imprisonment and the fear of imprisonment.

III. Limits on the potential for reducing welfare costs under either title IV-D or a wage deduction system

Even its most enthusiastic boosters have never suggested that Title IV-D could lead to a phasing out of the AFDC program. On the other hand, the suggestions I have made that even higher collections of child support are attainable may lead the reader to overestimate the potential of even the most effective collection system. As

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[5] To be sure, the federal government would be left out-of-pocket for moneys advanced but never recouped from elusive men. The scope of the risk for the government is impossible for me to forecast.

[6] Those doubts are amplified in three chapters of "Making Fathers Pay" (pp. 165-253) that discuss what sorts of men end up in jail, as well as the peremptory judicial process that precedes a sentencing and the possible impacts of jailing and its threat on the relations of fathers and children.

a starting point, I have praised the effectiveness of Michigan's Title IV-D program. For all its efficacy, the program in Michigan still recoups only about 9 percent of the state's AFDC costs.

If a wage deduction system were created, considerably more payments would be obtained from employed parents all over the country, including Michigan, but it would be surprising if collections ever reached as high as 20 percent of the cost of an assistance program. Why should this be so? Why can recoupment not approach total welfare expenditures? As an initial matter, there can obviously be no collections even under a wage deduction system until a parent is identified and agrees or is ordered to pay. In cases of children born outside of marriage, problems of identifying and locating the father will remain. The problems of obtaining orders have been among the most vexing of all under Title IV-D and nothing in a wage deduction system will make them any easier.

The second problem is equally self-evident: even after obtaining an order of support, the government cannot collect except from persons who are earning money. Within the Michigan system as we studied it, we found in county after county substantially lower payments by fathers of children receiving welfare than by fathers of children not receiving welfare. A principal reason for these lower payments seemed to be that "welfare" fathers simply were less able to pay—younger, unskilled and more likely to be unemployed or erratically employed.[7] In New York City today, in half the cases in which an absent father is located, the agency determines that no order is appropriate because the father is clearly unable to pay—out of work, disabled, in prison, or for some other reason of such low income that collection efforts would be futile. (Interview with Asst. Commissioner Irwin Brooks, February 4, 1980.) A wage deduction system of the kind I suggest will, of course, provide no one a job who does not have one.

Finally, there are grave limits on what can be recouped even from noncustodial parents who are working fulltime with deductions regularly taken from their wages. Even if a man is paying the ordered support every week, what he pays will usually equal far less than the public assistance grant for his children. Support orders are typically fixed in a dollar amount calculated as a percentage of the parent's take-home pay. Nothing in a child-support wage-deduction plan or any other enforcement plan will in itself produce an increase in a working parent's earnings. The important point in the public-assistance setting is that just as the absent father of a child receiving AFDC is more likely than other fathers to be unemployed so also he is more likely, if employed, to be earning at the lower edge of America's wage scale—he is likely to be a young, unskilled blue-collar worker.

Consider the maximum payments that can be expected in a fairly typical case. A divorced parent who grosses $5.40 an hour and works fulltime all year will have after-tax earnings of around $9,000. If he has three children and lives in Michigan, his child support obligations will total about $3,600 for the year (about forty percent of his take-home pay).[8] If he pays the $3,600, he will feel pinched living on the remaining $5,400. At the same time, the $3,600 he pays for his children will provide them only half a Poverty Line income, even if they receive his payments directly. If they are receiving AFDC, his $3,600 will offset only about half of the combined AFDC and Food Stamp benefits. This is a common case. A very high portion of the working fathers of children receiving AFDC benefits today net less than $9,000 per year.

One of the hopes of the proponents of Title IV-D was not merely that fathers would offset a high portion of the costs of their children's grant but that, in many cases, payments would be high enough to permit AFDC cases to be closed. That hope has borne little fruit. As a rough indication of the small portion of fathers whose child support payments are sufficient to offset in full their children's grant (including cases in which the mother is employed), consider Michigan once again. During 1979, Michigan actually collected support from over 70,000 absent parents of

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[7] For a discussion of the reasons why fathers and children receiving AFDC benefits pay less than other fathers, see "Making Fathers Pay," pp. 132-137. We expected but did not find a decline in men's payments after their children began receiving AFDC. We expected the decline because, when the children receive AFDC, the father's payments go directly to the government and the father may well perceive that his children are no better off if he pays than if he doesn't. At least in Genesee County, where support is vigorously enforced, we found no such decline in payments in cases in which the mother began receiving AFDC after a support order had been in effect for some substantial time.

[8] In theory, an alternative way to recover more money from parents would be to raise the percentage of their earnings that the government will deduct. Judges and Friends of the Court in Michigan (and their counterparts elsewhere) have generally believed however that absent parents cannot be justly asked to contribute any higher portion of their wages than the current practice requires. I do not have firm figures on the percentages used as guidelines by judges or agencies in other states.

children receiving AFDC.[9] In the same year Michigan reported that there were only 1417 cases (about 2 percent of the 70,000) in which child-support payments were high enough to permit closing their children's AFDC case. Some states in the early stages of building a child-support program are reporting higher rates of closings, but Michigan provides an example of what can be expected after a state's Title IV-D Program reaches maturity.

Over the next decade, the gap between what even regularly paying parents will be ordered to pay and what Congress expends on public assistance will probably grow. If the Congress accepts the idea of a minimum floor of benefits for all families with children and proceeds over time to raise the floor—both of which are steps I ardently urge—the costs of public assistance to the federal government will rise without any expectable corresponding rise in the earnings (and thus the support payments) of absent parents.

It is all these characteristics of parents of children receiving public assistance and the directions of grant levels for the future that lead me to conclude that there is a low ceiling on the maximum returns for even the most effective child-support program.

There is one further brief point to be made about the limits on support collection. In initially commending Title IV-D to the Congress, then Secretary of Health, Education and Welfare Caspar Weinberger forecast that with an effective system of child support fewer fathers would desert their families because they would know they had nothing to gain by leaving. Welfare costs would decline because fewer families would qualify for assistance. Implicit in the Secretary's view was a belief, somewhat cynical in my view, that it would be a wise government policy to hold families together by making men fear the consequences of leaving. Cynical or not, Secretary Weinberger's forecast seems unsound. Families break up for complex reasons. The continued rise of the rate of divorce despite the dramatic increase in the effectiveness of systems of collections gives not a shred of support to Weinberger's prediction. Moreover, I see little reason to believe that better enforcements systems in the future will exert any measurable effect on the rate of family break up. Indeed, it is at least as plausible that a fully effective enforcement system will cause more marriages to collapse because women who today feel trapped in a marriage might then have the courage to separate knowing that it was highly probable that the father could be compelled to make payments.

IV. Serving other goals than reducing government spending

In considering the place of child-support collections in welfare programs for the 1980's, the Congress cannot, of course, permit a short-run savings in public assistance costs to become its only guiding criterion. The overall goal must remain the well-being of children. Moreover, we have a general obligation to treat with fairness all citizens in our society including both parents of the children for whose benefits the AFDC program exists.

Our first goal, in my own view, should be the assurance of a minimum decent standard of liviing to all Americans, through jobs or through programs of income maintenance. As I speak at conferences of persons involved in child-support collecting I sense that too many in my audience have either forgotten or reject this central goal, even for families with young children. For many, welfare remains a big government give-away and Title IV-D is simply a way of getting back what we shouldn't have spent in ther first place. Whether or not one accepts a goal of income assistance based purely on need, it is still possible to accept some other restrictions on child-support programs largely in the name of fairness. Let me suggest a few:

A minimum protected income for absent parents.—The federal government ought to bar the states from subjecting absent parents in AFDC cases to orders of support that push them below the BLS Lower Standard Budget for a single individual. The absent parent should be left with enough to live in minimum decency. In Section II above, I suggest a couple of ways that orders could be fixed to provide such protection.

Limits on penal sanctions.—The federal government should insist that states not impose penal sanctions for nonpayment on fathers whom they cannot show to have been employed during the period of their nonpayment. Many judges in Michigan jail men who were unemployed on the theory that they could have been working. In an era with ten and fifteen percent unemployment among the age group of men most commonly under oreders of support, judges jaling men who do not have jobs are often engaged in an intolerable form of wishful thinking about the labor market.

[9] Michigan reported collections in no fewer than 63,000 cases in each quarter of 1979. Some men paid in only one quarter so that the total for the year paying in at least one quarter must have been significantly higher than 63,000.

Reconsidering the penalties for a noncooperating custodial parent.—Mothers of illegitimate children are currently required to identify the father of their child and cooperate in the establishment of an order against him, unless they have "good cause" for refusing. As a broad principle, I think that asking mothers for cooperation is reasonable and appropriate. Although my study did not focus on cases of children from outside of marriage, I do have worries about the compelled cooperation program in practice. During fiscal 1979, twenty-five states and the District of Columbia reported to HEW's Office of Child Support Enforcement on refusals to cooperate. These twenty-six reported 13,349 cases of refusal, with "good cause" for refusal demonstrated in 1,358 of the cases. Thus, in about 12,000 cases, a noncooperating mother may well have suffered the statutory penalty of having her grant reduced and the rest of her grant paid through to a third party payee. We do not know in how many additional cases mothers decided not to apply for assisantce at all (or withdrew their applications) rather than face the compulsion to identify. In all these cases, children receive less income because of an action by the mother to protect her privacy.

I suggest that Congress direct the Office of Child Support Enforcement to study the compelled cooperation program now after several years of operation in an effort to determine the way it is enforced and the effects on families.

Considering reducing support payment levels many years after separation.—Without doubt, Congress and the states have a principled basis for insisting that absent parents provide support for their children throughout their minority. It is nonetheless also clear that even in divorced families, as the years pass after separation, the parents are each highly likely to involve themselves in new families with new financial responsibilities. It is also the case that the absent parent is likely to play less and less of a role in the life of his child by his earlier marriage. In "Making Fathers Pay," I develop at some length a suggestion that states (and the federal government) would be wise to restrain their impulses to collect at some point several years after a support order is entered, by reducing or terminating the order.[10] Parents would then be free, indeed encouraged, to reorient their lives fully to the future. Of course, looked at as an expense problem only, this approach would undoubtedly place a higher financial burden on government for those families that do not become self-sustaining even years after the family broke up. On the other hand, a valuable effect of such a change would be to direct thinking even more clearly toward creating or insuring job opportunities at decent wages for single parents several years after marital breakup (or the birth of a child outside of marriage).

Programs to keep families intact.—I hope that the Senate will give favorable consideration to plans to include all low-income families within our public assistance systems, even when both parents are in the home. I wish I could claim with confidence that, if we did so, fewer families would break up. The evidence for such a claim is equivocal at best. My point is simply that once we recognize the inherent limits on the potential for a child-support collecting system we need to move our attention back in time to the sources of the problems of poverty. These problems are many and deep, but some are more tractable than others. Since families living in separate units will nearly always face greater expenses than families living together and since children are in general better off in a two parent setting, government should be seeking to find noncoersive ways to help couples work out problems, financial and otherwise, while they are intact.

Senator MOYNIHAN. Now our final witness from within the Government, Max Horlick, who is Chief of the Comparative Studies Staff of the Office of International Policy of the Social Security Administration.

Mr. Horlick, we welcome you this afternoon. You come voluminously documented, as is not surprising. I did not know that the Social Security Administration had an Office of International Policy, but I am glad it does.

Will you please proceed, sir.

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[10] See "Making Fathers Pay," pp. 268–282.

STATEMENT OF MAX HORLICK, CHIEF, COMPARATIVE STUDIES STAFF, OFFICE OF INTERNATIONAL POLICY, SOCIAL SECURITY ADMINISTRATION

Mr. HORLICK. Thank you, Mr. Chairman.

I am very happy to have an opportunity to talk about what happens in the rest of the world, and what I am going to summarize will go a little bit beyond the bare outline which I have submitted, and tell not what should be, or what I favor, but simply what is everywhere else.

Before I do that, the other speakers all mentioned FAP, and I must tell about our involvement. About a decade ago, the then Deputy Assistant Secretary for Welfare Reform, or for Family Assistance Reform, also asked us what happened in foreign countries. The way he asked was, "Immediately send everything you have on foreign welfare," and that turned out to be six boxes of raw material. [Laughter.]

As I summarized in the outline, other countries, according to the internationally comparable figures, tend to spend proportionately less than we do on public assistance, and they do it mainly because they have greatly expanded social security programs, through labor market forces which we will discuss, and through other policies.

I will eventually come back to the topic we are all interested in, namely, public assistance or welfare per se, but first about the foreign social security programs.

This morning in preparation for this meeting, I was reading again some debates about how far can social insurance go to cover public assistance, and eliminate the need for public assistance. This debate took place in 1894, and it is not unreminiscent of some of the debates one hears today.

Senator MOYNIHAN. It took place where?

Mr. HORLICK. In 1893 the Commissioner of Labor of the United States sent somebody to Germany to find out about a new animal called social security. The man at that time wrote an absolutely brilliant paper, which we still have by accident, which discusses the policy issues which are very much like those we have today.

Senator MOYNIHAN. For years, when the Commissioner of Labor was five departments combined in one, there was very active interest in the American Association for Labor Legislation. It would meet simultaneously with the American Association for Social Security, and they were always invoking Bismarck's Germany.

Mr. HORLICK. Also he sent, what they called in those days, agents to various countries to study what was going on abroad in social policy and in labor policy.

Since those days, the foreign social security systems have expanded very greatly to absorb a lot of the functions that once were dependent upon public assistance. To give a few details:

The old age survivor programs in some of the leading foreign countries provide a flexible retirement age. A number of countries provide for early retirement for those people approaching retirement age who are not able to find a job. Instead of being on public assistance, they are simply given an early retirement for long-term unemployment.

In some countries as, for example, Sweden, they recognize that workers who have been working their entire lifetime might become what they call exhausted. They really cannot continue after 50 years in the labor force or 55, and they just give them a retirement benefit for which they contributed many, many years.

Senator MOYNIHAN. I'll bet you that being a senator in Sweden is more fun than being a Senator in the United States. You just get up one day, and you say: "The arduous conditions of my life leave me depleted," and thereby be retired.

Mr. HORLICK. They probably would not be able to retire because the taxes are sometimes over 100 percent.

Also, some of the Scandinavian countries have partial retirement. A worker can retire and work part time and receive part-time social security, instead of being unable to keep up with the job, and fall back on some form of assistance.

Another range is disability benefits. In some of the foreign countries there are payments for partial disability. There are payments for very partial disability, down to perhaps 20 percent. There are programs in most of the developed countries called constant attendance allowance, that is cash payments to families who take care of disabled members. Cash payments are made as an inducement to keep people out of institutions. The payments normally cease or are decreased when the disabled person has to go into an institution.

A main feature of the disability programs of all the other developed countries is cash sickness. In just about all the other countries, if a worker becomes ill, not permanently disabled, he receives an income replacement called the cash sickness benefit, which replaces in some countries almost completely his salary for perhaps up to a year.

The other developed countries have also evolved extensive health insurance programs. They have hospital and medical coverage. Particularly just about all of them have maternity insurance which will provide——

Senator MOYNIHAN. Mr. Horlick, you are talking about Western Europe.

Mr. HORLICK. Primarily Western Europe, yes.

Senator MOYNIHAN. It would be interesting if you could interpolate the relative experience of Canada, if you could locate Canada in this spectrum, because it tends to be somewhere inbetween the American and the European; doesn't it?

Mr. HORLICK. It also has a form of family allowance, which I will come to in a minute. It has some form of health care coverage. It falls probably closer to the European model than to the United States in all of these things.

They all have extensive work injury programs on a national level. Some of them are evolving toward the concept of, let's forget about work injury, let's forget about unemployment. If somebody loses his income for a short period of time, a relatively short period of time, let's just give him a benefit for which he and his employer will already have contributed.

Another thing included in social security in the European context is unemployment insurance. They have unemployment insurance in many countries for students who have never worked, before finding a job. Again instead of going on some sort of public assistance, they can get unemployment insurance.

They may have unemployment insurance for housewives who are returning to the labor force after many, many years. In some instances, unemployment insurance will pay for extremely long periods of time.

Additionally, all the other developed countries have connected to their social insurance programs family allowances. These family allowances, which I will discuss a bit later, are paid to families with children, and most of them are financed by the employer.

All this is really wonderful, and appreciably keeps many, many people off of poverty. But there is a price, and that is discussed in the tables, if anybody is interested in going to details. The price is that the payroll tax which they pay, the payroll contribution by the worker, the payroll contribution by the employer, and the general revenue supplement are staggering in comparison with the United States, three times as much as we pay.

Senator MOYNIHAN. Three times?

Mr. HORLICK. Yes.

All of these things that I have described that have a sort of side effect of keeping people out of the public assistance area by providing health or income maintenance payments, are extremely costly. The better they are, the more costly they are. As a percent of the gross national product, they tend to be in these countries more than twice what we spend.

Senator MOYNIHAN. That is what balances off the relatively low expenditure on public assistance.

Mr. HORLICK. Yes; within the total package, they have swung it to other programs.

They also have other income maintenance programs which, again, have a side effect of reducing the need for assistance. For example, they have extensive private pension networks which in some countries are required. So, for example, there would be private pension payments for disability, or for orphans in some cases, and survivors. There would be a supplemented income source.

Another kind of program that exists in some of these countries is subsidized savings. If one compares the international figures for the propensity to save, we find that the American, or the country as a whole has a very low propensity to save. In other countries, people tend to save more for a rainy day, and there are in various countries subsidized programs to encourage savings.

The enclosed material goes into some of the detail, and if there is more time, I would be glad to discuss it.

Senator MOYNIHAN. We will see that this is made part of the record as part of your statement.

Mr. HORLICK. These various programs outside of public assistance that I am describing keep people out of public assistance.

Another range, briefly summarized, is the labor market forces. Europe formerly had full employment. You mentioned Canada before, Senator. In Canada they have had debates about welfare reform for as long as we have. At one point, I think in the early 1970's, somebody came up with a brilliant thought that if they could maintain full employment, they would cut down the need for public assistance, which is absolutely true, but how do you do it?

Senator MOYNIHAN. It may or it may not be true; how do you know?

Mr. HORLICK. If they have 100 percent employment of all those who are employable—in Europe they did. They even had to import workers—it means that in all average instances they would have an adequate income, along with national health, family allowance, and these other programs.

Senator MOYNIHAN. Yes, but this reaches the question of whether the persons who are on welfare in our society typically are young women with very young children. They are not supposed to be working, or at least not normally.

Mr. HORLICK. Just to skim through some of these other public policies which help. They have very active labor exchanges placing people in jobs. One of these categories is, for example, very strong vocational and apprenticeship guidance.

I digress very rapidly to say that back in the 1960's I was in the Labor Department. Our Assistant Secretary had very brilliant ideas in this regard. It was Mr. Moynihan. He always used to ask what foreign countries did in this respect. We never managed to get answers back to him because it took so long to grind these things out and get them through channels.

At that time you asked us, how come in urban areas there is very little youth unemployment in foreign countries, while there is so much in the United States. This was one of the answers.

Senator MOYNIHAN. You did come up with this finding that the connection between school and work is so much closer in those countries.

Mr. HORLICK. And the techniques that exist there. For example, the vocational guidance teachers in Germany do not belong to the schools. They belong to the Labor Department, which knows to which area to steer the kids.

Senator MOYNIHAN. After we sent the OEO legislation up here in 1964, I took a week off and went over to Germany, France, and Britain, and looked at precisely these things. It was formidable.

They had full employment system, but nobody left school in Germany without having two employers who were prepared to hire him or her.

Mr. HORLICK. Because they had salable skills.

Senator MOYNIHAN. Yes. You could see them working away in their machine shops like little elves, and they were worth hiring, obviously.

Mr. HORLICK. Should I wind up, or keep going a little bit?

Senator MOYNIHAN. Please go on, sir.

Mr. HORLICK. They have very active apprenticeship programs, as you observed there. They have in many of the countries active programs requiring the hiring of the handicapped. For employers of 50 or 60 workers in countries like Japan, or the United Kingdom, or Germany, they require that a certain percentage of the labor force be handicapped, and they have to provide suitable work for them. In the end, this has a tendency to keep them away from the need for assistance.

There are hiring incentives for employers. There are very active resettlement allowances, training and mobility programs of a very active nature. More recently, they have short-term work. When an employer in some of the countries needs to let go some of the workers, instead of firing a bunch of them, he will cut back on the number of hours they work, and the difference will be made up in part from unemployment insurance so that he can keep these people on. It is another kind of income maintenance program.

Senator MOYNIHAN. That is interesting. Yet, from your main table here, it is hard to be quite sure what judgments to draw. The country with the lowest expenditure on social welfare programs, using the ILO definition, is Japan with 6.3 percent. We associate Japan with having among the highest rates of economic activity. But then we also think that of the Federal Republic of Germany, which is 52 percent.

Japan is half of ours, and Germany is twice ours. Rather interestingly, the United Kingdom is not much greater than the United States at all, is it? They have found that a weak economy does not support a large public sector in social welfare. If you are going to spend your money maintaining an inefficient steel industry, you are not going to spend it on pensions.

Have you got any sense of correlation here? There does not look to be any. There are no large conclusions to be drawn from data this aggregated, perhaps.

Mr. HORLICK. There is correlation, in a very general sense—apropos those figures, Germany, specifically for public assistance, shows up with rather low expenditures because it uses other kinds of programs. Japan, traditionally, has had very, very poor income maintenance and welfare programs, and they have been very concerned about it.

Senator MOYNIHAN. They have been so concerned, they have not done anything about it. People usually act on things that concern them. Perhaps they are only officially concerned.

Mr. HORLICK. They are discussing this very same topic, and it is not as easy there, perhaps, as it is here. As an official example, they were worried about their health care costs, as other countries are. They issued a national paper explaining why health care costs are skyrocketing, as in the United States. They found that one of the factors is that doctors are paid very much. The National Association of Doctors went on strike, and forced the Premier to apologize. So things there go a little more slowly.

I am mentioning facts only.

Anyway, expenditures in Germany on public assistance tend to be low because of the expansion of all these other programs.

Senator MOYNIHAN. But as a percentage of GNP, the Federal Republic has 22.3 percent in social welfare programs. That is twice the United States level of 11.9 percent, roughly.

Mr. HORLICK. Social welfare has different meanings.

Senator MOYNIHAN. Within the broad ILO definition in your table?

Mr. HORLICK. Yes.

Senator MOYNIHAN. We have high public aid and other social welfare, but low total expenditure for social welfare programs.

Mr. HORLICK. Social welfare in the international context means all the things that I have mentioned: old age, survivors, diability, health, workmen's compensation, et cetera.

Senator MOYNIHAN. The ILO definition.

Mr. HORLICK. Exactly.

Public aid and other social welfare is what we call here social assistance.

Senator MOYNIHAN. Canada is just a little bit above us, but not much. Just enough to notice that it is a little different, but it is more an American economic system than it is a European one.

Mr. HORLICK. Yes. The patterns in many respects there are like ours. For example, demographic patterns, age of the population, and other technical things are more like ours than Europe.

Senator MOYNIHAN. Let me ask you one last question, if I may. This is a trove of information, and it matters a lot to us.

Do you have any comparative data on illegitimacy? This is always a troubled subject, but it is one that obviously has some relevance here.

Mr. HORLICK. Not at hand, but we may be able to turn it up.

Senator MOYNIHAN. These countries are great recorders of everything. They record these things, too. We obviously have a rising trend and in subsets of very high ratios. I think that rates are going up, too.

The committee would appreciate this, Mr. Horlick, if you would do this.

[The following was subsequently supplied for the record:]

ILLEGITIMACY RATES PER 100 BIRTHS OF SELECTED COUNTRIES

[In percent]

Canada:	
1966	7.6
1970	9.6
1973	12.1
United States:	
1966	8.4
1970	10.7
1974	13.2
Japan:	
1966	2.4
1970	2.0
1974	0.8
Austria:	
1966	11.4
1970	12.8
1974	13.8
1975	13.5
Belgium:	
1966	2.5
1971	3.3
1972	3.0
Denmark:	
1966	10.2
1970	11.0
1973	17.1
France:	
1966	6.3
1970	7.1
1972	7.8
West Germany:	
1966	4.6
1970	4.5
1973	6.3
Italy:	
1966	2.0
1970	2.0
1973	2.8
Netherlands:	
1966	2.0
1970	2.1
1974	2.0
Norway:	
1966	4.9
1970	6.9
1974	9.3
Sweden:	
1966	14.6
1970	18.4
1974	31.4
Switzerland:	
1966	3.8
1970	3.8
1974	3.7
United Kingdom:	
1966	7.9
1970	8.3
1973	8.6
Australia:	
1966	7.4
1970	8.3
1973	9.8
New Zealand:	
1966	11.6
1970	13.8
1974	15.8

Source: United Nations and OECD Demographic Yearbook, 1975.

Prepared by: Comparative Studies Staff, Office of International Policy, Office of Policy, Social Security Administration, February 1980.

Senator MOYNIHAN. I feel that all that haranguing and harassing that I did 15 years ago had some final results. You have come up with some very important data. We have a sense of where we are. We certainly are not in any position to correlate increasing expenditure here with declining economic activity. It goes either way. You can look at the German model, if you want; or the Japanese model, if you want. Apparently the only lesson that we can really learn from your data is, don't be in-between.

In this morning's Washington Post Meg Greenfield wrote a long epistle against moderation, and maybe that is the note on which we should end this hearing.

We want to thank you very much, sir, and your colleagues who have helped you put together this matter. Please give them our greeting, and tell them that we did not know that the Social Security Administration had this resource, and now that we do, we will be calling on you more frequently.

[The prepared statement of Mr. Horlick follows. Oral testimony continues on p. 301.]

Statement by Max Horlick
Before the Senate Finance Committee
Subcommittee on Public Assistance
Wednesday, February 6, 1980

Mr. Chairman and Members of the Subcommittee, my name is Max Horlick. I am Director of Comparative Studies, Office of International Policy within the Office of Policy of the Social Security Administration.

The Comparative Study staff studies "social security" and income maintenance programs in other countries. We prepare cross country studies which explore how leading industrial countries deal with the same kinds of situations and problems facing policy makers in the United States. We also prepare the report on Social Security Programs Throughout the World, which presents in outline form the main provisions of the social security laws in each country.

Other industrial countries tend to spend proportionately less than we do on public assistance programs because their "social security" programs are older and have become more comprehensive, and labor market policies and other programs have had the effect of reducing the need for assistance.

I. Foreign Systems of Social Security

In the industrial countries, "social security" has been broadened over the past hundred years so that the incomes of many people who once received public assistance have come to be maintained by social insurance. Some of the old-age and survivors' programs, for example, have a flexible retirement age, partial retirement which permits part-time work, or early retirement for the long-term unemployed and others.

Partial disability benefits may be paid for as little as 20-30 percent of loss of capacity. Many countries provide a constant attendance allowance for the disabled needing special care. The developed countries also have some form of national health care programs. These include cash sickness benefits and maternity insurance. Unemployment insurance may be paid to students who have not been able to find their first job and to women wishing to reenter the labor force. Also, unemployment benefits may be paid for long periods of time. The developed countries also provide cash family allowances to families with children.

However, as the programs have expanded, so have their expenditures. The total payroll tax for all of these programs may be over 30 percent and the percent of gross national product represented by these programs may be twice that of the United States. (See Tab A)

II. Other Income Maintenance Programs

The private pension network in some of the European countries covers all of the organized labor force. There are also subsidized programs to promote individual savings. (See Tab B)

III. Labor Market Programs

Before the 1974 oil recession, the European countries had full employment for many years. In addition, they have had active labor market policies since the post war period. The resulting labor market programs include strong vocational and apprenticeship training, less than minimum wages for trainees, in some instances virtually guaranteed jobs, active labor exchanges, hiring incentives for employers, mobility and resettlement allowances, retraining, and requiring the employment of the handicapped.

IV. "Welfare" Models

Assistance programs in the developed countries range from a "guaranteed minimum income" in Belgium, to a complicated patchwork of benefits in the United Kingdom, to basically State and locally administered programs in France, and a blurring of the meaning of social assistance in Sweden. Attached are charts showing the types of assistance programs in Belgium, Canada, Finland, France, Germany, Japan, Sweden, and the United Kingdom. (See Tab C)

V. Programs for Families

Under social security programs in the developed countries there are cash payments to families with children, to families caring for orphans, for the education of handicapped children, and to single earner families (means-tested). Under other various programs there are means-tested housing allowances, school expense payments, cash payments to working parents for outside care of children, furniture loans, low wage supplements, etc.

The family has become less stable in Europe as divorce has increased. The social institutions have reacted by amending and changing laws and instituting new programs. These new provisions, such as assistance to divorced women with dependent children and advance maintenance grants, are primarily reactions to handle new problems caused by the breakup of families. At the same time, however, there are also changes with a longer range impact, such as allowing women to receive credit toward their own pensions during the years they are caring for dependent children to encourage women to remain in the home.

VI. Trends

Welfare reform proposals have been discussed repeatedly in many countries. In recent years there has been some trend in several toward a greater role by the national government as in the case of Belgium, which has established a national guaranteed minimum income, and France, where an increased number of national programs have replaced local programs. The United Kingdom has debated a series of proposals for a completely new approach, including unification of the present "hotch potch" of local and national programs, a negative income tax, a consumption tax and income tax revision to eliminate the poverty trap. The idea of providing a guaranteed income has also been proposed in Sweden.

I will be glad to answer any questions which the Members of the Subcommittee may have.

Attachments

Tab A - Tables on national expenditures for "social security"

Tab B - Income maintenance models for selected countries

Tab C - Country charts on "public assistance"

LIST OF ATTACHMENTS

Tab A. TABLES ON NATIONAL EXPENDITURES FOR "SOCIAL SECURITY"

1. Expenditures for Specified Social Welfare Programs, Selected Countries, 1974, as a percentage of GNP
2. National Expenditures on Social Security in Selected Countries, 1968 and 1971
3. Employee-Employer Payroll Tax Rates (Percent), by Type of Program, Selected Countries, 1978

Tab B. INCOME MAINTENANCE MODELS FOR SELECTED COUNTRIES

1. Foreign Income Maintenance Patterns
2. Foreign Income Maintenance Patterns for Dependents and Survivors
3. Foreign Disability Insurance Patterns

Tab C. COUNTRY CHARTS ON "PUBLIC ASSISTANCE"

1. Belgium
2. Canada
3. Federal Republic of Germany
4. Finland
5. France
6. Japan
7. Sweden
8. United Kingdom

TAB A

EXPENDITURES FOR SPECIFIED SOCIAL WELFARE PROGRAMS[1], SELECTED COUNTRIES, 1974
AS A PERCENTAGE OF GNP

	TOTAL EXPENDITURE	OASDI	PUBLIC AID AND OTHER SOCIAL WELFARE
Belgium	20.6	5.9	1.1
Canada[2]	13.2	3.1	2.2
France	21.7	4.3	3.3
Germany, Federal Republic	22.3	7.9	.9
Japan[3]	6.3	.63	.8
Netherlands	25.2	10.9	1.5
Sweden	24.5	7.2	3.5
United Kingdom[4]	14.2	4.5	2.4
United States[5]	11.9	4.0	2.8

[1] Social Security as broadly defined by ILO. (Includes expenditures under public medical care systems and cash payments under public welfare programs.)
[2] Fiscal year ending March 31, 1974
[3] Fiscal year ending March 31 1974
[4] Fiscal year ending March 31, 1974
[5] Fiscal year ending June 30, 1974

RESEARCH and STATISTICS NOTE
U.S. DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
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NATIONAL EXPENDITURES ON SOCIAL SECURITY IN SELECTED COUNTRIES, 1968 AND 1971*

The use of international statistics in the social security field is complicated by the fact that data often are not comparable. How social security is defined may differ from country to country, and countries have dissimilar programs. This research note presents the overall expenditures for all social security programs in nine selected countries for the years 1968 and 1971 and analyzes the three components of these programs most frequently used in comparisons: old-age, survivors, and disability insurance; public assistance; and health care. The data presented were developed in collaboration with the International Labor Office (ILO).

The ILO's definition of social security includes old-age, survivors, and disability insurance (OASDI); health insurance (medical and hospital insurance, cash sickness payments for temporary disability, and maternity cash payments); public health services; family allowances (cash payments for families with children); pension and health insurance for public employees; public assistance; and benefits for war victims. The nine countries are Belgium, Canada, France, the Federal Republic of Germany, Japan, the Netherlands, Sweden, the United Kingdom, and the United States.

Table 1 shows the total 1968 and 1971 expenditures of each country for all social security programs. To compare data, the national currency figures have been converted into percentage of gross national product (GNP). By this relative standard the figures show that the highest expenditures in 1971 were made by the Netherlands and Sweden. A primary reason for the relatively low standing of the United States is the absence, at a national level, of such programs as children's allowances, cash sickness benefits for short-term illness for wage and salary workers, and health insurance. The Japanese figures represent the lowest level of cash social security benefits. Figures for each of the countries, if worked out for the past decade, would indicate a continuous increase in the percentage of GNP spent for social security in the broad sense given above and for its main components such as health insurance and OASDI, reflecting the addition of new programs as well as rising real costs and inflation.

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*By Max Horlick, International Staff.

TABLE 1.--Total expenditures for social security programs and percentage of gross national product, selected countries, 1968 and 1971

(In millions of national currency units, except for percents)

Country	Expenditures 1/		Percent of GNP 2/	
	1968	1971	1968	1971
Belgium (francs).......	190,405	270,116	18.22	18.33
Canada (dollars).......	9,336	12,719	12.86	18.61
France (francs)........	125,000	168,608	19.84	18.65
Germany, Federal Republic (marks)......	104,719	142,095	19.43	18.73
Japan (yen)............	2,881,099	4,685,917	5.57	5.93
Netherlands (florins)..	17,208	27,829	19.05	21.75
Sweden (krona).........	22,711	37,615	16.27	21.75
United Kingdom (pounds)	5,929	7,011	13.72	12.45
United States (dollars)	73,234	113,542	8.47	10.81

1/ In current national currency units. One U.S. dollar equaled the following: Belgian francs--50.14 in 1968 and 44.7 in 1971; Canadian dollars--1.073 in 1968 and 1.00 in 1971; French francs--4.95 in 1968 and 5.22 in 1971; German marks--4.00 in 1968 and 3.268 in 1971; Japanese yen--357.7 in 1968 and 314.8 in 1971; Netherlands florins--3.61 in 1968 and 3.25 in 1971; Swedish krona 5.18 in 1968 and 4.87 in 1971; and British pounds--2.38 in 1968 and 2.55 in 1971.

2/ The gross national product figures of the International Monetary Fund have been used.

Source: Based on unpublished country data provided by the International Labor Office.

Table 2 shows expenditures on OASDI. Note that Belgium's program excludes disability, which is administratively incorporated in its health insurance program. The Netherlands' figures exclude disability benefits because the three income replacement elements of disability, cash sickness, and workmen's compensation are lumped, thus combining protection for both job-connected and non-job-connected loss of income. Canada covers disability by an assistance program. As the table shows, Germany has the highest relative expenditures among the nine countries. The Canadian and U.S. systems trail the European systems.

TABLE 2.--Expenditures for old-age, survivors, and disability insurance and percentage of gross national product, selected countries, 1968 and 1971

(In millions of national currency units, except for percents)

Country	Expenditures		Percent of GNP	
	1968	1971	1968	1971
Belgium (francs).......	49,467	70,583	4.73	4.97
Canada (dollars).......	1,625	2,205	2.24	2.36
France (francs)........	26,400	38,139	4.19	4.22
Germany, Federal Republic (marks)......	43,299	57,599	8.03	7.59
Japan (yen)............	171,039	247,490	.33	.31
Netherlands (florins)..	6,246	8,082	6.91	6.32
Sweden (krona).........	7,133	11,045	5.11	6.03
United Kingdom (pounds)	1,648	2,002	3.81	3.55
United States (dollars)	23,858	35,874	2.76	3.42

Table 3 covers the public aid and other social welfare expenditures of each of the countries. The individual national programs contain different components, depending on national priorities and needs. One country, for example, may emphasize aid to children or rehabilitation more than others. Also countries with universal national health programs may not have a medical care component in their statistics on assistance. Elsewhere the health component may represent a major part of the total assistance figure. In general, however, the programs cover the same broad areas, including, particularly, assistance to aged and disabled persons and needy families as well as persons in need of medical aid. Sweden ranked first in 1971 expenditures, followed by the United States.

Table 4 shows public expenditures for health care programs. The figures cover national medical and hospital insurance, public health, health expenditures under workmen's compensation and under public assistance programs, veterans' health care, and health coverage for public employees. Cash sickness benefits, normally included in the total health care figures of foreign countries, have been removed because they do not actually represent a part of personal health care. Private expenditures, of course, are not included.

TABLE 3.--Total expenditures for public aid and other social welfare and percentage of gross product, selected countries, 1968 and 1971

(In millions of national currency units, except for percents)

Country	Expenditures		Percent of GNP	
	1968	1971	1968	1971
Belgium 1/ (francs)....	10,340	14,547	.99	1.03
Canada 1/ (dollars)....	1,581	1,976	2.18	2.12
France 2/ (francs).....	---	---	---	---
Germany, Federal Republic 1/ (marks)...	5,652	7,621	1.05	1.0
Japan 1/ (yen).........	305,822	505,157	.59	.64
Netherlands (florins)..	841	1,325	.93	1.03
Sweden (krona).........	3,091	6,406	2.21	3.50
United Kingdom (pounds)	813	1,097	1.88	1.95
United States 1/ (dollars).............	14,377	26,415	1.66	2.52

1/ Includes expenditures for health care under public aid.
2/ Public aid expenditures cannot be identified separately but are included in table 1.

TABLE 4.--Total expenditures for public health care programs and percentage of gross national product, selected countries, 1968 and 1971

(In millions of national currency units, except for percents)

Country	Expenditures		Percent of GNP	
	1968	1971	1968	1971
Belgium (francs).......	36,712	56,147	3.51	3.96
Canada (dollars).......	4,126	6,194	5.68	6.63
France (francs)........	26,082	41,062	4.14	4.54
Germany, Federal Republic (marks)......	22,253	35,377	4.13	4.66
Japan (yen)............	1,753,614	2,719,300	3.39	3.44
Netherlands (florins)..	3,338	5,969	3.69	4.66
Sweden (krona).........	7,184	11,789	5.15	6.44
United Kingdom (pounds)	1,518	2,087	3.51	3.69
United States (dollars)	19,665	27,935	2.27	2.66

Tables 2, 3, and 4 are not addable because expenditures for selected programs such as health may be counted under more than one program. Certain individual programs, including those which do not exist on a national level in the United States, are not separately enumerated: cash sickness benefits, family allowances, national cash unemployment benefits, public employee cash benefits, and cash war-connected benefits.

Technical Note and Definitions

The above ILO data which are reproduced with permission, are derived from answers to questionnaires periodically issued to countries by the ILO requesting their expenditure and income figures for social security. In answering the questionnaire, the countries total their figures to meet ILO's specifications ~~to achieve the~~ most nearly comparable data available. The ILO publishes these statistics periodically in the *Cost of Social Security*, the latest edition of which covers the years 1964-66. This note brings the figures more closely up to date, pending publication of the next edition.

A number of special ILO terms reflected in the categories of data presented in this note are defined below: 1/

Public health services.--Curative and preventive medical care provided by publicly operated services.

Public employee benefits.--Benefits paid to employees of national, provincial, and local authorities, including old-age, invalidity, and survivor pensions; sickness and cash maternity benefits; employment injury benefits; and family allowances. Some countries include employees of the national railroad and other public transportation networks, but not workers of other nationalized industries such as automobile manufacturing.

Cash maternity benefits.--Payments to insured working mothers before and after confinement. Typically they are paid for 12 to 14 weeks.

Cash sickness benefits.--Short-term payments usually made by the social security system for non-job-connected illness that prevents an injured worker from working. They are typically paid for up to 26 weeks and represent about two-thirds of the average wage.

Family allowances.--Cash payments to families with a number of children specified by law (for example, two or more).

1/ For more detailed definitions, see International Labor Office, *Cost of Social Security* (Geneva: ILO, 1972); and Office of Research and Statistics, *Social Security Programs Throughout the World, 1973* (Washington: Social Security Administration, 1973).

War-victim benefits.—Benefits to war victims, including medical care and cash benefits such as disability pensions. They are financed from general revenues and are made to former prisoners of war, refugees, and concentration camp survivors. Programs for disabled veterans may be administered separately from the social security program either as part of a war victims' program or together with a public employee program.

RESEARCH AND STATISTICS NOTES, 1974

The Research and Statistics Notes are designed to get information quickly into the hands of users. These Notes may report on ongoing research, summarize preliminary findings or provide addenda to material already published. Notes published thus far in 1974 are:

Number	Title	Date
7	Changes in Federal Employees' Health Benefits Program	March 28, 1974
8	Age Differences in Medical Care Spending, Fiscal Year 1973	March 27, 1974
9	Contributions, Benefits, and Beneficiaries Under State and Local Government Retirement Systems, Selected Calendar Years, 1957-72	April 1, 1974
10	Wife's Earnings As A Source of Family Income	April 30, 1974
11	Independent Health Insurance Plans in 1972 Preliminary Estimates	May 3, 1974
12	Supplemental Security Income Beneficiaries and Payment Amounts, by State, January 1974	May 10, 1974
13	Declining Mortality Among Disabled-Worker Beneficiaries	May 14, 1974
14	Effects of the OASDI Benefit Increase in March 1974	May 28, 1974
15	Benefits for Dependent Grandchildren and for Certain Blind Persons Under the 1972 Amendments to the Social Security Act	June 3, 1974
16	Changes in Two Social Security Programs	June 5, 1974
17	The Effects of the Special Minimum Primary Insurance Amount and the Delayed Retirement Credit: Initial Findings	June 21, 1974
18	Social Security Beneficiaries in Metropolitan Areas, 1972	June 24, 1974
19	The Fiscal and Budgetary Impact of the Social Security Program, 1970-75	June 27, 1974
20	The Cyclical Sensitivity of OASI Beneficiary Rolls	July 9, 1974
21	Benefits and Beneficiaries Under Public Employee Retirement Systems, 1973	July 12, 1974
22	Veterans Disability Compensation and Survivor Benefits Act of 1974	July 19, 1974
23	State Supplementation Payments Under the SSI Program, January 1974	August 23, 1974
24	Effects of the OASDI Benefit Increase in June 1974	August 28, 1974
25	Social Security Numbers Issued in 1973	August 29, 1974
26	Rehabilitated Disability Applicants, 1967	September 18, 1974
27	Benefits Paid Abroad Under OASDI	September 27, 1974
28	Food Stamp Eligibility for Supplemental Security Income Recipients	September 30, 1974
29	National Expenditures on Social Security in Selected Countries, 1968 and 1971	October 18, 1974

If you wish to receive each issue of the Research and Statistics Notes, please send your request to the Publications Staff, Office of Research and Statistics, Social Security Administration, Room 1120 Universal North Building, 1875 Connecticut Avenue, N.W., Washington, D.C. 20009.

Employee-employer payroll tax rates (percent), by type of program, selected countries, 1978

COUNTRY	For all social security programs			For old-age, invalidity, and survivors insurance		
	Total	Employee	Employer	Total	Employee	Employer
Austria	34.20	13.40	20.80	19.50	9.25	10.25
Belgium 3/	37.50	10.10	27.40	14.00	6.00	8.00
Canada	10.60	4.95	5.65	3.60	1.80	1.80
France 3/	44.50	8.43	36.07	11.15	3.45	7.70
Germany, Federal Republic	33.86	16.18	17.68	18.00	9.00	9.00
Italy	55.53	7.80	47.73	23.76	7.15	16.61
Japan 4/	20.89	8.85	12.04	9.10	4.55	4.55
Netherlands	49.36	22.85	26.51	25.90	16.80	9.10
Norway 1/	25.2	8.20	17.0	16.6	4.60	12.00
Spain (estimated 4/78 rates)	52.47	7.60	44.87	NOT AVAILABLE ON A COMPARABLE BASIS		
Sweden	32.5	0.50	32.00	20.30	—	20.30
Switzerland	25.47	7.10	18.37	9.40	4.70	4.70
United Kingdom 2/	16.50	6.50	10.00	NOT AVAILABLE ON A COMPARABLE BASIS		
United States	15.40	6.05	9.35	10.1	5.05	5.05

1/ OASDI figures estimated.

2/ Rates in effect for 1977/78 tax year. See leaflet NP15, October 1977: "Employer's guide to National Insurance Contributions," p. 33.

3/ OASDI: excludes financing for certain items covered by separate taxes under other programs.

4/ OASDI: rates applicable to men; lower rates for women

TAB B

FOREIGN INCOME MAINTENANCE PATTERNS

Attached are four basic patterns of income maintenance in foreign countries, with several variations.

1. Multi-tier structure, as exemplified by Sweden, with a universal layer, an earnings-related second layer, and private pensions for all organized workers. In addition, there are broad programs of social services with cash benefits, but these are subject to liberal means-tests and do not qualify as "welfare" programs, strictly speaking.

The Canadian variation differs in providing a universal benefit only for old age, and in having several means-tested benefits for pensioners. There the private pension network is less important.

2. Earnings-related system, with no needs-tested program, and a relatively weak private pension network, as exemplified by Germany.

The Austrian model, while quite similar for OASDI, has a supplementary security-type payment to low beneficiaries.

3. Earnings-related OASDI, extensive means-tested benefits, almost universal private pension system, as exemplified by France.

The Swiss variation has features of the German and of the French patterns, with a few interesting differences.

4. A relatively high flat-rate benefit, old and extensive private pension network, no supplementary security income, as exemplified by the Netherlands.

A discussion of the interrelationship of social security and social welfare depends on the definition of the "welfare component." In Europe social security and even social insurance are more broadly defined and include more programs than in the United States. Consequently, the "welfare component" may be more narrowly defined there.

GERMAN MODEL

Three pillar theory: 1) social security (earnings-related system with high replacement rate intended)

2. Private Pensions

3. Savings

No national program of means-tested supplements for beneficiaries, but there is public assistance for all needy. Germany views protection for old age as resting on three pillars, social security, private pensions, and private savings. Additionally, the Germanic countries like Germany and Austria traditionally held the view that "Work makes life sweet." It was long felt that hard and long work should be rewarded. The social security systems are built around this philosophy.

In practice, the system looks as follows: 1) there is an earnings-related social security benefit, basically intended to assure a continuation of the level of living after retirement (first pillar). The long-range wage replacement goal that motivated the architects of the present system (in 1957) was 75 percent of final pay after a lifetime of work. The regular formula is geared to produce about 45-50 percent. Private pensions (second pillar) and savings were thus intended to fill the gap between 45-50 percent provided by the statutory system and the eventual goal of 75 percent.

2) The private pension system is believed to cover about 60 percent of workers in industry. A new law, effective in 1975, for the first time set up standards.

3) "Capital accumulation," basically starting in the early 1960's, is a system of subsidized savings intended to encourage workers to build up "nest eggs" for the future.

4) Means-tested benefits. A general public assistance program provides small cash payments and social services to the needy. In 1971, the last year for which really comparable figures are available, the percent of GNP devoted to public assistance-type programs was 2¼ times as great in the United States as in Germany. Structurally, the German system tends to keep people away from need. Cash sickness benefits are paid to those out of work temporarily, benefits are paid to the partially disabled, there is a family allowance program, medical care is virtually free at the point of delivery, there are generous provisions for granting coverage for years not worked. For benefit computation purposes, the average income of low earners is brought up to 75 percent of the national average. Because of factors such as these, there is no major means-tested program.

OASDI. Germany pioneered in introducing social insurance. Bismarck inaugurated sickness insurance in 1883, employment injury insurance in 1885 and old-age and invalidity insurance in 1889. With the exception of Austria it was not until 20 or 30 years later that the other major countries of Europe introduced their pension system. In the early period the German model also stood out as providing for an earnings related component of the old-age pension while most of the others provided only an income-tested flat rate benefit of modest scope.

After World War II in the mid-fifties when most of the European countries focused on ways to improve pension benefits, Germany again pioneered by introducing the idea that a retirement pension should not provide for subsistence and modest luxuries but also for maintenance of basically the same standard of living which the worker enjoyed before retirement. This line of thought was incorporated in the 1957 reform of the social security system. Although the goal of approximately 75 percent of pre-retirement income after 45 years of covered employment has not been attained, many critics maintain that the average retiree does enjoy an income of approximately this level if one takes into account private pensions and the savings accumulated under government sponsored and subsidized programs.

As part of the same reform the Germans introduced their "dynamic" pension concept, the automatic adjustment upward of pensions by a formula which, allowing for a slight time lag, keeps pensions abreast of inflationary increases in the incomes of the active work force.

The German system of social security is funded by employer and employee payroll contributions which not only finance OASDI benefits, but also sickness insurance and unemployment insurance. Family allowances and workmen's compensation are also considered to be part of the social security system, but the former is financed entirely by general revenue and the latter solely by employer contributions.

If a worker retires at the usual age of 65 there is no retirement test applied. However, in recent years a number of provisions have been introduced which allow for earlier retirement which call for at least partial retirement from the work force. The worker who has 35 years of coverage may retire under these circumstances with a reduced annuity at age 63. Also if a worker is unemployed for at least one year he may retire at age 60.

Private Pensions. Private pensions date back to the early 1800's. After World War II they became popular largely because industry needed capital to rebuild and because social security, at that time, paid very low benefits. When social security was completely revised in 1957, private pensions came to be viewed as part of the supplementary "icing" toward maintaining the preretirement level of living. Because of cost limitations it was not expected that social security alone would attain the eventual goal of 75 percent of the last wage. Also, private pensions were counted on to bring up the benefit levels of those earning above the social security ceiling.

Private pensions have been of four types: book reserve (basically promises by the employer), separate trust funds, provident funds which had no vesting, and life insurance plans. Until 1975, there was virtually no regulation. Major problems were the absence of vesting, inflation, bankruptcy, and minimum standards. Plans tended to be effective only in the larger firms. The 1975 reform provided vesting, pension guarantee, and some indexing, and it forbid the total offset of private pensions against the social security benefit.

The private pension network, like the social security system, faces two major problems, the current economic recession and a long-range demographic deterioration in the ratio of beneficiaries and contributors.

"Accumulation of Assets". Since 1952, Germany has promoted what it calls "capital accumulation"--a form of savings plan for workers. Under the current plan, the employer periodically sets aside a specified amount at the request of the individual worker. To encourage a worker to leave the money in the account, the government adds a bonus of 30 percent (40 percent for families with at least 3 children). The money may be used for construction, to purchase stock in the firm at favorable rates, to purchase life insurance, or it can be "loaned" to the employer in the form of a guaranteed loan. About 75 percent of all wage and salary workers were participating in 1973.

Public Assistance. Although guidelines for public assistance in Germany were not defined and codified until the Social Assistance Act of 1961, the basic elements were established as early as 1924 when it was recognized that, even under an elaborate and generous social insurance system, a small portion of the population would fail to obtain income sufficient to keep it above subsistence levels. These are mainly groups which for some reason or other, have not been able to qualify for adequate benefits under social security or, because of some misfortune such as the onset of disability illness, acquire special needs which they can not meet from their own resources.

Benefits are generally paid on a city or county level but, with minor variations, are set according to a federally determined minimum. This is considered to be a level necessary to enable the recipient to lead a life "consistent with the dignity of man."

Presently the largest category of people obtaining assistance are the disabled; but expenditures in their case are primarily involved with payments in kind. The largest number of those receiving cash benefits below the poverty line are: the elderly with inadequate pensions, one-parent families, families with low income, and more recently many of the unemployed have also fallen under the poverty line.

In 1975 approximately 2 million persons received some kind of assistance (either in cash or in kind).

AUSTRIAN VARIATION

The Austrian system is much like the German and was inspired by it. One variation is Austria's somewhat different approach toward the low earner. There is no statutory minimum benefit, under OASDI but there is a means-tested benefit which brings low social security payments up to a national minimum standard. It is financed from general revenue. In Austria, which has one of the best social security systems, 70 percent of the recipients of the means-tested payments are the disabled and widows.

FRENCH MODEL

1. Earnings-related OASDI, financed by worker-employer contributions
2. Means-tested benefits, financed primarily by worker-employer contributions
3. Mandatory private pensions, pay-as-you-go, financed by worker-employer contributions

OASDI. The present earnings-related social security system was basically set up in 1930. The original intent was to provide a modest benefit to the average earner, particularly manual workers. Those earning above a certain amount were excluded. There were several key problems right from the start. First, 30 years were to be required for a full benefit. This meant that a long time would elapse before any benefit considered adequate could be paid. Some workers were not covered at all, and depended either upon private pensions or public assistance. Financing proved to be a key stumbling block. The custom at that time was to build up reserves sufficient to cover about 90 percent of all benefits due. However, inflation, currency devaluation, depression, and wars had repeatedly wiped out the reserve fund.

The funding difficulty was in part solved by converting to pay-as-you-go.

Means-Tested. For those who had "missed the train," in the words of one French expert, and were too old to ever qualify for full benefits, two means-tested cash payment programs were created. The first, in 1941, was for very aged workers. A second means-tested allowance was set up in 1956 in order to bring benefits up to half the minimum wage. In 1975 a minimum pension was introduced. The country also has locally administered social assistance.

Private Pensions. France has a broad system of private pensions covering well over 80 percent of wage and salary earners in the private sector. Through a combination of collective bargaining and law, they are mandatory. The eventual goal to be reached by social security and the private pensions was 70 percent. The private pension network is pay-as-you-go, with a pooling so that failing industries are helped by those which are expanding or have few retirees. The main foreseeable problem is Europe's increasing aging population.

OASDI. About 70 percent of the workers are covered by the general social security system. The others fall under special funds for workers in agriculture, mining, transportation, self-employment, government and other fields.

Normal retirement age for men and women is 65, although it is possible to retire legally and draw a smaller pension at age 60. At age 65, the pension formula calls for a benefit of 50 percent of the average of the highest 10 years of covered earnings (revalued) if the worker has 37½ years in covered employment. At age 60 (37½ years are still required), the pension is equal to 25 percent of the average of the highest 10 years, with an increment of 5 percent a year thereafter. Certain specified categories of workers are eligible for a full age-65 pension at age 60. Pensions are automatically adjusted semiannually for changes in national average wages.

A minimum pension is payable to all insured persons at age 65 (or earlier in specified cases) who have at least 15 years of coverage. For less than 15 years' coverage, a proportionately reduced minimum pension is payable. The partial minimum pension, however, may be brought up to the level of the full minimum pension on a means-tested basis.

The program also provides invalidity pensions to insured workers who are totally disabled as well as to those with partial disabilities. If totally disabled, the worker receives effectively an "age-65" pension. A constant attendance supplement is also payable. For partial disability a reduced pension is paid.

Disabled surviving spouses of insured workers can draw a pension equal to 50 percent of the insured's pension. Supplements for dependent children are added. Aged widows or widowers receive a similar pension, but on a means-tested basis.

The French social security system, like that of other industrial counties, has been experiencing financial difficulties as a result of not only the 1973-74 world recession and sharp inflation rates of the 1970's but also long-range factors such as the growth in the older population. Income to the system,--derived in bulk from payroll tax contributions--has declined because of the drop in employment levels. At the same time, expenditures continued to rise since benefits are indexed and have risen rapidly with increased wages. The lower receipts, combined with higher outlays had resulted in a deficit for 1976. To cope with this situation, the payroll tax rate was increased. However, the French are still looking for other solutions to the financing problems. Among those alternatives suggested have included use of the value-added tax as well as removal of the social security contribution and benefit ceiling which would deprive private pension funds of needed revenues.

Means-tested. In 1941 it was decided that the system was unable to afford the expense of improving the benefit formula across-the-board. Instead, the system was to move in the direction of providing additional benefits to those in need, and a first level of means-tested benefits was introduced to provide a minimum subsistence level to retired workers and their survivors, supplementing the earnings-related pensions.

Originally, it was anticipated that this intermediate program would be transitional, only necessary until 1960 when the program matured.

However, in the decade that followed, the inadequacy of the income of retirees was still causing concern. To help cope with this situation, a second level of means-tested benefits was introduced in 1956. The two in combination were gradually to bring the benefit of retirees up to about half of the guaranteed minimum wage. Furthermore, the intention was to increase these two means-tested benefits to an amount which would eliminate the need to provide cash public assistance benefits. The public assistance program was to be used primarily to provide rent allowances, considered necessary in light of rapidly rising housing costs, and medical assistance to needy persons.

There is now a guaranteed minimum income level for those age 65 and older (60 in special cases) that is composed of two separate components: A minimum pension and a means-tested supplementary allowance.

Minimum pensions are payable without regard to resources to persons with at least 15 years of coverage. Insured workers entitled to only a partial minimum pension may have their benefit brought up to the level of the full minimum pension on a means-tested basis.

The second component of the guaranteed minimum income, the means-tested supplementary allowance when combined with the minimum pension brings the guaranteed minimum income level up to about 50 percent of the minimum wage.

As indicated earlier, the original intent of the means-tested benefit program was to provide transitional benefits until the earnings-related pension program has matured. However, as additional groups of workers were brought under social security coverage, the transitional period has been extended. As a result, means-tested benefits are still being relied upon by many pensioners.

Today planners are still concerned about the inadequacy of pensioners' income. Many feel that the guaranteed minimum income should be set at 80 percent - 100 percent of the guaranteed minimum wage. In the foreseeable future, however, this goal does not seem possible in light of economic and demographic conditions.

Private pensions. The French network of private pensions has all of the characteristics of a social security system, but is entirely privately run and has very little government supervision. There is vesting, portability, indexing, generational interchange, and a national pooling of resources. There are several umbrella organizations which establish procedures, enforce regulations, and develop standard financial approaches. Financing is from fixed worker and employer contributions on amounts above the social security ceiling. The retirement age is coordinated with social security and it is possible to take early retirement.

When asked why social security could not simply take over, directors of the private pension funds insisted that there is no link at all and that there should not be. However, two dangers may eventually force some link with the public program. First, the social security ceiling has gone up rapidly, reducing the amount which is taxable for private pensions. Secondly, the growing unfavorable demographic ratio may eventually errode the income of private pensions to a serious degree. Otherwise the system has been well run and has aimed at a 20 percent replacement rate after 35 years.

SHISS VARIATION

The Swiss system, reflecting the multi-lingual composition of the country, has characteristics of the German (three pillar theory), and of the French (earnings-related benefit, with two means-tested supplements) systems.

There are several differences, however.

On the contributions side of the earnings-related program, there is no ceiling on contributions (unlike France and Germany) and nonworking persons with other income must contribute.

On the benefit side, there is a minimum and a maximum benefit. Because about 20-25 percent of all beneficiaries needed means-tested supplements, 1972 legislation provided that a) the minimum benefit be increased rapidly to a level which would guarantee a minimum standard of living, and b) private pension were to be mandated.

SWEDEN - MULTI-DECKER SYSTEM

1. Universal, flat-rate benefit--40 percent employer financed, 60 percent general revenue.
2. Earnings-related--Employer-financed
3. Private pensions--Employer financed, virtually universal

Broad system of public assistance, financed by local and national authorities.

Sweden is generally regarded as the welfare state. As in the case of other industrial countries, all residents are eligible for "social security". Because the social security benefits have been improving, fewer and fewer people are receiving "social welfare". There is no general means-tested allowance for beneficiaries. Social security includes cash sickness and maternity payments, virtually free health care, cash payments to all residents with children, and sizeable work injury and unemployment benefits. Elaborate training and retraining programs have kept down unemployment.

The general aim of the society is to provide everyone with a decent standard of living. The original approach to achieving this status for retirees, survivors, and the disabled was to provide a small flat-rate benefit, intended at least to provide a minimum standard. This never worked and people without other sources of income had to be covered by public assistance. Like other countries with multiple layers, Sweden, in the 1950's saw itself forced to do something more. Following a decade of national studies, two improvements were made: the base amount was upgraded and indexed, and an earnings-related layer was added. The two layers together were planned to replace about 60-66 2/3 percent of final pay when full benefits became payable after 30 years. Parallel with this, national labor-management agreements extended private pensions throughout the organized sector of labor. While three layers exist now, many were receiving OASDI benefits before or shortly after the improvements. To help remove this group from needing "assistance", the flat-rate universal benefit is being increased specifically for them. It should be pointed out, that the means test for housing and other allowances for pensioners and families with children is relatively liberal. About half of all pensioners receive housing allowances, for example.

OASDI. The two-tiered Swedish OASDI pension program consists of a universal flat-rate pension, payable to all resident Swedish citizens, plus an earnings-related pension. The insured person does not contribute to the social security program in Sweden. The employer is the main contributor, financing the entire earnings-related pension program and about 40 percent of the universal pension. The remaining cost of the universal pension program comes from government funds:

The first compulsory national pension program was introduced in 1913. It was a flat-rate benefit, payable at age 67. In 1946, the flat-rate amoun was raised considerably. However, it was widely criticized as being too modest to meet the needs of most beneficiaries. With the economic expansion in Sweden came increasing expectations on the part of workers and retirees, and a number of studies were made during the following decade to find a more adequate solution to the pension problem.

An earnings-related supplementary pension program eventually became effective in 1960, with benefit payments to begin in 1963. Concurrently, the flat-rate benefit was significantly improved (it now equals about 25 percent of the average wage in manufacturing), and both programs were made inflation proof by a tie-in to the Consumer Price Index. The earnings-related program was designed to mature over 30 years, although transitional modifications make a full pension payable after 20 years.

During the recent past, in order to further improve the benefits of previous non-earners and low earners, the basic pension has been increased gradually for those who are ineligible for or who receive only a small earnings-related pension. The plan calls for annual increases up to a total of 45 percent over the old pension level by 1981 in the old-age and survivor programs, and twice that rate for the permanently disabled.

In 1976, for the average worker in manufacturing, the universal benefit represented 27 percent of final earnings, and the earnings-related layer was about 35 percent.

For OASDI, the employer pays about 20 percent of payroll. The government pays about 60 percent of the cost of the universal benefit.

In the shorter run, financing has been one of the stronger points of the Swedish system. Perhaps the largest reserve fund in the world was built up as part of the earnings-related benefit. Full contributions were paid, but only a partial benefit. So large a fund was created for three purposes: to provide a source of investment, to prepare for a growing unfavorable demographic picture, and to prepare for the payment of full benefits. However, there is an increasing feeling that the employer has reached the limit of what he can pay. "Social costs", that is, fringe benefits, social security, and private pensions, now require about 40 percent of payroll. Employers fear that they will be priced out of the world market. However, unless contribution rates are increased, the reserve fund will soon begin to shrink. The percent of GNP spent on "social welfare" is already among the highest in the world. In a word, the Swedish system provides more, but it also costs more.

Private pensions. Although private pension plans in Sweden predate the national pension program of 1913, the real development of private pensions began in 1917 with the establishment of a central staff pension fund by the Federation of Swedish Industries and the Chambers of Commerce. Several life insurance companies in 1926 established a similar institution. In 1929, the two organizations were merged as the Swedish Staff Pension Society, a mutual insurance company controlled by employee and employer organizations and subject to government supervision by the National Private Insurance Inspectorate. The plan was for the benefit of white-collar workers only.

The success of the plan led blue-collar trade unions eventually to push for similar benefit for their members, and this in turn led to an agreement between unions and the Swedish Employers' Confederation in June 1971. The considerable amount of time between the introduction of the two plans was caused to a considerable extent by labor's stress on higher wages rather than fringe benefits during the late 1940's and the fifties.

Under the private pension plan, the white-collar earner receives annual benefits amounting to 10 percent of the average of the final 5 years' salary. The blue-collar worker's pension is 8 percent of average wages during the 3 best years between wages 55 and 59, inclusive. Added to social security payments, the average worker receives about 70 percent of final earnings.

Private pension plans have provided for vesting of pension rights from the start in 1917, and pension rights are transferable to new employers covered under the agreement as well. In practice, the tight labor market of the 1960's and the early 1970's promoted the expansion of private pensions to firms and industries not covered by the initial agreement.

Means-tested programs. With the rapid growth and generous benefits in the Swedish social security program -- cash benefits covering 90 percent of average earnings under the health insurance and workmen's compensation programs, unemployment payments extended to all would-be workers (including recent graduates and housewives entering and reentering the labor market), generous allowances to all families with children, and improved benefits to those receiving only the basic pension -- public assistance based on the assessment of personal need has steadily declined in importance. Economic assistance provided by municipal welfare authorities now amounts to less than 1 percent of total expenditure on social policy.

Most assistance programs directed toward the welfare of the family are provided by the municipality: day-care services for children, other child care, and home-help services for families with children. Rent subsidies for families with children, financed from federal and municipal funds, are subject to liberal income tests related to the size of the family. Similar rent subsidies for pensioners are payable by the municipality, and liberal means test ensure that about 50 percent of all pensioners receive a subsidy.

Canadian Variation

Canada has a multi-tier system, including a universal flat-rate benefit and an earnings-related layer, like Sweden.

The private pension and cash assistance programs perform a somewhat different role, however, the former is less advanced and the latter is more signficant. The private pension system is not nearly as well developed and is not mandatory. About 60 percent of the labor force worked in organizations which have private pension plans.

Unlike in Sweden, the universal benefit is for old age only, and does not cover invalidity and survivorship. In addition, the earnings-related pension program is relatively recent (1965) and came too late to benefit older people. Because of factors such as these, plus concern with poverty in general, there are several kinds of cash assistance payments. An income-tested supplement is paid to recipients of the universal benefit who have little or no private income. This is financed from general revenue. In addition, there is a Federal-Provincial assistance program for the needy aged, blind, and disabled, who are not eligible for regular benefits. The Federal Government assumes 50 percent of the cost.

In 1975, an income-tested spouses supplement was added for retirees with wives aged 60-65.

Netherlands Model

1. Flat-rate benefit -- financed by insured (employer also contributes to disability insurance.
2. Private Pensions -- worker and employer contributions.

Assistance

The Netherlands has been a country strongly devoted to private enterprise. National Councils on wage and economic policy contain employer and labor members. In the post World War II period, the old social security system consisted of a small flat-rate pension, paid for by an employer contribution. There was an emergency program of means-tested benefits paid for by general revenue. Primary reliance was on private pensions. In the 1950's, following national debates, a relatively high flat-rate benefit was set up. In 1975, the replacement rate for single pensioners was 33 percent and for married couples 54 percent of average earnings in manufacturing, close to that of the United States, by the same definition. The worker is the primary contributor toward OASDI, although the employer also contributes toward disability. General revenue makes up any deficit and also pays the contribution of low earners.

There have been continued pressures for improvement. The question was how. The Netherlands shared with Sweden the highest outlays in the world, in terms of GNP devoted to social welfare programs. The payroll tax for OASDI, sickness and maternity insurance, unemployment, and family allowances is close to 50 percent. Like Sweden, the Netherlands is concerned about being competitive in international trade, services, and transportation.

The solution decided upon in national debates was to mandate private pensions. The 1974 recession halted action on a bill to bring this about. Currently, about 90 percent of all workers aged 25 and over are already included in private plans which have long history in that country.

Netherlands has not spent a great deal (in terms of GNP) on public assistance-type programs. There is no supplementary security income supplement. This may be because of long-term full employment, advanced programs for rehabilitation, sickness, health insurance, labor market policies, family allowances, the work ethic, etc. Looked at from another point of view, it might be said that the "social security program" took over many of the functions which might be considered assistance in other countries.

The dual system of public-private benefits worked well. However, particularly since the oil recession, there have been increasing financial problems. As a result, recent "reforms" carried out by other European countries (for example earlier retirement) have not been introduced in the Netherlands. On the contrary there have been some retrenchments.

FOREIGN DISABILITY INSURANCE PATTERNS

Most countries have three concurrent income maintenance programs in the disability field. These three are cash sickness benefit (providing benefits during short-term disability); general disability, usually called "invalidity", insurance; and work-injury insurance. Table 1 shows how the cash sickness and invalidity programs are financed in the four model countries (Germany, France, Sweden, and the Netherlands). The contributions for workmen's compensation are not shown in this table because the payroll contribution rates vary widely according to the degree of risk associated with different industries.

Types of benefits

These programs pay the following kind of benefits:

Cash sickness—for temporary, non-work-connected illness or injury, usually paid for up to six months or a year. Typically, when a worker becomes ill, he is paid cash sickness benefits for a fixed period of time or until it is determined that there is little chance for improvement. Subsequently, if there is no improvement, he is transferred to the invalidity pension program, provided other requirements are met.

General invalidity—for permanent, non-work-connected illness or injury, may be paid for varying degrees of work incapacity (for example, anywhere from 15 percent to 100 percent). There may be a distinction between incapacity to work in the disabled's regular occupation (partial invalidity) or the incapacity to do any work at all (total invalidity). Constant-attendance allowances may also be payable to the disabled requiring the help of another person to carry out his daily chores. At the statutory retirement age, he receives an old-age pension in place of an invalidity pension.

Work-injury—temporary and permanent earnings-related cash benefits payable for disabilities resulting from work-connected accidents or diseases. Under most countries' social security provisions, a person who has been injured at work may be entitled only under the work-injury benefit program. This differs from the American practice whereby an insured worker may be simultaneously entitled under a State or Federally-operated work-injury benefit program and the Social Security OASDI program.

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Table 1.--Financing of Foreign Cash Sickness Benefit and Invalidity Insurance Programs, Selected Countries, 1975.

COUNTRY		SOURCE OF FUNDS			
		Employer-employee payroll tax contribution rates (percent) Invalidity	Old-age and survivors (OASI)	Health 1/	Government contribution
France	Total	Included	10.25 2/	15.95 3/	Health: 3% surcharge on
	Employer	under	7.25	12.45	automobile insurance
	Employee	health	3.00	3.50	premiums.
Germany	Total	Included	18.00	10.00-13.00 4/	OASI: 16% of total cost.
	Employer	under	9.00	5.00-6.50	Health: subsidies for
	Employee	OASI	9.00	5.00-6.50	special categories. 5/
Netherlands	Total	9.20	11.90	20.00	OASI: Any deficit. 6/
	Employer	6.15	None	14.15	Health: Subsidies for
	Employee	3.05	11.90	5.85	special categories. 7/
Sweden	Total	Included	14.95	7.00	OASI: 55% of universal
	Employer	under	14.95	7.00	pensions.
	Employee	OASI	None	None	Health: 25% of cost.

1/ Including cash sickness and maternity benefits.
2/ Survivors' benefits financed under health insurance program.
3/ Employers contribute 10.45 percent of earnings below ceiling and 2.00 percent of total earnings. Employees contribute 2.50 percent of earnings below specified ceiling and 1.00 percent of total earnings.
4/ Employers and employees contribute equal amounts, but rates vary according to fund.
5/ Cost of maternity grants; benefits for unemployed and for persons in authorized training and retraining; also subsidy for miners', retired farmers', and students' benefits.
6/ Government also pays contributions for exempted low-income persons.
7/ Subsidies toward voluntary coverage of low-income persons and pensioners; whole cost for persons disabled from birth.

Replacement rates

In Table 2, examples are given of the earnings-replacement rate of an average worker in manufacturing who, in 1975, became entitled to a partial invalidity pension (for this purpose, partial invalidity has been assumed to be two-thirds loss of earning capacity), total invalidity pension, or total invalidity pension plus a constant-attendance supplement (for those who need the help of another person). Similar rates for regular and early retirement old-age pensions have been included for comparison.

Five countries are included in the table: France, Germany, Netherlands, Sweden, and the United States. The highest invalidity replacement rates are found in the Netherlands—ranging from 65 percent for a partially disabled worker to 100 percent for a totally disabled worker requiring another person's assistance. The remaining countries are ranked as follows with respect to total invalidity: Sweden, France, Germany, and the United States. Partial invalidity and constant-attendance programs are not available in the United States.

Relationship of invalidity pensions to old-age pensions

In most countries, an invalidity pension remains payable up until the disabled worker reaches the normal retirement age, usually age 65. France stands out as a notable exception in that invalidity pensions are converted to old-age pensions at age 60.

Although ill health leading to a disability is usually covered separately under invalidity insurance, many older workers suffer from ill health sufficient to impede their work performance but not enough to qualify them for a regular invalidity benefit. As a result, a number of countries pay special old-age or invalidity pensions to older disabled workers.

Of the four European countries examined here, France and Sweden pay benefits based on a liberal interpretation of disability. Among the options available under the German flexible retirement program is the possibility of a disabled person claiming a full pension up to 3 years early. Because the Dutch invalidity program provides for varying degrees of work incapacity (as little as 15 percent), older workers with a partial loss of earnings capacity may continue to work and receive partial benefits to help make up for the earnings loss up until retirement age.

Program growth

Of the four European model countries analyzed, two are experiencing sharp increases in the number of invalidity pensioners (Netherlands and Sweden), one a moderate increase (Germany), and the other has been fairly stable (France). As noted, the first two countries have liberal interpretations of disability, especially for older workers and those who are partially incapable of working, and they also provide rather high benefits. In the other two countries, there are

Table 2.— Replacement rate of social security old-age and invalidity pensions for single men with average earnings in manufacturing, selected countries (entitlement as of January, 1975). 1/

Country	Partial invalidity pension 2/	Total invalidity pension	Early old-age pension 3/	Regular old-age pension	Total invalidity pension plus constant-attendance supplement 4/
	Pension as percent of earnings in year before entitlement				
France	26	43	23 5/	46	77
Germany	29	44	44 6/	50	not available
Netherlands	65	80	38 7/	38	100
Sweden	39	59	41 8/	59	68
United States	not available	39 9/	31 10/	38	not available

1/ Data are for systems at maturity. For Sweden, data reflect less-than-mature earnings-related pensions.
2/ A minimum of two-thirds loss of earnings assumed for receipt of partial pension.
3/ Figures reflect the earliest age at which pension is payable.
4/ Constant-attendance supplement payable in addition to total invalidity pension for disabled requiring assistance of another person.
5/ At age 60 with 37½ years coverage.
6/ At age 63 with 35 years coverage.
7/ At age 65. The social security program does not provide for an early pension.
8/ At age 60. Pension reduced by 0.5 percent per month under age 65, or 30 percent.
9/ Pensioner born 1929 or earlier.
10/ At age 62. Pension reduced by 20 percent.

liberal provisions for early retirement under the old-age program. Additionally, improvements in unemployment provisions have apparently made it more attractive for older unemployed workers to claim an unemployment benefit rather than an invalidity pension in the event they are no longer able to keep up their jobs.

Total disability expenditures

Some recent overall disability program expenditures covering the costs of cash sickness benefits, invalidity pensions, and workmen's compensation are given for a number of years in Table 3. In European countries, the counterpart payments to some of the benefits paid in the U.S. under the Social Security OASDI program are typically provided under either the cash sickness or workmen's compensation program. For instance, comparatively generous benefits for work-connected disability are ordinarily paid only under the workmen's compensation program, while in the U.S. concurrent payments on a more modest scale are often made under the OASDI program as well as under a state or federally-operated workmen's compensation program. Therefore, restricting the data to the experience under only the invalidity program would somewhat distort the picture.

The Netherlands with its very generous and liberal disability program stands out as having the largest share of Gross National Product (GNP)—4.0 percent in 1973—being spent on these programs. France and Germany ranked second and third, respectively, with over 1.5 percent of GNP. The United Kingdom followed next with 1.3 percent. The U.S. —the only country among those surveyed without a national cash sickness benefit program and without pensions for partial work incapacity—spent the smallest fraction of GNP (0.7 percent).

Table 3.--Cash Benefit Payments Under Public Disability Programs in Several Countries, Selected Years (in millions of national currency units)

		(1) Sickness Insurance	(2) Invalidity Insurance	(3) Workmen's Compensation	(4) Total (1)+(2)+(3)	(5) (4) as percent of GNP
France 1/ (Francs)	1963	2550	990	3190	6730	1.7
	1969	4319	2200	5890	12409	1.7
	1973	7043	2245	8686	17974	1.6
Germany 2/ (Deutschmarks)	1963	3650	3120	1800	8570	2.3
	1969	5330	5500	3112	13942	2.3
	1973	5453	7600	4348	17401	1.9
Netherlands 3/ (Florins)	1963	560	310	120	990	1.9
	1969	1818	1527	—	3355	3.3
	1973	3245	3284	—	6529	4.0
United Kingdom 4/ (Pounds)	1963	238		82	320	1.0
	1969	465		120	585	1.3
	1973	713		134	847	1.3
United States 5/ (Dollars)	1963	447	1257	1057	2761	.5
	1969	655	2443	1714	4812	.5
	1973	810	5162	3634	9606	.7

1/ Cash sickness benefits are typically payable for up to three years. Invalidity pensioners receive old-age pensions at age 60, whereas age 65 is customary in most countries.
2/ Cash sickness benefits are usually provided for up to 78 weeks. As of 1970, the employer was made responsible for paying cash sickness benefits for the first 6 weeks of illness. The 1973 flexible retirement age feature of the old-age pension system permitted disabled workers at age 62 to draw an old-age pension which is computed more favorably than an invalidity benefit.
3/ One year is the fixed cutoff point for the payment of cash sickness benefits. Invalidity benefits are only paid up to age 65, when old-age pension entitlement begins. Effective July 1967, the workmen's compensation program and the invalidity insurance program have been merged into a common system.
4/ The United Kingdom does not statistically separate payments made for invalidity from those provided for short-term sickness.
5/ Five states and Puerto Rico provide cash sickness benefits. Entitlement to invalidity pensions terminates at age 65, at which time old-age pensions become payable.

FEDERAL REPUBLIC OF GERMANY

The German social security system has three types of disability insurance programs: cash sickness benefits designed to protect the insured against short-term incapacity for work; disability awards for long-term or permanent disabling conditions; and work injury benefits specifically covering work-related illness or injury. In addition, some private pension plans offer disability coverage but on a limited basis.

DEFINITION OF DISABILITY

Cash Sickness Benefit Program

The cash sickness benefit program is financed by employer and employee contributions. In order to qualify for benefits, the insured must be totally incapacitated for work. Normally, the employer continues to pay the sick person full salary for up to 6 weeks of absence. There is no waiting period. At the end of 6 weeks, the social security system begins paying cash sickness benefits for up to 78 weeks, provided the insured remains incapacitated. The benefit amounts to 80 percent of earnings, with a supplement for dependents, up to a maximum of 90 percent of earnings. In most cases, the cash sickness benefit is converted to an invalidity pension automatically at the expiration of the 78 weeks.

Invalidity Pension Program

The invalidity pension program is financed by employer and employee contributions and by general tax revenues.

The invalidity pension program has two definitions of invalidity, with a different pension corresponding to each: (1) occupational invalidity and (2) general invalidity. Under both definitions, the handicapped persons's extent and duration of training, as well as his physical and mental capabilities, are considered in assessing suitable work.

To meet the definition of occupational invalidity, the worker must be incapable of earning in his usual occupation at least half that of a physically and mentally healthy person with comparable training and similar skills and education. This definition can be met by someone who never has had to give up work but whose ability to earn a living in his job has declined. The thinking behind this definition appears to have been that the worker who has been forced to switch to a different type of work because of disability deserves some type of financial compensation.

The general invalidity definition specifies that the worker must be either unable to do any gainful activity with any degree of regularity or incapable of earning more than a negligible amount. To satisfy the first condition of the definition, the worker must be unable to work for more than two hours a day. The second condition is met when the worker can only earn less than 20 percent of the average wages of a fit worker. Only one of these conditions need be satisfied. Thus, the definition of general invalidity is more stringent than that of occupational invalidity and, accordingly, pays a higher benefit.

The pension for general invalidity is 1.5 percent of a worker's assessed wages for each year of insurance, whereas the occupational invalidity pension is lower--1.0 percent of a worker's wages for each year of insurance. Persons disabled before age 55 are considered to have been insured to age 55 for the purpose of computing the benefit. There are pension supplements for dependent children.

RELATIONSHIP OF INVALIDITY PENSIONS TO OLD-AGE PENSIONS

Germany has a flexible retirement age system, so that individuals may claim a retirement benefit between the ages of 62 and 67. There is a special provision for older disabled workers. Persons disabled after age 62 are granted an old-age pension on the basis of invalidity, which is more advantageous for the claimant, because the old-age pension, unlike the invalidity pension, awards credits for years in which little or no contributions were paid. For example, the worker would be given credits for periods of wartime, incapacity, unemployment, and time-in-school beyond age 16. Furthermore, all recipients of invalidity pensions become old-age pensioners upon attainment of age 62; the benefit is then recomputed to reflect the additional credits for periods when the worker did not make contributions, as discussed above.

REHABILITATION SERVICES AND TRAINING ALLOWANCES

The cash sickness and invalidity pension programs also offer rehabilitation services and training allowances to the disabled. Vocational training is provided usually for up to one year, with the possibility of extension. During training and rehabilitation, the disabled receives a temporary allowance equal, in effect, to the regular cash sickness benefit--80 percent of earnings just prior to illness or injury. Since rehabilitation and training measures are intended to prevent or correct total incapacity for work, the benefit is considered transitional, and no claim for an invalidity pension is accepted during this period. However, if the person has already been awarded an invalidity benefit before rehabilitation begins, he receives an amount to make up the difference between 80 percent of his earnings before his disability and the invalidity pension he has been receiving.

PRIVATE PENSIONS

The better private plans provide invalidity coverage. Those who qualify for a social security invalidity benefit are eligible. As the social security benefit for occupational invalidity is two-thirds of the benefit for general invalidity, (total incapacity for work), most private plans pay the additional one-third. However, benefits for general invalidity under private plans are not common. Individual plans may project years of prospective service up to age 55, as does social security. There may also be a supplement of 10 percent of the pension for each dependent child.

INVALIDITY PENSION EXPERIENCE

During the years 1968-71, the ratio of invalidity pensioners to insured persons averaged about 8.1 pensioners for every 100 insured, with the ratio declining to 7.8 pensioners for every 100 insured by the end of 1973. The principal reason to explain this drop is the influence of new flexible retirement-age regulations that became effective in the beginning of 1973. This new legislation permitted severely disabled workers to qualify for an old-age pension at age 62. Since, in many cases the transfer to the old-age pension program involves an increase in benefits (as noted earlier), many invalidity pensioners made the change. In light of the aging German population, it might have been anticipated that this feature would continue to exert a slight downward pressure on the number of invalidity pensions-in-force.

However, by the end of 1975, the ratio of invalidity pensioners to insured persons reached 8.9 pensioners for every 100 insured. Furthermore, the number of pensions awarded for total work incapacity (general invalidity definition) increased during the years 1970-76 while those granted on the basis of partial work incapacity (occupational invalidity definition) declined during this same period. These patterns--the growth in the invalidity pension rolls along with increases in the number of pensions awarded on the basis of total work incapacity--may be attributable to some extent to the unemployment problem which encourages a more liberal interpretation of the disability laws.

In the past, great efforts had been placed on retraining and rehabilitating the disabled. In spite of these measures, disabled persons are increasingly finding themselves with relatively limited job access. As a result, discussions are focusing on the desirability of continuing to spend large sums for rehabilitation at a time when the economy has not been able to produce jobs to match the raised expectation of clients, not to mention yielding a return on the investment. Recently, there has been a cut-back in the amount of money spent on rehabilitation measures. Consequently, it is expected that the number of invalidity pensioners may rise still further in the years ahead due to this reduction in rehabilitation expenditures.

FRANCE

The French social security system has three concurrent income maintenance programs to protect workers in case of disability. Cash sickness benefit and invalidity pension programs provide income replacement first during short-term and then long-term incapacity for work owing to nonoccupational-connected medical impairments. The work-injury benefit program provides cash benefits in the event of incapacity caused by a work-related illness or injury. Under the mandatory private pension system, disability benefits are only provided to workers at age 60.

DEFINITION OF DISABILITY

Cash sickness benefit program

Generally cash sickness benefits in France are intended to cover illnesses lasting for up to a year, but may be extended an additional 2 years. The worker must be physically incapable of continuing or resuming work after a 3-day waiting period. If his condition persists beyond then, he becomes eligible for cash sickness benefits, financed by employer-employee contributions along with taxes levied on automobile insurance premiums.

A beneficiary out of work for 6 months must be re-examined periodically by the Administration. The normal practice is to continue paying these benefits for as long a period as possible in order to avoid any stigma of permanency provided there is some chance of his condition improving. Once it becomes apparent that his condition has stabilized, the period of entitlement to cash sickness benefits ends and the worker must then meet the definition of disability under the invalidity pension program.

INVALIDITY PENSION PROGRAM

France provides for basically three types of invalidity pensions, financed by employer-worker contributions along with taxes levied on automobile insurance premiums. A partial invalidity pension--equal to 30 percent of his average earnings in the highest 10 years--is granted if the worker has lost two-thirds of his earning capacity in any occupation. Total invalidity pensions amounting to 50 percent of average earnings in the highest 10 years are available to workers who are unable to do any work. The worker who, in addition to being totally incapable of working, is in need of a constant-attendant to help him with his daily needs, receives the same benefit as the totally disabled plus an additional 40 percent constant-attendance supplement.

The French invalidity definition requires the worker to have suffered the loss of at least two-thirds of his ability to earn a living. Technically, the measure of loss is indicated by whether the disabled can earn one-third of the amount made by others doing similar work in the disabled's region. Consequently, there are regional variations in the definition.

In determining the extent of the invalidity, more than just the physical status of the worker and his earning capacity in his field of work are taken into account. Rather, it is his general incapacity to earn determined by factors such as his age, mental and physical abilities, re-employment and earnings potential, aptitude and training, as well as the state of the labor market.

Certain steps are followed in determining if the worker meets the definition's requirements. First, the specific occupation of the worker just before his illness is determined. Next, investigation is necessary to determine the usual salary of a worker in the same job in the same geographic region. The final step is to medically determine if the worker, based upon his current health, is now capable of working in any job where he would be able to earn more than one-third of his prior salary.

Once awarded, pensions are always subject to reopening and review. The rate of the pension may be increased if the worker's capacity to earn has decreased further. The pension may be suspended when the worker's earnings capacity exceeds 50 percent for at least 6 consecutive months. Reduced pensions can be paid for up to 3 years after the person has completed a rehabilitation program.

RELATIONSHIP OF INVALIDITY PENSIONS TO OLD-AGE PENSIONS

The statutory retirement age in France is sixty. Once the worker has reached this age, he is no longer entitled to receive an invalidity pension.

Invalidity pensions awarded prior to age 60 are, at this point, automatically converted to "age 65" old-age pensions. The significance of this is that benefits under the old-age program increase by 5 percent of the base salary for each year a person works after age 60. Thus, the benefit payable at age 60 (25 percent of average earnings) has doubled to 50 percent by age 65. This provision affects primarily partial invalidity pensioners who had been receiving 30 percent of average earnings, but who would now receive 50 percent.

When the worker aged 60 or over becomes disabled with no prior invalidity pension entitlement, he can claim an old-age pension based on inability to work. For these workers, the statutory definition of invalidity is relaxed so that the worker must have suffered the loss of only 50 percent of his earning capacity in his customary occupation. Additionally, it must be determined that continuous performance of his usual job would harm his remaining health. The amount of the pension is equal to the "age-65" pension.

PRIVATE PENSIONS

In France, where private pensions are virtually mandatory for wage and salary workers, invalidity pensions are not provided under the private system. However, those who, because of disability, are unable to work are granted free pension credits if they qualify for a social security invalidity pension. Then, they can receive a private pension on top of the social security benefit at age 60.

INVALIDITY PENSION EXPERIENCE

The French invalidity pension program has remained relatively stable over a number of years. The ratio of invalidity pensioners to insured has averaged about 2.2 pensioners for every 100 insured during the period 1968-74. The number of pensions terminated as a result of recovery has also remained fairly low and constant perhaps because of the fact that so many workers continue to receive short-term cash sickness benefits for up to three years before they are transferred to the invalidity program.

As indicated earlier, invalidity pensioners become eligible for old-age pensions at age 60 (instead of age 65 as in most countries). This shift to old-age pensions at a relatively early age greatly reduces the number of invalidity pensioners below what would otherwise be expected, particularly in light of the aging French population. Furthermore, there have been marked improvements in unemployment benefit levels for those aged 60-65, coming in the wake of the mid-1970's recession, with the size of the unemployment benefit outstripping the old-age pension benefit. Consequently, it is likely that the number of old-age pensions granted on the basis of disability will decline, owing to the more attractive unemployment benefits available.

SWEDEN

The Swedish system has three types of cash benefit programs that help protect persons in case of disability: cash sickness benefits, a double-decker invalidity pension made up of a universal flat-rate benefit and an earnings-related benefit, and work-injury benefits. The first two programs provide income replacement when the worker, as a result of non-work-related disability, can no longer engage in substantial work activity during periods of short- and long-term incapacity, respectively. The third grants cash benefits in case of incapacity stemming from work-connected illness or injury. Private pensions also provide workers with cash disability benefits should they become unable to work.

DEFINITION OF DISABILITY

Cash sickness benefit program

Earnings-related cash sickness benefits are paid to all gainfully employed persons earning above a specified maximum in the event they are temporarily unable to work as a result of illness or injury. Flat-rate cash benefits are provided for housewives and dependent husbands who cannot do their usual home duties because of sickness. Both types are financed 85 percent by employers, 15 percent by general revenue and are paid beginning with the second day of sickness.

Sweden provides cash sickness benefits for basically two types of short-term work incapacity resulting from medical impairments. Total incapacity, for which a full benefit equal to 90 percent of covered earnings is payable, is defined as the complete inability of the insured to engage in any gainful activity. Partial incapacity, on the other hand, is defined as a reduction by at least 50 percent in the person's capacity for work. The benefit for partial incapacity amounts to 50 percent of the total incapacity benefit.

Benefits remain payable throughout the whole period of sickness when either the incapacity caused by illness or injury does not appear to be of a permanent nature or the person is undergoing rehabilitation. In cases where the incapacity is likely to be permanent (severe enough to last at least another year), then the sickness benefit can be converted to an invalidity pension after 90 days.

Invalidity pension program

The two-tiered invalidity pension program consists of a universal flat-rate pension, payable to all resident Swedish citizens, plus an earnings-related pension. The insured person does not contribute to the social security program in Sweden. The employer is the main contributor, financing the entire earnings-related pension program and about 40 percent of the universal pension. The remaining cost of the universal pension program comes from government funds.

The program compensates for three kinds of invalidity, depending upon the degree of severity of the work incapacity. Total incapacity is defined as the loss of over 83 percent of working capacity. There are 2 types of partial incapacity corresponding to (1) a reduction of 50 percent-66 percent of working capacity or (2) a reduction of 67-83 percent of working capacity. A full universal and earnings-related pension is paid for total incapacity. For cases of partial incapacity, the pension equals 2/3 of the full pension for incapacities ranging from 67 percent-83 percent, and ½ of the full pension for 50 percent-66 work incapacity. Constant-attendance supplements are paid to pensioners who require daily assistance or who incur considerable added expenses for transportation or other aids to enable them to continue to work.

The program also provides disability cash allowances in place of pensions to blind persons or persons with severe handicaps who are working inspite of their handicaps and consequently cannot meet the work incapacity definition.

The program evaluates the severity of the work incapacity by assessing not only the individual's health but also his skills and chances of finding suitable employment in light of his previous work history, age, and living conditions.

Sweden applies the definition of invalidity less stringently to workers between the ages of 60-64 who have exhausted their entitlement to unemployment benefits. These workers can satisfy the definition if, because of adverse labor market conditions, they are unable to find suitable employment.

Generally, invalidity pensions are granted for an indefinite period. The invalidity is assumed to be of a permanent nature. However, there are cases in which, although the reduction in work capacity is not considered permanent the invalidity can be expected to last for a long time, usually for at least one year. In such instances, a temporary invalidity pension, subject to the same conditions as the permanent pension, can be awarded but for a specified time period. The award can be continued for another limited period or converted to a permanent pension at the end of the period, depending upon the medical condition of the beneficiary.

RELATIONSHIP OF INVALIDITY PENSIONS TO OLD-AGE PENSIONS

Invalidity pensions terminate upon the person's attainment of age 65, the age at which full old-age pensions become payable. A reduced old-age pension, however, may be claimed as early as age 60 under Sweden's flexible retirement age program.

PRIVATE PENSIONS

Under the private fund for blue collar workers, disability coverage for workers between the ages of 16-64 who meet the work requirement as well as the disability definition is provided. Disability is defined in the same manner as under the national system. If the medical impairments last for at least 30 days, the worker receives sick pay. At the time the disabled qualifies for an invalidity benefit under the social security program, the private plan will pay about 16 percent of final covered pay on top of the social security benefit.

Under the white collar fund, disability is defined as the loss of at least 50 percent of working capacity. Benefits are payable only after a 3-month waiting period. For the period during which cash sickness benefits are payable, the white collar fund will bring the social security cash sickness payment up to 95 percent of pensionable salary (average of last 5 years). When an invalidity pension becomes payable under the social security program, the white collar fund will bring it up to 80 percent of the worker's salary (usually average of last 5 years).

INVALIDITY PENSION EXPERIENCE

The number of invalidity pensioners has risen sharply in Sweden since the end of the 1960's. The ratio of the number of persons receiving invalidity pensions to those insured reached 5.5 pensioners for every 100 insured by the end of 1974, as compared to 3.4 pensioners for every 100 insured at the end of 1963.

The pronounced expansion in granting invalidity pensions in the early 1970's is related, to a large extent, to liberalizations in pension legislation, the first stage of which was carried out in 1970. According to the previous legislation, invalidity pensions could be granted only to persons whose work capacity was reduced by at least 50 percent because of medical impairments. Eligibility was determined solely by medical criteria. In 1970, the legislation was modified so that labor market conditions could be taken into consideration. Subsequent legislation (effective July 1972) enabled older workers--those aged 60-64--to draw an invalidity pension on the basis of purely labor market conditions and without a medical examination, provided the workers had exhausted their entitlement to unemployment benefits. Thus, the legislation made it possible to take into account the difficulties of primarily older workers who had become more numerous on the Swedish labor market at the end of the 1960's. However, in the years ahead, as a result of a 2-year reduction in the retirement age along with the introduction of partial pensions which can be combined with part-time work for workers aged 60-64, the number of invalidity pensions granted may decline somewhat.

Other factors mentioned to account for the accelerated program growth include (1) the increased invalidity benefit amount stemming from the maturing of the pension system; (2) sharp regional variations in employment levels making it more difficult for workers in certain areas of the country to find suitable work; and (3) a change in people's motivation for working.

THE NETHERLANDS

The Netherlands has a two-tier disability benefit system that provides income replacement in the event a person is unable to work because of illness or injury. The first layer is earnings-related and provides cash sickness benefits for the first 12 months of disability and invalidity pensions for disability continuing thereafter. The second layer offers a basic flat-rate benefit to all residents, except housewives, unable to work for more than 12 months. The work-injury program and the non-work-related disability program have been merged into one common system. Because of the rather generous disability benefits available under the public system, disability benefits are generally not provided under private plans.

DEFINITION OF DISABILITY

Cash sickness benefit program

Cash sickness benefits are financed by employer and employee contributions. The definition of short-term incapacity for work during the first 52 weeks of illness is the incapacity to perform one's job as a result of sickness, accident, physical or mental impairments, maternity, or confinement. A minimum degree of incapacity is not contained in the provisions. The incapacity is evaluated in terms of the worker's ability to engage in the profession he exercised just prior to becoming sick or injured. A person need not be totally incapacitated to qualify for benefits during the first 52 weeks of illness: Partial benefits are payable to those who suffer a reduction in earning capacity whether or not they have stopped work altogether. A person determined to be partially incapacitated for work is required to work part-time if possible. Refusal to work results in benefit reduction.

In practice, cash sickness benefits are awarded from the very first day of illness, even though there is a provision for a two-day waiting period. The benefit is equal to 80 percent of earnings up to a maximum amount, but the industrial associations, which adminster the cash benefits in each industry, have the option of paying more favorable benefits so that workers often receive their full normal wages. Those employed part-time receive a combination of wages and benefits equal to 100 percent of earnings.

Invalidity pension program

After the expiration of the 52 weeks of short-term cash sickness benefits, wage earners then become entitled to long-term invalidity benefits, financed by employer and employee contributions along with a government subsidy.

Total or partial disability is defined as the inability to earn as much as an able-bodied individual in one's former, or an allied, occupation. A loss of earnings capacity of 80 percent qualifies the individual for a full invalidity pension. A loss of earnings capacity between 15 percent (25 percent for nonemployed persons) and 80 percent is considered partial disability. In establishing the degree of incapacity for work, consideration is given to the reduced job opportunities for handicapped persons. The test of a suitable job is always related to jobs which could reasonably be expected to be available and which do not involve any serious loss of status. The insured is never required to accept a lower status position. Furthermore, if a partially disabled individual is unable to obtain a suitable job in his locality or in a nearby region, or is refused employment because of his impairment, then the claimant is considered to be totally disabled and receives the full invalidity pension.

The amount of the invalidity benefit is scaled to the degree of incapacity. A national flat-rate base amount is established for all employed and nonemployed persons. The disability benefit is a percentage of that base amount proportionate to the loss of earning capacity, up to a maximum of 80 percent of the base amount for total incapacity. An additional 20 percent of the base amount is payable as a constant attendance allowance for severely disabled persons.

For employed persons, there is an earnings-related invalidity pension that is paid on top of the flat-rate benefit. The earnings-related supplement is payable to partially and totally disabled persons in proportion to their incapacity, up to a maximum of 80 percent of past earnings for the totally disabled. A 25 percent constant attendance allowance is payable in addition.

RELATIONSHIP OF INVALIDITY PENSIONS TO OLD-AGE PENSIONS

Invalidity benefits are only awarded up to age 65, when the old-age pension is payable. However, rehabilitation plans for disabled persons may continue after age 65.

The fact that the Dutch system pays partial cash sickness and invalidity benefits also means that older workers with partial loss of earnings capacity may continue to work and receive benefits up until retirement age.

PRIVATE PENSIONS

Not all companies have disability coverage. Where available, the scope of coverage is generally limited to the higher-paid staff. This has been the case since the reorganization of the social security disability programs, which now provide cash benefits to almost everyone (except married women working in the home, currently excluded because of cost considerations).

INVALIDITY PENSION EXPERIENCE

The Dutch have been especially concerned over the spectacular growth of the number of people receiving invalidity benefits. At the end of 1968, there were about 5.1 invalidity pensioners for every 100 persons insured for these benefits. By December 1974, the proportion of pensioners to insured climbed sharply: slightly more than 9 pensioners for every 100 insured.

Among the many factors cited as possible causes of the marked growth are the following:

(1) The working population is getting older, thereby increasing the likelihood of disability.

(2) The wider application of allowing labor market conditions to play a larger and more important role in determining the percentage of earnings incapacity. This leads to the situation that, if there is no "fitting work," then a slightly handicapped person will receive a full benefit since he is considered as totally incapacitated for work. In 1967, when this provision was introduced, the Netherlands, as in other West European countries, had been experiencing labor shortages. Consequently, the unfavorable effects of such a liberal disability evaluation had not been foreseen.

(3) The broader interpreation of disability includes incapacity for work as a result of subjective medical symptoms, leading to a sharp rise in the number of pensions granted on the basis of mental illness and "locomotory diseases", including "lower back pain syndrome", both of which can not always be clearly diagnosed.

(4) The unemployment benefit is much smaller than the invalidity pension. Consequently, employees find it more attractive to get out of the labor market via the invalidity benefit than via the unemployment benefit. Dismissal procedures as a way of getting rid of employees are often complicated for employers so that employers are more likely to discharge their workers, using disability as the chief reason. Apart from the financial argument, the fact that "ill" is a more socially accepted label than "unemployed" also is thought to have a strong influence.

(5) Technological developments in production methods and in labor market structure have led to a need for more frequent adjustment on the part of the worker, often contributing to feelings of anxiety and increased tension. Production innovations along with the impact of the recession have resulted in a drop in employment levels so that employers can be more selective about their staffing practices.

FOREIGN INCOME MAINTENANCE PATTERNS FOR DEPENDENTS AND SURVIVORS

For the June meeting of the Social Security Advisory Council, four basic foreign models were described for old-age coverage.

Keeping that background in mind, additional material on survivors and dependents is attached for the following:

1. Multi-tier system, family allowance program, as exemplified by Sweden.
2. Earnings-related system with extensive means-tested benefits, and almost universal private pension system, family allowance, as exemplified by France.
3. Earnings-related system, with no national needs-tested program and a relatively weak private pension network, family allowance program, as exemplified by Germany.
4. Earnings-related, no private pension, national means-tested program, family allowances model (Italy) has been added.

5. Flat-rate model (Netherlands).

Dependents.

--Two models (German and Italian) have no dependent spouse's benefit. The regular amount was intended to care for both. Each model has a child's supplement, the former as part of OASDI, the latter under a separate family allowance program.

--Under the two-tier model (Sweden), the universal layer pays a spouse's benefit in his or her own right at retirement age. The earnings-related second layer pays no dependent spouse's benefit.

--One earnings-related model (France) has a means-tested spouse's supplement for old-age, but not for disability. The family allowance fund pays for dependent children.

Survivors

--Two-tier model: Universal layer pays flat rate to eligible wife and orphans; earnings-related layer pays a proportional benefit.

--French model: Means tested benefit for aged surviving spouse, non-means tested for disabled surviving spouse. Orphans covered by family allowance program.

--German-Italian model: Proportional survivors' benefits for widow and orphans.

--Flat-rate model (Netherlands): Flat-rate amounts for widows and orphans.

SWEDEN

DEPENDENTS' BENEFITS

I. OASDI Program

The Swedish OASDI program provides a basic universal, flat-rate pension and an earnings-related pension. There are, however, only provisions for dependents under the universal pension component.

The wife aged 60-64 of a pensioner may receive a means-tested supplement amounting to about 50 percent of the basic universal pension, provided the marriage has lasted a minimum of 5 years. At age 65, her entitlement to a wife's supplement terminates since she becomes eligible for a basic universal pension in her own right.

Pensioners who care for children under age 16 generally receive a supplement equal to approximately 25 percent of the basic universal pension. However, this supplement may be reduced if the pensioner is also eligible for an earnings-related pension of it the child receives an orphan's pension.

Each municipality also administers its own program of means-tested housing allowances, which vary from one locality to another.

II. Medical Benefits

Medical benefits are available to persons on the basic of residency. These include comprehensive medical care (the patient pays about $4 a visit), at least 50 percent of dental care costs, maternity care, free hospitalization (pensioners must pay $4 a day after 365 days), appliances, prescribed medicines (at low cost except in case of some chronic diseases, when they are free), and partial reimbursement for transportation costs.

III. Family Allowance Program

This allowance is payable to all residents with one or more children under age 16 (19 if student), in an amount equal to abour 19 percent of the basic universal pension for each child.

IV. Private Pensions

No supplements for dependents.

V. Public Assistance

There is no national public assistance program.

SURVIVORS' BENEFITS

I. OASDI Program

Under the universal pension program, widows receive the same benefit as the retired person, until age 65, when they qualify for a basic universal pension in their own right. To qualify for the full survivor pension, the widow must be age 50, or have a child under age 16 in her care, and have been married at least 5 years.

Reduced benefits are available to widows from age 36. The survivor pension for a child under age 18 equals 38 percent of the basic universal pension benefit, or 57 percent if both parents are deceased.

Under the earnings-related pension program, widows of any age, married at least 5 years, receive 38 percent of the insured's pension, reduced to 33 percent if there are eligible children. The earnings-related pension for children under age 19 is 15 percent of the insured's pension for the first child, and 10 percent for each additional child, which is divided equally among all the eligible children.

There are no benefits for widowers under either component.

Means-tested housing allowances are also available to survivors, as described above under dependents' benefits.

II. Medical Benefits

See provisions for dependents discussed earlier.

III. Family Allowance Program

See provisions for dependents discussed earlier.

IV. Private Pensions

For widows ineligible for a pension under the OASDI earnings-related component, the white-collar private pension plan provides a benefit equal to 26 percent of the deceased's wages covered for social security purposes. For all widows and children, there is also a supplementary pension based on earnings above that amount.

Widowers can draw a pension amounting to 20 percent of the deceased's covered wages.

V. Public Assistance

There is no national public assistance program.

FRANCE

DEPENDENTS' BENEFITS

I. OASDI Program

The old-age pensioner under the French social security system is entitled to receive a supplement for a dependent husband or wife. This supplement is extremely low. It amounts to only 50 francs a year (about $11) if the dependent spouse is under age 65, or age 60 in case of invalidity. 1/ A maximum of 5,250 francs a year (about $1,150) is payable if the dependent spouse is age 65, or age 60 in case of invalidity. To qualify for this benefit, the dependent spouse can not have personal resources exceeding the guaranteed minimum wage in industry and commerce. Also, the dependent spouse can not be entitled to a pension in his/her own right.

There is no provision in the invalidity program for dependent spouses. No benefits are payable for dependent children since the old-age or invalidity pensioner continues to receive family allowances on their behalf.

II. Medical Benefits

Dependents of insured persons, including pensioners, are eligible for the same medical benefits as the insured. Cash refunds of generally 75 percent of medical expenses are made. Covered services include medical care, hospitalization, laboratory services, medicines, dental care, maternity care, appliances and transportation costs.

III. Family Allowances Program

Traditionally, France has been regarded as having some of the most generous family allowances in the world. Virtually all French resident families are eligible to receive basic cash allowances if they have at least two children under age 16 (20 if student, invalid, or girl working in home). These allowances start with the second child at the rate of 23 percent of a specified "base amount," currently equal to 818 francs a month. The rate increases to 38 percent for the third child but drops to 37 percent for the fourth child and 35 percent for each subsequent one. The "base amount" is increased in 2 steps for children age 10 and over.

Besides the basic cash allowance, there are a number of other family allowances. Another chief component of the program is the means-tested family supplement that provides, in effect, a guaranteed minimum income for families with at least one child under age 3 or with 3 dependent children of any age.

Several other family allowances are payable in specified instances. These include prenatal allowances and birth grants and handicapped children allowances. Handicapped adult allowances and housing allowances are also provided, but on a means-tested basis.

1/ One franc equals about 22 U.S. cents.

IV. Private Pensions

Supplements to private pensions are granted for dependent children. For example, the system covering nonexecutives and manual workers pays an additional 10 percent for each dependent child under age 20 or for each disabled offspring over age 20.

V. Public Assistance

Cash benefits for "assisted children" are provided for needy families at local levels, with the rates varying among these levels. Means-tested, this assistance continues only until the family's financial position improves.

In addition, there are also means-tested benefits for handicapped children and adults, medical aid, aid to the blind and severely disabled; home help services for the elderly, and rent allowances.

SURVIVORS' BENEFITS

I. OASDI Program

There are two types of survivors' pensions payable to widows or widowers. The regular widow or widower's pension is granted at age 65 (or 60 in case of invalidity) on the basis of a means-test. The other is actually an invalidity pension granted to the surviving spouse provided the deceased qualified to receive an old-age or invalidity pension. The benefit level of both pensions is 50 percent of the amount to which the insured was entitled. However, neither can be less than the minimum old-age pension. In addition, the pension is increased by 10 percent if the beneficiary has raised at least three children.

Besides these two types of survivors' pensions derived from the deceased person's eligibility for the regular earnings-related old-age pension, the general system also provides widows' pensions that are means-tested and serve as a guaranteed minimum income approximately 50 percent of the guaranteed minimum wage in industry and commerce.

Orphans do not receive any benefits under the survivors' pension program. However, they are paid regular family allowances and additional orphans' family allowances.

II. Medical Benefits

See provisions for dependents discussed earlier.

III. Family Allowances

In addition to the family allowances noted earlier, the program pays orphans' allowances--22.5 percent of the "base amount" for loss of one parent, 30 percent for 2 parents.

IV. Private Pensions

Disabled widows, or widows aged 50 and over (or younger if caring for two minor children), receive 60 percent of the worker's accrued pension at the time of death. An orphan's pension--equal to 30 percent of the accrued pension for each child--is payable only if both parents are deceased.

V. Public Assistance

See provisions for dependents discussed earlier.

GERMANY

DEPENDENTS' BENEFITS

I. OASDI Program

In Germany there is no cash supplement to the pension for a dependent spouse.

A pensioner receives a supplement to the pension for each dependent child. The supplement for each child is calculated at 10 percent of the national average wage. Child's supplements may be paid up to age 25. In addition to the child's supplement, pensioners also receive cash allowances for dependent children under the family allowance program.

II. Medical Benefits

Dependents of the pensioner who do not have income of their own are eligible for the same medical benefits as the insured, which include comprehensive medical and dental care, preventive examinations and treatment, lab tests, maternity care with midwife or doctor, hospitalization, surgery, appliances, prescribed medicines, rehabilitation and transportation.

III. Family Allowance Program

All residents of Germany, regardless of their income, receive flat-rate cash allowances for each child under age 18 (23 if unemployed, 27 if a student) and for disabled children of any age. Rates increase for the second and third children.

IV. Private Pensions

No benefits for dependents are paid under most private pension plans.

V. Public Assistance

Germany has no national means-tested program of public assistance.

ITALY

DEPENDENTS' BENEFITS

I. OASDI Program

The Italian approach is to pay a high replacement rate and no cash benefits for dependents.

In Italy, the social security system is comprised of a general system--which covers about 60 percent of the civilian labor force--and numerous special systems. This discussion is confined to the general system. Historically, pensions in Italy have been at a very low level. Roughly two-thirds of pensioners receive only the statutory minimum benefit. There is no system of private pensions. To improve benefit levels, recent reforms changed the benefit formula to provide one of the highest replacement rates in Europe (80 percent of a worker's average earnings during the highest 3 years of the preceding 10 years, after 40 years of service). After that reform, the system stopped paying cash dependents' benefits. Instead, pensioners are eligible for the same family allowances paid to workers under the family allowance program.

II. Medical Benefits

All dependents of pensioners are entitled to the same medical benefits as the insured, which include general and specialist care, hospitalization, prescribed medicines, 50 percent or more of dental care, attendance of midwife or doctor at confinement.

III. Family Allowance Program

Workers and pensioners can also receive a cash allowance for a wife and other eligible dependents (invalid husband, aged or invalid parent or grandparent) if the dependent's income is below a specified threshold. The working head of a family can receive a family allowance for dependent pensioners living in the household if the dependent's income falls below a specified amount. This is especially important in Italy, where some 35 percent of pensioners live with [illegible] their children.

IV. Private Pensions

There is no system of private pensions in Italy.

V. Public Assistance

There is a special payment to all citizens age 65 with limited income, the equivalent of the Supplemental Security Income Program in the United States. Dependents of pensioners with limited income may qualify on their own for this "social pension," as it is called, which is financed totally out of general revenues. Recipients of the "social pension," and their dependents, are eligible for the same medical insurance benefits as workers and pensioners.

SURVIVORS' BENEFITS

I. OASDI Program

A percent of the insured's pension is paid to eligible survivors.

Widows of any age and disabled widowers receive 60 percent of the insured's pension. Orphans receive 20 percent of the insured's pension if under age 18 (26 if University student) or at any age if invalid. When there is no surviving spouse or child, the survivor's benefit goes to parents of the deceased who are over age 65 and not pensioners on their own account. If there are no qualifying parents, the survivor benefit is paid to unmarried brothers and sisters who are not entitled to a pension of their own and who are permanently disabled at the time of the insured person's death. Parents each receive 15 percent of the insured's pension, as do qualifying brothers and sisters. Maximum survivor's benefits cannot exceed 100 percent of the insured's pension.

If the deceased did not have sufficient credits for payment of a survivor's benefit, then a one-time payment can be made to the wife or the child, based on the deceased's contributions to the social security system, provided the deceased made at least one year of contributions during the last five years.

II. Medical Benefits

Recipients of survivors' pensions, and their dependents, are entitled to the same medical benefits as workers and pensioners, listed above under the discussion of medical benefits for dependents.

III. Family Allowance Program

Recipients of survivors' benefits are eligible for cash allowances under the family allowance program.

IV. Private Pensions

No private pensions in Italy.

V. Public Assistance

No benefits are payable to survivors of recipients of the "social pension."

NETHERLANDS

DEPENDENTS' BENEFITS

I. OASDI Program

A dependent wife receives a flat amount equivalent to a little over 40 percent of the old-age benefit. There are no supplements for other dependents under the old-age pension program.

The disability program provides no spouses' or dependents' supplements, presumably because the basic pension is set so high (at least 80 percent of earnings before invalidity) that supplements for dependents are deemed unnecessary.

II. Medical Benefits

Pensioners and their dependents are eligible for general medical care but they must pay premiums for coverage. A separate program of medical care covers the whole population for catastrophic illnesses. Pensioners and dependents are automatically covered and do not have to contribute.

III. Family Allowance Program

Dependent children of pensioners are eligible for the generous package of children's allowance provided to the general population.

IV. Private Pensions

The better plans have provisions for dependents.

V. Public Assistance

No national means-tested program.

SURVIVORS' BENEFITS

I. OASDI Program

A widow with one child or more receives about 140 percent of the old-age benefit (the regular benefit plus the dependent wife's supplement). Other qualifying widows (over 40 or invalid), receive 100 percent of the old-age benefit.

The orphans' benefits (only for full orphans) are flat-rate, about 60 percent of the old-age benefit for an orphan 16-27 (eligible only if student or disabled), about 48 percent for aged 10-16, and about 30 percent if under age 10.

II. Medical Benefits

Survivors are normally eligible for health benefits, with no cost sharing, if income is below a specified limit.

III. Family Allowance Program

Survivors are entitled to the same generous package of family allowances provided the general population.

IV. Private Pension

Some types of plans pay survivor benefits.

V. Public Assistance

No national means-tested program.

SURVIVORS' BENEFITS

I. OASDI Program

Survivor benefits are paid to widows and children of the deceased.

Widows receive 100 percent of the insured's pension for 3 months. Thereafter, widows and widowers who are age 45, disabled, or caring for a child, receive 60 percent of the insured's pension. Children receive 10 percent of the insured's pension (20 percent if both parents deceased) up to age 18 (25 if student) or if disabled. Maximum survivor benefits are 100 percent of the insured's pension.

II. Medical Benefits

Survivors are entitled to the same medical benefits as the insured, listed above under the discussion of dependents' benefits.

III. Family Allowance Program

Survivors are also entitled to the general family allowances for children.

IV. Private Pensions

Some types of plans pay survivor benefits.

V. Public Assistance

No national means-tested program.

BELGIUM

Types of Programs	Benefits: Cash	Benefits: In-kind	Qualifying Conditions	Source of Funds	Administration
"Right to Minimum Means of Existence" (1969-74 laws guaranteed a subsistence payment as a matter of right)	Indexed flat-rate national allowance (69,000 B frs a year for a single person, 95,000 B frs a couple)		Adults in need under pensionable age	50% National 50% State and local	Administered by local authorities under Ministry guidelines.
Guaranteed income	Flat-rate national allowance (69,000 B frs a year for a single person, 95,000 B frs a couple).		Retired persons in need and some disabled (65% disabled and retirement age).	50% National 50% State and local	Administered by local authorities under Ministry guidelines.
Assistance to the Handicapped	Cash allowance varying by degree of disability	Preventive care, education, training, sheltered employment, housing, guidance.	Women age 14-60 and men age 14-65 who are at least 30% disabled and in need.	100% National	Administered by local authorities under Ministry guidelines.
	Special Allowance		Women age 25-60 and men 25-65 who are in need and at least 65% disabled and not eligible for the cash allowance. (Epileptic, retarded, etc.)		
	Supplementary Allowance		Recipient of means-tested cash allowance to the handicapped and retirement age or older.		
	Constant Attendance Allowance		In need, not in institution but requiring constant attendance.		
Guaranteed Family Allowances (non-work connected)	Cash allowance Supplementary cash allowance Birth grant		Families in need and not eligible for regular family allowances	National Family Allowance Fund	National Office of Family Allowance

TAB C

CANADA

Type of Programs	Benefits: Cash	Benefits: In-kind	Qualifying Conditions	Source of Funds	Administration
Guaranteed Income Supplement (GIS)	Amount raising pension to $304 a month for single person, $562 for couple.		Beneficiary of Old-Age Security Pension (OAS) and with limited income.	Federal Government	Department of National Health and Welfare Administration through district and local offices.
	Spouse Allowance: Maximum of $281 a month month.		Spouse of beneficiary and age 60-64 with limited income.		
	The GIS is added to the pensioner's Old-Age Security pension check.				
Provincial Top-Up Supplements (5 Provinces)	Amount of Supplement varies by Province.		Beneficiary of Federal Guaranteed Income Supplement (GIS)	Provincial Government	Provinces
Canada Assistance Plan	Amount of social assistance payment is determined by province, includes payments for: basic requirements, special needs, health care not covered under universal health care program, care in welfare institutions, etc.	Rehabilitation, child welfare services, day care, homemakers adult day care, etc.	Persons in need or who are likely to become in need. "Need" is defined by each province.	50% Federal 50% Provincial	Provinces
Child Tax Credit	$218 per child per year.		Child under age 18 in receipt of family allowance if parents combined	Federal Government	Federal Government

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CANADA

Type of Programs	Benefits: Cash	Benefits: In-kind	Qualifying Conditions	Source of Funds	Administration
			income is $19,620 or less. Child tax credit reduced by $5 for every $100 of earnings above $19,620.		

FEDERAL REPUBLIC OF GERMANY

Types of Programs	Benefits: Cash	Benefits: In-Kind	Qualifying Conditions	Source of Funds	Administration
Social Aid					
I. Cost of living assistance	Means-tested cash benefit. Level of benefit varies according to need and size of family. Household head receives same amount as single person (nationwide average DM 287 in 1977); plus specified percentage for each dependent (increasing with age; maximum, 80% for dependents aged 22 and above. 150% to blind, single parents with 2 or 3 children. 140% to blind, plus expenses for housing.		Residents under retirement age in need, and willing to accept suitable work. Requirements more stringent for alien residents.	States and local municipalities pay most of the costs. Federal government subsidizes benefits for victims of tuberculosis, citizens abroad, etc.	Each state determines level of basic social aid cash benefit for single person. National regulations determine uniform percentage increases for dependents and other special groups. Regional (district) social aid carriers consisting of 21 municipal self-administering organizations and state-governmental authorities responsible for matters of regional importance and special financial expenditures. Local Social Aid offices deal with recipients.

FEDERAL REPUBLIC OF GERMANY

Types of Programs	Benefits: Cash	Benefits: In-kind	Qualifying Conditions	Source of Funds	Administration
II. General support allowances (Aid in special life situations)		Mostly in-kind benefits. Income test varies according to duration and level of need. Upper and lower income level set for different types of aid, (home nursing; preventive health care; medical and dental treatment, drugs and hospital care; training facilities for the physically and mentally handicapped.)			
	Monthly pension (DM 599 in 1977 if age 18 or older, reduced by 50% if under age 18).		Blind, in need but willing to accept suitable work.		
Unemployment Assistance	Means-tested benefit equal to 58% of former net income as adjusted by special benefit tables.		General qualifying conditions as for unemployment compensation. Plus: persons who do not qualify for unemployment compensation because qualifying period is not fulfilled, or, after exhaustion of regular unemployment benefit and in need.	Federal Government	Federal Ministry of Labor, general supervision. Federal Institute of Labor and 9 state and 146 local offices administer benefits.

FEDERAL REPUBLIC OF GERMANY

Types of Programs	Benefits: Cash	Benefits: In-kind	Qualifying Conditions	Source of Funds	Administration
Housing (Rent allowance)	Income tested rent allowance varying according to amount of rent and size of family (in 1977, DM 5 - DM 183 for a single person; DM 5 - DM 197 for families).		In need Recipients are usually old age pensioners, recipients of social aid, and students.	50% Federal government, 50% States. Administrative costs borne by states and local municipalities.	States appoint organizations which administer program. Normally administered by administrative bodies of local municipalities.
	Means-tested house allowance. Benefit amount determined as for rent allowance.		Owners of small houses in need.		

FINLAND

Types of Programs	Benefits: Cash	In Kind	Qualifying Conditions	Source of Funds	Administration
Social Assistance		Home relief (food, rent, heating, lighting, clothing, medications, hygiene); care in a private household; institutional care.	Any resident of a municipality unable to satisfy needs with own work or resources.	Paid for by municipal taxes with National Government refunding 3 percent of net costs.	General supervision by the National Board of Social Welfare, Ministry of Social Affairs & Health. Application reviewed by the municipal social welfare board.
Welfare for the Mentally Subnormal		Day Care, home care, counselling, education and institutional care.	Benefits available to the mentally subnormal as defined by I.Q. in addition to, or instead of, the general social services available.	Municipal taxes pay for services while National Board of Social Welfare provides centers.	Municipal welfare board administers Day Care in cooperation with the National Board of Social Welfare. Applications reviewed by the municipal social welfare board.
Welfare for Disabled		Medical care, vocational rehabilitation and training, housing services.	Benefits available to the disabled and chronic invalids in addition to, or instead of, the general social services available.	Paid for by State subsidies and municipal taxes with the National Government refunding costs for medical care and housing services.	Application reviewed by and programs administered in cooperation with municipal welfare board, institution for the disabled, disabled persons' organizations, and hospitals.

FINLAND

Types of Programs	Benefits: Cash	Benefits: In Kind	Qualifying Conditions	Source of Funds	Administration
Old Age Assistance	Means tested pension: Up to 619 Fmk per month according to the geographic area.		Pensioner with limited resources.	National government and municipalities pay 20 percent. Social Insurance Institution pays 80 percent.	General supervision by the National Board of Social Welfare, Ministry of Social Affairs and Health. Application reviewed by municipal social welfare boards.
Old Age Assistance Supplements	Allowance equal to 139 Fmk per month. Constant attendance allowance equal to 205 Fmk per month.		Pensioners blind or crippled or age 80-84 regardless of health. Pensioners needing constant attendance, or aged 85 and over.	National government and municipalities pay 20 percent. Social Insurance Institution pays 80 percent.	General supervision by the National Board of Social Welfare, Ministry of Social Affairs and Health. Applications reviewed by municipal social welfare boards.
Study Assistance after Compulsory School	Scholarships, low interest study loans and grants.		Students with limited means and continuing success in studies.	National Government	Ministry of Education administers program. Applications reviewed by the State Center for Aid to Education.

FINLAND

Types of Programs	Benefits: Cash	Benefits: In Kind	Qualifying Conditions	Source of Funds	Administration
Child Welfare		Social assistance, hobbies, youth work, counselling, protective supervision, private and municipal children's homes.	Juvenile delinquents up to age 18, age 20 in exceptional cases.	Paid for by municipal taxes. Qualified homes may receive state subsidies.	National Board of Social Welfare approves children's homes. Administered by municipal welfare boards.
Child Care Subsidy	Cash subsidy		Any child aged 3-15, resident in Finland, and requiring extra care for at least 6 consecutive months owing to illness or disability. Children must be cared for at home.	National Government pays 30% while National Pensions Institutions pays 70% of costs.	Applications reviewed by National Pensions Institutions.
Housing Subsidy	Subsidy of 55-90 percent of difference between real housing costs and family's own liability. Percentage is inversely progressive according to the family's income (for income tax purpose).		Family with at least one child under 16 (or under 20 if in school or disabled). Childless family if both spouses under age 30 when married--paid for first 2 years of marriage. Students living in student apartments (subsidy according to fixed scale).	Municipality provides subsidy.	Application reviewed by municipal social welfare board.

FINLAND

Types of Programs	Benefits: Cash	Benefits: In-kind	Qualifying Conditions	Source of Funds	Administration
Welfare for Vagrants and Temporarily Homeless		Returning vagrants to home, assistance in obtaining jobs and medical treatment, commitment to workhouses if necessary.	Convicted of petty crimes (i.e., work-shyness, prostitution, liquor peddling, begging).	Funded by federations of municipalities.	Administered by federations of municipalities.

FRANCE

Types of Programs	Benefits: Cash	Benefits: In-kind	Qualifying Conditions	Source of Funds	Administration
Group I		Home help, social assistance to children, social services and preventive health care.	In need	National government pays about 80%, the balance is paid by the Departments.	Administered by Departments and/or local authorities based on national model regulations.
Group II	Rental allowance	Medical assistance to retarded and tubercular. Extended care facilities. Alcohol reeducation centers.	In need	National government pays about 64%, the balance is paid by the Departments.	Administered by Departments and/or local authorities based on national model regulations.
Group III (Although widespread, being reduced as health insurance expands)				National government pays 38% balance is paid by the Department.	Administered by Departments and/or local authorities based on national model regulations.
A. Medical Assistance		Home care, home medical aid, hospital medical aid.	No means test, but expenses paid if out of proportion to resources.		
	Weekly cash allowance (reduced if in an institution).		In need		

FRANCE

Types of Programs	Benefits: Cash	Benefits: In-kind	Qualifying Conditions	Source of Funds	Administration
B. Aid to Handicapped 1/	Compensatory allowance	Special education, or training, retraining institutions, long term care facilities, contributions to social security.	Working but with high expenses and in need of constant attendance		
		Rent paid or placement in special facilities.	For the "Troubled".		
Social Aid to Families 2/	Cash allowances		In need.		Administered by Departments and/or local authorities based on national model regulations.
Social Aid to Children	Cash allowances		Parentless children and children in private institutions who are in need.		Administered by Departments and/or local authorities based on national model regulations.

1/ Reduced as a result of national programs: government took over expense of training young handicapped workers and subsidies to firms hiring handicapped, health insurance took over some programs, social security took over care and cash to handicapped adults, special commissions are evaluating constant attendance allowance at national level.

2/ Virtually eliminated because of extremely low payment level and national family allowance program.

JAPAN

Type of Programs	Benefits: Cash	Benefits: In-kind	Qualifying Conditions	Source of Funds	Administration
Minimum Living Expenses	Monthly pension varies according to 4 regions. The average paid to a 4-member family in Tokyo (March 1978) includes: A) Livelihood Aid: 105,577 yen per month. B) Housing Aid: 9,000 yen per month, and C) Educational Aid: 1,280 yen per month.		Resident Japanese citizens who cannot maintain minimum standard of living.	National government: 80% of costs; Prefecture and city or town government: 20% of costs.	Ministry of Health and Welfare is responsible for general supervision and administration. It also determines the standard for each type of aid in 4 different regions in the country. Welfare Offices at the prefecture, city and town levels are in charge of local operations.
Children's Allowances	5,000 yen per month for 3rd and each additional child who has not completed compulsory education.		Residents with 3 or more children under age 18, including at least 1 child who has not completed compulsory education (usually age 15). Annual income must be under 4,970,000 yen for a family of 5.	EMPLOYEES Employer: 70% of costs Government: National: 20% Prefecture: 5% City or town: 5% NEEDY UNEMPLOYED Government: National: 66.6% Prefecture: about 16.7% City or town: about 16.7%	Ministry of Health and Welfare, supervision through the Children and Families' Bureau. Insurance divisions of prefec-

JAPAN

Types of Programs	Benefits: Cash	Benefits: In-kind	Qualifying Conditions	Source of Funds	Administration
					tural welfare departments and social insurance offices, collection of contributions. City or town, granting the allowances.
Child Rearing Allowances	21,500 yen per month for 1 child; 23,500 yen for 2 children; 400 yen for 3rd and each additional child who has not completed compulsory education.		Needy residents, not eligible for social security benefits, with at least one child who has not completed compulsory education (usually age 15).	National government	Ministry of Health and Welfare, supervision and administration through the Children and Families' Bureau.
Welfare for the Mentally or Physically Handicapped		A) Medical rehabilitation treatments, B) Provisions for daily living (bathtubs with boilers, toilet pots, tape recorder for the blind, and specially designed beds for the severely handicapped), C) Medical care services for children with muscular dystrophy at National Sanatoria, D) Home nurses to the	Free for recipients of Minimum Living Expenses only. Other physically or mentally handicapped persons are charged with partial or full costs depending on ability to pay.	National government: 75% of costs; Prefecture and city or town government: 25%.	Ministry of Health and Welfare, general supervision. Central Council for Countermeasures for the Mentally and the Physically Handicapped administers the programs with assistance

JAPAN

Types of Programs	Benefits: Cash	Benefits: In-kind	Qualifying Conditions	Source of Funds	Administration
		severely handicapped living alone in need of some help because of illness.			from local welfare offices.
		A variety of other services are provided free to the mentally or physically handicapped without a means-test.			

(All residents aged 65 and over receive free health and medical services and a variety of social and home services).

SWEDEN

Types of Programs	Benefits: Cash	Benefits: In-kind	Qualifying Conditions	Source of Funds	Administration
Social Assistance	Means tested allowances		Aid is given when other aid is insufficient or cannot be obtained promptly. Under 16 years of age or unable to support self by reason of mental or physical infirmity, age, sickness, handicap, responsibility for minor children and otherwise lacks economic assets.	Funded from general revenues.	Application reviewed and programs administered by social welfare board.
Aid to the Handicapped 1) Starting own business. 2) To employers of handicapped. 3) Sheltered employment (referral by employment exchange).	Means tested grants and cash allowances.		For the physically handicapped in need.	General revenues	Applications reviewed and programs administered by municipal welfare boards
Improvement Loans for Handicapped--for minor renovations of private dwelling.	Income tested 1) Interest-free loan reduced by 1/10 per year, disappearing in 10 years. 2) Two-part: One-part is interest-free, the other part at low interest		Physically handicapped persons whose taxable income (national income tax purposes) does not exceed 17,000 Skr. for a single person and 24,000 Skr. for a married couple.	General revenues	Loans are applied for and approved by a County Housing Board.

SWEDEN

Types of Programs	Benefits: Cash	Benefits: In-kind	Qualifying Conditions	Source of Funds	Administration
Home-Furnishings Loan	Income tested maximum loan of 10,000 Skr.		Married couples in need or single persons in need.	General revenues	Application reviewed by the municipal social welfare board.
Rental Allowance for Families with Children	National Government--Up to a sum of 75 Skr. per month/child provided taxable income does not exceed 32,000 Skr./year.		National Government--To families with at least one child under age 17 wholly or partly supported by family at home.	General revenues	Eligibility is determined by the municipality. Administered by municipal welfare board.
	National Government/Municipal--Encourages municipalities to provide own subsidies. 70 percent of costs to be refunded by National Government.		National Government/Municipal--For families with children paying high rents or mortage.		
	Although all rent subsidies are primarily income tested, eligibility is also dependent on a relatively liberal means test.				

SWEDEN

Types of Programs	Benefits: Cash	Benefits: In-kind	Qualifying Conditions	Source of Funds	Administration
Rental Allowance for Couples without Children, and Single Persons	Municipal--Monthly minimum allowance of 20 Skr. and maximum of 200 Skr.		Payable to those age 18 and over and not drawing an old-age pension. Taxable income can not exceed 26,000 Skr. If higher, allowance is reduced by 15 percent of excess taxable income.	General revenues	Application made at the municipal level.
Study Assistance	Means tested study grants not exceeding 130 Skr./month. Means tested study grants		For students in need who have reached age 17, are continuing education, and whose parents' taxable income (national income tax purposes) does not exceed 31,000 Skr.	National Government	Application reviewed by the Central Board for Study Grants.

NOTE--The following welfare programs are available to all regardless of income or economic assets: Child Care Allowances; Day Care of Children (Day Nurseries, Part-Time Groups, Leisure-Time Centers); Cash Maternity Allowance; Care Before, During and After Childbirth; School Meals and Supplies; Employment Services (Vocational Guidance, Relocation Assistance); Home Help and Holidays for Housewives; A wide range of Medical Services; Aid to Alcoholics.

Senator MOYNIHAN. With that, we will close this session of hearings.

[Whereupon, at 4:30 p.m., the subcommittee adjourned, to reconvene at 10 a.m., Thursday, February 7, 1980.]

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HOW TO THINK ABOUT WELFARE REFORM FOR THE 1980's

THURSDAY, FEBRUARY 7, 1980

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

The subcommittee met, pursuant to notice, at 10 a.m. in room 2221, Dirksen Senate Office Building, Hon. Daniel P. Moynihan, chairman of the subcommittee, presiding.

Present: Senator Moynihan.

Senator MOYNIHAN. The committee will please come to order. Today is the second day of hearings on "How To Think About Welfare Reform for the 1980's".

Our first witness this morning is Eli Ginzberg, director of Conservation of Human Resources and chairman, National Commission for Employment Policy, Graduate School of Business, Columbia University.

Mr. Ginzberg?

STATEMENT OF ELI GINZBERG, DIRECTOR OF CONSERVATION OF HUMAN RESOURCES AND CHAIRMAN, NATIONAL COMMISSION FOR EMPLOYMENT POLICY, GRADUATE SCHOOL OF BUSINESS, COLUMBIA UNIVERSITY

Mr. GINZBERG. It is a matter of great pride to me that the sovereign State of New York has two such distinguished Senators and although you, Mr. Moynihan, and I have been associated for quite a long while I think that it is the first time I have appeared before you and I am very pleased to do so.

In preparing my remarks for this morning, I tried to think back how long I have been concerned about the interface between work and welfare and I remembered that, in 1939, when I was doing a study on the long-term unemployed in New York City, I had my first experience with the work test.

I actually checked on what was happening at the Employment Service for people who were drawing welfare grants. They had to show up and get some piece of paper stamped to show that they were available for work. But it was really a make-believe activity because New York, at that time, had several hundred thousand more people looking for work than it had jobs and this was just an early example of the way in which an administrative system gets between clients and their problems and does not contribute very much to their solution.

Going back to the 1930's, I was impressed that President Roosevelt made a decision to spend more money and to provide work relief rather than follow the British approach, which was a straight dole. I did a study on the South Welsh coal miners and I saw what was the cumulative deterioration on people who had no access to work. I was in a community—I still remember it—Bryn Mawr in South Wales—in which 90 percent of the males had not worked in over 10 years. These were villages where coal mines had closed down.

So I thought that President Roosevelt at the time had made the right decision and that serious attempts to put people onto WPA was considerably better if they were employable than to put them on the dole.

The key point in terms of work and welfare is that one is dealing with vulnerable people, who are not really very competitive, a soft local labor market usually in which there are shortages of jobs and people who have special problems, as in the case of the single heads of households, so that any simplistic attempt to find solutions for people of limited skills who have special problems in labor markets that are weak is, I think, just oversimplifying the problem too much.

As I see it, therefore, the problem comes to what are the balances between a liberal welfare system that tries to assure people minimum support and yet avoids the dangers of such a system which is to habituate them to a system of ongoing support. That seems to me to be the critical part of the issue and that means that public policy should, if at all possible, try to prevent habituation. When we did a study a few years ago at Columbia on Work and Welfare in New York City, we drew attention to the importance of focusing on recent additions to welfare, young women with young children who ought to be singled out, if at all possible, and helped to complete their education, get some skill and get into the labor market so that they should not become habituated.

Incidentally, the National Commission for Employment Policy which I have the honor to be the chairman, in its new report to the President and the Congress, just recently released, called "Expanding Employment Opportunities for Disadvantaged Youth" called attention to this same group of female-headed households, young women in their teens who lost out on their schooling and who if not helped in a positive way would perhaps never enter the labor market.

I was impressed with some data that my staff at the Commission got me that 60 percent of the females under the WIN program who get into employment make less than $3 an hour.

Now, at that level, if you have more than one dependent at home—and even if you have only one dependent at home—when you allow for additional work costs, carfare, clothes and food, I would say that is not a level at which they can become permanently self-supporting.

And, therefore, I do believe that, while the WIN program has something to be said for it, there is a clear evidence, I believe, that a large number of the WIN program—even those who succeed in getting into private employment—do not stay there because of the low earnings.

I was also unsettled to get a piece of data out of my staff which indicated that among women 14 to 30 now receiving AFDC 61 percent have their first child while a teenager.

That is a very high figure and that is another way of saying it is these adolescents that need special assistance so as not to become permanently habituated to welfare.

I have some good news for you, Senator.

Senator MOYNIHAN. I want to rap the gavel. Good news! We have not had any in a long time here.

Mr. GINZBERG. The Manpower Demonstration Research Corporation of which I am the chairman of the board will release late this month its 5-year followup study of supported work. The outstanding group of the four groups of severely disadvantaged clients that we have followed, the outstanding success story is the AFDC mothers.

We had enrolled AFDC mothers, not one of whom had worked within the last 3 years—that was the minimum qualification to get into the program—many of whom had never worked, who from every type of study that we have done have a very good cost-benefit ratio in terms of coming out of the program and getting into employment. Now, that does not mean that everyone who entered by a long shot was a success story, but it does mean for social programing that a lot of women on AFDC who given an opportunity to come back into the world of work or to enter the world of work for the first time will do so and avail themselves of the opportunity and be glad of it.

So that is a good story.

I think that has implications for whatever the Congress has by way of additional money. I would surely encourage the Congress to put some more money on supported work type programs.

Senator MOYNIHAN. Would you elaborate on that? Supported work is what?

Mr. GINZBERG. Supported work is a program which says that for severely disadvantaged people who have little or no work experience such as AFDC mothers, ex-drug addicts, ex-offenders and delinquent youth—those were the four groups. Really severely disadvantaged for work.

If you put them into a work program with their peers, if you have close supervision, and if you have graduated stress so you do not ask them to come up to meeting the competitive standards the first week but definitely aim to make them competitively employable over a period of time and you offer them an opportunity for about a year's work experience under these kinds of controlled conditions—and very little else. The emphasis is on the work, not on a lot of counseling, not a lot of supported services, but on work—that when they get finished with that work experience, they can fit themselves into the regular labor market.

I would say that is a good story and that is why I said I had some good news.

Ed Logue who is in charge of the South Bronx redevelopment project told us at Columbia the other night that he will have 2,000 supported work slots to work with in the South Bronx, which will be the single largest effort in a supported work context that we have ever had in one place. We have been operating with not much beyond 300 in a single locale.

So he is going to have 2,000 jobs. He has to have real jobs, because a supported work program means honest-to-God jobs. It will be well worthwhile watching and seeing whether it can have a significant impact on his rehab effort.

I would say that I think the whole welfare work story is tremendously complicated by the fact—and I am not telling you anything new—that the concomitant benefits for people on welfare in terms of medicaid and food stamps are so tied to their categorical status of being on welfare that they are terrified to get off.

One of the interesting things that we found out in our supported work study was that it is sufficiently unpleasant to be on welfare for a lot of people that they would even run the risks of losing their benefits to get off.

So I do not think it is correct to believe that everybody likes it on welfare by a long shot—I would say that they do not. I do believe that it is legitimate from the point of view of public policy to say to anyone on welfare that there is a training or work requirement that you ought to fulfill if work is not punishment, but really geared to employability.

That means that I think it is a good idea to think through how one could have some public and nonprofit part-time employment for women who cannot travel very far from their homes, who may have one child at home, so that they do not lose all contact with work.

I do not think there is anything improper, as long as it is not a punishment idea, but really geared to employability and I would say that, since I do not believe that people ought to be—especially younger people—ought to be cut off from the opportunity to work and the opportunity to gain some job experience, the opportunity to gain some skills—I do believe that that is a part of our welfare system we have not paid enough attention to.

The next point I want to make, and I think it is very important—I do not know much about it, but I have just come back from the Netherlands. Every place where I travel overseas, as well as everything I know about the U.S. economy, is the increasing growth in the off-the-books economy. That means that it is not only work or welfare but it means that we have another piece to the economy which is work, welfare or work off-the-books and I think people are working out all kinds of new arrangements that make more sense to them because they have this further opportunity.

I do not know how many people in the large cities around the United States are doing part-time work while on welfare but I know that there must be many. The testimony offered here yesterday reminded us that there was no increase in welfare payments, but a serious decline in New York State over these past years because of the difficulties of the State and the city budget. The only chance to survive on welfare—and surely the only chance to buy your kid an ice cream cone, ever—is if one is to do a little bit of work, or more than a little bit of work, which somehow or other does not get fully reported.

Now, it is true that within some limits there is a disregard allowance, but my own view is that if in a Calvinistic country like

Holland from which I have just come there is as much off-the-books work going on then New York, which is a little less Calvinistic, is probably having many more such situations. And I think it has to be part of the planning of the administration and the Congress to realize that that reality exists out there.

The notion that all the people on welfare do not work is simply not realistic.

So I would end this way. I would say I do not see at this time any real consensus in the United States for large-scale welfare reform. I regret that, but I do not see it. I think there is a fundamental conflict between the North and parts of the South with the North being interested in a humanistic approach that people who cannot work ought to have some decent minimum level of maintenance and the South believing that welfare is bad and therefore it should be kept as low and as constrained as possible.

I would say that there is a general belief, and a correct one, where there is a consensus that long-term dependency on welfare, if humanly possible, ought to be avoided and therefore I do believe that the Congress emphasis on WIN was in the right direction but not right enough because I really believe that these young people that I mentioned—particularly the young mothers—need to get back to school, they need to have their employability skills raised because otherwise they will never be able to earn more than the minimum wage and at minimum wage you cannot support a family.

So one has to do more. The direction was correct—not to let people stay on welfare, but the employability issue has to be stressed.

Next I would say that I do not think anybody has found the answer—and I surely have not been smart enough—to figure out how one runs support programs that go beyond welfare but are linked to welfare, the medicaid and the food stamps and housing allowances and so on, and still does not create such a barrier to getting off welfare that welfare persons are scared to run the risks of accepting a job.

Next, I would say from my experience with legislation aimed at employment, I do not think it is a good idea to look to achieving revenue balances through social programs. I think fiscal relief, welfare reform and job creation should not be tied together. I think everything gets messed up.

It is almost impossible to sort out the simplified goals of welfare reform without tying them to a large number of other things. My view from my Washington perspective has been that it does not work.

Finally, I do think that we have to recognize in the United States that we are a Federal Government and that there is no way of forcing the localities beyond a certain point to do anything and no way of bribing them.

As of this morning, I learned that we are really not meeting our PSE ceilings under CETA and that simply means that the local directors of programs believe that it is not to their advantage, and there are limits to what the Federal Government can force and/or bribe local governmental officials to do, and that is one of the constraints.

So I would end by saying one does not want to do anything in terms of national policy to habituate individuals to welfare. Second, one has to spend some money to make sure that young people on welfare in particular are aided to get off so that they can become honestly self-supporting and not just on and off by putting them into a job and then they fall out of the jobs and they are right back where they were.

And surely one has to worry about the incentive system which now are very much, I think, antiwork in the way that they are structured. There is about a 60- to 70-percent loss for anybody who moves from welfare into work.

Senator MOYNIHAN. I cannot tell you how much we are impressed by, and grateful for, that testimony, Dr. Ginzberg.

You know, you say that there is not now a national consensus on welfare reform and you make the clear point that neither is there any regional consensus. But there is a true regional difference of judgment in these matters that we have not been able to overcome.

But something else has happened and I think this should not be underestimated, or its importance missed. That is the emergence of an agreement on the issue of work. Ten years ago, to raise the question of work for welfare recipients was to invite instant castigation. I think you can recall the vilification of anyone who said, that, these people should be—"encouraged to work."

There was a kind of an intellectual terror that prohibited discussion. Anybody who raised the subject once regretted it and never raised it again.

I think I have said—and I wonder if it is so—that there is a kind of unanticipated fallout of the women's movement. Women have insisted on their rights to occupations that had been barred to them, and began insisting on the right to work. Suddenly it became not such a bad thing to asssume that there was an obligation to work.

Something like that happened, did it not? Have you sensed this change?

Mr. GINZBERG. I think there is no question that I would confirm your judgment that the work aspect of the welfare story has shifted heavily in favor of work. I think there is another thing that has happened also and that is that people now realize they will never have a good life on welfare and therefore their only chance really for a meaningful escape into a more normalized existence—and that is what we found on the supported work, is that a lot of the welfare clients themselves understand the importance, if humanly possible, to get into the job market at some real level of employability because otherwise they are going to be marginal all their lives.

Senator MOYNIHAN. One other point I would like to make is that it seems to me that your sense of history is very powerful here. The British made a decision in the 1930's to put people on cash payments; they were low but no one starved. And President Roosevelt made the decision to put people to work, the old PWA and WPA and the Conservation Corps and so forth.

I made the argument at the time President Johnson organized the antipoverty program, that the series of decisions in 1963 and 1964 were emphatically against work. They were instead directed toward community organization and compensatory education and a whole range of issues, but lacked a serious work component. The Job Corps was a small training exercise, but it was not the creation of work to put people in jobs.

Mr. GINZBERG. I surely agree with you that that is a correct interpretation of what happened, but I think we discovered the working poor as part of that war on poverty. We found that there were just a lot of people in the United States who were poor even though they were working a good part, or the whole of, the year and so I think it got muddy and we did not quite understand that poverty had many causes and needed many cures.

One of the few programs that I was always attracted to—I never saw it in the field myself—was Operation Mainstream where there was a little program that Mr. Perkins in the House was interested in to make sure that those old coal miners had a chance not to just get a handout but to do some useful work in connection with it.

There was a very deep antipublic service employment attitude. Senators Clark and Prouty, the Vermont Republicans, introduced a work bill in the 1964-65 period stressing public service employment.

It went absolutely nowhere because I think that there had been a confusion carried over from—let us say the anti-Roosevelt period which said that public service employment was bad.

Senator MOYNIHAN. It combined two things, one of which was a conservative response to boondoggling. But there also arose among liberals a view that to expect people to work was an imposition of bourgeois valves. There is nothing like the children of the bourgeoisie to be contemptuous of the values that got them where they are and will keep them there.

Mr. GINZBERG. I remember that very clearly, because I have always taken the position that if the government makes money available to people to live it has the right to ask those people to get training and/or work as long as it is not just a punishment program but is really aimed at improving their employability.

Senator MOYNIHAN. We thank you very much, sir.

[The prepared statement of Mr. Ginzberg follows:]

TESTIMONY OF ELI GINZBERG, CHAIRMAN, NATIONAL COMMISSION FOR EMPLOYMENT POLICY AND DIRECTOR, CONSERVATION OF HUMAN RESOURCES, COLUMBIA UNIVERSITY

Mr. Chairman and Members of the Committee, on the basis of my 18 years as chairperson of the National Advisory Committee and Commission of the Federal Government dealing with employment and training and on the basis of twice that number as a researcher at Columbia University, I would like to offer the Subcommittee the following observations on the relationships between work and welfare as you consider Welfare Reform in the 1980s.

As I'm sure you would agree, the American people consider the welfare system a "mess"—costly, inefficient, inequitable, and counter-productive, and they believe many recipients who are employable obtain an income without having to work for it.

Most Americans believe that people who are able to work should work to retain their self-respect and contribute useful goods or services to society, and thus avoid the stigma of receiving welfare.

Moreover, work for employable persons as an alternative to welfare would relieve taxpayers of the unwelcome burden of supporting able-bodied individuals, and it would avoid the inequities that result from the fact that many persons who work full-time earn less than others who receive an income without working.

State and local officials in the principal industrial states of the North and West believe that many of their economic and social problems have been caused by the immigration of poorly educated persons, largely from minority groups, born and brought up in the South or Puerto Rico, who realize that if they cannot get jobs in the new locale, they will still be better off because of the relative ease of getting on the welfare rolls and that they will receive much higher benefits than if they had remained at home.

Still another concern is the linkage between welfare (AFDC) and the dissolution of many families, primarily through the husband's desertion. While recent analyses do not support the generalization that AFDC causes families to split, the fact remains that the number of female headed households has grown rapidly at the same time that the AFDC rolls have exploded.

Another criticism of the welfare system is that it permits children to grow up in households where some adults have never worked and some young people come to look on welfare, not work, as the normal state. While definitive data are hard to come by, a small number of children are growing up in third-generation welfare families.

There has been a major shift between the mid 1930s and today in the prevailing attitude of the Congress, with respect to the desirability of requiring women on welfare with school age children to seek work. The presumption today is that such women should work while the earlier presumption was that they should not.

In short, we have interpreted current public opinion as favoring a reform of the welfare and income transfer systems to require employable persons to work and thereby end their dependency on welfare. This has been the thrust of our policy since 1971. Yet we obviously are not satisfied with the results, or we would not be here today discussing welfare reform for the 1980s. What we need are some insights into why present policies have not been effective.

In terms of our short-run objective of placing employable welfare recipients in jobs, one basic problem has always been that even in relatively tight labor markets there have not been enough jobs to go around, and other groups compete with welfare recipients for those jobs which are available.

The employment and training programs of the federal government since 1962 have with the exception of WIN given a relatively low priority to persons on welfare—at least that is how the field has operated. The reason is clear: given the mandate by Congress to serve all significant segments of the disadvantaged population, with emphasis on placement and limited resources, local program operators have chosen to offer employment and training services to those most likely to be able to get and hold a regular job at the end of their public employment or training. The WIN program, as would be expected, has had its greatest success with individuals who had existing skills and previous work experience and who were in areas with low unemployment rates.

Moreover, there is a paradox between the American people's ostensible commitment to the work ethic and their cautionary stance when it comes to providing for jobs for employable persons on welfare. The source of the paradox is that it costs more in the short-term to operate a work rather than a welfare program. A secondary explanation may be the public's skepticism about the value of work performed on governmentally funded jobs.

We know there are three factors which affect our ability to move people off the welfare rolls and into jobs in the short-run. These are the number of jobs which are available or can be created; the level of education, skill and motivation which will enable or induce people to leave the welfare rolls; and the effectiveness of the mechanisms for matching welfare recipients with jobs.

While the supply of jobs is critical, particularly in slack labor markets, having jobs and good mechanisms for placing welfare recipients in them may relieve short-term dependency on welfare, but will not be enough to break the cycle of long-term dependency for most AFDC recipients.

We have to date concentrated most of our efforts and attention on getting the welfare recipient a job, any job, and too little on examining whether a job alone can lead to long-term solutions.

This issue is particularly acute for women, and since in 1978 women made up 90 percent of the adults on the AFDC rolls and 74 percent of the WIN registrants, it is also particularly acute for the long-term success of a welfare jobs policy.

Statistics for the WIN program show that, like the pattern for non-AFDC women in the labor market, women placed through WIN were concentrated in service, clerical and sales jobs, occupations which have few career opportunities and low life time wages as opposed to jobs men traditionally enter. Fewer than 5 percent of the women WIN placed, but more than 20 percent of the men, received a starting wage of $5 or more per hour in 1978.

Part of the wage differential experienced by women in general as well as by WIN women may reflect their lack of experience. After leaving school women work fewer weeks per year than men and as they take on homemaking and childrearing responsibilities they may drop out of the labor market for a period of time. But a large part of the problem is due to occupational expectations and segregation. If we do not address this problem in the context of a welfare jobs proposal, we will surely fail in our efforts to reduce long-term dependency.

Among the most important groups on which public policy should focus are young women, many in their teens, primarily the unmarried, who become mothers and in the process are forced to leave school before they earn their high school diplomas. Unless they can be assisted quickly to improve their education and employability skills, there is serious risk that they will become habituated to welfare. The NCEP, in its Fifth Annual Report to the President and the Congress on "Expanding Employment Opportunities for Disadvantaged Youth" specifically for special efforts to help these young women.

Many mothers on welfare with one or even two children under age six should be assisted in taking training or a public or private part-time job in their neighborhood where they would be able to spend some part of every day preparing themselves for careers which offer long-term earning potential.

The benefits of employability development through intensive support, training and work experience are evident in the Job Corps program and in the Supported Work program.

The Manpower Demonstration Research Corporation, which I have the honor to serve as Chairman of the Board, will release at the end of February its five-year research findings on the Supported Work experiment, the largest research demonstration effort ever carried out in the United States of a manpower program. The key to Supported Work is its emphasis on gradually introducing a person into the labor market, increasing the work stress until the participant meets the norm.

Among the startling findings are the very favorable cost-benefit ratios of the program for AFDC women, not one of whom had ever worked. A significant proportion got off welfare and stayed off up to the end of the followup period which was 27 months. We are now doing a 36-month followup.

In general, the Congress should be aware that despite efforts at eliminating long-term walfare dependency through either the Supported Work approach or a combination of employability development, supportive services, and counseling and placement in jobs with career and earnings potential, there appears to be no way for all people in the near future to earn sufficient income to support their families at the level above the poverty line. That means that some form of income supplementation will be necessary, especially for large families and single parent families where the household head earns a low wage.

We have backed into income supplementation for lower earners via medicaid, food stamps and the earned income tax credit. However, the threat that persons on welfare who obtain employment may lose some of all of these and other valuable benefits for a family unquestionably operates as a work disincentive. Since many on welfare have little prospect of earning more than the minimum wage, it is important that the working poor continue to have access to medical benefits and other supplemental income.

It is always dangerous to generalize from conditions in New York and other large cities but it is my impression that a considerable number of welfare clients already engage in part-time if not full-time work which makes their permanent removal from welfare via low wage jobs that more difficult.

In addition, too little attention is being paid to the growth of the off-the-book economy which provides a third alternative for income: work, welfare, and work in the irregular economy. In the late 1960s my research staff at Columbia University estimated that 240,000 persons in New York or about 7 percent of the labor force earned all or part of their income from illicit activities. If simple tax evasions were added, the figures might well approximately double that number or one out of every seven persons. The creation of low-wage jobs with low long range earnings potential again will do little to address this problem.

Some concluding observations:

a. Work, rather than income transfer, should be the preferred way of helping many on welfare.

b. On the basis of our experience with public service employment and other employment, training and job placement programs, I would strongly suggest that a new welfare jobs program pay particular attention to employability development, training and transitional assistance into employment. For women, counseling and opportunities for training and placement in nontraditional occupations which offer long-term earnings potential is essential. Without such focus, I believe that most welfare clients will fail to make the long-term transition into self-supporting private employment.

c. Special effort should be made to assist young women from becoming habituated to a life on welfare, and part-time-training and employment opportunities near home should be provided for women on welfare with a small child to help these women to permanently break the cycle of welfare.

d. The Supported Work program for AFDC mothers should be continued and expanded.

e. The working poor and those welfare recipients in training should have access to supplemental benefits and income.

Senator MOYNIHAN. I have just received a message that I have to go to the Longworth Building so we will recess and I will be on the phone in 5 minutes to tell you how soon I will be back.

I am sorry about this, but this is the climactic moment of 18 months of negotiations.

[Whereupon, at 10:30 a.m. the subcommittee recessed to reconvene at 1 p.m. this same day.]

AFTERNOON SESSION

Senator MOYNIHAN. Good afternoon. I am happy to report to you that we accomplished almost nothing in the conference committee this morning but we accomplished it at some great length.

We are very happy to see again our next witness, Lynn Cutler, who appears to us this time as vice chairman of the Advisory Commission on Intergovernmental Relations.

Is Lynn Cutler not here today?

Mr. SHANNON. Senator Moynihan, she will be here. We expect her any minute.

Senator MOYNIHAN. Fine, fine. We will just move along, and she will be next.

Professor Maldonado—Lynn Cutler, you are next, and then Professor Maldonado. Welcome. We know you have had to make many different arrangements.

Ms. CUTLER. I had to throw myself in front of a cab. Should we go now?

Senator MOYNIHAN. Would you go right now? You look pretty good, all things considered, for someone who just threw herself in front of a cab. Those are the standards of service we expect from the Advisory Commission on Intergovernmental Relations and this, I think, is also the case that you are bound to do something even more hazardous, which is to run for Congress, which is marvelous to hear—saying no more about which side or what.

We know you, of course, from your appearances on behalf of NACO and we welcome you on behalf of ACIR and I think you are here representing the Commission and its chairman, the former mayor of New York, Mr. Beame.

Ms. CUTLER. That is right. Mr. Beame is out of the country so he asked me to appear in his stead and I am honored to do that and I am pleased to appear before you again. It is always a pleasure, and I apologize again for being late.

STATEMENT OF LYNN CUTLER, VICE CHAIRPERSON, ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS, ACCOMPANIED BY JOHN SHANNON, ASSISTANT DIRECTOR FOR TAXATION AND FINANCE

Ms. CUTLER. I am, as you have noted, Lynn Cutler, vice chair of the Advisory Commission on Intergovernmental Relations and also, as you noted, a county official from Black Hawk County, Iowa. I am accompanied today, Mr. Chairman, by Dr. John Shannon, who is ACIR's assistant director for taxation and finance.

Senator MOYNIHAN. Dr. Shannon, we welcome you.

Ms. CUTLER. I have long been active in the field of social services and human endeavor programs so I am especially pleased to be able to appear before the subcommittee on this subject today, Senator.

In my testimony today, I will try to be responsive to some of the questions raised in your letter of invitation of January 21. More particularly, we will be pointing up the relationship between public welfare expenditures, tax burdens, and central city problems.

There is a definite regional dimension to the public welfare problem. To use an old adage, trouble often comes in threes and that is particularly true for the States of the Northeast and the Midwest. These are the States that first, carry extraordinary welfare loads; second, make the greatest tax effort; and third, have the most disadvantaged central cities as compared to their suburban counterparts.

Before briefly discussing each of these troubles, let me quickly point out what may be less than fully apparent. Each of these problems can result from a number of different causes. What needs to be stressed, however, is that these problems, while not identical, are clearly interrelated. The general case may be that the States with the heaviest welfare burdens have attracted at least part of their welfare caseload by making an above-average tax effort to respond to the needs of welfare recipients.

These persons in turn are far more likely to find housing in the "poor" and "central city" rather than in the more affluent suburban ring.

By computing public welfare outlays as a percentage of the income of the residents of the State, ACIR constructed a yardstick for measuring interstate variations in public welfare burdens. The point must be emphasized that this yardstick eliminates all Federal welfare aid, but measures State and local expenditures for public welfare and medicaid.

Using this yardstick, it becomes clearly apparent that there are great interregional and interstate differences in public welfare burdens. In 1978, California's public welfare burden at 2.19 percent of State personal income was approximately 10 times greater than that borne by New Mexico. In fact, as our table 1 in the testimony we submitted shows, the five States with the heaviest welfare burden spend amounts ranging from 1.72 percent to 2.19 percent of their State's personal income while the five States with the lowest burdens range from 0.22 of a percent to 0.37 of a percent.

Mr. Chairman, as graphically illustrated in table 2 of the testimony, every State in the Northeast, the Midwest, and the Great Lakes, with the exception of Maryland and Indiana, exhibited a public welfare overload. A State is deemed to be in this overload category when its burden exceeds that of the median State—welfare outlays, then, in excess of 0.83 percent of State personal income.

Of the estimated $7.4 billion in public welfare overload, it is no surprise to you, I know, more than half was borne by two States, California and New York.

Two factors—above-average number of beneficiaries and above-average program benefits—are primarily responsible for the creation of this public welfare overload situation. The Commission, however, did not attempt to sort out the relative importance of the caseload and the compassion factors.

Public welfare expenditures are a big ticket item for most States and many, many local governments. As set forth in table 2, States and localities spent in 1978 almost $19 billion from their own funds in order to help with public welfare and medicaid costs.

I know of counties, Mr. Chairman, in New York, California, Minnesota, and in the other 15 States where the counties are still involved in county outlay or match in AFDC where they set the welfare portion of the budget first and then whatever is left goes for law enforcement and other programs and, of course, social services, some of the others coming way at the end of that totem pole.

It follows then that those States with above-average public welfare burdens are more likely to have above-average tax efforts to support welfare and other public programs. The general tendency is reflected by the following facts. Of the five States with heaviest welfare burdens, four also reveal well above-average State local tax burdens and all five States with the lowest welfare burdens also enjoyed well below-average State and local tax burdens.

One of the causes for high tax effort can be characterized as self-generating. For example, many of the high effort States provide more liberal public welfare benefits than do their neighboring States. Likewise, citizens in high effort States have a keener taste for public goods and services than do citizens of low-effort States.

Another cause for a high-effort reading can be traced to factors outside the control of each State and local system. Those external factors include the great post-World War II migration of the poor from the rural South and Puerto Rico to the large central cities of the Northeast and Midwest. Another external factor is a substantial migration of capital, jobs, and upper income people from the Frost Belt States to the Sun Belt region.

The failure of the Federal Government to construct an equitable welfare program can also be cited as an externally generated factor.

The third area that we are responding to in testimony, Mr. Chairman, has to do with the central city. There is a fairly close relationship between fairly heavy public welfare loads and central city disadvantages.

Of the five States with the heaviest welfare burdens, three—Massachusetts, New York, and Pennsylvania—have an above-average percentage of their total population residing in metropolitan areas with severe central city suburban fiscal disparities.

Of the five States with the lowest public welfare burdens, four also enjoy a below-average ranking on the central city problem. Georgia is the exceptional State in this case and that, of course, is because of the Atlanta metropolitan area.

We have with us today a working paper recently released by the Urban Institute, by Philip Dearborn, which we will be happy to put that on file.

Senator MOYNIHAN. I would like to put that into the record, if I may, as an appendix to your testimony.

Ms. CUTLER. Certainly.

[The material referred to follows:]

THE OUTLOOK [1]

Most major cities remained in good financial health through 1978, but on both an aggregate and individual city basis, the performance was not as good as 1977. An increased number of cities had operating imbalances, as a result of slower revenue growth and accelerated growth of expenditures.

Fortunately, the accumulated reserves from a strong performance in 1977 enabled most cities to maintain a good financial position at the end of 1978. The major exceptions among reporting cities were New York, Detroit, Boston, and Buffalo, all of which have had persistent problems in recent years. No reported city, except perhaps Boston, showed any liquidity problems in 1978. Even New York, with the aid of federal guarantees, was able to get back to a positive cash position.

Debt service for most cities was taking a stable or somewhat lower portion of operating budgets, and appeared to be creating no unusual budgetary strain in any reporting city. Total capital spending declined in 1978, but the pattern was varied among individual cities and may not consistute any trend.

In general, 1978 was a year in which there were no dramatic changes in fiscal health. It was not as strong as 1977, but was better than 1976. Going into 1979 and subsequent years the cities generally had good liquidity and modest unrestricted reserves. However, the fragile nature of their fiscal health is demonstrated by the number of cities (21) that had revenue/expenditure imbalances in at least one of the three latest years. This highlights the serious financial problems that might occur from the loss of even a relatively minor revenue, such as general revenue sharing.

With the possibility of a national recession, those several cities which have had trouble completely regaining their fiscal health from the problem years of 1975 and 1976 will be especially vulnerable. They include New York, Philadelphia, Detroit, Boston, New Orleans, Pittsburgh, and Buffalo. While 1978 information is not available about Cleveland, it may also be in this category.

Cities continue to walk a fiscal tightrope. Some improve one year and then fall back in the following year. Only a few have consistent good years. Even relatively minor fiscal adversities could quickly create serious problems for many of the major cities.

Ms. CUTLER. Dearborn noted that most of the jurisdictions remained in good financial health through 1978. However, he sharply underscored the fragile condition of the major cities in general and the central cities of the Frost Belt in particular.

There is some testimony and a note to that fact. "The fragile nature of their fiscal health is demonstrated by the number of cities"—which he sets at 21—that had revenue expenditure imbalances in at least 1 of the 3 latest years.

This highlights serious financial problems that might occur from the loss of even a relatively minor revenue, such as general revenue sharing. With the possibility of a national recession, those several cities which have had trouble completely regaining their fiscal health in the problem years of 1975 and 1976 will be especially vulnerable. They include New York, Philadelphia, Detroit, Boston, New Orleans, Pittsburgh, Buffalo, and while our 1978 infor-

[1] Excerpts from "Working Paper: 0000-06-06," "The Financial Health of Major U.S. Cities in 1978," Philip M. Dearborn, the Urban Institute, November 1979.

mation is not available about Cleveland, it may also be in this category.

To conclude, Mr. Chairman, in 1969, the Advisory Commission on Intergovernmental Relations recommended that the Federal Government assume full financial responsibility for the provision of public assistance including general assistance and medicaid. Obviously, Mr. Chairman, there are formidable fiscal and philosophical barriers to the adoption of this recommendation. Any policy calling for greater Federal involvement in the public welfare field, however, should strive to achieve a more equitable financing burden among the 50 State and local fiscal systems.

I know that you are fully aware of that. I share with you the position of the Commission that, with all due respect to the fact that I have not told you a single thing you did not know.

Senator MOYNIHAN. On the contrary, there is nothing that we can be more grateful for in these hearings than your coming to us with these data that the Commission has developed.

The data very much emphasize the dilemma we are in. Yesterday we had some very striking testimony about the decline in welfare benefits in the 1970's, a general decline which could be seen in the most disparate places, but which was evident most in those States which had had a public tradition of rather high provision.

But we have before us a piece of legislation which provides exactly the greatest relief to the States with the lowest tax burdens and the least to States with the highest tax burdens.

Yesterday we introduced some tables that Mathematica has done for us analyzing the impact of the House-passed bill. And it is just extraordinary.

Could we get that table?

Mathematica conducted a hypothetical exercise of the kind that Dr. Shannon would be familiar with. They assumed that a surcharge on the income tax would be needed to pay for the increases in benefits of the House welfare bills and they estimated where the tax would come from, and where the tax revenues would go. Finally, they projected the ratio of benefits to costs, something that you might most easily describe as the rate of return on a dollar of taxes.

Let's look at the States with high tax burdens. California would get a return of 26 cents on the dollar. Massachusetts would get a return of 58 cents. Pennsylvania would get a return of 37 cents. New York would get a return of 10 cents. Rhode Island, 31 cents.

Now, come over to the States with the lowest tax burden. Texas would get a return of $2.19. Georgia would get a return of $3.72. Wyoming would get a return of 54 cents. That would be the only one so far below the 100 cents on the dollar level. North Carolina a return of $2.41. South Carolina, $4.11—but that is not on your table—and New Mexico, $1.96.

Four of the five States—that is, all but Wyoming—have a welfare benefit that is lower than 65 percent of the poverty standard and so the Federal Government would pick up the cost of raising that level. None of them has the unemployed parent provision so that all of the costs would be assumed.

I ask you, What is going on here? If you can think that fiscal burden is an aspect of welfare reform, then we certainly do not have legislation addressing this facet of the problem.

I am hurrying here to get to a very important matter. The day will come—I hope not too far distant—in which a table will be presented in these matters, and your eye will go right down to where it says Iowa. Iowa gets 40 cents on a dollar.

Ms. CUTLER. I was going to ask, Senator.

Senator MOYNIHAN. This is bizarre, is it not?

Ms. CUTLER. I have not seen the specific fiscal portions of the current bill, Senator, in all candor.

Senator MOYNIHAN. These are brand new. We just got it Monday. Mathematica did it under contract with the Congressional Research Service for us, and it is somewhat hypothetical. They did their best professional estimates.

But given the estimates this seems to run in the opposite direction that you, on behalf of the ACIR, would be proposing does it not?

Ms. CUTLER. Well, it certainly would run contrary to the kind of fiscal relief that many of us have advocated for a long time. I should say that having spent some time working on behalf of NACO with many people working very hard trying to find a welfare reform proposal for several years now and seeing what has happened to many of those proposals when they got here—not to you specifically, but to the Hill—I imagine that what we are into now is looking at what is the realm of the possible.

That is purely personal speculation.

I heard Dr. Ginzburg's testimony this morning and your comments and certainly would agree about the kind of effort that would provide decent subsistence to people along with the jobs program, taking care of folks and yet still beginning to move them into the work world. That has been our position for a long time and we want very much to begin to at least get a foot in the door on this great social change.

You have been more involved than I for many more years in that effort and yet here we sit. And again, I cannot comment on the specific aspects but it seems that at some point in time we have to begin to march down the road. We have been talking about it for so long, and so many local communities are faced with the bottomless pit on this situation and other people—it is just creating terrible kinds of tensions among people in the country.

California proposition 13, I think, is a direct flow of this kind of thing when the county's tax burdens became unconscionable from the property tax effort—and property tax is paying for these kinds of efforts, and it ought not to. Those are great fiscal issues that face us at the State and local level.

Senator MOYNIHAN. I am sorry I have to say to you that we have yet to see any real response from the—I do not want to say "the administration," because I do not want to keep harping on this, but something is very clear and we must think in institutional terms in Washington.

There is something—the term is not meant to be pejorative—that is called "the welfare bureaucracy." It is the people who work in these offices, and put their careers in them. We are now in the second generation of such people from the time of the founding of the Social Security Act. They do not see this as a problem. They do not see fiscal strain and overload as their concern.

Dr. Shannon, you seem to recognize this. You see a lot of them. They see the raising of benefits in the low-benefit States as their primary object; the extension of the program; uniformity. President Carter sent to us in 1977 a measure that had radical aspects; it was directed to the question of financing. It did not get anywhere. It was never even heard by the Ways and Means Committee in the House. The next year the bureaucracy wrote a bill which acts as though your testimony had never been given, as though this issue did not exist.

It exacerbates the imbalance we talk about. It rewards those States that have made the lowest provision and penalizes those which made the most generous. Maybe there is a lesson in that. I think, as a matter of fact, there is a lesson in that.

And it is not a lesson I particularly would like to see learned. The lesson is that the political cultures that provide a decent level of common provision lose jobs, money, plants, and prestige. One of the three places I was supposed to be this morning was on the Banking Committee where our Governor was being examined on the traditions of trust that he had been allowed to retain.

It is not in fact a happy circumstance. You are standing in the dock and debtor's prison is not far off, and here we are.

Well, I want to thank you very much. I want to say to you that the idea of this table of public welfare burdens as a percent of State personal income is a fundamental data resource. I offer you Galbraith's law which is that you never do anything about a problem in Government until you learn to measure it. You have brought us some measurement. There were a great many people, when President Eisenhower established this Commission of yours, who asked what good would come of it. By your testimony.

I will tell you right here. This is good.

We thank you and in the absence of any members of the minority I am going to take the opportunity to wish you every success.

Ms. CUTLER. Thank you. I appreciate that.

[The prepared statement of Ms. Cutler follows:]

STATEMENT BY LYNN CUTLER, VICE CHAIRPERSON, ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

Mr. Chairman: I am Lynn Cutler, Vice Chair of the Advisory Commission on Intergovernmental Relations and Supervisor of Black Hawk County, Iowa, and I am accompanied by Dr. John Shannon, ACIR's Assistant Director for Taxation and Finance.

I have long been active in the field of social welfare activities and I am, therefore, especially pleased to have this opportunity to appear before the Subcommittee.

In my testimony today I shall try to be responsive to some of the questions raised in your letter of invitation of January 21. More particularly, I shall point up the relationship between public welfare expenditures, tax burdens, and central city problems.

There is a definite regional dimension to the public welfare problem. To use an old adage, trouble often comes in threes—particularly for the states of the Northeast and Midwest. These are the states that:

Carry extraordinary welfare loads;

Make the greatest tax effort;

Have the most "disadvantaged" central cities, as compared to their suburban counterparts.

Before discussing each of these "troubles" briefly, let me quickly point out what may be less than fully apparent. Each of these problems can result from a number of different causes. What needs to be stressed, however, is that these problems, while not identical, are clearly interrelated. Indeed, the general case may be that the states with the heaviest welfare burdens have attracted at least part of their welfare caseload by making an above average tax effort to respond to the needs of welfare recipients. These persons, in turn, are far more likely to find housing in the "poor" central city rather than in the more affluent suburban ring.

EXTRAORDINARY WELFARE LOADS

By computing public welfare outlays as a percentage of the income of the residents of the state, we have constructed a yardstick for measuring interstate variations in public welfare burdens. The point must be emphasized that this yardstick eliminates all federal welfare aid but measures state and local expenditures for public welfare and medicaid.

Using this yardstick, it becomes clearly apparent that there are great interregional and interstate differences in public welfare burdens. In 1978, California's public welfare burden, at 2.19 percent of state personal income, was approximately 10 times greater than that borne by New Mexico (0.22 percent). In fact, as our Table 1 shows, the five states with the heaviest welfare burdens spent amounts ranging from 1.72 percent to 2.19 percent of their states' personal income while the five states with the lowest burdens ranged from 0.22 percent to 0.37 percent.

TABLE 1.—*Public welfare burdens as percent of State personal income*

	Percent
States with heaviest burden:	
California	2.19
Massachusetts	1.92
Pennsylvania	1.85
New York	1.83
Rhode Island	1.72
Median burden states:	
Kansas	.83
Maryland	.83
States with lowest burden:	
Texas	.37
Georgia	.36
Wyoming	.36
N. Carolina	.24
New Mexico	.22

Mr. Chairman, as graphically illustrated in Table 2, every state in the Northeast, the Midwest, and the Great Lakes, with the exception of Maryland and Indiana, exhibited a public welfare "overload." A state is deemed to be in this "overload" category when its burden exceeds that of the median state—welfare outlays in excess of 0.83 percent of state personal income (table 2).

TABLE 2.—PUBLIC WELFARE BURDEN, BY STATE, SELECTED YEARS, 1957-78 (STATE AND LOCAL EXPENDITURES FROM OWN FUNDS—EXCLUDING FEDERAL AID)

[Dollar amounts in millions]

State and region	Public welfare expenditures as percent of personal income			Exhibit Public welfare expenditure 1978 [1]	
	1957	1967	1978	Total	Overload [2]
United States	[3] 0.55	[3] 0.56	[3] 0.83	$18,964.2	$7,381.7
New England	.72	.70	1.28	1,373.4	608.0
Maine	.64	.62	1.14	74.7	20.4
New Hampshire	.72	.61	1.03	62.0	12.1
Vermont	.72	.73	.86	25.7	0.8
Massachusetts	.93	.85	1.92	836.8	474.2
Rhode Island	.78	.85	1.72	114.1	58.9
Connecticut	.53	.53	.99	260.1	41.6

TABLE 2.—PUBLIC WELFARE BURDEN, BY STATE, SELECTED YEARS, 1957–78 (STATE AND LOCAL EXPENDITURES FROM OWN FUNDS—EXCLUDING FEDERAL AID)—Continued

[Dollar amounts in millions]

State and region	Public welfare expenditures as percent of personal income			Exhibit Public welfare expenditure 1978 [1]	
	1957	1967	1978	Total	Overload [2]
Mideast	.38	.59	1.52	5,316.8	2,562.7
New York	.61	.92	1.83	2,559.4	1,398.7
New Jersey	.28	.40	1.08	663.0	155.0
Pennsylvania	.49	.53	1.85	1,608.1	888.2
Delaware	31	.47	.90	42.4	3.3
Maryland	.26	.53	.83	273.2	
District of Columbia	.35	.71	2.66	170.7	117 5
Great Lakes	.51	.63	1.13	3,772.3	1,218.2
Michigan	.47	.65	1.37	1,013.3	401 5
Ohio	.55	.67	1.08	868.5	202.9
Indiana	.35	.38	.53	209.6	
Illinois	.51	.61	1.28	1,221.6	431.3
Wisconsin	.65	.85	1.38	459.3	182.5
Plains	.64	.55	.85	1,137.1	256.2
Minnesota	.76	.82	1.49	447.5	198 8
Iowa	.72	.57	1.10	236.0	57.4
Missouri	.68	.48	.51	173.2	
North Dakota	83	.65	.68	28.9	
South Dakota	.46	.51	.63	27.5	
Nebraska	.41	.28	.71	79.3	
Kansas	.65	54	83	144.7	
Southeast	.49	.42	.59	1,699.5	23.3
Virginia	.19	.28	.69	258.2	
West Virginia	.46	.56	.64	75.0	
Kentucky	.40	.40	.94	204.9	23.3
Tennessee	.34	.37	.65	175.1	
North Carolina	.25	.40	.24	83.2	
South Carolina	.32	.19	.64	110.6	
Georgia	.53	.34	.36	117.8	
Florida	.36	.29	.38	232.1	
Alabama	.60	.47	.47	105.5	
Mississippi	.59	.58	.80	101.0	
Louisiana	1.29	.69	.59	148.8	
Arkansas	.55	.47	.70	87.3	
Southwest	.68	.55	.42	560.1	
Oklahoma	1.45	1.04	.61	118.2	
Texas	.31	.29	.37	351.3	
New Mexico	.54	.53	.22	16.6	
Arizona	.43	.34	.46	74.0	
Rocky Mountain	.73	.61	.66	313.5	3.1
Montana	.63	.58	.68	33.8	
Idaho	.49	.56	.72	41.5	
Wyoming	.51	.57	.36	12.0	
Colorado	1.41	.87	.85	171.3	3.1
Utah	.63	.45	.68	54.9	
Far West [4]	.73	.69	1.20	4,629.3	2,642.6
Washington	1.08	.67	1.01	301.5	52.9
Oregon	.75	.64	1.04	191.8	38.3
Nevada	.37	.40	.55	31.8	

TABLE 2.—PUBLIC WELFARE BURDEN, BY STATE, SELECTED YEARS, 1957–78 (STATE AND LOCAL EXPENDITURES FROM OWN FUNDS—EXCLUDING FEDERAL AID)—Continued

[Dollar amounts in millions]

State and region	Public welfare expenditures as percent of personal income			Exhibit Public welfare expenditure 1978 [1]	
	1957	1967	1978	Total	Overload [2]
California	.71	1.05	2.19	4,104.2	2,551.4
Alaska	.50	.76	1.24	54.2	17.9
Hawaii	.62	.53	1.53	108.7	49.7

[1] State-local public welfare expenditure from own funds (excluding federal aid) Includes cash assistance payments directly to needy persons under categorical and other welfare programs; vendor payments made directly to private purveyors for medical care, burials, and other services provided under welfare programs; welfare institutions, and any other direct expenditure for welfare purposes

[2] Public welfare "overload" is estimated as that portion of a state's public welfare expenditure (from state-local funds) that is in excess of 0.83 percent (median state experience) of the personal income of the state

[3] Median state.

[4] Excluding Alaska and Hawaii

Note.—Regional percentages are unweighted averages

Source: ACIR staff compilation based on various reports of the Governments Division, U S Bureau of the Census, and U S Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, various years

Of the estimated $7.4 billion in "public welfare overload," more than half was borne by two states—California and New York.

Two factors—above average number of beneficiaries and above average program benefits—are primarily responsible for the creation of this public welfare overload situation. Our Commission, however, has not attempted to sort out the relative importance of the caseload and compassion factors.

STATE-LOCAL TAX EFFORT DIFFERENCES

Public welfare expenditures are a "big ticket" item for most states and some local governments. As set forth in Table 2, states and localities spent in 1978 almost $19 billion (from their own funds) in order to help defray public welfare and medicaid costs.

It follows, then, that those states with above average public welfare burdens are more likely to have above average tax efforts to support welfare and other public programs. This general tendency is reflected by the fact that:

Of the five states with the heaviest welfare burdens, four also reveal well above average state-local tax burdens.

All five states with the lowest welfare burdens also enjoyed well below average state-local tax burdens.

One of the causes for high tax effort can be characterized as self generated. For example, many of the high-effort states provide more liberal public welfare benefits than do their neighboring states. Likewise, citizens in high-effort states have a keener taste for public goods and services than do citizens of low-effort states.

Another cause for a high-effort reading can be traced to factors outside the control of each state-local system. Those external factors include the great post-World War II migration of the poor from the rural South and Puerto Rico to the large central cities of the Northeast and Midwest.

Another external factor is the substantial migration of capital, jobs, and upper income people from the Frostbelt states to the Sunbelt region. The failure of the federal government to construct an equitable welfare program can also be cited as an externally generated factor.

THE DISAD[illegible] CENTRAL CITY

There is also a fairly close relat[illegible] between heavy welfare loads and central city disadvantage.

Of the five states with the heaviest welfare burdens, three—Massachusetts, New York, and Pennsylvania—have an above average percentage of their total population residing in metropolitan areas with severe central city-suburban fiscal disparities.[1]

[1] These metropolitan disparity findings are based on a current ACIR study of central city-suburban fiscal disparities for each of the nation's 279 metropolitan areas.

Of the five states with the lowest public welfare burdens, four also enjoy below average ranking on the central city problem. Georgia is the exceptional state in this case.[2]

In a Working Paper recently released by the Urban Institute, Philip M. Dearborn assessed the financial condition of the major U.S. cities. He noted that most of these jurisdictional remained in good financial health through 1978. Mr. Dearborn, however, sharply underscored the "fragile" condition of the major cities in general and the central cities of the Frostbelt in particular.

. . . the fragile nature of their fiscal health is demonstrated by the number of cities (21) that had revenue/expenditures imbalances in at least one of the three latest years. This highlights the serious financial problems that might occur from the loss of even a relatively minor revenue, such as general revenue sharing.

With the possibility of a national recession, those several cities which have had trouble completely regaining their fiscal health from the problem years of 1975 and 1976 will be especially vulnerable. They include New York, Philadlephia, Detroit, Boston, New Orleans, Pittsburgh, and Buffalo. While 1978 information is not available about Cleveland, it may also be in this category.

ACIR POLICY POSITION

In 1969 the Advisory Commission on Intergovernmental Relations recommended that the federal government assume full financial responsibility for the provision of public assistance including general assistance and medicaid.

Obviously, Mr. Chairman, there are formidable fiscal and philosophical barriers to the adoption of this recommendation.

Any policy calling for greater federal involvement in the public welfare field, however, should strive to achieve a more equitable distribution of the financing burden among the 50 state-local fiscal systems.

Senator MOYNIHAN. Now we are going out of our order because Professor Maldonado of New York University has a scheduling problem which we have created. If you would come forward, Professor, we are very happy to have you. It is particularly appropriate for me to thank you for your testimony which you researched, at our request, on very short order. It is a thoroughly professional response.

We called you and asked if you could give us any advice on this subject. You said that you did not know anything about it, and that you did not have any data. We then asked whether if we gave you some data, you could think of something to say? And you replied that you would let us know after we gave the data to you.

And so we did, and here you are, and you are very welcome.

Ms. MALDONADO. Thank you.

STATEMENT OF PROF. RITA MALDONADO, GRADUATE SCHOOL OF BUSINESS, NEW YORK UNIVERSITY

Ms. MALDONADO. Let me begin by thanking you for inviting me to appear here this morning, or this afternoon, rather, in order to present a Puerto Rican perspective on the issue of welfare reform in the 1980's.

I am really grateful for this opportunity.

I would like to start my presentation with two disclaimers. First, I am not an expert in welfare programing per se. I am an economist whose interest and expertise lies primarily in the area of international economics and finance.

Second, I have not actually resided in Puerto Rico except for brief periods of time for some years now. Actually, I am a full-time, tenured member of the Graduate School of Business Administra-

[2] These metropolitan disparity findings are based on a current ACIR study of central city-suburban fiscal disparities for each of the nation's 279 metropolitan areas.

tion of New York University and I am a resident of the city of New York.

Senator MOYNIHAN. Right. You just prefer the climate.

Ms. MALDONADO. I would not quite say that.

I do, however, speak as a native-born, bilingual Puerto Rican whose entire primary and secondary school education took place on the island and whose emotional and professional interests and concerns still remain with my native land to an important degree.

Certainly much of my professional research and writing in the area of social economics has had to do with the economic situation of the Commonwealth of Puerto Rico.

I would like to concentrate my testimony this morning in two distinct areas. First, I will address myself to the Puerto Rican issues I believe Congress should keep in mind as it moves to welfare reform legislation now—by now, I mean short run.

Second, I will address myself to the issue of Puerto Rico and the future as regards the broader, more long-range issue of welfare reform for all of the 1980's. So that is the long run approach.

The Congress, I believe, should keep two things in mind simultaneously as it presently considers welfare reform and that is Puerto Rican needs and mainland, United States self-interest. So on the one hand, keep in mind the Puerto Rican need and on the other the United States self-interest.

Now, let's see what I mean by those two separate parts.

Relating to the Puerto Rican needs part I could say that some brief words on the development of Puerto Rico's need for Federal social welfare assistance are necessary here. The Operation Bootstrap program which was the Governor's original program for Puerto Rico's economic development worked very well from 1940 up to about 1973.

The rate of GNP growth rose some 7 to 10 percent during the period in real terms; I think the only other country in the world that can compare to this is Japan, which is still doing pretty well. Unemployment was reduced from 20 percent to less than 12 percent and per capita income and the standard of living rose perceptively.

However, three major occurrences play their part in reversing this positive trend and these were: the narrowing differential of minimum wages between the United States and Puerto Rico which began in the late 1960's until now they are equal so that minimum wages are applicable to Puerto Rico exactly the same way as they are applicable to the United States mainland.

The second occurrence was the 1974 world recession which, of course, affected everybody but affected Puerto Rico especially because we are so dependent on foreign investment to spur our economy.

And third, of course, the increase in oil prices which again affected everybody but particularly Puerto Rico because we were putting our hopes for the future in the commonwealth oil. It was supposed to integrate vertically and horizontally the industrial sector and that whole project was on the drawing board and sort of collapsed.

By 1975, then, we had Operation Bootstrap in real trouble. U.S. investment on the island had declined, unemployment was back up again to the 20 percent level officially, but if we were to do a real count, it would be significantly above 20 percent, and per capita income was significantly below the U.S. poverty level.

While I have some deep concerns about what I see as the debilitating welfare-type mentality, encroachment on a heretofore job-oriented Puerto Rican population—and I will get to these concerns shortly—it must be said that since 1977, there has been a slow recovery in Puerto Rico, a recovery due, in part, to Federal social welfare transfer payments such as are represented by food stamps and the 1-year aid to families with dependent children increases from $24 million to $72 million with the Federal matching requirement increases to 75 percent that took place in late 1978-79.

While both new capital investment and employment have a long way to go they are picking up now—and an example of this is the apparel industry which is returning slowly to Puerto Rico although we have lost a lot of it—so that is an example of it.

I firmly believe that the present slow recovery will be negatively affected if the island is deprived of the same level of funds received in 1979 and deprived as well of the opportunity to participate in more equitable welfare programing vis-a-vis the rest of the States.

H.R. 4904, for example, would bring about both of these unwarranted negative results and in the face of the following facts. First, Puerto Rico has a lower per capita income than any of the States. Second, Puerto Rico's cost of living is equal to that of any individual State and higher than the national average.

Senator MOYNIHAN. That is an insular phenomenon such as Hawaii, when you have to——

Ms. MALDONADO. Pardon me?

Senator MOYNIHAN. The cost of living is an insular phenomenon; island have to import everything.

Ms. MALDONADO. Eighty percent of our food is imported and practically everything of our consumer durables are imported.

Senator MOYNIHAN. Hawaii has the same problem.

Ms. MALDONADO. Third, Puerto Rico proportionately has more families below poverty level than any State.

Fourth, proportionately, less of these families receive welfare than in any other State so that we have, proportionately, the largest number of families below poverty level but, proportionately, we have the least number of families on welfare.

Fifth, Puerto Rico receives a lower payment per familiy and per individual than any of the 50 States—and this is not or proportionately. This is absolute.

Sixth, Puerto Rico is excluded from programs such as supplemental security income for the elderly and the disabled and discriminated against in social service programs, generally as, for example, title XX.

Seventh, and moreover, it would be both morally reprehensible and shortsighted to deprive Puerto Rico of the benefits of the Federal policy guidelines, an impetus to develop badly needed programs in such social welfare areas as would help to strengthen the family unit and provide for the general well-being of children.

Thankfully, Puerto Rico is included in such legislation as H.R. 3434.

Senator MOYNIHAN. Could I interject here, Professor, to say that you made a very important point: that unfortunately the Puerto Rican proportion of families on welfare is the lowest in the country.

Ms. MALDONADO. Yes.

Senator MOYNIHAN. That is something that should be recorded.

Ms. MALDONADO. So that now we have seven points rather than six, and I have added that.

Senator MOYNIHAN. Right.

Ms. MALDONADO. However, the argument for equal treatment for Puerto Rico in social welfare programing does not rest solely on Puerto Rican needs, or other general, moral grounds. It rests equally on the ground of mainland U.S. taxpayers self-interest. So let's take a look at that U.S. taxpayer's self-interest.

Before listing my reasons in this regard, let me take a moment to dispel a sadly mistaken myth. One that says that Puerto Ricans migrate in large numbers to the U.S. mainland in order to go on welfare.

I did a comprehensive study of Puerto Rican emigration patterns during the years 1947 to 1973 which was published in the Monthly Labor Review in September 1976. The results show clearly that the two major reasons why Puerto Ricans migrated were employment opportunity and income—that is to say, wages and wage differential.

Welfare and unemployment compensation were insignificant variables in this test. Puerto Ricans move to find work, not to avoid it.

Now, from a U.S. taxpayers' point of view, Puerto Rico should be made and kept equal in welfare benefits because if they are not, the economic disequilibrium in the society would be such as to make it impossible for the local government to undertake the necessary economic development programs which could result eventually in lowering the need for U.S. taxpayer-financed welfare programs.

It may be argued that there is an answer to that. The Federal Government can plug social welfare dollars now and let the Puerto Ricans just do the best they can in the face of adversity, whatever the result. But if Puerto Rico is shortchanged in the face of new, more equitable welfare legislation for the 50 States, there can only be two possible results and either one will hurt the U.S. taxpayer.

First result, if the differential in welfare eligibility and payments becomes so great, then even though Puerto Ricans have not in the past migrated for the sake of welfare benefits, they might well begin to do so. In that case, the dollar burden will fall directly on the taxpayers at both the Federal and local levels on the mainland, to which, I must add, the attendant burdens of overcrowded schools and already strained local service systems.

In the alternative, if Puerto Ricans do stay on the island as inflation and the cost of living continues to rise, and they cannot begin to keep up with it, or get their economy recovering well in the face of growing economic dislocation, then there would certainly be a serious decline in Puerto Rican purchasing power. This would have enormous repercussions on the U.S. economy and that means loss of U.S. jobs here on the mainland, among other things, because Puerto Rico, all Americans should know, is presently one of the top five markets in the world for U.S. exports and that includes food as well as durables as well as capital.

Then beyond U.S. taxpayers' costs and export losses, there would be the not-insignificant loss of U.S. prestige in the Caribbean and Latin America if not the world, that would come from the total breakdown of the showcase Puerto Rico.

And that concludes my welfare reforms as it pertains to Puerto Rico in the short run. I would like to talk now just a little bit about the welfare reform as it pertains to Puerto Rico in the longer perspective, for the late eighties.

So let me refer now to that issue. As a nonexpert on welfare, I would begin with two economics observations. First, I would think that no welfare reform alone—that is to say, reform without the concurrent establishment of farsighted economic development policies—could succeed in breaking the poverty-dependency cycle and second, I feel that the best welfare reform would result in a system that would truly help people while they were in it yet encourage them to opt out of it in the shortest possible time.

While it is the responsibility of the Congress of the United States to bring Puerto Rico's share of social welfare benefits now up to the standards of equality with that of the 50 States, it is the responsibility of the government of Puerto Rico and the Puerto Rican people to help get their economy moving.

Outmigration, the movement of Puerto Ricans to the mainland prevented unemployment from rising and caused per capita income to be higher than it would have otherwise been during the two decades prior to the 1970's. But beginning in 1970, there was a net inflow of return migrants to the island. The inflow then was low, it was about 3,000 or 4,000. But after 1973, this net inflow of immigrants—or of movements of people back to Puerto Rico—has been on a level of 30,000 people a year.

A key factor in any development program in Puerto Rico which should go hand-in-hand with welfare reform is a reversal of this trend of Puerto Rican return migration. In order to reverse this trend, Puerto Rico must work together with the U.S. Congress to stop the narrowing of wage differentials between Puerto Rico and the United States. The differential wage factor is the crucial element in motivating Puerto Ricans to work inside mainland United States.

And, I must add, to attract foreign investment as well, which we need.

Further, Puerto Rico must undertake to increase employment and production in agriculture and this would include education programs aimed at raising the image of rural life which has deteriorated there as well as here in the mainland. This would reduce the dependence on industrial jobs which in turn depend primarily upon foreign investment and its continued growth and would also reduce the importation of food.

Imports currently make up, as I said earlier, up to 80 percent of all food consumed in the island.

Puerto Rico must cut back on employment in the public sector. Outside the Island, Puerto Ricans living on the mainland must work with their fellow Americans here to improve the quality of

Puerto Rican life, particularly in the inner cities, focusing, for example, on community self-help and pride.

Reducing the in-migration flow into Puerto Rico would be in the best interests of the U.S. taxpayers since it would be expected that returning migrants would end up on welfare rolls in the Island because of the absence of jobs there.

I would add here my concerns for one problem which I believe is affecting the ability of some mainland Puerto Ricans to remain in America's inner cities. I believe that illegal aliens are substituting for Puerto Ricans in lower level jobs in several of the service and apparel industries, once considered the logical beginning point for almost all immigrants.

Illegal aliens work for less pay and can be threatened and demeaned more easily and unskilled Puerto Ricans are not the only losers to the illegal immigrants. Illegal aliens are Federal dollar robbers since they are not counted in population based Federal tax dollars inflows to the cities.

Having stated my concern that there be coordinated programs aimed at providing both economic and social satisfaction, I can turn now to the welfare reform per se.

The fact that 60 to 70 percent of Puerto Ricans are presently using food stamps and that Public Law 95-6000 temporarily funded increases in AFDC has been thoroughly utilized makes clear that the need for this Federal help is there. However, it also makes clear that Puerto Rican dependency on social welfare transfer payments, like that of recipients in the 50 States, is growing to an extent that does not, cannot, make one happy.

Clearly these payments do promote in some the disinclination to strive to do productive work. I do not support a move toward the centralization of welfare programing at this time. I believe that well-thought-out Federal leadership and policy relations can be helpful to Puerto Rico and the States.

At the very least centralization before the establishment of uniform minimum levels to support uniform special benefits to two-parent families and the like, spurred by Federal legislation, would be unproductive. I would advocate higher levels of Federal dollar support together with effective minimum standards.

Effective for me means a system that focuses on helping recipients move out into the labor market as soon as possible without penalizing them by cutting all welfare payments while they make the transition. Eligibility requirements and the like will require constructive reform that gives a high priority to eventual recipient independence.

While help must be given to those in need, at the same time we should also help to challenge the general attitude that society is merely a matter of right without need for obligations. I would like us all to come to see that without the chains of dependency there is surely a road to the mountaintop that every human being can walk.

Senator MOYNIHAN. We do thank you for some very interesting testimony. I am going to make a request of you, Professor Maldonado. Your paper in the Monthly Labor Review of September, 1974 on why Puerto Ricans migrated to the United States between 1947 to 1973, could you let us have a copy of that that we might put it into the record of our hearings?

Ms. MALDONADO. Yes.

Senator MOYNIHAN. We would like to have that as an appendix to your statement. It is something we would like to know.

[The material referred to follows. Oral testimony continues on p. 341.]

Why Puerto Ricans migrated to the United States in 1947–73

Income and unemployment have been the major considerations behind migration, but noneconomic reasons may have become more important since 1967

RITA M. MALDONADO

Migration from Puerto Rico to the United States mainland totaled 700,000 persons over the 27-year period 1947–73. These migrants, together with the children born to them, comprise the bulk of more than 1.5 million Puerto Ricans now living on the mainland. Most of the migration was to the tristate area of New York–New Jersey–Connecticut and to Chicago, Ill., which is where the large proportion of Puerto Ricans on the mainland still live.

The consensus among persons who have studied the effects of such migration on the economic development of the island is that migration has been a positive factor in Puerto Rico's development. It helped ease overpopulation pressures, kept unemployment down, and raised per capita income to levels that would not have been possible otherwise. Very little research, however, has been done, either descriptively or quantitatively, with respect to the determinants of migration from the island to the United States over the postwar period.

There is a considerable literature, of course, on the historical determinants of migration in general. In the broad sweep of history, major migrations appear to have been influenced by three primary considerations: a search for political freedom, for religious freedom, or for economic opportunity, or for all three. In the postwar Puerto Rican migration, however, the first two are clearly irrelevant, since the island, as a part of the United States, with common citizenship, shares in the Nation's political and religious freedom. The motivation in this particular wave of migration, therefore, is heavily oriented towards economic opportunity. The purpose of this study is to disentangle the various strands embodied in the concept of "economic opportunity" in order to determine those most relevant in inducing postwar migration from Puerto Rico to the United States.

"Economic opportunity" does not necessarily have the same content today that the term had in the 19th century or the first few decades of the 20th. Traditionally, it meant employment opportunities or higher wages, or both. Today, it involves other dimensions as well: better unemployment compensation, higher welfare payments, more generous disability benefits, and a package of related social assistance considerations. In the United States, both the traditional economic incentives as well as the newer factors differ from State to State, thus promoting migration between States. Four of

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the States that rank highest in the traditional ingredients of "economic opportunity" as well as in the newer elements are New York, New Jersey, Connecticut, and Illinois, which is where the bulk of Puerto Rican migrants have settled. Did they come for job opportunities at better pay or for welfare payments?

The hypothesis and the model

There are two broad categories of theories explaining migration: classical-neoclassical and human capital theory. Classical-neoclassical theory can be further classified according to the variables it emphasizes to explain migration. Pure classical-neoclassical theory states that labor will move from regions with surplus labor and low wages to regions with excess demand for labor and high wages. As this process of migration occurs, assuming homogeneous units of labor and fixed capital, the wage rate will rise in the low-wage region and fall in the high-wage region until per capita income differences are reduced or eliminated. This pure theory takes into account only private free market forces, such as wage rates, per capita income, labor force changes, and the like. A second category of neoclassical theory also takes into account public variables. That is, migration will be affected not only by private free market forces, but also by differences between the two regions in welfare payments, unemployment compensation, and other public goods. The same equilibrating tendency occurs, only here more factors form the basis of the migration decision. The third category of classical-neoclassical theory—and the most encompassing of all migration theories—takes into account the variables mentioned above, but in addition holds that migration will be affected by such factors as climate, landscape, private recreational and educational facilities, racial composition of the population, and chain effects of cumulative migrations. Thus, for example, as more persons migrate to a region, it becomes easier for future migrants to adjust to the new region because they have more information about it and might receive help from previous migrants in adapting to their new surroundings.

In addition to these three categories of classical-neoclassical theory, the other major theoretical framework used to explain migration is human capital theory. This theory uses a cost-benefit model: migration is determined by the present value of future net earnings the individual can receive from migrating. (These theories are described in greater detail in the appendix.)

The theoretical foundation for this study is the third category of the classical-neoclassical theory. Within that theoretical framework, the study tests the hypothesis that Puerto Rican migration to selected areas in the United States is determined by the relationships that exist between the following variables in the two regions: employment opportunity, income, welfare payments, and unemployment compensation payments. The size of the Puerto Rican population residing in those areas is another determinant.

Mathematically, the hypothesis can be stated by the following relationship:

$$M = a + bX + cY + dW + eAVG5 + fC + u$$

where

- M = net migration (number of people) from Puerto Rico to United States per calendar year,
- a = constant term or intercept,
- X = ratio of annual unemployment rate in Puerto Rico to the four States,
- Y = ratio of annual average hourly manufacturing wage rates in Puerto Rico to the four States,
- W = ratio of welfare payments in Puerto Rico to the four States (average monthly welfare payment per year),
- AVG5 = a 5-year moving average of the net migration (M),
- C = ratio of average weekly unemployment compensation in Puerto Rico to the four States,
- u = residual,
- b,c,d,e,f = coefficients of X, Y, W, AVG5 and C,

and where the expected coefficients would be positive and significant for b, negative and significant for c, negative or insignificant for d, positive and significant for e, and negative or insignificant for f.

The values for the four States used here represent an average of the relevant figures for the four States to which most of the Puerto Rican migration flows: New York, New Jersey, Connecticut, and Illinois. Those States having the largest percentage of Puerto Ricans in their population were selected. (The formulas for X, Y, W, AVG5, and C can be obtained from the author.)

The hypothesis thus states that as the ratio of the annual unemployment rate in Puerto Rico to the rates in the four States increases, the migration from Puerto Rico to the four States *increases*. An increase in this ratio means that the employment opportunities in Puerto Rico worsened relative to those in the four States. On the other hand, as the ratio of annual average hourly manufacturing wage rates in Puerto Rico to the four States increases, the ratio of welfare payments in Puerto Rico to the four States increases, and the ratio of the average weekly unemployment compensation in Puerto Rico to the four States increases, the migration from Puerto Rico to the four States *decreases*. An increase in these ratios means that average hourly earnings, welfare payments, and unemployment compensation payments in Puerto Rico improve relative to those in the four States.

Finally, increases in the Puerto Rican population residing in the four States were expected to result in further increases in the migration flow. The expectation is that the growing size of the Puerto Rican population on the mainland would have a positive effect on migration, since it is easier to migrate to regions to which "neighbors" have previously moved. These earlier migrants provide future migrants with information and assistance.

To test the hypothesis, data were collected for a period of 27 years. The data were processed in single-equation multivariable models by means of least squares. The annual migration flows that the model attempts to explain appear in column 1 of table 1. The positive figures indicate a net emigration from Puerto Rico to the four States and a negative figure indicates a return migration to Puerto Rico. Data are all on a calendar year basis.[1]

Test of the hypothesis and results

The results of the test of the hypothesis appear in table 2. The regression results for the 27-year period from 1947 through 1973 show a coefficient of determination for the regression of .57; that is to say, the set of independent variables explains a relatively large proportion of the migration flow. The correlation is highly significant, as demonstrated by the F value. There is no autocorrelation of residuals present, as revealed by the Durbin-Watson statistics. The model is, therefore, quite a reliable explanation of 57 percent of the migration flows between Puerto Rico and the four States for the 1947-73 period.

The significant explanatory variables at the 1-percent level are unemployment rate (X) and average hourly earnings in manufacturing (Y). These two explain a large portion of the total annual flow, and are almost equally powerful as explanatory variables, as shown by the β coefficients. In fact, contrary to expectations, income is slightly more powerful as an explanatory variable than unemployment. That is, migrants respond a bit more to changes in average hourly earnings than they do to changes in employment conditions.

The expectation was that potential migrants would respond more strongly to changes in job opportunities than to changes in wages. This is a logical expectation, since in Puerto Rico unemployment rates have been significantly higher than in the United States. The welfare variable is insignificant, revealing that changes in the relative welfare payments of the two areas do not affect changes in the migration flow.

The changing size of the Puerto Rican population that resides in the four States, the stock migration, is also an insignificant variable. This again is contrary to the expectation that the more Puerto Rican migrants there are, the more abundant the extended family-friend relationship will be and hence the more attractive to new potential migrants.[2] It appears that given the large, rather sophisticated communication between the island and the mainland, primarily New York, the effect of this variable relative to the effect of income and employment is very small. New York and Puerto Rico exchange television programs, newspapers and magazines, and so on. Still more unique are frequent returns to the island as many Puerto Ricans residing in the United States often visit their relatives. It is important, however, to keep the stock migration variable in the model, even if it is not significant, so as to prevent overemphasis of the importance of the income and employment variables. Previous research has found that when this variable was not included in the regression, the coefficients of income and unemployment were significantly larger, thus overstating their importance.[3]

The unemployment compensation variable was too highly correlated with the average hourly earnings to justify the inclusion of both variables as ex-

Table 1. Regression variables

Year	Net migration to United States (M)[1]	Unemployment rate ratio (X)	Average hourly earnings ratio (Y)	Welfare payment ratio (W)	Average net migration over 5 years (AVGM)
1947	+2 3955	2 3848	0 3116	0 1650	+13 5144
1948	+3 2661	2 3425	0 3022	0 1490	+17 9696
1949	+2 9182	1 5052	0 2913	0 1392	+23 8610
1950	+3 8867	2 4487	0 2838	0 1337	+27 5042
1951	+4 9346	3 8419	0 2745	0 0864	+32 3912
1952	+6 1729	3 7710	0 2738	0 0789	+34 8022
1953	+6 9382	3 8076	0 2757	0 1205	+42 3570
1954	+2 2871	2 7491	0 2792	0 1125	+49 7012
1955	+4 2350	3 0598	0 2896	0 1067	+45 4390
1956	+4 8833	3 1130	0 3153	0 1265	+49 1356
1957	+3 6631	2 9945	0 3580	0 1252	+49 0330
1958	+2 6355	2 0139	0 3773	0 1199	+44 0134
1959	+2 8104	2 4755	0 3809	0 1191	+35 4080
1960	+1 9101	2 1926	0 3899	0 1117	+36 4546
1961	0 0180	2 0398	0 4075	0 1065	+31 8048
1962	+1 1398	2 4376	0 4244	0 1030	+22 0022
1963	+0 3206	2 2311	0 4389	0 0982	+16 9556
1964	+0 4200	2 2883	0 4440	0 1071	+12 3258
1965	+2 7026	2 8411	0 4537	0 0962	+7 5450
1966	+3 9053	3 2784	0 4583	0 1029	+9 1300
1967	+4 2244	2746	0 4710	0 1326	+16 9766
1968	-1 4249	1 2758	0 4968	0 1624	+23 1458
1969	+5 6674	1 9425	0 5019	0 2136	+19 6548
1970	+2 0715	2 3871	0 5012	0 1934	+32 1496
1971	+0 4951	1 9977	0 4987	0 1956	+30 8874
1972	-3 4015	2 1250	0 4950	0 1995	+24 0670
1973	-2 0948	2 4009	0 4970	0 0844	+8 8152

[1] The net migration figures are number of persons divided by 10,000 to read the column in thousands move the decimal point 1 space to the right

planatory variables. The coefficient of determination between the two was .93. Therefore, unemployment compensation was dropped out of the model, and only income was kept as the variable portraying the income differential between the two regions.

The regression results for a second equation covering only the 21-year period 1947-67 also appear in table 2. The coefficient of determination for this period is much higher, with R^2 = .81. The same independent variables now explain 81 percent of the migration flow, whereas for the entire period 1947-73 they only explained 57 percent. This means that for the earlier and shorter period 1947-67, the economic variables—unemployment and income—explain most of the migration flow. The model, therefore, describes very accurately the period 1947-67, because during that period migration was induced by and large by economic variables. Since 1967, it appears other noneconomic factors have become more important in influencing migration.

In this second equation, again, unemployment and income are the significant variables and the same variables, welfare and stock of migration, are insignificant. The equation as a whole is highly significant as shown by the F value, and there is no autocorrelation of residuals at the 1-percent level. Interestingly enough, the β coefficients show that the unemployment variable was by far the most powerful variable (.80 versus .30 for the income variable). This means that during the early 21-year period, potential migrants were more sensitive to changes in employment opportunities than to changes in income, and the original hypothesis is accepted. The hypothesis stated succinctly says that unemployment is the most powerful economic variable and income the next most powerful explaining the migration flows. Stated more explicitly, the hypothesis says that potential migrants would not so readily take the risk of migrating because wages were significantly higher in the four States, but they would take that risk more readily if the probability of getting a job was higher. The fact that income is significant at the 10-percent level, barely misses being significant at the 5-percent and is not significant at the 1-percent level in this equation also supports this hypothesis.

The hypothesis pertaining to the ranking of the first two most powerful variables can thus be accepted for the earlier shorter period but rejected, or is at best inconclusive, for the longer period that includes the years 1968-73. A possible explanation for this difference is that the composition of migrants in terms of their employment status and skills changed over time. Traditionally, the bulk of the migrants from Puerto Rico have been unskilled or semiskilled workers, with only a few years of schooling, unemployed, or with unstable or seasonal employment. In recent years, it appears that a growing proportion of them are skilled, with higher levels of education, or professionals who held jobs or just finished school. These migrants are motivated or respond more readily to income differentials than they do to employment levels. With their skills they feel certain that they can obtain a job, and the attraction is the higher potential income. Although the income variable used in the model is the average hourly wage in manufacturing, it can be used as a proxy for relative income changes between the two areas to which all migrants, and not just the potential manufacturing worker, respond.

As was mentioned earlier, the family-friend relationships and the climate in the island make life easier for the unemployed and thus make the potential emigrant more sensitive to unemployment rate changes than to income differentials. This relationship began to change over time and potential emi-

Table 2. Regression of net migration between Puerto Rico and U.S. mainland on economic and socioeconomic variables

Item	Constant	Unemployment (X)	Income (Y)	Welfare (W)	Stock migration (ΔVGS)	Unemployment compensation (C)	R^2	F	DW
1947-73									
Coefficients	969	2.183	-15.597	15.050	-0.006	(1)	.57	[2]10.16	[3]2.13
t values		[4](3.50)	[4](-2.94)	[5](1.39)	[5](-0.19)				
β values		.52	-.53	.22	-.03				
1947-67									
Coefficients	-3118	2.295	-7.616	22.533	0.004		.81	[2]23.3	[7]1.76
t values		[4](6.28)	[6](-2.06)	[5](1.97)	[5](0.22)				
β values		.80	-.30	.26	.03				

[1] Not included because this variable is highly correlated with variable Y (Coefficient of correlation is .93).

[2] Highly significant.

[3] Indicates no autocorrelation at the 5-percent and at the 1 percent level of confidence. The inclusive range at the 5-percent level is 1.08-1.76; at the 1 percent level it is .88-1.51.

[4] Significant at the 5-percent and the 1-percent level.

[5] Insignificant at the 5-percent and the 1 percent level.

[6] Significant at the 10-percent level and at the 5-percent level, the cut off point is 2.12.

[7] It is inconclusive that there is no autocorrelation of residuals at the 5-percent level. At this level the inconclusive range is .93-1.81. At the 1 percent level, the inconclusive range is .72-1.55 and at this level there is no autocorrelation.

grants now appear to be equally sensitive to both variables. Possibly as the emigrant learned that welfare was accessible to serve as an insurance when jobs were not available, he became more sensitive to income changes and less sensitive to unemployment rate changes. Possibly he feels that he migrates to secure high wages and in case he cannot get a job he can always rely, at least temporarily, on welfare.

Since the welfare variable is insignificant in both regressions, it cannot be said that annual flows of migrants are induced by changes in the relative welfare payments between the two regions. It can be inferred, however, that welfare acting as an insurance against unavailability of jobs has increased the importance of the income variable relative to the unemployment variable.

An alternative interpretation of the model is in terms of actual numbers of migrants for given changes in any of the independent variables. For example, it can be stated, with respect to the 1947-73 regression, that for every 1 percentage-point increase (decrease) in the unemployment ratio, migration will increase (decrease) by 218 persons, or for every 1-point increase (decrease) in the wage ratio fraction, migration will decrease (increase) by 1,560 persons. With respect to the 1947-67 regression, for every 1 percentage-point increase (decrease) in the unemployment ratio, migration will increase (decrease) by 230 persons, and for every 1-point increase (decrease) in the wage ratio fraction, migration will decrease (increase) by 76 persons. Table 2 shows the coefficients used to compute these behavioral relationships.[4]

Importance of noneconomic variables

Apparently, noneconomic variables not included in the model began to play a more important role in determining migration in the latter 1960's. One such noneconomic factor could well be in the change in the U.S immigration and naturalization laws in 1965 and its effects upon Puerto Rico's passenger movement data, the source for our dependent variable. Until that time the quota system was in effect and the number of immigrants to the United States was restricted to a specified annual quota. The change in the law in 1965 resulted in a relaxation of the controls and more foreigners were allowed to enter in subsequent years up to specified levels. Apparently a portion of the Spanish-speaking newcomers preferred to locate in Spanish-speaking areas on the mainland *and* in Puerto Rico, where not only the language but also the climate served as an attraction. In addition, many foreign emigrants into the United States arrive first in Puerto Rico, either because of air flight routes or because they intended to stay there but eventually they decide to go on and move to the mainland.[5]

Although this argument is not conclusive, it appears that the new flow of passengers between Puerto Rico and the United States, our model net migration variable, is no longer the actual migration between the two areas, but now encompasses emigration from foreign countries into Puerto Rico via the U.S. mainland or emigration from foreign countries into the U.S. mainland via Puerto Rico, or both.

Table 3 shows this interflow. The table presents the passenger traffic between Puerto Rico and the U.S. mainland (our model net migration dependent variable), between Puerto Rico and the Virgin Islands, and between Puerto Rico and other foreign countries. The arrivals, departures, and net balance between Puerto Rico and the United States appear in the first three columns of the table. It is quite possible that after 1965 some of the arrivals from the United States were Spanish-speaking immigrants from foreign countries who, having entered the United States and learned that Puerto Rico falls under the U.S. migration laws, chose to move to the island, attracted by the language and the climate.

Similarly column 9, the net balance of the passenger movement between Puerto Rico and foreign countries, shows a reversal of the flow from a net outflow for virtually every year between 1947 and 1963 to a net inflow for the remainder of the period except 1 year.[6] The net inflow becomes particularly large in 1965 and stays high for the remaining period, except in 1972. It is quite possible that many of these foreigners who were coming into Puerto Rico from foreign countries were in turn leaving to U.S. mainland and are included in the departures to the United States in column 2. Possibly foreigners were simply entering the United States via Puerto Rico. That portion of foreigners who were simply passing through Puerto Rico as passengers and entered our dependent variable (net balance between the United States and Puerto Rico) does not necessarily correlate with the independent variables in our model and hence the lower R^2 for the regression that encompasses the latter 6 years. Whether our dependent variable is in fact affected by bypassing foreigners for the latter period depends upon (1) whether the net flow between Puerto Rico and foreign countries is composed primarily of foreigners, and (2) whether these foreigners in fact left the island to the U.S. mainland. There are no available data to answer this question categorically, but some conjecture is possible.

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Table 3. Passenger traffic from and to Puerto Rico, calendar years 1947-74

Year	United States			Virgin Islands			Foreign countries			Total		
	Arrivals from	Departures to	Net balance	Arrivals from	Departures to	Net balance	Arrivals from	Departures to	Net balance	Arrivals from	Departures to	Net balance
1947	72 506	96,461	-23,955	18,297	17 293	1 004	16 338	17,938	-1,600	107 141	131,692	-24,551
1948	72 515	105 176	-32 661	20 210	19,300	916	17 739	18 763	-1 024	110 462	143,237	-32 775
1949	84,876	114,058	-29 182	23 294	22,825	469	26,289	23,277	3 017	134,456	160 157	-25,701
1950	85 685	124 552	-38 867	24 961	23,420	1 541	27 548	24 925	2 623	138 194	172,897	-34,708
1951	115 277	164 623	-49,346	33,891	32 178	1 713	26,466	31 733	-5 267	175 634	228,534	-52 900
1952	149 903	211 632	-61 729	39,143	37,171	1 972	28,390	27 765	625	217 436	276,568	-59,132
1953	183 877	253,259	-69 382	41,434	40 207	1,227	25 285	26,254	-969	250 596	319,720	-69,124
1954	202 008	224 879	-22,871	39 979	39,198	781	26,980	26,421	559	264 967	290,498	-21,531
1955	218 432	260 782	-42,350	46 442	46,541	-99	32 832	35 847	-3 015	297,706	343,170	-45,464
1956	264 797	313 630	-48,833	55 957	55 938	19	40 715	44 216	-3 501	361 469	413,784	-52,315
1957	311 630	348,261	-36 631	68,821	67,757	1 064	41,861	43,998	-2 137	422 312	460 016	-37 704
1958	343 152	369 507	-26 355	74 720	73 769	959	44,234	46,566	-2 332	462 114	489 842	-27,728
1959	439 310	467 414	-28 104	108,038	107 378	660	59 363	61 908	-2 545	606 711	636,700	-29,989
1960	491 210	510 311	-19 101	124,578	123,535	1 043	45 521	43 761	1,760	661 309	677,607	-16,298
1961	536 530	536 350	180	138 541	136,890	1 651	42 339	42 416	-77	717,410	715,656	1,754
1962	580 409	591 807	-11,398	184,907	185 020	-113	92,671	92 824	-153	857,987	869 651	-11 664
1963	653,698	656 904	-3,206	221 929	217,736	4 193	128 414	123 922	4 492	1 004 041	998 562	5 479
1964	757 401	761 601	-4 200	266,945	266 981	-36	136 648	133,782	2 866	1,160 994	1 162 364	-1,370
1965	905 095	932 121	-27 026	312 918	312 894	24	149 840	139 516	10,324	1,367,853	1 384 531	-16,678
1966	1,000 353	1,039,406	-39 053	320 802	317 858	2 944	177 682	170,326	7,356	1,498 837	1,527,590	-28,753
1967	1,197 150	1,239 394	-42,244	316 321	320 944	-4 623	201 713	181,399	20,314	1,715 184	1 741,737	-26,553
1968	1 441 077	1,426 828	14,249	364 080	371 447	-7,367	229,919	212 948	16 971	2 035,076	2 011,223	23 853
1969	1,443 579	1 510,253	-66 674	329,221	325 590	3 631	268,298	248 315	19 983	2,041 098	2,084 158	-43,060
1970	1,482,788	1 503 503	-20,715	318 441	316 099	2 342	272 529	253 002	19,527	2 073 758	2 072 604	1,154
1971	1,514 156	1,519,107	-4 951	368 915	367,731	1,184	320 536	303 859	16 677	2 203 607	2,190,703	12,910
1972	1 683 486	1 649 471	34 015	426,800	426 687	113	367 941	368 413	-472	2 478 227	2 444 571	33 656
1973	1,738 492	1,717 544	20 948	387,285	388 094	-809	397,305	383,063	14,242	2,523 082	2,488 701	34,381
1974	1 742 288	1,751,823	-9,535	362 241	356,378	5 863	414,211	392 161	22,050	2 518 740	2,500 362	18,378

SOURCE: Puerto Rico Planning Board. The Planning Board obtains the data from U.S. Immigration and Naturalization Service, Defense Department, Puerto Rico Ports Authority, Office of Economic Research, and steamship companies operating in the island.

NOTE: A negative sign indicates a net outflow of passengers from Puerto Rico.

Probably the majority of the arrivals to Puerto Rico from foreign countries are from the Dominican Republic, partly induced by the change in U.S. emigration laws and partly due to internal political and economic conditions in the Dominican Republic and its new ties with Puerto Rico. Ever since 1963, Puerto Rico and the Dominican Republic have maintained—with brief interruptions—a close relationship. This relationship has been sometimes official, sometimes private, sometimes both, and has resulted in an increasing flow of people between the two areas. Currently it is still very active. Since economic conditions in Puerto Rico are better than in the Dominican Republic, it is to be expected that many Dominicans will move to Puerto Rico and possibly eventually to the U.S. mainland. During the Dominican Republic's Civil War in 1965, there was a large net inflow of 11,000 foreigners into Puerto Rico. (See column 9 in table 3.) In 1966 the inflow was 7,000 and from 1967 to 1974 the inflow was between 15,000 and 20,000 a year except for 1972. It is very likely that most of the incoming foreigners were Dominicans.

Whether all the incoming foreigners were staying in Puerto Rico or were eventually departing the island for the U.S. mainland may be inferred by relating census data to the data in tables 3 and 4. From table 3, we see that during the years 1963 to 1970 approximately 100,000 foreigners (net) entered Puerto Rico. From the census data, one learns that the foreign-born population between 1960 and 1970 increased by approximately 43,000,[7] which means that approximately 57,000 must have left the island either to the U.S. mainland during the years 1963–70, except 1968, or to the Virgin Islands during the years 1967 and 1968. It is basically in those years that we see in table 4 how *actual* emigration from Puerto Rico to the United States was from one and a half to twice as large as that *estimated* by the model. In fact, the net inflow from foreign countries is about one-half of the residual shown in table 4, at least for most of the latter 6 to 8 years of the period studied.

It seems reasonable to conclude that a large portion of the net arrivals into Puerto Rico from foreign countries did not stay in the island but departed for the U.S. mainland. Thus the departures to the United States from Puerto Rico minus the arrivals from the United States to Puerto Rico do not represent (at least not for the last 6 or 8 years) the pure net migration we have tried to isolate.

Other noneconomic reasons. Another noneconomic factor that may be affecting migration flows during

Table 4. Emigration from Puerto Rico to U.S. mainland, actual figures, model estimated figures, and divergence

Year	Actual (rounded)	Estimate	Residual
1947	23 950	37 150	-13,200
1948	32 660	35 010	-2 350
1949	29 180	16 590	12 600
1950	38,870	37,310	1 560
1951	49 350	61,750	-12,400
1952	61 730	59 030	2 690
1953	69,380	65 330	4,050
1954	22,870	40 020	-17,200
1955	42 350	44,390	-2 040
1956	48 830	44,480	4 350
1957	36 630	35 040	1 590
1958	26 355	10 140	16,200
1959	28 100	[illegible]	8 040
1960	19 100	11 310	7,790
1961	[1]180	4 730	-4,910
1962	11 400	10 860	540
1963	3 200	3,670	-470
1964	4 200	5 000	-800
1965	27 030	14 960	12 100
1966	39 050	24 700	14 350
1967	42 240	26 620	15 620
1968	[1]14 250	26 730	-41 000
1969	66 670	26 580	40 100
1970	20 710	10,750	9 960
1971	4 951	3 053	1 900
1972	[1]34 010	7 416	-41 400
1973	[1]20 950	[1]3 255	17 700

[1] Figure, actual or estimated, is a return migration or a net immigration into Puerto Rico.

NOTE. Residual is not always equal to the difference between the actual and the estimate because of rounding by the computer.

Other noneconomic reasons. Another noneconomic factor that may be affecting migration flows during the last 6 years of the studied period is the return to the island of retired Puerto Ricans and an entry to the island of a few retired U.S. mainland Americans. A significant number of Puerto Ricans retired from the United States. Most of them worked from 20 to 25 years in the mainland, saved money, purchased a home in Puerto Rico, and are once again residing there. They live on a pension, and some supplement their income by operating a small retail store or service shop in the home. A few still work part time or full time in factories, hotels, and so on. The island is a pleasant environment for retirement, particularly when family and friends are there. Apparently, young couples with school-age children who emigrated from Puerto Rico to the mainland, seeking better employment and income opportunities, maybe when they were still single, are also returning, perhaps to escape the drug-plagued school system and inner-city neighborhoods in large urban concentrations in the United States. They return expecting that the less impersonal communities and school system will be a better environment in which to raise children. This type of return migrant is probably more characteristic of the last few years, particularly 1969 to 1973, the peak of the U.S. drug problem, particularly in New York.

The Census of Population for 1960 and 1970 indicate a change in the age distribution of persons entering Puerto Rico. These censuses provide data on age distribution of persons who lived in the United States 5 years prior to the respective census but were residing in Puerto Rico at the time of the census. According to this definition, 62,224 immigrants entered Puerto Rico between 1955 and 1960, and 129,105 entered between 1965 and 1970. Their age distribution appears in table 5. These data support the hypothesis that retirees and school-age children, sent back to the island to live with relatives, account for a significant proportion of the return migrants, particularly for the late 1960's.

Inability to adapt to the mainland climate and lifestyle, inability to fulfill expectations of employment and income, and expectations that skills acquired in the mainland will enable them to secure better employment in the island are other reasons for emigrants to return to Puerto Rico. This is probably historically true, but the magnitude has increased in recent years.

Finally, as has been reported by two recent sample surveys and one earlier study,[8] return migration started as early as 1960. A 1973 study by the Planning Board reports that as of 1972 about 14 percent or 372,000 people of the island's population were return migrants. Unfortunately, none of the studies determines how many migrants return in any given year. One pilot study concludes that the strength of family ties is the primary reason explaining return migration. This study encompassed 236 interviews. Of the total, 166 or 70 percent of those interviewed gave personal reasons as motivating their return. Personal reasons were further defined as: health problems; family sent for them; death or other problems in family; homesickness; placement of children in Puerto Rican schools to avoid the violence, drugs, and otherwise deteriorating conditions on the mainland; and other personal reasons. Economic reasons accounted for 15 percent of the answers.

All these factors can explain the lower R^2 for the regression which includes the years 1968–73. It also helps explain why in the years 1961, 1963, 1964, 1968, 1972, and 1973, either the actual emigration from Puerto Rico was less than expected or there

Table 5. Percentage distribution of census in-migrants to Puerto Rico, by age

Age at time of census	Period of return	
	1955-60	1965-70
All ages (in percent)	100 0	100 0
5 14 years old	24 2	28 2
15-34 years old	47 7	40 8
35 44 years old	15 1	15 2
45 years old or more	12 9	15 8

SOURCE U.S. Census of Population 1970 Detailed Characteristics, Puerto Rico (PC(1)-D53), table 113 and U.S. Census of Population, 1960 Detailed Characteristics, Puerto Rico (PC(1)-53D), table 77 was a net return or immigration when the reverse was expected or both.

As was concluded earlier, the 1947–67 regression is a very accurate representation of the migration havior for that period. When the years 1968–73 ...e added to the regression, part of the accuracy is lost, since R^2 declines from 81 percent to 57 percent. Factors other than those included in the model affect the migration behavior more heavily in the last 6 years. Although the model remains a very good tool to explain and understand migration behavior, it is not adequate for forecasting purposes.

Conclusions

The results of this study indicate that changes in relative wages and relative unemployment rates between Puerto Rico and the United States are the primary explanatory variables of migration flows between the island and the mainland.

The model used in this article is extremely accurate in explaining migration for the period 1947–67 and weakens somewhat as an explanation for the period 1947–73—that is, when the years 1968–73 are added to the regression. The reasons we considered for the weakening of the model for the longer ..od appear to be the following: (1) The data used for net migration are the annual net passenger movement between Puerto Rico and the United States. In the mid-1960's, apparently, foreign persons started to enter the United States via Puerto Rico and bias upward the passenger outflow from Puerto Rico to the United States and hence the net emigration from Puerto Rico to the four States. (2) A return migration of Puerto Ricans induced primarily by noneconomic variables occurs randomly in relatively important magnitudes in some years of the late 1960's and recent 1970's. Reasons for the return migration appear to be retirement; schooling of children (young parents who wish to educate their offspring in an environment less violent, less hostile, and less drug ridden than that in the areas where they live in large cities in the four States); homesickness (strong longing for the more family-friend oriented society in which no discrimination against Puerto Ricans exists, in which there is less apparent discrimination against darkness of skin, and in which the sociological and moral fabric of the community is not perceived to be as deteriorated as in the areas of the large cities in the four States where Puerto Ricans live); and rising expectations about prospects in Puerto Rico. To a lesser extent, some emigrants in their peak production age return because of any or all of the first three factors, plus a misconception of the labor market in Puerto Rico. Puerto Rico's successful explicit policy of creating jobs by attracting industry and the high rate of economic growth achieved until 1974 served to raise the expectations of success for potential return migrants.

The conclusions of this study should be useful for policymaking decisions with respect to the social and economic problems of areas sending or receiving migrants and with respect to the problems of the migrants themselves. □

——FOOTNOTES——

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[1] The data selected to present the dependent variable or the net migration is the passenger movement between Puerto Rico and the U S mainland on a calendar-year basis These data exist also on a fiscal-year basis or any other period basis that the researcher wishes to rearrange Since the passenger movement is heavier during the peak of winter because of tourist flows, some persons maintain that fiscal-year f s would be more accu ate because the tourist flow will be washed , the figures We use the fiscal-year figures as an alternative dependent variable and the esults obtained were very similar to those obtained using the calendar-year figures The results on these runs will be made available by the author upon request We preferred to use the calendar-year figures because all the independent variables are based on calendar-year data and that way we can maintain consistency There are other sources of data for the passenger movement data For a discussion of all sources of migration data and the advantages and limitations of each, see Puerto Rico Planning Board, *A Comparative Study of the Labor Market Characteristics of Return Migrants and Nonmigrants to Puerto Rico*, July 1973, pp 23-39, and *Puerto Rican Migrants—A Socio Economic Study*, 1972, part 4, pp 1-68

[2] In a study by Michael Greenwood, it was found that this variable explained most of the regional migration flows in India, and in a study by Mildred Levy and Walter Wadycki it was found that in Venezuela the coefficient for stock migration was significant but smaller than that in India Findings cited by Levy and Wadycki show that for the United States the coefficient of this variable is still smaller than in Venezuela This may suggest that the importance of family and friends may be related to the existence of more sophisticated channels of communication, such as radio, television, newspapers, and so on See Michael Greenwood, "An Analysis of the Determinants of Geographic Labor Mobility in the United States," *The Review of Economics and Statistics*, May 1969, pp 189 94, and Mildred B Levy and Walter J Wadycki, "The Influence of Family and Friends on Geographic Labor Mobility An International Comparison," *The Review of Economics and Statistics*, May 1973, pp 198-203

[3] Levy and Wadycki, "The Influence of Family and Friends"

[4] The decimal places in the coefficients as they appear on table 2 are a result of data adjustments for computerization The decimal places in the coefficients need to be moved 2 spaces to the right The following

table illustrates how the relationships behave once the coefficients have been adjusted

Regression		*Number of emigrants from Puerto Rico to the 4 States*	
		If unemployment ratio (Y) increases from 2.27 to 3.27	*If wage ratio (X) decreases from .497 to .397*
1947-73			
Y coefficient	= −1559.6		1,560
X coefficient	= 218.3	218	
1947-67			
Y coefficient	= −761.6		76
X coefficient	= 229.5	230	

[3] It is questionable that all foreigners entering the United States via Puerto Rico were entering legally. Many foreigners of Spanish-speaking extraction, particularly Dominicans, enter Puerto Rico as tourists, then pass as Puerto Ricans and freely enter the U.S. mainland. This is possible because Puerto Ricans are not required to pass immigration inspection or even show any identification to prove U.S. nationality, the flow between the island and the mainland is like the flow between 2 States of the union. Once in the mainland, they run the risk of being caught by the immigration authorities, but apparently many are willing to take the risk.

[4] It is likely that a proportion of the passenger flow between Puerto Rico and foreign countries (and also between Puerto Rico and the Virgin Islands) consists of U.S. citizens traveling abroad and using Puerto Rico only as a departure from U.S. territory or only as an arrival point into U.S. territory.

[1] See *1970 U.S. Census of Population, General, Social, and Economic Characteristics*, PC (1), 53, pp. 53-187, table 38.

[2] Celia Cintron and Pedro A. Valez, *Return Migration to Puerto Rico: A Pilot Study* (Social Science Research Center, University of Puerto Rico, 1974); Jose Alvarez Hernandez, *Return Migration to Puerto Rico* (Berkeley, Institute of International Studies, University of California, 1967); and Steven Zell, *A Comparative Study of the Labor Market Characteristics of Return Migrants and Nonmigrants in Puerto Rico* (San Juan, Puerto Rico Planning Board, July 1973).

APPENDIX: The theory of migration

The theory underlying the analysis of migration can be classified into two major categories: (1) classical-neoclassical theory and (2) human capital theory. The former can be subclassified into three subgroups by relaxing some of the conditions of the classical-neoclassical model.[1]

Classical-neoclassical theory: three versions. (a) Every country or region is endowed with land, labor, and capital. In the absence of legal barriers, labor will tend to flow from regions (countries) with surplus labor and low (real) wages to regions with excess demand for labor and high wages. As homogeneous units of labor flow from the excess labor-low wage region to the scarce labor-high wage region, keeping capital fixed, the wage rate will rise in the former and fall in the latter. The flow will continue until, other things being equal, the wage rate is equated in each sector's homogeneous labor market. If this process occurs for all homogeneous labor markets between regions where differentials exist, there will be a tendency for per capita income differences between regions to be reduced. This classical-neoclassical theory in its purest form includes only private free market economic forces, such as wage rates, per capita income, changes in the labor force, and production in various sectors of the economy.[2]

(b) The classical-neoclassical theory relaxed to take into its framework public as well as private variables constitutes the second category. Specifically, it includes factors of a social or public nature, such as welfare payments, unemployment compensation, minimum wages, public education and recreation facilities, police protection, or any other public good, or a combination of these factors. The behavior of migrants and the process of adjustment in different labor markets will be the same as that described earlier but will incorporate more elements. For instance, people will be induced to migrate from a region with surplus labor, low wages, little or no welfare benefits or unemployment compensation, poor educational facilities, and the like, to a region where labor is scarce, wages are high, welfare benefits, unemployment compensation, and other social goods of higher level are available. As the homogeneous migration flow continues, there will be a tendency for wages and even eventually per capita income to be equalized between regions. Also, as people either on unemployment compensation or on welfare move from an area where these benefits are low to one where they are high, the differentials in the public benefits and public goods on a per capita basis will narrow. In fact it should, theoretically, narrow on an actual payment basis. As the area with low benefits loses beneficiaries, it can raise the benefit payments to those remaining, whereas the area receiving more people eligible for benefits will eventually, other things equal, have to slow down the rate of increase, freeze, or reduce the amounts of benefits. A similar process can be expected with respect to schooling, recreational facilities, public protection, or any other public good.

However, the theoretical construct is not so simple after introducing the public or social variables. (That is, more factors interact.) Nor is there any reason to assume that all of the variables will induce out-migration (push factors) or all will induce in-migration (pull factors) in any given region. Thus, it becomes difficult to make overall behavior conclusions without specifying a significant number of conditions. That is to say, the final outcome of a migration flow, or even what are the important factors determining the flow, will be difficult to predict if within each of the two regions there are push factors as well as pull factors.

(c) The third category of classical-neoclassical theory consists of the relaxing of the neoclassical model above plus interacting environmental, demographic and private external economies factors, including climate, landscape, private recreational and educational facilities, racial composition of the population, and chain effects of cumulative migrations Regions where the environmental, demographic, and private external economies are most favorable will attract migrants. As migrants to recipient regions cumulate, more migrants will flow into those regions because the relevant information to make a migration decision becomes more diffused and because the adjustment process of the new migrant is facilitated by his or her predecessors.

However, here again, the simple clear behavior of the pure classical-neoclassical theory, presented in the first category, tends to become blurred. That is, once the small manageable theoretical model is opened to incorporate all of the variables mentioned in categories (b) and (c), it becomes more difficult to come to practical conclusions regarding the inducing forces of the migration flow and the final outcome of those flows.[3]

That is to say, the theory at this point can only make generalizations with respect to the determinants of migration, as well as with respect to the outcome of migration, if all the factors considered in a two-region flow are in each region either push factors or pull factors. Whenever both push and pull factors are present within the same region, however, the relative importance of the factors as well as the final effect of the migration will be indeterminate *a priori*. Thus, when the theory is expanded to take into account many private, public, and environmental-demographic factors, it will be necessary to undertake the testing of specific hypotheses before any conclusions can be reached.

Many studies have done just so. Even though no single study exhausts all the possible factors that may enter the migration phenomena, many fall into the third category and include at least one variable from each of the categories of the classical-neoclassical theory: private market exclusively, private market and public sector, and private market, public sector, and environmental-demographic-private external economies.

Most of the hypothesis testing done using the third category of the classical-neoclassical theory as a foundation have been cross section studies between regions of the United States. Most have used multivariate single-equation regression analysis. A few have used simultaneous equation models.[4]

Human capital theory. The idea of applying human capital theory to migration dates back to the 1800's.[5] But the revival of this approach started in the 1950's. Even though we have had 25 years of work on this issue, the application remains by and large on a theoretical level.[6] By use of a cost-benefit model, human capital theory states that migration is a function of the present value of net future earnings from migration. In mathematical notation:

$$M_{ij} = f\,(PV) = \sum_{t=1}^{n} \frac{NE_t}{(1+i)^t} \qquad (1)$$

Where

M = number of migrants from region i to region j,

PV = present value;

i = the discount rate which represents the interest rate that could be earned on the earnings if they were available at present,

t = the year for which the earnings are expected, starting the year of the move and ending with retirement age,

NE = net flow of future expected earnings (nfe) minus costs (c),

and in turn

nfe = earnings in current and all future years adjusted for productivity changes, rates of inflation, and possibly changes in the demand for labor in the recipient region (j), minus earnings in current and all future years, adjusted for productivity changes, rates of inflation, and possible changes in the demand for labor in the source region (i),

c = costs of moving plus earnings forgone while moving plus earnings forgone while searching for new jobs and retraining

It is maintained that the human capital model and its modifications can be used as tools for analyzing migration behavior, human resource policies, the transfer of knowhow, and the diffusion of development.[7] These are heavy demands on the model as it presently stands. Specifically, there are two fundamental problems. One is statistical. Data on migrants by age, sex, education, place of birth, occupation, and income at origin and destination are not available. Such data are necessary because in order to attain a more accurate aggregate net flow of future expected earnings minus costs (NE), one must first obtain partial net flows (NE's) for homogeneous groups of migrants.[8]

The second problem deals with concepts. As the model now stands, and as it has been thus far described in the literature, it appears to maintain one of the following two positions: (1) The only, or only relevant, factor explaining migration flows is the present value of the discounted net future expected earnings. It therefore implicitly ignores such factors as unemployment rates, welfare payments, unemployment compensation, public and private school and recreational facilities, police protection, climate, landscape, racial composition of the population, and chain effects of migration, (2) Without ever explicitly saying so, it assumes that these factors are embodied at least theoretically in the net flow of future earnings minus costs (NE).

The first position is easily refutable, as is clear from the discussion of category (c) of the classical-neoclassical theory above. The second can perhaps be accepted from a theoretical point of view, but handling it for empirical purposes does not appear feasible.

Let us, for example, assume that we can obtain net future expected earnings (NE) for breakdowns by age, race, schooling, occupation, and income at the source and destination area. Would it be possible to adjust such net future expected earnings (NE's) or discount rates (i's) to take into account unemployment rates, welfare payments, and climate, to name a few, both in the region of origin and destination? Given the data and the ability to make a very large number of assumptions which will have subjective content, one could adjust the net future earnings, the discount rate, or both, but in the process the direct relationship between these other factors and migration will be lost.[9]

Perhaps a better interpretation of position (2) would be that the ignored factors are not to be treated as embodied in the earnings measure or the discount rate, but are in fact to be taken into account explicitly and as separate variables in a migration function so that.

$$M_s = a + bPV + cU + dW \ldots + eD \qquad (2)$$

Where:
- M_s = as defined in (1);
- PV = as defined in (1);
- U = unemployment rates;
- W = welfare payments;
- D = dummy variables for regional differences,
- $\ldots$ = other variables that are relevant and can be quantified or treated as dummy variables,
- a,b,c,d, and e = coefficients of each respective variable.

This approach to the human capital theory remains to be tested.[10] It is appealing, but one wonders if there really is a gain in the explanatory power of the model as well as in the efficiency of the estimated coefficients when present value of future income (PV) rather than current income differences is used for the income term. And it is the concept of the present value of the lifespan income stream, of course, that distinguishes human capital theory from classical-neoclassical theory.

In the significant body of literature that purports to expound the human capital theory, there are many empirical pieces. However, the reality is that even though studies claim to be or are implicitly based on the theory, the empirical work generally is not based on present value (PV).[11] Therefore we are left with a group of theoretical pieces[12] and a body of empirical work that discusses the theory but then bases the empirical tests on current income measures rather than present value (PV).[13]

The present study, in the body of the text, shows that the current state of the theory of migration, as described in this appendix, is not adequate in explaining migration in the recent past. The theoretical foundation upon which the present study rests is the most encompassing of the classical-neoclassical formulations: version (c). Yet even within this broad context, the theory leaves out important behavioral relationships induced by factors such as violence, crime, and other indicators of the deterioration of the social fabric. Nor can it handle homesickness or increasing desire to return to one's place of origin. Nor can it differentiate between regional migrants and intercountry migrants; the former can maintain the same citizenship and cling to their native or regional language and customs and therefore can return to their place of birth more easily than the latter. Migration theory could conceivably be revised by inputing such behavior variables. But then testing would be much more difficult, partly because of the problems inherent in quantifying such factors as well as the lack of reliable data for sufficiently long periods of time.

With the human capital approach described in equation (1), these problems become virtually unmanageable. Assuming that all variables could be quantified and that reliable data could be obtained for past periods, it would still be extremely hazardous to properly adjust expected net future expected earnings since future periods of social change are practically impossible to predict. With the modified human capital theory (described in equation (2)), the problems are no different from those involved in classical-neoclassical version (c). Because strictly economic variables lose some of their importance during periods of social change, we have no choice but to conclude that under present conditions, migration theory and the models that have been developed thus far have been weakened significantly in explaining current migration flows and have been rendered unreliable for predictive purposes.

——*APPENDIX FOOTNOTES*——

[1] For an extensive survey of the migration literature classified by broad categories of (1) studies dealing with the determinants of migration and (2) studies dealing with the consequences of migration, see Michael J. Greenwood, "Research on Internal Migration in the United States: A Survey," *Journal of Economic Literature*, June 1975, pp. 397–433.

[2] Several studies can be classified within this category. See Bernard Okun, "Interstate Population Migration and State Income Inequality: A Simultaneous Equation Approach," *Economic Development and Cultural Change*, January 1968, pp. 297–313; Donald Mitchell Smith, "Regional Growth: Interstate and Intersectoral Factor Reallocations," *The Review of Economics and Statistics*, August 1974, pp. 353–59; A. Schwartz, "Migration and Life Span Earnings in the U.S." (Ph.D. dissertation, Department of Economics, University of Chicago, 1958); Aba Schwartz, "On Efficiency of Migration," *Journal of Human Resources*, Spring 1971, pp. 193–205; John R. Harris and Michael P. Todaro, "Migration, Unemployment and Development: A Two-Sector Analysis," *American Economic Review*, March 1970, pp. 126–42; and Michael P. Todaro, "A Model of Labor Migration and Unemployment in Less Developed Countries," *American Economic Review*, March 1969, pp. 138–48. These are, with the exception of Harris and Todaro and Todaro, cross-section econometric tests or other quantitative empirical tests for regions in the United States. The Todaro study is really an interregion or intercountry model of simultaneous equations, not empirical, where he rejects the process of adjustment in the classical-neoclassical theory as too simplistic and presents a two-stage adjustment process.

[3] For example, let us take two regions, A and B. In region A wages are low, unemployment high, and unemployment compensation and welfare payments low relative to region B. However, region A has a more pleasant climate, a more attractive landscape, and a less polluted environment. The pure economic factors (both private and public) will indicate that people will migrate from A to B, but on the basis of environmental factors people will migrate from B to A. In this case the theory is not too helpful in determining the direction of the net flow or the effects of the flow. The questions here are: Are economic factors attractive enough in B to compensate for the loss of better environment conditions in A, or vice versa? If a net flow does take place, whatever the direction, what will be the effect of the flow on regional income levels, unemployment rates, environmental pollution, and so on?

[4] These include Frederic B. Glantz, "Migration and Economic Opportunity: The Case of the Poor," *New England Economic Review*,

March/April 1973, pp 14-19, Mildred B Levy and Walter J Wadycki, "The Influence of Family and Friends on Geographic Labor Mobility An International Comparison," *The Review of Economics and Statistics*, May 1973, pp 198-203, and "What is the Opportunity Cost of Money? Reconsideration of the Effects of Distance on Migration," *Economic Development and Cultural Change*, January 1974, pp 198-214, Okun, "Interstate Population Migration," Paul M Summers and Daniel B Suits, "Analysis of Net Interstate Migration," *Southern Economic Journal*, October 1973, pp 193-201, and William D Toal, "People and Places A Decade of Southern Change," *Monthly Review*, Federal Reserve Bank of Atlanta, November 1971, pp 198-204

[5] See Richmond Mayo-Smith, *Emigration and Immigration*, (New York, Schibner's Sons, 1892), Ch 6, and Grace Abbott, ed., *Historical Aspects of Immigration Problems, Selected Documents* (Chicago, The University Press, 1926), pp 370-81

[6] The exceptions are Burton A Weisbrod, *External Benefits of Public Education*, (Princeton, N J, Industrial Relations Section, Princeton University), 1964, Schwartz, "Migration and Life Span Earnings," Schwartz, "On Efficiency of Migration," and Samuel Bowles, "Migration as Investment Empirical Tests of the Human Investment Approach to Geographical Mobility," *The Review of Economics and Statistics*, November 1970, pp 356-63

[7] See M J Bowman and R Myers, "Schooling Experience and Gains and Losses in Human Capital Through Migration," *Journal of the American Statistical Association*, September 1967, pp 875-98

[8] The U S Census of Population supplies a good number of these characteristics but not all those necessary for classifying sufficiently homogeneous groups of migrants

[9] For example, unemployment rates, which are proxies of the risk of not being able to obtain jobs at destination, can be embodied in the model by adjusting the discount rate The higher the unemployment rate of destination relative to origin, the higher should be the discount rate However, the adjustment will embody the value judgment of the researcher or analyst, and the direct effect that unemployment may have on migration is lost or not clearly observed

[10] Although the literature is never explicit on this issue, Samuel Bowles did, partly, try this approach Because his data were on migrants' income classified by age and schooling for *south* and *non-south* regions only, he was not able to incorporate unemployment ratios, distance, and other variables in his model He was thus limited to a single regression equation with 4 independent variables (1) expected increase in the present value of lifetime income associated with migration, (2) variable 1 above classified by age, (3) variable 1 again, classified by schooling and (4) a measure of poverty These 4 variables were regressed on net migration rate for population subgroups His results were encouraging but not any more than results of studies that used the third category of the classical-neoclassical theory framework The model's explanatory power when applied to blacks alone was 64 percent and 33 percent when applied to whites Equations using the current income differences rather than the net present value of moving were also regressed The explained variance was less in this case and the sign of the income term was incorrect for blacks It appears that at least within this limited test, the use of present value estimate is preferable See Bowles, "Migration as Investment"

[11] Exceptions include Bowles, "Migration As Investment," Schwartz, "Migration and Life Span Earnings," and "On Efficiency of Migration," and Weisbrod, *External Benefits*

[12] Bowman and Myers, "Schooling Experience," and L A Sjaastad, "The Cost and Returns of Human Migration," *Journal of Political Economy*, Supplement, October 1962, pp 80-93

[13] Walter J Wadycki, "Alternative Opportunities and Interstate Migration Some Additional Results," *The Review of Economics and Statistics*, May 1974, pp 254-57, Belton M Fleisher, "Some Aspects of Puerto Rican Migration to the United States," *The Review of Economics and Statistics*, August 1963, pp 245-53 and "The Impact of Puerto Rican Migration to the United States" in Mark Perlman ed., *Human Resources in the Urban Economy*, (Washington, Resources for the Future, 1962), pp 179-94, Joseph Rabianski, "Real Earnings and Human Migration," *Journal of Human Resources*, Spring 1971, pp 185-92

A note on communications

The *Monthly Labor Review* welcomes communications that supplement, challenge, or expand on research published in its pages To be considered for publication, communications should be factual and analytical, not polemical in tone. Communications should be addressed to the Editor-in-Chief, *Monthly Labor Review*, Bureau of Labor Statistics, U.S. Department of Labor, Washington, D C. 20212.

Senator MOYNIHAN. Why has there been a reversal in migration. You must have some theories.

Ms. MALDONADO. In that study that I conducted, the major determinants of the movement were income differentials and wage differentials and, of course, as that differential narrows you would expect that it would be less of an influence to the mainland and perhaps it can be an inducement for part of the reversal.

However, the major explanations for the reversal may lie in certain noneconomic factors, I am afraid, because according to my tests in the last few years the explanation of the migration in terms of economic factors weakened and therefore one would have to go and look into noneconomic factors to explain the flow, the movement.

Senator MOYNIHAN. Yes.

Ms. MALDONADO. This flow apparently was more influenced by noneconomic factors such as in the late 1960's and early 1970's the drug problem here, which was very acute, and many young parents, Puerto Ricans with children, under the illusion that things were better in Puerto Rico will go back to put their children in schools there to prevent them from this exposure.

I think perhaps also discrimination influences here strengthened during that period and they would also go back to avoid that. The quality of life in the cities was not as pleasant as they had perceived earlier and that also induced them back.

Also many Puerto Ricans who had migrated here 20 and 25 years earlier had reached a retirement age and were returning to the island, so that is also a part of it. But also part of it is the fact that Puerto Ricans are being displaced from the labor markets in these centers by illegal immigrants and even though there is a differential still in the unemployment rates here being lower than in Puerto Rico and that the income levels or wages in the United States are higher than in Puerto Rico, they are being pushed away from those jobs by this new inflow of newcomers and that, as you know, has become strengthened as the years go by.

Senator MOYNIHAN. If only you could get your hands on some numbers.

Ms. MALDONADO. Oh, that would be wonderful if we could get our hands on some numbers, but you know, that is very difficult to do.

Senator MOYNIHAN. On the reverse migration issue, I think we have underestimated the degree to which emigration to the United States has historically involved a not-inconsiderable returning population, people who do not like the new country, do not do well in it—or do very well in it and can go back, who only really meant to come for 10 or 15 years.

This is lost because we have lost touch with those people, but during the Second World War, American troops could not arrive in a village in Italy where there would not be someone who had spent 30 years in Brooklyn to do the translating for them.

There was much more of a pattern than I think we remember.

Ms. MALDONADO. I have not, Senator, examined those figures, but I am not sure that they will have the magnitude of the ones that we have.

Senator MOYNIHAN. No, but there is the pattern of coming to the United States, saving enough money to buy a piece of land and going back to Ireland, or going back to Sicily, or going back to Poland, or going back to Greece.

Ms. MALDONADO. I am sure that you are right, and we have our share of that, but I think if we examine the total returned migration to Puerto Rico, the proportion of retirees is not that big.

Senator MOYNIHAN. If you knew the wages were the same and you did not know unemployment was higher, you might make the move in response to economic conditions in New York, which may have been worsening at a time when they were also worsening in Puerto Rico.

What you say makes enormous sense, particularly about the need now to have more equal welfare benefits. I am prepared to say that, this is not a question of social planning. This is a question of equity. American citizens ought to have the same benefits. We do not have different kinds of American citizens—or we are not supposed to.

The bill that has passed the House of Representatives, I am afraid, leaves the situation in Puerto Rico exactly as it is, and in that respect it seems to me inexplicable. If anything cried out for change, it was that. The levels of funding for the AFDC program are $24 million; this is derisory.

In this committee we have raised that to $72 million and in our child health program we are going to have a permanent increase with a 75-percent reimbursement rate, which is three times as much.

Title XX, which you may not be familiar with—there is no reason that you should be—is the social services provision. We have a situation right now where Puerto Rico and Guam share whatever is not used up by the States.

Ms. MALDONADO. Up to $15 million.

Senator MOYNIHAN. Up to a little tiny bit, you know.

Ms. MALDONADO. If there is leftovers.

Senator MOYNIHAN. If there is anything left over they can have it, but not too much.

Ms. MALDONADO. That is correct.

Senator MOYNIHAN. That is offensive. That is just offensive.

Ms. MALDONADO. I could not agree with you more.

Senator MOYNIHAN. I think we certainly have to work at that.

But you also see the patterns of a disinclination to do productive work. We have to be concerned about a society where the rates of welfare dependency become too high.

Now, I have a view of this—I just visited Puerto Rico for 3 days, to hold hearings on this subject, and I was struck by the point you made, the missing point you added to those six, that the Puerto Rican percentage of dependent families is the lowest of any State. Now, that could be because there are just no resources. I do not know.

I think that is a different problem from the rate of recipients of food stamps because food stamps——

Ms. MALDONADO. That is the opposite. We have the highest proportion.

Senator MOYNIHAN. And that reflects wage levels and it does not have anything to do with dependents. It is an income supplement. It is a negative tax.

But the problem of dependency is not acute in Puerto Rico. Certainly one of the objects of welfare reform here ought to be not to introduce that system from the mainland, as it were. It has not migrated yet. I do not think the food stamp phenomenon is the same thing at all. It is just an income supplement.

As an economist, I think you would agree, it is a kind of a negative tax to the degree that where one's income is below a certain level, that person would get a supplement.

But the point I think you are making about this kind in reverse migration is important. Certainly welfare differentials did not cause it.

Ms. MALDONADO. Absolutely not.

Senator MOYNIHAN. But if they persist——

Ms. MALDONADO. Not only if they persist but if they acquire such magnitudes and they would if we were excluded from the new welfare reform, I think it would be very likely that Puerto Ricans would begin to move just for that, and it is absolutely 100 percent clear that they have not moved for the welfare.

Senator MOYNIHAN. Yes.

You have given us perfectly straightforward testimony. We thank you very much. It has been most informative, most direct.

Ms. MALDONADO. It has been a pleasure and I thank you for the opportunity.

Senator MOYNIHAN. It is a pleasure to have an economist around occasionally, I think.

[The prepared statement of Ms. Maldonado follows:]

STATEMENT

OF

PROFESSOR RITA M. MALDONADO-BEAR

ON

PUERTO RICO AND WELFARE REFORM

PUBLIC ASSISTANCE SUBCOMMITTEE
SENATE FINANCE COMMITTEE

SEN. DANIEL P. MOYNIHAN, CHAIRMAN

WASHINGTON, D.C.

FEBRUARY 7, 1980

Let me begin by thanking you, Senator Moynihan, for inviting me to appear here this morning to present a Puerto Rican perspective on the issue of Welfare Reform for the Eighties. I am grateful for this opportunity.

Let me begin with two disclaimers.

First, I am not an expert in welfare programming per se. I am an economist whose interests and expertise lie mainly in the area of international economics and finance. Secondly, I have not actually resided in Puerto Rico, except for brief periods of time, for some years now, since I am a full-time, tenured member of the Graduate Business School Faculty of New York University. And I am a resident of the City of New York.

I do however, speak as a native born, bilingual Puerto Rican, whose entire primary and secondary school education took place on the island, and whose emotional and professional interests and concern still remain with my native land to an important degree. And certainly, much of my professional research and writing in the area of social economics has had to do with the economic situation of the Commonwealth of Puerto Rico.

I would like to concentrate my testimony this morning in two distinct areas:

First, I will address myself to the Puerto Rican issues I believe Congress should keep in mind as it moves toward welfare reform legislation now. Second, I will address myself to the issue of Puerto Rico and the future as regards the broader, more long range issue of welfare reform for all of the 80's.

Legislating Welfare Reform Now

The Congress, I believe, should keep two things in mind, simultaneously, as it presently considers welfare reform: Puerto Rican needs and mainland United States self-interests.

Puerto Rican Needs:

Some brief words on the development of Puerto Rico's need for Federal social welfare assistance are, I think, in order here.

Operation Bootstrap, Governor Munoz Marin's original program for Puerto Rico's economic development worked well from 1940 to 1973. The rate of GNP growth rose some 7 to 10% in real terms, unemployment was reduced from 20% to less than 12% and per capita income and the standard of living rose perceptively.

However, three major occurrences played their parts in reversing this positive trend: a narrowing differential of minimum wage between the U.S. and Puerto Rico until now thay are equal; the 1974 world recession, and, of course, the quadrupling - and more - of oil prices.

By 1975, Operation Bootstrap was in real trouble. U.S. investment on the island was in decline, unemployment was up to 20%, and per capita income was significantly below the U.S. poverty level.

While I have some deep concerns about what I see as a debilitating "welfare-type mentality" encroachment on a heretofore job oriented Puerto Rican population - and I will get to these concerns shortly - it must be said that, since 1977, there has been a slow recovery in Puerto Rico. A recovery due, in part, to Federal social welfare transfer payments such as are represented by food stamps and the one year aid to families with dependent children increases from 24 to 72 million dollars with a Federal matching requirement increase to 75%. While both new capital investment and employment have a long way to go, both are picking up now (in the apparel industry, for example).

I firmly believe that the present slow recovery will be negatively affected if the island is deprived of the same level of funds received in 1979, and deprived as well of the opportunity to participate in more equitable welfare programming vis-a-vis the rest of the States. HR 4904, for example, would bring about both of these unwarranted, negative results; and in the face of these facts:

1. Puerto Rico has a lower per capita income than any of the States.

3. P.R. [illegible] has more families below poverty level than any state.

2. P.R.'s cost of living is equal to that of any individual state, and higher than the national average.

4. P.R. [illegible] families receive [illegible] than many other state

5. P.R. receives a lower payment per family and per individual than any of the 50 states.[1]

6. P.R. is excluded from programs such as Supplemental Security Income for the elderly and disabled and discriminated against in social service programs generally; e.g. Title XX.

7. Moreover, it would be both morally reprehensible and short sighted to deprive Puerto Rico of the benefit of the Federal Policy guidelines and impetus to develop badly needed programs in such social welfare areas as would help strengthen the family unit and provide for the general well-being of children. Thankfully, Puerto Rico is included in such legislation as HR 3434.

However, the argument for equal treatment for Puerto Rico in social welfare programming does not rest solely on Puerto Rican need, or other general moral grounds. It rests equally on the ground of

1) See House Report 96th Congress, 1st Session, 96-451, Part I at pages 87-88, Table 1.

mainland United States taxpayer self-interest.

U.S. Self Interest:

Before listing my reasons in this regard, let me take a moment to dispell a sadly mistaken myth. The one that says Puerto Ricans migrate in large numbers to the U.S. mainland in order to go on welfare.

I did a comprehensive study of Puerto Rican immigration patterns during the years 1947 to 1973, which was published in the Monthly Labor Review, Volume 99, Number 9 in September 1976. The results showed clearly that the two major reasons why Puerto Ricans migrated were: employment opportunity and income (that is to say wages and wage differentials). Welfare and unemployment compensation were insignificant variables. Puerto Ricans moved to find work, not to avoid it.

Now, from a U.S. taxpayer point of view, P.R. should be made, and kept, equal in welfare benefits because if they are not, the economic disequilibrium in the society will be such as to make it impossible for the local government to undertake the necessary economic development programs which could result, eventually, in lowering the need for U.S. taxpayer financed welfare programs.

It might be argued that there is an answer to that: the federal government can cut social welfare dollars now and let the Puerto Ricans just do the best they can in the face of adversity, whatever the result.

But if Puerto Rico is short changed in the face of new, more equitable welfare legislation for the 50 states there can be only two possible results, and either one would hurt the U.S. taxpayer.

First, if the differential in welfare eligibility and payments becomes so great, then, even though Puerto Ricans have not in the past migrated for the sake of welfare benefits, they might well begin to do so. In that case the dollar burden would fall directly upon the taxpayers, at both the Federal and local levels, on the mainland, with, I must add, the attendant burdens of overcrowded schools, and other already strained local service systems.

In the alternative, if Puerto Ricans do stay on the island as inflation and the cost of living continues to rise, and they cannot begin to keep up with it, or get their economy recovering well in the face of growing economic dislocation, then there would certainly be a serious decline in Puerto Rican purchasing power. This would have enormous repercussions on the U.S. economy - and that means loss of U.S. jobs, among other things, because Puerto Rico, Americans should know, is presently one of the top 5 markets in the world for U.S. exports.

Then, beyond U.S. taxpayer costs and/or exports losses, there would be the not insignificant loss of U.S. prestige in the Caribbean and Latin America (if not the world) that would come from the total breakdown of "showcase" Puerto Rico.

Legislating Welfare Reform for the Future

Finally, let me now refer to the issue of Puerto Rico and the future, as regards the broader, more long range issue of welfare reform for all of the 80's.

As a non-expert on welfare, I would begin with two economist observations:

First, I would think that no welfare reform alone - that is to say, reform without the concurrent establishment of farsighted economic development policies - could succeed in breaking the poverty/dependency cycle; and second, I feel that the best welfare reform would result in a system that truly helped people while they were in it, yet encouraged them to opt out of it in the shortest possible time.

While it is the responsibility of the Congress of the United States to bring Puerto Rico's share of social welfare benefits, now, up to a standard of equality with that of the 50 states, it is the responsibility of the government of Puerto Rico and the Puerto Rican people to help get their economy moving.

Concurrent Economic and Social Development:

Outmigration, the movement of Puerto Ricans to the mainland, prevented unemployment from rising and caused per capita income to be higher than would otherwise have been during the two decades before the 1970's. But beginning in 1970, there was a net inflow of return migrants.[2] After 1973, the annual inflow is about 30,000 people per year.

A key factor in any development program in Puerto Rico, which should go hand in hand with welfare reform, is the reversal of this trend of Puerto Rican return migration. In order to reverse this trend Puerto Rico must work together with the U.S. Congress to stop the narrowing of wage differentials between P.R. and the U.S. The differential wage factor is a crucial element in motivating Puerto Ricans to work inside mainland U.S.[3]

Further, Puerto Rico must undertake to increase employment and production in agriculture, and this would include education programs aimed at raising the image of rural life. This would reduce dependence upon industrial jobs which in turn depend primarily upon foreign investment and its continued growth and would also reduce the

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2) See Rita M. Maldonado, "The Economic Costs and Benefits of Puerto Rico's Political Alternatives," Southern Economic Journal, October 1974, pp. 274-277.

3) See Rita M. Maldonado, "Why Puerto Ricans Migrated to the United States in 1947-73," Monthly Labor Review, September, 1974.

importation of food. Imports currently make up 80% of all food consumed in the island.

And Puerto Rico must cut back employment in the public sector.

Outside the island, Puerto Ricans living on the mainland must work with their fellow Americans here to improve the quality of Puerto Rican life, particularly in the inner cities; focussing, for example, on community self-help and pride. Reducing the immigration flow into P.R. would be in the best interests of the U.S. taxpayer since it could be expected that returning migrants would end up on welfare rolls because of the absence of jobs on the island.

I would add here my concern for one problem that I believe is now affecting the ability of some mainland Puerto Ricans to remain in America's inner cities. I believe that illegal aliens are substituting for Puerto Ricans in lower level jobs in several of the service and apparel industries, once considered the logical beginning point of work entry for new immigrants. Illegal aliens work for less pay and can be threatened and demeaned more easily. And unskilled Puerto Ricans are not the only losers to them. Illegal aliens are federal dollar robbers, since they are not counted in population based federal tax dollar inflows _to_ the cities.

Having stated my concern that there be coordinated programs aimed at providing both economic and social satisfaction, I can turn now to welfare reform _per se_.

Welfare Reform Per Se:

The fact that 60-70% of Puerto Ricans are presently using food stamps, and that PL 95-6000's temporarily funded increase in AFDC has been thoroughly utilized, makes clear that the need for this Federal help is there.

However, it also makes clear that the Puerto Rican dependency on social welfare transfer payments (like that of recipients in the 50 states) is growing to an extent that does not, can not, make one happy.

Clearly, these payments do promote, in some, a disinclination to strive to do productive work.

I do not support a move toward decentralization of welfare programming at this time. I believe that well thought out Federal leadership and policy direction can be helpful to Puerto Rico and the states. At very least, decentralization before the attainment of uniform minimum levels of support, uniform special benefits to two parent families and the like - spurred by federal legislation - would be unproductive.

I would advocate higher levels of federal dollar support together with effective uniform minimum standards. Effective for me means a system that focusses on helping recipients move out into the labor market as soon as possible, without penalizing them by cutting all welfare payments while they make the transition. Eligibility requirements and the like will require constructive reform that gives a high priority to eventual recipient independence.

While help must be given to those in need, at the same time we should also help to challenge the general attitude that society is merely a matter of rights without need for obligations. I would like us all to come to see that without the chains of dependency, there is surely a road to the mountain top that every human being can walk.

Senator MOYNIHAN. And now we have Prof. Larry Schroeder of the Metropolitan Studies Program of the Maxwell School of Syracuse University.

Professor Schroeder, welcome. You are appearing on behalf, of yourself and Professor Bahl, who is in Manila.

STATEMENT OF PROF. LARRY SCHROEDER, METROPOLITAN STUDIES PROGRAM, SYRACUSE UNIVERSITY

Mr. SCHROEDER. We have been working together on various fiscal problems of New York State for the last 2 years. I suspect that many of the things that I will say today would be said by him if he were here; however, he is enjoying the weather in Manila in the Philippines.

Senator MOYNIHAN. I have been saying some of the things that you have been asserting to the intense annoyance of the White House. I keep saying, "I didn't say that; Bahl did."

Welcome, sir.

Mr. SCHROEDER. Thank you.

Basically my testimony today will be in keeping with the general background nature of these hearings but will also be related to the fiscal aspects of welfare reform. I will be focusing almost entirely on New York State primarily because of the work we have been doing on New York State although I do think that the conclusions reached are not out of line for some of the other industrial States in the Northeast and Midwest.

I have three arguments to present today. One is that New York State has experienced, and is likely to continue to experience, relative economic decline over the next several decades.

The second point is that the public sector in New York State—including both State and local governments—is highly developed. In fact, some would say—including my colleague Professor Bahl—overly developed. And yet I do think that there is a recognition of this highly developed state of affairs and that retrenchment is likely to occur in the near future.

Given this, the third argument is that there are competing demands on this public sector and that there is a reasonable role to be played by the Federal Government in easing the transition process to a relatively smaller public sector. At least one way of doing so would be through assumption of greater proportions of the welfare load.

I gave considerably more detailed information in the written testimony; but I do want to say a few words concerning each of these arguments. The first is with respect to economic decline. I think that there is not much disagreement with the statement that New York State has experienced economic decline over the past 20 years.

Population since 1970 has declined in absolute terms. Manufacturing employment——

Senator MOYNIHAN. Even more so.

Mr. SCHROEDER. That is right. Since the midsixties it too has declined in absolute terms. When one looks at New York State relative to the rest of the Nation, once again one finds population declining relative to the rest of the Nation. Employment even more so; at least in terms of decline relative to the rest of the Nation since 1960. Possibly as important as anything, especially when one wants to consider the public sector, is that per capita personal incomes, while they were over 23 percent above the national average in 1960, as of 1978 were only about 5 percent above the national average.

Now, one really cannot answer in any definitive way whether these trends are going to continue. But the evidence that does exist, in the sense of hard numbers that have been projected, suggests that New York State will continue to experience relative economic decline, at least through 1990 in terms of these various measures of the economic base.

That then brings up the next question—that, of the highly developed public sector in this State and one way of looking at it is, once again, over time. If you go back to, say, 1963 as the table in my testimony shows, you see that really New York State was not overly developed. That is, while in per capita terms it was spending more—about 26 or 27 percent more per capita—you have to keep in mind that the income supporting those expenditures was also considerably higher than in the rest of the Nation. So that in personal income terms New York was right at the national average, or just very slightly above.

Since then, with relative economic decline and continued expansion in the public sector, by 1977 or 1978, we find that in per capita terms New York State is 44 percent above the rest of the Nation in its State and local expenditures. Keep in mind, then, that it is 6 percent above in per capita income but 44 percent above in State and local expenditures. Its economy is supporting a considerably higher public sector.

Now, I certainly do not consider myself an expert on welfare and yet I did want to look at the change in welfare expenditures over time. I therefore constructed a table that measures New York welfare expenditures once again relative to the rest of the Nation. We see that in the early 1960's on a personal income basis, New York State was considerably below even the average—say 90 percent of the national average. By 1978 in personal income terms, it was 66 percent above, and in per capita terms, 83 percent above.

That is certainly higher than even just State and local expenditures in general.

Senator MOYNIHAN. Now, that is striking. Let's read this so that our guests and other witnesses who do not have the table in front of them may hear the data.

In 1963, not only was the public sector in balance with the economy, but it was slightly larger. The economy in that sense was slightly larger and there was more of a harmonious relationship. In terms of dollars of personal income, New York State had a lower percentage devoted to welfare than the Nation as a whole—90 percent of the national rate—and that proceeded to double in 13 years to 185 percent and it has now begun to decline.

Mr. SCHROEDER. Exactly.

One then might ask why; and several ideas come to mind. Two include possibly higher participation rates and a wider variety of programs. But I think it is also appropriate to consider the state of the economy, especially the experience during the recessions of 1969-71 and 1974-75. In general, the Northeast and industrial Midwest were hard hit by these declines. It is rather natural to see that participation in, as well as need for, the welfare programs increased considerably in those periods.

So I think that one once again cannot totally separate the experience as far as the economy is concerned with overall expenditures and more explicitly, welfare expenditures.

Now, I think the question then that has to be addressed here is, what is likely to occur in the future.

Senator MOYNIHAN. Could I just interrupt you there to say—I cannot resist this; the professor comes out in me—your table leaps off the page. What happened in 1963 when suddenly this relationship in New York started to go haywire?

In 1963, I was Assistant Secretary of Labor and my head was still working moderately well. I did a whole series of correlations between welfare rates of different kinds and male unemployment, and I found that there had been from 1947 to 1959, there was a correlation between the number of new AFDC cases and male unemployment of, I think, 0.89. It was one of the strongest correlations known to social science except that of being born and eventually dying. It was a remarkable correlation.

The correlation began declining in those years. Then in the few years that followed it completely disappeared and then became, in a sense, a negative correlation. Unemployment was going down and the number of new welfare cases was going up.

I had set out to prove the relationship between employment and welfare dependency and suddenly I had data that said it had existed, but that it no longer exists. Something happened, and nobody yet knows what. I maintain a lifelong grievance that nobody has paid any attention to my data because the hypothesis just does not seem to be accessible to any other explanation except that there was a relationship and then it went to hell.

Mr. SCHROEDER. Well, without actually seeing the numbers I guess the one thing that comes to mind is to what extent are they discretionary, programmatic changes that are altering the numbers and to what extent is one talking about a common program over time.

Senator MOYNIHAN. I do not know. What I do know is that I forecast what happened and then when it did happen all sorts of explanations came along which struck me as being ad hoc and basically designed to deny that what was happening was happening.

There was, for example, the basic proposition that, there has been nothing new in dependency. It is just all those people who are now on welfare were not getting their rights a few years ago, and now they are informed of their rights. There is a word for this proposition. It is called a "lie." It is extraordinary how much lying went on as New York gradually went bankrupt.

But proceed.

Mr. SCHROEDER. We prefer to say that "additional information came down to them" rather than a "lie."

Senator MOYNIHAN. Yes.

Mr. SCHROEDER. But with respect to this overly developed public sector, it does seem that policymakers within New York State are recognizing and are appreciating this fact. We see several recent policy initiatives, for example, a decrease in the upper brackets of the personal income tax, lowering of business taxes, and a very wide variety of location incentive programs both tax incentive and loan guarantee programs. As well, even the numbers shown in table 2 suggest that over the last several years there has been an apparent slowing in the State and local sector in New York State relative to the rest of the Nation.

And if one, for example, looks at Governor Carey's budget, released just a couple of weeks ago, there will be an attempt to decrease the relative size of the State government, at least, from 9 to 8 percent over the next 4 fiscal years.

So one sees then an apparent attempt to bring New York State's public sector back in line to what is happening with its economy and what is happening in the rest of the Nation.

Now at the same time, I think that one has to recognize that there are competing demands on this relatively declining size of the public fist. For example, the committed costs for debt service far exceed, nearly three times, the rest of the Nation as far as State and local debt service in per capita terms. And that is a commitment that has already been made.

There are capital infrastructure needs, both within the cities, but also in outlying areas. For example, waste management plants, et cetera, are going to have to be built.

There is apparently some evidence that public wages have been held back in New York State relative to the rest of the Nation. Possibly this is going to mean a pent-up demand for increased wages. I am sure that people in New York City will be very much concerned about that over the next few months. There are also demographic changes that have occurred in the State. While the school-aged population has declined there has been also an increase in the number of the aged. These individuals are going to bring with them specific types of demands on the public sector.

Now, I still have not really mentioned the welfare recipients but I think the question here is, what role should the Federal Government take. While, on the one hand, it could take a total laissez-faire, hands-off policy, but I would not argue for that. On the other hand, it could give extremely large grants to the public sector in the State of New York so as to maintain its overdeveloped public sector, but I certainly would not argue in favor of that.

Yet the Federal Government can aid in this transition process from a public sector that is currently overly developed to one which is more in line with the rest of the Nation.

The question then that I think arises and which is especially appropriate for these hearings is who is going to bear the cost of those declines? It seems very possible—or at least one scenario would be—that it is going to be the economically least advantaged who are going to have to bear the primary costs of this decline in the relative size of the public sector.

I think that this suggests then that, not only could a revision in the welfare system help ease the transition period within the New York State and other Northeast and Midwestern States where the public sector is really relatively large and the same types of economic problems are at hand, but it would also insure that, as this decline takes place, it is not the economically least advantaged that bear the burden.

Senator MOYNIHAN. That could not be more explicit.

I want to say that the metropolitan studies program at Maxwell has done more for the understanding of these problems than any other organization I know and you probably have done it with the least amount of funding. Let me be obnoxious and make a conclusion. At the height of the rioting in 1965 and 1966, somebody in the White House had to think of doing something so they thought of setting up an urban institute with Federal funds that would solve our urban problems.

Most people forget it is there but it has been there for about 15 years and if it has done anything, I do not know what it is—a few things to be sure, a few things.

Mr. SCHROEDER. I think they have.

Senator MOYNIHAN. But Maxwell—do not get into an argument with me over this—the Maxwell school on its own with very little in Federal funds, and nothing but some very bright people—how would you like to be funded the way the Urban Institute is funded? How would you like to be paid the way people at the Urban Institute are paid?

I had better stop this line of inquiry. The dean will never forgive me.

But you have done wonderful work. And you are making a general case. This is not a case in which New York is sui generis, is it?

Mr. SCHROEDER. Right. I think that is true. We wrote a paper last spring in which we did look at North-South differentials and, while the evidence is not as clear cut because not all the Southern States are the same nor are all Northern States the same, there does seem to still be, in general, many of these same problems, and I think the data of ACIR where it shows those particular——

Senator MOYNIHAN. Yes, there is a convergence of this kind of finding and the administration is deaf to it. Do you want to know why the administration is deaf to it? I will tell you why.

Consider the ACIR testimony which had that rather striking figure about the States with the lowest tax burden, Texas, Georgia, Wyoming, North Carolina, and New Mexico. If you are an administrator from Georgia and you are really progressive and decent people—which the administration really is—you just cannot emotionally believe there is such a thing as an overly developed public sector and when you ask for help for one, you are asking for something they do not believe exists. You are asking for something that is not there.

I remember the first year down here when the President asked me if I would speak opposite his successor, Governor Busby at the White House Conference on Regional Growth. And I said I would, and it was billed as a great debate, a great clash of views. It was not anything of the kind. Governor Busby is a very attractive and reasonable man.

I was speaking about the problem of New York, and he did interject at one point. He said, "You know what I have been doing for the last 3 years as Governor, trying to do, and not succeeding? I have been trying to establish kindergarten in Georgia." They do not have statewide kindergarten in Georgia. You know, we have full-time video equipment for 2-year-olds who are ready to start preparing for symphonic careers—well, that is an exaggeration, but not a full exaggeration. There are not many services that a modern society can provide that New York does not, in fact, already provide.

Mr. SCHROEDER. I think that is certainly very true. I would also add that during the period 1970 through 1977 I was a resident of Atlanta, teaching down there, so I do have some recognition of these difference. And the lack of a statewide kindergarten program was one of the major differences.

At the same time I think that there is some movement toward convergence in the needs and demands on the public sector between regions. That is as individuals move from the North to the South they take with them a demand for a State-supported kindergarten program.

Thus, while it takes time, it is very possible that this will hasten convergence between regions.

Senator MOYNIHAN. I had better hopes for that until that proposition 13 fever suddenly started sweeping the Nation and people started putting limits on it.

Well, we do not know. What we do know is that we are much in your debt and that of the Metropolitan Studies Center and we thank Professor Bahl and please give him my greetings. And we thank you, Professor Schroeder, very much indeed.

[The prepared statement of Mr. Schoeder follows. Oral testimony continues on p. 372.]

Fiscal Adjustments in Declining States--
The Role of Welfare Reform

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Fiscal Adjustments in Declining States--The Role of Welfare Reform

LARRY SCHROEDER

In accord with the background orientation theme of these hearings, I will address the topic of welfare reform in the context of economically mature states with already highly developed public sectors. While the bulk of my comments refer specifically to New York State, the conclusions reached are quite possibly applicable to other industrial states of the Northeast and Midwest.[1]

Three specific arguments are presented here. The first is that New York State has experienced relative economic decline over the past two decades and that these trends are likely to continue into the future. The second is that the state and local government sector of New York State, especially with its relatively large proportion of social welfare expenditures, is overdeveloped and that, in light of its economic situation, steps must be taken to reduce the relative size of this sector. The final point is that as this retrenchment occurs, an appropriate role for the Federal government is to assume an increased share of the burden of welfare lest the economically-disadvantaged bear a disproportionate amount of the costs of these cut-backs.

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[1] A region-oriented perspective (comparing 14 Northern Tier States with 16 Southern Tier States) focusing on many problems similar to those addressing here can be found in Roy Bahl and Larry Schroeder, "Fiscal Adjustments in Declining States," in The Municipal Fiscal Squeeze: Problems and Potentials ed. by Robert Burchell (New Brunswick: Center for Urban Policy Research, forthcoming).

The Economic Experience of New York State

It has been persuasively argued elsewhere that New York State has suffered from economic decline over the past two decades.[1] Absolute decreases in population since 1970 and nearly continuous declines in manufacturing employment since the middle 1960s both provide some basis for this conclusion. Furthermore, in relative terms it is quite obvious that New York today is no longer nearly as dominant vis-a-vis the rest of the nation as it was twenty years ago. Table 1 documents the State's relative decline in terms of three commonly-used measures of economic strength--population, employment and income. While New York's population share fell from 9.4 percent to 8.1 percent of national totals during the 1960-78 period, employment shares declined even more rapidly from 11.4 percent to 8.2 percent. As important was the fact that relative shares of income were declining over this same period at a rate faster than the decline in population leading to a fall in per capita incomes from over 20 percent above the national average to slightly greater than 5 percent above in 1978. There does appear then to be a definite convergence of the economic base in New York State to that of the rest of the nation.

Whether or not this convergence is likely to continue into the future is, of course, a speculative question. The natural workings of markets may tend to slow the rate of convergence as New York State approaches the rest of the nation. For example, relatively faster increases in wages in the

[1]Roy Bahl, "The New York State Economy: 1960-1978 and the Outlook," Occasional Paper No. 37, The Metropolitan Studies Program, The Maxwell School (Syracuse, New York: Syracuse University, 1979).

TABLE 1

PERSONAL INCOME, POPULATION AND EMPLOYMENT:
NEW YORK STATE COMPARED WITH THE NATION

	New York as Percent of United States					
	1960	1970	1975	1976	1977	1978
Population	9.4	9.0	8.5	8.4	8.3	8.1
Personal Income	11.5	10.7	9.4	9.1	8.9	8.6
Per Capita Personal Income	123.3	118.8	111.2	108.3	107.0	105.9
Employment	11.4	10.1	8.9	8.6	8.3	8.2

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics, Employment and Earnings, States and Areas, 1939-75, Employment and Earnings August and October, 1978, 1977, 1976, 1975; U.S. Department of Commerce, Bureau of Economic Analysis, Survey of Current Business, December 1965, p. S-2, August 1977, p. 8, Table 10, and August 1978, p. 15, Table 1; and U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System, Unpublished data, 1978; U.S. Bureau of the Census, Current Population Reports, Series P-25, No. 727, July 1978, and P-25, No. 799, April 1979.

South and West may alter former wage differentials that likely played an important role in the employment growth of these regions during the past twenty years.[1] Nevertheless, it does seem most reasonable to anticipate that convergence will continue. Forecasts from several long-term projection models suggest that New York State will experience continued net outmobility at least through 1990, continued relative decline in manufacturing employment and lower incomes relative to the rest of the nation.[2]

The Public Sector of New York State

That the state-local public sector within New York State is highly developed appears quite obvious from the data shown in Table 2. While its per capita state and local spending in 1963 was more than 27 percent greater than in the other forty-nine states, these expenditures were supported by incomes that also were considerably above those in the rest of the nation. Thus, relative to income, New York's committment to the public sector cannot be considered to have been overly developed in the early 1960s. However, the secular economic decline noted above together with expansion of its public sector have put New York into the position where (by 1978) its state and local spending per dollar of income was 30 percent greater than in the rest of the nation. Alternatively, while per capita incomes in New York in 1978 were approximately 6 percent above the rest of the nation (Table 1), its per capita state-local expenditures were 44 percent greater than elsewhere.

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[1]Interestingly, at least in terms of manufacturing wages through 1975, there does not appear to have been a substantial closing of the average wage gap between the South and other regions. See Dennis M. Roth, "Regional Employment Shifts and Wage Changes," Selected Essays on Patterns of Regional Change, U.S. Senate, Committee on Appropriations (Washington, D.C.: Government Printing Office, October 1977), pp. 21-101.

[2]For a review of five long-term projection models of population, employment or income, see Bahl, "The New York State Economy: 1960-1978 and the Outlook," 1979.

TABLE 2

GROWTH IN STATE AND LOCAL GOVERNMENT EXPENDITURES:
NEW YORK STATE AND THE REST OF THE NATION, 1963-77

	New York State		Rest of the Nation		New York State as a Percent of the Rest of the Nation	
Year	Per Capita	Per Dollar of Personal Income	Per Capita	Per Dollar of Personal Income	Per Capita	Per Dollar of Personal Income
1963	393.81	13.12	308.59	12.94	127.62	101.19
1964	458.18	15.38	352.29	14.96	130.06	102.46
1965	479.84	15.31	377.16	15.26	127.22	100.29
1966	530.11	16.31	411.96	15.47	128.68	104.76
1967	614.62	17.70	459.54	15.96	133.75	109.57
1968	703.89	18.50	493.33	16.12	142.68	112.91
1969	816.23	19.93	554.32	16.72	147.25	119.17
1970	919.35	20.61	626.04	17.28	146.85	116.81
1971	1075.50	22.71	700.48	18.39	153.54	120.40
1972	1238.72	24.80	759.07	18.83	163.19	131.69
1973	1319.41	25.03	819.41	18.71	161.02	129.29
1974	1448.20	25.17	891.92	18.08	162.37	134.06
1975	1611.14	25.49	1027.07	19.31	156.87	127.91
1976	1735.41	26.38	1140.37	19.69	152.18	133.98
1977	1795.24	25.35	1213.76	19.24	147.91	131.08
1978[P]	2201.5	28.92	1528.78	22.14	144.00	130.65

SOURCE: Governmental Finances in 1963-77, Series GF/No. 5, Tables 18,26; 1962/3 and 1963/4: Tables 17, 25; 1966/7: Tables 13, 27; 1977/8: Tables 12,26. (Preliminary data).

Often noted in any discussion of state and local expenditures within New York is spending on public welfare. As the data in Table 3 suggest, the period 1963-78 saw New York state-local public welfare expenditures, both in per capita terms and per dollar of personal income, increasing greatly relative to the rest of the nation. In fact, relative welfare expenditures increased in New York State at a rate faster than did relative total state and local spending. Whereas in per capita terms New York spent 13.7 percent more on public welfare in 1963 than did the other states, this ratio had risen to nearly 83 percent more by 1978. This is considerably greater than the 44 percent larger total per capita state and local expenditures for all functional areas (Table 2).

Several reasons lie behind these increases. The above-cited changes in the New York State economy, especially its experience during the national economic declines of 1969-71 and 1974-75, increased the need for and participation in welfare programs (see Table 4). Second is the fact that there exists in New York State a wider variety of income transfer programs than generally available in many other states. For example, "Home Relief" is available to provide "financial assistance for needy persons who do not meet the eligibility requirements of a federally administered or aided category."[1] In addition, some Federally-funded programs (e.g., SSI) are supplemented from own-source revenues. Finally, based on current statutes, the principal public assistance program (Aid to Dependent Children) and the Medical Assistance program are supported nearly equally from Federal and state-local

[1] New York State Department of Social Services, Annual Report, 1978 (Albany, 1979), p. 8.

TABLE 3

GROWTH IN STATE AND LOCAL GOVERNMENT PUBLIC WELFARE EXPENDITURES: NEW YORK STATE AND THE REST OF THE NATION, 1963-77

	New York State		Rest of the Nation		New York State as a Percent of the Rest of the Nation	
Year	Per Capita	Per Dollar of Personal Income	Per Capita	Per Dollar of Personal Income	Per Capita	Per Dollar of Personal Income
1963	32,62	1.09	28.69	1.20	113.70	90.31
1964	35.51	1.19	29.58	1.26	120.05	94.44
1965	40.35	1.29	31.78	1.29	126.96	100.00
1966	46.22	1.42	33.30	1.25	138.80	113.75
1967	59.29	1.71	39.89	1.39	148.62	123.22
1968	95.44	2.51	44.72	1.46	213.42	171.81
1969	120.46	2.94	53.94	1.63	223.32	180.41
1970	134.81	3.02	66.06	1.84	204.07	164.21
1971	155.44	3.28	81.80	2.16	190.02	151.93
1972	180.74	3.62	93.49	2.32	193.33	156.01
1973	201.12	3.82	103.91	2.37	193.55	160.99
1974	213.18	3.71	108.05	2.19	197.30	169.19
1975	231.62	3.76	117.92	2.21	196.42	170.26
1976	281.07	4.27	134.06	2.31	209.66	184.97
1977	296.87	4.19	147.39	2.35	201.42	178.40
1978[p]	296.16	3.89	161.86	2.34	182.98	166.01

SOURCE: Governmental Finances in 1963-77, Series GF/No. 5, Tables 18, 26; 1962/3 and 1963/4: Table 17,25; 1976/7: Tables 13,27; 1977/8: Tables 12,26. (Preliminary data)

TABLE 4

SELECTED INDICATORS OF SOCIAL WELFARE ACTIVITIES IN NEW YORK STATE, 1963-77

Year	All Public Assistance Programs[a]		Aid to Dependent Children		Medical Assistance	
	Monthly Average Number Cases	Monthly Average Number Persons	Monthly Average of Persons	Monthly Average Payment Per Person	Monthly Average Number of Beneficiaries	Yearly Average Payment
1963	262,222	647,817	440,817	$ 42.43		
1964	286,306	721,544	497,038	45.29		
1965	310,460	789,440	548,011	48.49		
1966	308,497	826,413	596,313	51.09	229,151[c]	$1,035
1967	358,478	984,561	721,580	55.84	460,102	1,319
1968	443,976	1,210,601	886,860	67.45	875,371	1,184
1969	511,191	1,371,147	1,013,948	65.40	958,236	1,073
1970	577,022	1,520,622	1,126,994	70.02	895,843	1,150
1971	670,868	1,724,886	1,266,192	75.23	992,976	1,602
1972	727,339	1,802,086	1,289,750	78.43	970,523	1,884
1973	703,348	1,694,229	1,232,039	79.81	1,040,564	1,829
1974	432,543[b]	1,355,922[b]	1,176,724	93.25	1,083,451	1,957
1975	490,823	1,459,651	1,217,265	99.10	1,151,619	2,407
1976	529,727	1,484,145	1,231,361	118.75	1,236,031	2,362
1977	529,362	1,430,556	1,213,391	117.28	1,128,068	2,368

[a]Includes Aid to Dependent Children, Emergency Assistance to Families, Emergency Assistance to Adults, Home Relief and, prior to 1974, Aid to the Aged, Blind and Disabled. Emergency Assistance to Adults and Home Relief are financed entirely from State and Local Appropriations.

[b]Effective January 1974, the Aged, Blind and Disabled programs were transferred to Supplemental Security Income (SSI).

[c]Medical Assistance became effective May 1, 1966 under Title XIX of the Social Security Act.

SOURCE: New York State Department of Social Welfare, Statistical Supplement to the Annual Report (Albany, various issues).

sources. Currently the Federal-state-local sharing proportions for the Aid to Dependent children is 50%-25%-25% and for Medical Assistance it is approximately 46%-27%-27%. Thus, to the extent that payment levels increase, primarily due to inflation, own-source revenues must bear over one-half the burden.[1]

While the role played by social welfare programs is an important one, of more interest here are the general future tax and expenditures policies to be undertaken in states like New York. The trends cited above suggest that the overly developed public sector within New York State must somehow be pulled more into line with its economic base. Recent actions taken within the State imply that this need is understood and appreciated by policy-makers. There recently have been decreases in taxes on both personal and business incomes, probably under the belief that high tax burdens are at least a partial cause of the economic problems of the State. Secondly, a wide variety of tax and loan incentive programs have been made available to those undertaking new investments within the State. In fact the list of these programs appear as extensive as anywhere else in the nation.[2] Third, there has been an attempt to slow the rate of increase in expenditures and, based on the data in Table 2, this apparently has succeeded.

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[1]The fact that the State of New York and its localities (counties, except for New York City) share nearly equally in the burdens for social welfare services raises further important financing issues. Service levels are basically mandated by the State with revenue raising responsibilities shared with its localities; yet the tax structures of the local governments may be less responsive to income changes. This is, however, basically an intrastate issue and outside the subject under examination here.

[2]For a description of these varied programs together with summar information on programs in other states, see New York State Department of Commerce, Bureau of Business Research, Tax Incentives and Financing Assistance for Industrial Locations (Albany, 1978). Whether or not such programs are either effective or socially efficient is, unfortunately, open to question. For a review of the issues involved, see Larry Schroeder and Paul Blackley, "State and Local Government Locational Incentive Programs and Small Business

Relative to the rest of the nation, declines are observed in per capita state-local spending since 1974 and in spending relative to personal incomes within the State since 1976. Furthermore, in his recent budget message, Governor Carey proposed that there be an explicit policy to decrease State government spending relative to personal income in the State from its present 9 percent level to 8 percent by FY 1985.[1] In addition the Budget Message called for further efforts to decrease error rates associated with the various welfare programs--efforts that have been stressed both in Budget Proposals and new program initiatives over the past several years.

The Potential Role of the Federal Government

In light of the general relative decline of the industrial Northeast and Midwest, what role can, or should, the Federal government play? On the one hand, it does not seem reasonable for the Federal government to employ massive grants simply to maintain an overdeveloped public sector. This would likely only prolong the period of continuing fiscal crisis and is unlikely to succeed in reversing what may be a natural consequence of a maturing economy that has lost at least some of its comparative economic advantages. On the other hand, a purely laissez-faire approach that allows purely market forces to attain a new equilibrium also does not seem reasonable. Instead, there should be a recognition that States such as New York must retrench to a lower level of public services and that the Federal government can aid in this transition process.

(cont.) in Region II," A paper prepared for the Small Business Administration project, "The Regional Environments for Small Business and Entrepreneurship," (Syracuse, New York: Metropolitan Studies Program, 1979).

[1] Hugh L. Carey, State of New York Annual Budget Message, 1980-81 (Albany, January 22, 1980), pp. M6-M11.

While retrenchment is certainly called for, little is currently known about the management of cutbacks in the public sector.[1] Yet it must be recognized that there exists a set of competing demands facing this sector--demands which are likely to become more intense in an environment of relative cutbacks. Committed spending in the form of per capita debt service costs in New York State far exceed those in the rest of the nation.[2] The capital infrastructure in the State has long been ignored with considerable expenditures necessary to bring it up to standards.[3] There is some evidence that public sector wages have lagged behind those in the rest of the nation, a fact that may entail further pressures on the fisc. While the long-term demographic changes in the State have lowered the size of the school age population, the aged, with their own special needs and demands, now constitute a significantly larger proportion of population totals.[4]

New York thus faces the situation wherein it must cut back on the relative size of the public sector yet there will be major pressures applied

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[1] For a discussion of issues associated with the management of organizational cutbacks, see the "Symposium on Organizational Decline and Cutback Management," edited by Charles H. Levine, Public Administration Review (July/August, 1978): 315-357.

[2] For example, in 1977-78 state-local per capita interest on debt in New York was $149.87 (second only to Alaska's $298.61) or 2.73 times greater than the United States' average of $54.95. From U.S. Bureau of the Census, Governmental Finances in 1977-78 (Washington, D.C.: Government Printing Office, preliminary data), Table 24.

[3] Issues associated with the deteriorating capital infrastructure and its financing are discussed in George E. Peterson, "Capital Spending and Capital Obsolescence: The Outlook for Cities," in The Fiscal Outlook for Cities, ed. by Roy W. Bahl (Syracuse, New York: Syracuse University Press, 1978), pp. 49-74. While the focus there is on cities, the problems of financing capital spending are not limited to only the largest cities in the nation. See for example, Office of Environmental Quality, New York State Department of Environmental Conservation, "Financing Environmental Capital Infrastructure in the State of New York During the Coming Decade: A Case Study for Allegany and Broome Counties," (Albany, 1979).

[4] For evidence on these wage and demographic trends, see Bahl, "The New York State Economy: 1960-1978 and the Outlook," 1979.

by different segments of the population to derive larger pieces of the relatively smaller pie. Where does this leave the segment of the population currently served by social welfare expenditures? At least one scenario of the State's future would have it achieving its goal of decreasing the relative size of the public sector to fall into line with that in the rest of the nation, but that the primary burden of this decrease would be placed upon those least able to mount a campaign against such cutbacks--namely the lower income residents of the State.

What this they suggests is increased Federal assistance to ease the transition period to a lower relative level of public sector activity in states such as New York. A well-conceived program involving increased Federal participation in welfare programs would seem to provide a vehicle whereby this retrenchment could occur without placing undue costs on the economically least advantaged segment of its population.

Senator MOYNIHAN. And now Mr. George Gilder of Tyringham, Mass.

Mr. Gilder, you are an author of a wide and acclaimed achievement and we have asked you to come and talk to us about some of your findings about the personal aspects of this subject and your own very personal researches.

STATEMENT OF GEORGE GILDER, TYRINGHAM, MASS.

Mr. GILDER. Thank you very much for the opportunity.

In answer to your question, I think the chief thing that has struck me is that the situation in the inner city has been getting steadily worse, in accordance with all the indices that you used in your famous report focusing on the black family. All those indices—family breakdown, youth unemployment, crime rates among juveniles—have all as much as doubled since the year that you made these studies.

This leaves me to raise the question of whether poverty does have very much to do with the kind of measures of income which are chiefly employed in measuring it in most of the literature on the subject of welfare.

It seems to me that poverty is more a state of mind and family disorganization, than it is of income in a society like the United States. So, since 1965 we have had a war against poverty which did, indeed, change the pattern of distribution of income in the country to such an extent that it is now said that only 6 percent of Americans are below the poverty line—and indeed, that 6 percent is a rotating number. That means that a very small proportion of the American people are impoverished by this standard of income.

But it seems to me that this misrepresents the situation drastically, that in fact, you cannot reduce poverty by redistributing income. You intensify and exacerbate it by this process.

So that what you have is more family breakdown than before, and you have an increasing collapse of the man's role as provider which is the crucial force in economic development in all countries. And to the extent that welfare programs make the man's role more optional, they therefore exacerbate poverty. And that is what any income maintenance system will do.

The Denver and Seattle experiments are often treated as though they examine some utterly unlikely program of national income guarantees. But, in fact, we have a program of guaranteed incomes for any girl over 18 who is willing to have an illegitimate child, or for any family which is willing to break down or separate. What the Denver and Seattle experiments demonstrated was that if ADC were more effectively marketed, if you extended the war on poverty from the center city where it has already so marvelously triumphed into the rural areas and reached out more successfully to poor white families, you could easily double the number of recipients of ADC. I think this is a particularly important perception at a time when increasing numbers of Hispanics are entering the country and are likely to continue entering it because of the increasing need for menial laborers in many parts of the economy and the aging of the baby boom generation. This group is no longer so willing to do agricultural labor and other various kinds of industrial labor.

The social security system is also going to come under increasing stresses. So it seems to me inevitable that large numbers of new immigrants are going to come to our shores and we are going to accept them. The question is whether they are greeted with bilingual education programs and engraved invitations to join the welfare culture or whether they are treated the way other immigrants throughout our history have been treated in the glorious saga of upward mobility in American society.

There is just as much opportunity as ever for small business. Since 1955 there has been a tripling of the number of small business starts in the country. The whole idea that there is a closing down of opportunity within our economy is erroneous, as many immigrant groups who have not been inducted into the welfare culture have demonstrated.

My answer to this, to the extent that I have one, is your previous answer: child allowances accompanied with the deterioration of the benefits through inflation—not deterioration necessarily in their ability to sustain people, but rather changing them into inkind benefits and various subsidies that are less attractive than money and leisure, which is the welfare package.

The advantages of child allowances, which you taught me, are that they mean welfare is not the only source of income in the society that expands as the family grows larger. That is one point.

Another point is that child allowances relieve the pressure to increase the minimum wage all the time on the assumption that every income has to support a——

Senator MOYNIHAN. That is a new point. Every job need not support a family of five. A great number of people holding it do not have any family at all, or only one or two children.

Mr. GILDER. That is right.

And also, child allowances reach not only the welfare family but also the welfare prone family as it expands. So it will have those effects of reinforcing family stability that, unfortunately, the family assistance plan did not, because it was means-tested and thus did erode the man's role as provider as the benefits increased.

And I think, therefore, the general direction we should pursue is child allowances, not means-tested. They cannot be means-tested. As soon as they are means-tested you get the same problems that AFDC and all these other programs have. In addition, we need a change of the current benefits into forms that are less attractive. This is the hardest nut to crack but it may be that, if inflation proceeds as we anticipate in the next several years, these benefits will decline in real value.

If they are indexed, however, to the CPI as social security is, it will mean that the position of nonworkers will steadily improve with relation to the rest of society because most people's incomes do not increase in proportion to the CPI and the CPI itself probably exaggerates inflation by about 20 percent.

So that anything attached to the CPI in fact is improving the position of indexed income earners.

Senator MOYNIHAN. Have you done any study of this, or have you just read other studies, about the arguments concerning the CPI and the weighing of new housing, and things like that.

Mr. GILDER. New housing, but also mortgage interest, which, of course, is only partly real interest. The other part is all an inflation premium which actually pays back part of the principal and is, more over, tax deductible.

So most people——

Senator MOYNIHAN. Most people make money out of interest.

Mr. GILDER. They benefit from it.

Senator MOYNIHAN. Yes.

Mr. GILDER. So we have two parts of the CPI that together comprise between 20 and 25 percent which are items which are actually benefiting most people who experience them. And so if you index these benefits, you are creating a steadily expanding burden on the productive parts of the economy, as the social security system will do to the extent that it is indexed. It will steadily increase incentive to retire and to qualify for it in various ways.

Senator MOYNIHAN. That is something that has to be addressed. It is an innocent figure when it is put together for the benefit of those who are curious and for the Council of Economic Advisers. But now it has suddenly become an engine of cost increases in Government—yes, I think the time has come for a fresh look at that CPI.

But now, tell me. Speak a little bit to your own research on the effect of the existing welfare systems. There is not much real data here, is there.

Mr. GILDER. No. I think it is all just terribly mushy. I spent 2 years living next to what could be called inner-city Albany which really is not very inner city, but interviewing people in the welfare culture.

Senator MOYNIHAN. What is the name of that? The Hill?

Mr. GILDER. Clinton Avenue, Arbor Hill.

Senator MOYNIHAN. Arbor Hill. Arbor Hill against the world. I was married in Albany and my first children were born there in the 1950's and I knew Arbor Hill well.

It was not then, you might be interested to know, a slum. It was a community, a racially-defined community, but a very intensely, highly organized one and proud of itself.

Mr. GILDER. I did compare the figures from the earlier period with the period that I was examining and there had been a steady deterioration by all those indices that you had used in your report on the family.

Senator MOYNIHAN. That collapsed. Something happened in the sixties. What do you think it was?

Mr. GILDER. I think it is the war on poverty. I think it is a preoccupation with poverty that could only identify one group of poor people. The rest of the poor people were very elusive. But at least you could find blacks, and you knew where they were, and you could go and direct all of the programs toward them, and the result was that this war on poverty arrested in its tracks an ongoing improvement in the conditions of blacks in America's inner cities.

Senator MOYNIHAN. That is nothing if not a boldly formulated proposition.

Mr. GILDER. I think that is what happened and I think it is a terrible tragedy which we should be very careful not to extend to

Hispanics. Hispanic families have been more intact and more stable than black families until recently. Now Hispanic families are beginning to break down at twice the pace that black families are currently dissolving and this is just a terrible tragedy. Because what you are seeing is the destruction of the only engine of upward mobility in any economy.

The family is it. That is what makes people rise up. It makes people work and accomplish. And if you have other sources of family support, the man is off on the street or going from one household to another. This is a crucial point of my book on Albany: most of the welfare recipients are not on welfare, so that any job programs or any of the other uplift programs that are restricted to the welfare population itself miss all the able-bodied men who are benefiting from welfare—in other words, the men who are not listed on the roles but who live off a succession of different welfare mothers.

That is one of the real problems of all welfare reform programs that try to change the incentives of the people listed. Of course, the crackdowns on the so-called able-bodied men always hit aging winos and people who just cannot cope and are really in bad shape anyway. The crackdowns always focus on these vulnerable men while the men who are actually perfectly able bodied and living off welfare through a succession of welfare mothers are not touched by any of these reforms or restrictions.

That is really the tragedy because those people could work and they could be conferring upward mobility on the innercity black population as so many other immigrant groups are doing.

Right now in American cities with unemployment rates in the ghetto of up to 50 percent or something among ghetto youths you have, at the same time, Koreans and Vietnamese, Lebanese and West Indians and Portugese and Chinese and all sorts who are moving up very rapidly just as any other previous group arriving on our shores. It is the dependency culture that prevents this upward mobility among ghetto blacks. Incidentally, most of black society is continuing upwardly mobile. All these comments, of course, are focused on the inner-city welfare culture.

Senator MOYNIHAN. That sort of dividing phenomenon that we begin to see.

Mr. GILDER. And there are a lot of whites in it too.

Senator MOYNIHAN. There is a convergence in what you say and what Eli Ginzburg said this morning. I thought it was a remarkably resonant statement and I think you probably heard it. When he said that in the 1930's when the British turned to the dole, to welfare as a way of dealing with recession, and you villages in Wales where no man had worked in 10 years, it was then that President Roosevelt turned to job creation.

And you had that summary of things, the PWA and the WPA and the Civilian Conservation Corps and so forth, and it certainly was work, even though it was described as leaf raking because it was not hard enough for the standards of the time.

And then we had the War on Poverty. Mr. Shriver was at President Johnson's Cabinet table. Mr. Yarmolinsky and I, who came with him, were sitting behind him. I was there at the creation, and we had in that program a proposal to create a million jobs by adding 4 cents to 6 cents to the cigarette tax. And President Johnson, who was only half-listening to us, heard that and he said, "Well, this year we are cutting taxes, we are not increasing taxes." And then he picked up the telephone and started talking to somebody else and that was the last that job development was heard of in the poverty program.

And we went, instead, to community organizing and service providing and things of that sort which, whatever they were, were different from the job creation pattern which had been the response of the Roosevelt pattern.

And we certainly intervened in a social system and 15 years later we surely cannot point to many indices in which we can say that the unemployment problems are all fixed up. To the contrary, most of the data, to the degree that any data impel us in this direction, have deteriorated.

And as they have deteriorated, the sources of the deterioration have become ever more deceiving, I think, and there is a huge avoidance of reality here—or at least I find it so.

This is a subject which, in the main, just is not talked about and no one is going to talk about it. One of the ways we have solved this problem is to act like it does not exist. And yet it does exist and one of the reasons for this—and you can tell any friends that you have in Cambridge, Mass., who want to know why we are having such terrible trouble getting welfare changes around this country—is that there are just too many parts of this country that do not want to happen to them what they think happened to us in New York. Do you have any sense of that?

Mr. GILDER. I think that is true, and it is right.

Senator MOYNIHAN. And you think they are right.

Mr. GILDER. They are right. You create those minimum standards across the country and you will greatly exacerbate the problem in all of the Southern States.

I did not only study Albany. I studied also——

Senator MOYNIHAN. South Carolina, did you not?

Mr. GILDER. Yes, I went to Greenville, S.C. and examined that data and also interviewed a great many people in Greenville. I had a few days of very intense interviews.

And it is right. The situation is better down there and the difference began at just the same time, about 1965. Before 1965, the Albany, N.Y. female-headed families were about the same number as they were in Greenville, S.C.

But at that point, there began a steep increase in the number of mothers of small children on welfare in Albany and no such increase happened in Greenville. I think maybe the impact of collective northern programs are becoming greater now, and I have been told by someone—I am not sure myself; I could not find any evidence—but I am told that Greenville is getting worse now, and I think if you did greatly increase the rate of ADC payments in Greenville, you could recreate the Albany situation.

There are all sorts of ways to misrepresent this data, because there are lots of old black women in the South who did not move North with their sons and even husbands, so they are female-headed families. You will not see the difference between Albany and Greenville that began in 1965 unless you examine young mothers, young female-headed families on welfare.

That is where the difference becomes dramatic between the North and the South.

Senator MOYNIHAN. Well, again, to relate to a remark of Dr. Ginzburg earlier on, he said we are not getting any welfare reform because there is such profound regional disagreement in this matter. I have not been here long enough to know if you are supposed even to mention such things.

But over in the conference committee on the windfall profits tax, we know there is a difference between North and South and between Alaska and everyplace else.

And so your thought, sir—you are basically of the proposition that family allowances, an early idea that we have been fooling around with—makes sense. We are the only industrial democracy that does not have family allowances and we are the only one that has this kind of dependency problem.

Mr. GILDER. England is imitating us increasingly, though.

Senator MOYNIHAN. They will get there.

The level of analytic competence is very low, partly because the subject has become so difficult. The costs of being direct are very painful and the bureaucracy in Washington cannot deal with this subject at all. It has in effect been silenced.

The level of boldless in a bureaucracy is rarely high and in this case the HEW bureaucracy—HS bureaucracy—is a welfare system of its own, frankly, and they have become addicted to it. They stay forever and do nothing.

Well, we thank you very much for some very strong medicine. I have a copy here of an article by you entitled "The Coming Welfare Crisis" and I would like to put this in the record, too, if I may.

Mr. GILDER. Thank you very much.

Senator MOYNIHAN. And I would like to thank you and express my admiration for someone who can be as devoted as you have been to finding out firsthand, to acquiring hands-on knowledge, of a difficult problem. It takes courage. It takes stamina. It takes the kind of nerve of failure which you do not find in bureaucracies and there are very few people who do it on their own.

We much appreciate your coming here, sir.

Mr. GILDER. Thank you very much.

[The material referred to follows:]

THE COMING WELFARE CRISIS

(By George Gilder)

As the seventies drew to a close there transpired in America a new consensus on welfare. From all parts of the political spectrum experts rushed forward to announce in confident tones beliefs that would have seemed shocking just a few years before. Within recent memory, there had been high expectations for "welfare reform," based on an earlier consensus in favor of federal income supports designed—depending on considerations of cost and work incentives—to lift all American families out of poverty. It was to be a negative income tax, redistributing money to the poor as automatically and comprehensively as I.R.S. takes it from the rest of us. Endorsed on various occasions by such diverse voices as Richard Nixon, Milton Friedman, George McGovern, Paul Samuelson, and—above all, in eloquent persistence, Daniel Patrick Moynihan—it was an idea whose time had apparently come.

Then in 1977, the same general position was adopted by President Jimmy Carter . . . and by coincidence, so it seemed, nearly all the others abandoned it. Moynihan announced, with great courage and simplicity: "I was wrong." Books and articles poured forth declaring that the present welfare system, for all its mainfest faults, was, as it were, "our welfare system, right or wrong": an almost geological feature, one expert described it, with rocks and rills and purpled hills like America itself. "A wonderfully complex array of programs, payment levels, and eligibility rules," wrote Martin Anderson, Ronald Reagan's counselor: "a complex welfare system dealing with the very complex problem of the poor in America." Anderson thought benefit levels could even be raised if work and child support requirements were stiffly enforced. But this new attitude of skeptical resignation to the existing system is no more promising than the earlier credulity toward radical reforms. Neither approach faces the most fundamental welfare problem, and both raise the danger of a welfare catastrophe in years ahead.

For many years, defenders of welfare have acknowledged that the system was harsh on intact poor families. The answer, it was widely agreed, was to extend benefits to families with unemployed fathers. This was done in twenty-six states and, to the surprise of some observers, had no effect on the rate at which poor families disintegrated. The reason was clear. As under the guaranteed income plans tested in Denver and Seattle, which showed some sixty percent increases in family breakdown and disastrous declines in work, the marriages dissolve not because the rules dictate it, but because the benefit levels destroy the key role and authority of the father. He can no longer feel manly in his own home. At first he may try to maintain his power by the exercise of physical strength. But to exert force against a woman is a confession of weakness. Soon enough, he turns to the street for his male affirmations.

These facts of life have eluded nearly all the sociologists who have studied the statistics of the welfare family. The studies focus on poverty and unemployment as the prime factors in family breakdown because the scholars fail to comprehend that to a great extent poverty and unemployment, and even the largely psychological conditions of "unemployability," are chiefly reflections of family deterioration. In any multiple regression analysis, these economic factors will loom largest as causes of family breakdown because they contain and reflect all the other less measurable factors (such as male confidence and authority) which determine sexual potency, respect from the wife and children, and motivation to face the tedium and frustration of daily labor. Nothing is so destructive to all these male values as the growing, imperious recognition that when all is said and done his wife and children can do better without him: the gradually sinking feeling that his role as the provider, the definitive male activity from the primal days of the hunt through the industrial revolution and on into modern life, has been largely seized from him; he has been cuckolded by the compassionate state.

His response to this reality is that very combination of resignation and rage, escapism and violence, short horizons and promiscuous sexuality that characterizes everywhere the life of the poor. But in this instance, the pattern is often not so much a necessary reflection of economic conditions as an arbitrary imposition of policy: a policy that by depriving poor families of strong fathers both dooms them to poverty and damages the economic prospects of the children.

In the welfare culture, money becomes not something earned by men through hard work, but a right conferred on women by the state. Protest and complaint replace diligence and discipline as the sources of pay. Boys grow up seeking support from women, while they find manhood in the macho circles of the street and the bar, or in the irresponsible fathering of random progeny.

The "crackdown" type of welfare reform attempts to pursue and prosecute negligent fathers and force them to support their children. But few of these fathers have permanent jobs that they value enough to keep in the face of effective garnishment. Those who do have significant incomes often give money voluntarily to the mothers of their children. But these funds are rarely reported. The effect of child support prosecutions in such cases is usually to reduce the amount of money going to the children by effectively diminishing the AFDC (Aid to Families with Dependent Children) allotment and to transform the father's payments from a morally affirmative choice into an embittering legal requirement. He tries to escape this situation as soon as he can. Attempts to force people to work and to support their children—when it is clearly against the financial interest of both them and their children—will always fail.

In the cases of the so-called "love children," born of barely post-adolescent fathers or of others passing by, the child-support litigations are equally futile, for the children are really the offspring of the welfare culture of AFDC. In a free society a man cannot long be made to work to pay for children whom he rarely sees, kept by a woman who is living with someone else. Work is not a matter of mere routine but of motivation—x-efficiency, as it has been called. The fathers arraigned for child support in the welfare culture typically make a few desultory payments and then leave their jobs or leave town. Some of them enter the world of part-time word for cash, or the more perilous but manifestly manly world of crime. Others eventually get new jobs in the often reliable hope that the computers will not catch up with them again. But the general effect is to add to the perils of employment and marriage.

Work requirements are particularly futile because they focus on women with small children, the official welfare clients, rather than on the unlisted beneficiaries—on the men who subsist on the system without joining it, who live off welfare mothers without marying them. These men are not necessarily fathers of the particular children they happen to be living among. They are just men who live for awhile with a welfare mother, before moving on to another one. These men are the key beneficiaries—and victims—of the system. Because the system exists, they are not forced to marry, or remain married, or learn the disciplines of upward mobility.

There are hundreds of thousands of these men. Their legion is the inevitable counterpart of the mass of welfare mothers who preoccupy all the social workers and reformers. Yet the mothers in general cannot lift their families out of poverty; nor can the social workers. Making the mothers work confers few social benefits of any sort and contributes almost nothing to the fight against poverty. Only the men can usually fight poverty by working, and all the anti-poverty programs—to the extent they make the mother's situation better—tend to make the father's situation worse, reducing his redemptive need to pursue the longer horizons of career.

These unlisted welfare men from a group almost completely distinct from the "able bodied men" actually listed on the rolls—aging winos, over-the-hill street males, wearied ex-convicts, all the halt and lame founderers of the world—who receive money under the "general assistance" category and are harassed mercilessly during every crackdown. The real able bodied welfare fathers are almost universally contemptuous of welfare and wouldn't go near a welfare office. In county jails across the land, these men disdain all transitional programs designed to give them aid after release while they get back on their feet. Welfare based employment programs, like those envisaged in Carter's reform proposals, will tend to miss all the youths on whom the future of poor communities will finally depend.

Even the anti-fraud efforts, necessary as they are, can have unfortunate results in the context of the welfare culture. The usual way to combat welfare fraud is to compare the welfare rolls—including all listed husbands and fathers— with lists of the holders of jobs, savings accounts, homes and other assets, in order to find any duplications. This approach can certainly discover some types of fraud. One is the most obvious and reprehensible: the fully employed woman with children who at the same time collects a day care subsidy and a welfare check, or sometimes several, perhaps even on the basis of false representations of the ages and number of her children. This kind of case, though relatively infrequent, always gets lots of publicity and is a great triumph for the welfare investigator. The more usual types of fraud are much more ambiguous. They consist of women on welfare with working husbands. Often these men no longer live with their wives or have anything much to do with them; the wives normally are living with other men. This case of fraud scarcely differs from all the legal welfare cases that also involve absent fathers and new men in the home. The chief difference in the illegal case is that the woman made the mistake of getting married and the man made the error of taking an officially recorded job, buying a house, or acquiring some savings.

The fraud cases, in other words, can often arise among the more honest and ambitious of the welfare recipients: the ones who tell the truth about the whereabouts of their husbands or the fathers of their children, the ones who make an effort to marry or save, or accept regular work—the ones in general who try to leave the welfare culture and thus come into the reach of welfare department computers. The anti-fraud techniques necessarily miss the welfare mothers who live and bear children, of dubious paternity, with a succession of men working from time to time in the cash economy of the street, or who themselves dabble in prostitution, sharing apartments with other welfare mothers while leaving the children with the grandmother upstairs, who is receiving payments for "disability" from a sore back.

Indeed, the ideal client according to the computer is a woman with several illegitimate children of unsure paternity who goes deep into debt and spends all her money as soon as it arrives: a welfare ideal that has proved easy enough to achieve for some hundred thousand young mothers in recent years. The efforts to radically reduce the welfare rolls by cracking down on morally unsatisfactory recipients—"shirkers" and "cheaters" and other miscreants whose crimes can bring crowds indignantly to their feet—normally offers a small yield of real offenders but a large number of marginal cases that would take thousands of Solomons to sort out fairly.

No one argues that welfare should not be resourcefully policed. The law must be enforced. But endless injustices and anomalies are absolutely unavoidable in any means-tested system. There is no such thing as a good method of artificial income maintenance. The crucial goal should be to restrict the system as much as possible, by making it unattractive and even a bit demeaning. The anomalies and perversities become serious chiefly as the benefits rise to the point that they affect the life choices of millions.

As in all insurance policies, it is the level of benefits that determines the "moral hazards." Fire insurance, for example, becomes an inducement to arson chiefly when a neighborhood declines to the point that the payoff exeeds the value of the housing. Our welfare system created "moral hazards" because the benefits have risen to a level higher than the ostensible returns of work and marriage.

Under these circumstances most of the cases are fraudulent, in the sense that most of the fathers could presumably marry the mothers of their children and could support them if they had to. But from another point of view, very few cases are fraudulent, since neither the mothers nor their men, in the context and psychology created by the system, could support their children at the levels of "decency" or "adequacy" specified by the U.S. government in its "low income budget." For an ill-educated man from the welfare culture to support a family at that level requires delay of marriage and childbearing until after the development of economic skills, and then the faithful performance of work over a period of years. These requirements are most essentially moral and familial. The attempt to elicit them by legal pressures while deterring them remorselessly by contrary financial incentives is as hopeless a venture as has ever been undertaken by government.

The most serious fraud is committed not by the members of the welfare culture but by the creators of it, who conceal from the poor, both adults and children, the most fundamental realities of their lives: that to live well and escape poverty they will have to keep their families together at all costs and will have to work harder than the classes above them. In order to succeed, the poor need most of all the spur of their poverty.

The battle between the two kinds of welfare "reform," liberal and conservative, is largely fake. Neither side is willing to tolerate fraud, both sides advocate largely fraudulent work requirements, and neither side understands the need to permit a gradual lowering of the real worth of benefits—by allowing inflation to lower their money value and by substituting relatively unpalatable in-kind supports. In fact, both sides are willing in principle to index the benefits to the price level, thus making them yet more reliable and attractive, still preferable in every way to the taxable, inflatable, losable, drinkable, druggable and interruptible earnings of a man (not to even consider the female recipient's own potential earnings which require many hours a month of lost leisure and onerous work). All earnings moreover, entail the hazards of foregoing Medicaid in sickness, food stamps in the grocery, housing subsidies for the lucky, and public defenders for the unlucky, often needed in the welfare world. The conventional wisdom on welfare has not even begun to acknowledge or come to grips with the implications of this long series of generous and seductive programs.

Any welfare system will eventually extend and perpetuate poverty if its benefits exceed prevailing wages and productivity levels in poor communities. A change in the rules can produce immediate cutbacks, as Reagan proved. But in time welfare families will readjust their lives to qualify for what is their best available economic opportunity. As long as welfare is preferable (as a combination of money, leisure and services) to what can be earned by a male provider, the system will tend to deter work and undermine families. Rigorous enforcement of the rules only means that the families must adjust more and conceal more in order to meet the terms specified by Washington.

The Denver and Seattle experiments give what should be shocking testimony to the existing dangers of AFDC. These tests are ordinarily discussed as if their interest was chiefly academic, bearing on the problems of some now utterly unlikely program of guaranteed incomes. But, in fact, AFDC already offers a guaranteed income to any childraising couple in America which is willing to break up, or to any teenaged girl over sixteen who is willing to bear an illegitimate child. In 1979, there were some twenty million families which could substantially improve their economic lot by leaving work and splitting up. Yet they did not. Three fifths of eligible two-parent families resist all the noxious advertising campaigns even to apply for food stamps, which they can have merely for the asking. Millions of qualified couples continue to jilt the welfare state. Only in the ghetto, among the most visible, concentrated, and identifiable poor, have the insidious seductions of the war on poverty and its well-paid agents fully prevailed over home and family.

What the HEW experiments showed, however, was that many of the yet unreached families are vulnerable to a better marketing effort. They will break down rather readily when fully and clearly informed of the advantages and not effectively threatened with child-support suits. In other words, the test showed that millions of jobs and marriages would be in jeopardy if placed in the midst of a welfare culture where the dole bears little stigma and existing jobs pay amounts close to the welfare level, or pay cash untraceable by official investigators.

The tests suggerst that as serious as existing welfare problems may seem, they are dwarfed by the potential crisis in prospect. At present, even among the actual clients of AFDC, only about one fifth have capitulated to the entire syndrome of the welfare culture. Only twenty percent accept the dole as a more or less permanent way of life. That twenty percent, though take some sixty percent of the money. The rest of the beneficiaries dip into the system during a few years of family crisis and then leave it, often never to return. One danger of benefits indexed to inflation is that they will induce increasing numbers of welfare cases to become welfare cultures, with results resembling Denver and Seattle.

The more profound threat, however, arises from the current demographic situation. There are three principal trends relevant to welfare: One is a fifteen year period of declining birth rates beginning in the mid 1960s; two is the aging of the baby boom generation; and three is the increasing reluctance of the American poor to perform low-wage labor. These trends mean that beginning in the mid-1980s, there will be a long-term decline in the number of workers available to support the increasing numbers of the retired. This development portends a grave crisis for our social security and pension systems. It is doubtful that work effort will persist if pension taxes rise to double and triple the current levels, even if largely disguised in value-added or other forms of concealed imposts.

The solution to this problem, though, is close at hand, looming beyond the shores of the Rio Grande. The current flood of immigrants, legal and illegal, will be permitted to join the official economy and replace the unborn workers of the baby dearth, who might have paid for the pensions of their elders. It takes no special feat of insight or imagination, or even much scrutiny of Latin American birth rates and economic growth levels, to predict this development. Immigration will persist. The current Hispanic minority, which now numbers some twelve million—about half the black population—will equal it within a decade or so. Whether the Hispanic minority will follow the footsteps of blacks into the welfare culture should be a paramount concern of American domestic policy.

As the seventies drew to a close the portents were dire. Hispanic families, once more stable than black families, retained a small advantage in proportions still intact, but they were breaking down at about twice the black pace. Legalized aliens were moving onto welfare in distressing numbers. Hispanics were increasingly adopting a posture of confrontation with the government, seeking aids and subsidies and "minority status," and were discernably slowing their movement into business and low-wage jobs.

Even more disturbing with the response of the U.S. government. Rather than learning the clear lessons of the American experience with Indians and blacks—the previous minorities reduced to a state of bitter dependency by government—the Washington bureaucracies were rushing to accommodate the new immigrants within the old formulas of "discrimination" and "poverty." Far worse, as Tom Bethell described in a devastating Harper's article, HEW adopted, in defiance of the entire glorious history of previous immigrants in America, an utterly indefensible program of bilingual education, which in practice means education in Spanish. At the same time, HEW is issuing requirements that all public documents and forms be translated for Hispanics. These actions simultaneously undermine the group's entry into American life and culture, segregate it in presumably separate but equal classrooms, often run, according to many reports, by anti-American teachers, and open the group chiefly to two influences: Spanish-speaking politicians with an interest in segregation, and Spanish translations of bureaucratic social programs.

These approaches together constitute for hispanic women a gilded path into the arms of the welfare state, and for Hispanic leaders, a glittering invitation to a politics of sedition and violence—to a prolonged posture of protest, with a segregated and subsidized captive audience, against the country that seduced their women and left their men without a role.

This is the danger that the welfare culture poses in coming years. It is a danger, however, that can be easily avoided. The necessary steps are clear. Welfare benefits must be allowed steadily to decline in value and attractiveness as inflation proceeds.

The Medicaid program, which alone provides a more than adequate reason to stay in poverty, must be amended to require modest payments in all but catastrophic cases, and to apply to the lower middle class. Rents must be paid directly to landlords, who are easier to supervise than hundreds of thousands of welfare clients, most of whom pay their rents only sporadically.

Under the present system, recipients treat their rooms as disposable items, so much residential packaging for their lives of dependency. Moving from apartment to apartment as landlords finally decide to evict them—leaving their quarters in a shambles—the members of the welfare culture tend to consume more housing, in terms of its financial value and depreciation, than the middle class does. This process is as demoralizing for the clients as for the landlords and for the government officials who condone it. It leaves vast stretches of many cities in a state of physical and social ruin. It can be mitigated at least by paying the money to landlords (a procedure used widely until a federal court vetoed it) or by issuing some kind of rental stamps that are difficult to convert into cash.

A solution to the welfare problem is possible if the essentials are understood. The preoccupation with the statistics of income distribution has led to a vision of poverty as the steady state of an inert class of citizens. Social policy is conceived as acting on these persons, but they are not believed to act on it—to exploit it in their own interests. For most people, however, poverty is a passing phase, caused by some crisis in their lives. The goal of welfare should be to help people out of these dire but temporary problems, not to treat temporary problems as if they were permanent ones—and thus make them so. This goal dictates a system nearly the opposite of the current one.

The current system, like Harvard in a popular epigram, is very difficult to get into but relatively easy to stay in. It is of comparatively little help to people in emergencies. Applicants normally have to wait weeks, fill out forms by the ream, submit to prolonged tests and evaluations, before they are finally admitted to the promised land. As a rule, the more generous the grants, the narrower the gates. The more commodious the benefits for the qualified recipients, the harder is the regimen for the unpremeditated poor: the woman newly arrived from afar, the man who lost his job or his wife, or suffered a medical catastrophe but did not choose to sell his home. New York State's welfare program, for example, is third in the country in the real value of its benefits but according to one study, it ranks fiftieth in ease of entry. California is not much ahead. Both programs create maximum incentives to qualify for them: maximum rewards for maximum familial strife and disruption. A sensible program would be relatively easy on applicants in emergencies, but hard on clients who overstay their welcome.

Ideally such a system should be supplemented with child allowances given to every family of whatever income for each child. These payments, which would be taxable, are designed to relieve the pressure on large families to become female-headed, because welfare is the only income source that automatically increases as the family grows. Allowances also reduce the pressure for constant inflationary increases in the minimum wage rate, by counteracting the idea that every wage by itself must support a family. If Moynihan's career in welfare reform yields any clear lesson, it is that professors in politics should advocate their favored programs rather than invent compromises supposedly more acceptable to the public. Moynihan's preferred policy was always child allowances, but he urged a guaranteed income scheme instead because he thought it would be more appealing politically to the Nixon Administration. The result was a lost decade of initiatives of little political appeal or objective validity.

Child allowances are currently in effect in most Western industrial nations, but the system has been most fully developed in France. There they were enacted as a program to promote large families. the evidence is that it failed in that goal but succeeded in strengthening all families and in permitting France to avoid the blight of dependency that afflicts the United States. Child allowances succeed because they are not means-tested. Because they do not create an incentive to stay poor, they avoid the moral hazards of the war on poverty, while giving support to the most welfare-prone families. There is no panacea. Overcoming poverty still inexorably depends on work. But in a world where Children are little permitted to earn money for the family, payments to those families that nurture and support the next generation represent a social policy with its heart in the right place.

Such approaches to welfare will win their advocates no plaudits from welfare rights organizations and few perhaps from politicians who enjoy the power of granting exessive benefits to some and cracking down on others. But a disciplined combination of emergency aid, austere in-kind benefits, and child allowances—all at levels well below the returns of hard work—offers some promise of relieving poverty without creating a welfare culture that perpetuates it. That is the best that any welfare system can be expected to achieve.

Welfare now erodes work and family and this keeps poor people poor. Accompanying welfare is an ideology—sustaining a whole system of federal and state bureaucracy—that operates also to destroy their faith. The ideology takes the form of false theories of discrimination, spurious claims of "racism" and "sexism" as dominant forces in the lives of the poor. The bureaucracies, devoted to "equal opportunity" and "affirmative action," combine with welfare in a pernicious campaign, subverting the morale and character of the poor—most expecially the poor who happen to be black. But the chief financial influence on every poor community, exerting continuous and erosive pressure on every lower middle class home, is welfare. Welfare reform remains crucial in any program to combat poverty. But from the viewpoint of the poor, successful reform must make welfare worse, not better. The welfare problem is that it is already much too "good."

Senator MOYNIHAN. Dr. Robert Hill, who is the director of research of the National Urban League was to appear at this point on the program—or directly before Mr. Gilder—and he is, of course, the author of a 1971 book called "The Strength of Black Families" and prepared a sequel in 1977 entitled "Informal Adoption Among Black Families" and he has a view that I think would be at variance, although not necessarily in opposition, to Mr. Gilder's. I would like to say we are sorry that he could not stay and I would like to put his testimony in the record at this time.

[The material referred to follows:]

TESTIMONY

OF

ROBERT B. HILL, Ph.D.

DIRECTOR OF RESEARCH

NATIONAL URBAN LEAGUE

BEFORE THE

SUBCOMMITTEE ON PUBLIC ASSISTANCE

U.S. SENATE FINANCE COMMITTEE

ON

PERSPECTIVES ON WELFARE REFORM

Thursday, February 7, 1980

10:30 a.m.--Room 2221

Dirksen Senate Office Building

My name is Robert B. Hill and I am the Director of the National Urban League's Research Department which is based in Washington, D.C. I would like to express the deep appreciation of the National Urban League and its President, Vernon E. Jordan, Jr., for providing me with the opportunity to speak to you on the subject of welfare reform. It is indeed rare that we are asked to appear before a Congressional committee to share broad principles and perspectives concerning an issue of such vital importance to this nation. Too often we are asked for specific reactions to particular sections of legislation and, consequently, often lose sight of the forest because of the proverbial trees. Thus, we wish to strongly commend this Subcommittee on Public Assistance for having the vision--and courage--to reassess popularly-held beliefs and myths about welfare reform in order to develop a viable system for helping those in need.

These remarks come from one who has conducted extensive research on the social and economic needs of black workers and black families for more than a decade as well as from one who represents an organization that has been directly involved in enhancing the social and economic well-being of low-income groups for about 70 years. In fact, since its inception in 1910, the National Urban League has served as the "HEW" to thousands of blacks and other low-income persons long before that department was established.

Over a year ago, the National Urban League provided this Subcommittee with seven principles that we felt should be given serious consideration in the development of any welfare reform legislation. Those principles were as follows:

1. THE SYSTEM SHOULD BE EQUITABLE AND UNIVERSAL
   Benefits should be available, under a single unified program to all Americans whose incomes fall below the basic level of decency. There should be no categorical division of the low-income population into different programs with different levels of benefits. There should be both vertical and horizontal equity.

2. BENEFITS SHOULD NOT BE WORK CONDITIONED
   Eligibility for benefits should not depend upon accepting a job or job training. There should be no mandatory work requirement. A jobs program should not be a component of any welfare reform plan. Rather it should be part of a full employment program.

3. THE PROGRAM SHOULD BE FEDERALLY ADMINISTERED

Federal administration will be more equitable and will eliminate the wide margin of local administrative discretion which current exists.

4. THERE SHOULD BE A NATIONAL MINIMUM BENEFIT FUNDED BY THE FEDERAL GOVT

This will insure that all Americans, wherever they live, will have access to an equal minimum level of benefits (relative to need) and be subject to the same criteria of eligibility.

5. THRE SHOULD BE ADMINISTRATIVE SIMPLICITY

The administration of the system should be such as to be easily understood by both administrator, the recipient and the general public. It should also be effective and cost efficient.

6. THERE SHOULD BE AN ERADICATION OF STIGMA

The syetm should not segregate, harass and stigmatize poor people. It should be humane and dignified and aid should be seen not as a privilege, but as a right.

7. BENEFITS SHOULD PREFERABLY BE IN CASH, RATHER THAN IN-KIND

Cash is the most effective way to transfer income for two reasons: (1) administrative and distributional costs are lower, and (2) the recipient is permitted a full range of opitions and can use the benefits in ways which most improve his or her welfare. Wherever possible, therefore, benefits should be in cash, rather than in-kind. While favoring cash over in-kind benfits, the National Urban League believes that many reasons justify the continued use of certain in-kind benefits, e.g, when cash assistance is not adequate to meet minimum consumption needs; when the service being provided is extremely expensive,but greatly need; when the service is scarce or does not respond to fee-market forces and has a basic social utility.

Myths About the Poor

One of the biggest impediments to meaningful welfare reform has been widely-held myths about the poor and welfare families. And we are convinced that it will not be possible to design any "viable" welfare system in the future unless many of these popular misconceptions and stereotypes are exposed as such to the general public as well as to policymakers. Fortunately, over the past decade there has been a positive accumulation of research knowledge about the actual characteristics of poor and welfare families that should be incorporated into any future welfare system. More specifically, we recommend that any welfare systems for the 1980's and 1990's should reflect the fact that:

(a) Poverty is not a static condition, but a dynamic one. Families move into and out of poverty periodically. The non-poor family of today may be the poor family of tomorrow. And vice versa.

(b) Most poor people do not need to be coerced to work. The only work incentive they need is a job at a livable wage.

(c) Most families stay on welfare for relatively short periods of time and the long-term dependent families comprise only about 10-20 percent of all welfare families.

(d) Welfare is the last resort and not the first for most poor families. This, in part, explains why half of all poor families today do not receive any welfare assistance.

In short, we contend that any future welfare system should be specifically designed to build on and reinforce the already-existing strengths, work orientation and self-help efforts of minorities and low-income families. What are some of these strengths?

In 1971, I wrote a book called, The Strengths of Black Families, that focussed on five positive attributes that characterized the majority of low-income and middle-income families: strong kinships bonds, strong work orientation, flexibility of family roles, strong achievement orientation and strong religious orientation. In 1977, I prepared a sequel to that study entitled, Informal Adoption Among Black Families, which described the significant role of black extended families in providing informal day care, foster care, adoption and preventive child abuse services to millions of black children throughout this country today.

Some commentators have misconstrued our emphasis on strengths to mean that we contend that black families have no weaknesses. On the contrary, we readily acknowledge that black families--like many non-black families--have weaknesses. But the only way we know that one overcomes weakness is through strength. We need policies that make families stronger by helping them to help themselves more effectively. This is why the National Urban League advocates that a perspective of strengths rather than of deficits or weakness be adopted as a problem-resolution strategy in designing policies, programs and services to meet the social and economic needs of minorities and low-income groups. Focussing on weaknesses may aid in the diagnosis of the problem, but focussing on strengths leads one to the cure!

We feel that we can best convey our concerns in this area by setting forth a preliminary outline of model welfare legislation that attempts to build on and reinforce the strengths and self-help efforts of low-income families. We, therefore, appropriately call it, "The Self-Help Services Act of 1980."

THE SELF-HELP SERVICES ACT OF 1980

1. Administration

This system would be federally administered and funded. National standards of need would be defined and payment standards to meet those needs would be established. These needs standards would also be periodically adjusted for inflation.

2. Minimum Benefits

National minimum benefits would be set at not lower than the official poverty level--which was \$6,628 for a family of four in 1978. However, this system would reward and not penalize states like New York that feel it necessary to provide minimum benefits above the national minimum in order to more adequately meet the needs of low-income families there. Moreover, families with incomes below the Bureau of Labor Statistics lower budget level (which was \$10,481 in 1977) would also be eligible for benefits under this system.

3. Eligible Families

All families would be eligible for assistance under this system whether or not they were one-parent or two-parent families or working or not working as long as their incomes were below the BLS lower family budget level.

a) Families with parents not available for work

Benefits would be available for one-parent and two-parent families with parents who are not available for work because of child care responsibility, illness or other impediments.

b) Families with parents who are unemployed, but available for work

One-parent and two-parent families with parents who are unemployed and available for work would be serviced by the "Full Employment Division" of the Labor Department. Such families may receive partial benefits in order to supplement inadequate unemployment insurance coverage. Or they may receive full benefits if they are not eligible for unemployment compensation or may have exhausted their jobless benefits. Special job training would be made available to these parents if needed, but this would not be a condition for their receiving benefits.

c) Families with working parents

These families would also be served by the Full Employment Division of the Labor Department. Partial or full benefits would be provided to one-parent and two-parent families with working parents whose total family incomes fall below the BLS lower budget level depending on their particular family needs. Incentives would be provided by permitting them to accumulate some savings. Lower rates of payroll deductions would also be taken out of the paychecks of these low-income working families.

4. Day Care

Low-income families with parents who are working or looking for work would be eligible for free day care services or receive a 100% tax credit for their child care expenses.

5. Food Stamps

Free food stamps and free school lunches would be available to all families with incomes below the BLS lower budget level. This would be available to low-income families even if they did not wish to receive financial benefits.

6. Medicaid

Medicaid assistance would be available to all families with incomes below the BLS lower budget level even if they did not require full cash benefits.

7. Adolescent pregnancy

Since the overwhelming majority of unwed adolescent mothers live with their parents in extended family households, this system would provide supportive services to parents of the unwed mother as well as to the young mother. Furthermore, these young people would not be forced to move away from their relatives to set up independent households in order to qualify for financial assistance. In short they would not be penalized for living in extended families. Moreover, special day care services would be provided to permit these young women to complete their schooling. Furthermore, special job training would be made available to the young fathers of the out-of- wedlock children in order to enhance their employability--and possibly marriagability.

8. Foster Care

The current reimbursement practices would be reversed, such that states would receive higher rates of reimbursement and matching funds for placement of foster children with relatives than they would for placement with non-relatives.

9. Elderly Services

Since about half of the black families headed by elderly black women are raising dependent kin, special supportive services would be provided to elderly families with informally adopted children.

In brief, these are the broad outlines of a welfare system for the '80's that we feel would go a long way toward producing families and children that will make significant contributions to this society. Thanks again for this opportunity.

Senator MOYNIHAN. And now, lastly, the much-abused bureaucracy. Mr. John Palmer, who is Acting Assistant Secretary for Planning and Evaluation of the Department of Health, Education, and Welfare.

Mr. Palmer, you still are from HEW?

Mr. PALMER. We still are until some time after April 2.

Senator MOYNIHAN. Some time after April 2.

Mr. PALMER. And before June.

Senator MOYNIHAN. And before June.

We welcome you, sir, and if you would introduce your associates who are, of course, known to the committee?

Mr. PALMER. Thank you.

On my left is Barry Van Lare who is the Deputy Assistant Secretary for Legislation for the Department and, on my right, Michael Barth, who is the Deputy Assistant Secretary for Income Security Policy.

Senator MOYNIHAN. We welcome you all.

STATEMENT OF JOHN L. PALMER, ACTING ASSISTANT SECRETARY FOR PLANNING AND EVALUATION, DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE, ACCOMPANIED BY MICHAEL BARTH, DEPUTY ASSISTANT SECRETARY, FOR INCOME SECURITY POLICY AND BARRY VAN LARE, DEPUTY ASSISTANT SECRETARY FOR LEGISLATION

Mr. PALMER. Mr. Chairman, we welcome this opportunity to discuss with you the several issues that we think must be considered as the Nation sets its income maintenance policy agenda for the last two decades of this century. The issues that emerge as the most significant will surely command our attention. Accordingly, your leadership in the examination of these matters is most important and they deserve our attention and effort.

Among the many issues that might be examined in this context, we believe that four stand out. These are: the reduction of poverty and welfare dependency, meeting goals of equity and adequacy in public assistance programs, the Federal-State financial roles in public assistance and the administration of public assistance.

Senator MOYNIHAN. Mr. Secretary, as you, I gather, are going to read a somewhat abbreviated form of your statement I will put the whole of it in the record first.

Mr. PALMER. I would appreciate that. Thank you.

I would just like to summarize a few of the high points of these areas and, in the process of doing that, be as responsive as I can be to some of the previous witnesses.

Senator MOYNIHAN. I am sorry to have to say that there is a vote that has just begun and I will have to leave in 10 minutes and then I really must get over to the conference committee—I am an hour late now. It is just one of those unhappy things.

So why do you not, rather than summarizing what you have said here, which I shall read with great care this evening, why do you not tell us what you think about what you have heard this afternoon.

You have heard a lot of criticism, pro and con, of just about everything.

Mr. PALMER. Let me just——

Senator MOYNIHAN. I am sorry about that vote.

Mr. PALMER. I understand.

Let me single out a few points. I think one would be with respect to the testimony that Dr. Ginzburg gave. I think it is most important, as we move forward to try to improve the adequacy and efficiency of our income maintenance programs that we do keep in mind the twin goals of continuing to reduce poverty in this country but, at the same time, to do it in a way that minimizes, as much as possible, the dependency on welfare of those populations that are able to work.

Dr. Ginzburg's message, I think, was twofold. On the one hand, it will be very hard to use employment strategies effectively to deal with welfare populations but on the other hand, there are some promising results that we have had. The supported work projects are promising. Some of the early returns in the employment opportunity projects that are eventually a pilot of the administration's welfare reform proposal are showing very good success in the placement of people in jobs in the private sector i.e., not having to have to put them into subsidized public service jobs.

I think that one of the major points that I would like to emphasize is the need to view income maintenance and job strategies as complements as we move ahead in this area. We need to provide both. Income maintenance should be both a supplement and a safety net for those populations whose primary source of income should be labor market activity and earnings.

Senator MOYNIHAN. What do you think about Mr. Gilder's proposition that the welfare system is basically destructive of just those virtues which we have in compensatory programs and that there is an absolute danger that the immigrating Hispanic culture is going to catch the urban problem?

Mr. PALMER. I think these are very complex matters which——

Senator MOYNIHAN. I know they are complex.

Mr. PALMER. I must admit our knowledge is not that firm. I think that it is important that we do take steps as much as possible to try to minimize people's dependency on the welfare system. I think it would be a mistake to feel that we could just somehow actively set a policy in place that would have welfare assistance deteriorate and assume that, in the process, we would actually be helping people on balance.

Senator MOYNIHAN. I am just being difficult because, if you think I am being difficult with you, this committee is going to be a damn sight more difficult than me when they find out that the new House bill will, Texas for example—exactly double the number of people who receive welfare. How are they going to think about that?

Mr. PALMER. There are two reasons why those figures are true. One, we will be moving people who are now subsisting at a level of maybe 50 percent of the poverty threshold up to 65 percent. That is certainly not a level of income support that I think is likely to undermine basic values in this country.

It is simply trying to insure that people have access to some very minimal decent standard of living. It is not a major departure. In building a minimum, I think there is a strong national interest in insuring that poor people in this country at least have enough to subsist on, on a day-to-day basis while we move on other fronts to try to reduce their dependence on that assistance in the long run.

The other part of those figures are with respect to extending assistance to the two-parent family population.

Senator MOYNIHAN. There would be another increase of approximately 40 percent in AFDC costs for those who are between the current level and 65 percent, and then there would be about 70,000 families who are two-parent families who have low incomes and who do not now receive benefits because Texas does not have the AFDC–U program.

Remember, you are going to have to explain that. I will do my best, and fortunately the Senator from Texas is very concerned with persons who are poor, but you are increasing the number of persons on welfare all over the southern United States.

Mr. PALMER. That is correct. I think the point I would like to emphasize with the Senator from Texas is that for the two-parent families it is simply the provision of a temporary safety net. The major emphasis is on trying to find job placements and then if we cannot do that, to find adequate subsidized public service employment and training slots.

Senator MOYNIHAN. The trouble is that our employment bill has not passed.

Mr. PALMER. I think that it is important to consider both of these bills in this context.

Senator MOYNIHAN. I am going to say something awful. Would you think it best if we put off considering this one until we see the employment bill?

Mr. PALMER. I think that the provisions that are in the cash bill, in and of themselves, merit serious attention independent of the jobs bill, but I also would hope that the Senate would consider both of them.

Senator MOYNIHAN. Yes. I want to assure you I completely agree. We are going to have a hard time getting this bill taken seriously by this committee because—if you divide the States between pro- and anti-welfare, as in some general way they are—it provides no fiscal relief of any significant kind to States that have the kind of overburden that the Advisory Commission on Intergovernmental Relations spoke of.

In New York we would actually throw some 39,000 families off welfare. These families will end up on home relief, which we pay for entirely. Then it also greatly increases the numbers of persons who are receiving welfare in the very States which have great institutional resistance to extending welfare benefits.

Mr. PALMER. Is the 39,000 figure you are referring to the Mathematica study?

Senator MOYNIHAN. Yes. That is all we know, and I am sure you will have a different view of it. Indeed, I hope you do.

Mr. PALMER. We will be coming up with an estimate that is far lower than that. I think there are strong reasons to believe that the Mathematica results are very implausible and we will submit a study very shortly to you that will show our problems with that and what we think the right numbers are.

Senator MOYNIHAN. Oh, good. We will put in the record what we receive in the mail on Monday. We did not do the study. The

Congressional Research Service designed and specified what they wanted and this just came to us. I am sure you have recognized that we were only reporting what has been found and I very much want to see you respond to any problems you have here.

Mr. PALMER. We would be pleased to do so.

[The following was subsequently supplied for the record. Oral testimony continues on p. 412.]

2/28/80

ESTIMATES OF FEDERAL AND STATE COST AND
CASELOAD IMPACTS OF H.R. 4904 AS APPROVED
BY THE HOUSE OF REPRESENTATIVES

I. Introduction

In May of 1979, President Carter sent to Congress two bills comprising his Welfare Reform Proposal for 1979. The first bill, which revised the Aid to Families with Dependent Children Program (AFDC), the Earned Income Tax Credit (EITC), and a portion of the Supplemental Security Income Program (SSI), was introduced in the House of Representatives as H.R. 4321, the Social Welfare Reform Amendments of 1979. The second bill, which amended the Comprehensive Employment and Training Act (CETA) and the Work Incentive Program (WIN), was introduced in the House as H.R. 4425, the Work and Training Opportunities Act of 1979.

The Department of Health, Education, and Welfare estimated that H.R. 4321, the Social Welfare Reform Amendments of 1979, would have a net Federal cost in FY 1982 of $3.0 billion assuming no changes in CETA or WIN legislation. This assumption permits cost estimates of this bill to be independent of actions by other Committees. The combined cost of both of the Administration's bills was estimated to be $5.7 billion. Details on the cost estimates appeared in the Administration's Welfare Reform Fact Sheet which was distributed on May 23, 1979.

On July 23, 1979, the House Ways and Means Subcommittee on Public Assistance and Unemployment Compensation reported out H.R. 4904, an amended version of the Administration's original proposal. On September 13, 1979, the full Ways and Means Committee reported out a further amended version of the Social Welfare Reform Amendments of 1979. HEW estimated the FY 1982 Federal cost of the Committee bill at $2.8 billion, about the same as the Subcommittee bill.

On November 7, 1979, the full House of Representatives approved a slightly amended version of the Social Welfare Amendments of 1979.

The Department of Health, Education, and Welfare has now prepared estimates of the cost of H.R. 4904 as approved by the House of Representatives. This reestimate has incorporated the new economic assumptions for FY 1982 included in the President's FY 1981 Budget. It also has accounted for updated information that has become available to the Department concerning State benefit levels and includes technical and methodological revisions and corrections. In making these estimates, we have consulted with Congressional, State, and other Executive branch staff.

In addition to the Federal cost impacts explained in Section II, this submission includes estimates of the State distribution of net Federal costs (Section III), State fiscal relief (Section IV), and changes in State AFDC caseload (Section V).

Like all cost estimates, these rest in part on assumptions about the future. Different assumptions would clearly produce different estimates. It is important therefore to keep several points in mind when reviewing these cost estimates.

- o Cost estimates of income assistance programs are particularly sensitive to economic assumptions about future years. Any significant increases or decreases in inflation or unemployment projections could change the costs of the bill.
- o The cost impact of several provisions, such as the national minimum benefit level, are dependent upon State-determined benefit levels in AFDC. The Department has assumed that States would increase benefit levels at the same rate as prices between now and FY 1982. If State benefit levels increase at a slower rate than prices, costs could increase. On the other hand, if States increase benefits at a rate higher than prices, the costs of this bill would be reduced.
- o The Department's estimate incorporates results (from the Seattle and Denver Income Maintenance Experiments) of the impact of income assistance on work effort. Generally, this research indicates that increases in benefit levels lead to decreases in work effort and thus increase the costs of income assistance programs. Further additional research, however, has indicated that the indirect effects on labor markets of this work effort reduction may significantly increase work opportunities and wages for income assistance recipients, and thus decrease program costs. These indirect effects could reduce the actual cost of this bill.
- o HEW staff is engaged in a continuing effort to improve its estimating techniques and the data on which the estimates are based. As better methods and data become available, these estimates may be revised.

II. Net Federal Costs of H.R. 4904

H.R. 4904 makes numerous changes in the AFDC program and also includes amendments to the SSI and Food Stamp programs and the Internal Revenue Code. The changes to the AFDC program and the expansion of the Earned Income Tax Credit are included in Title I of the bill and the cash-out of Food Stamp benefits for certain SSI recipients is included in Title II-A. Changes to the SSI program are contained in Title II-B and II-C and changes made to the Child Support Enforcement Program and other parts of the Social Security Act are contained in Titles III and IV of the bill.

The Federal cost estimates included in this submission represent the entire bill. However, the State distribution of Federal funds, the State fiscal relief, and the caseload changes have been provided only for the AFDC, EITC, and Food Stamp provisions of H.R. 4904. Cost and distributional analysis performed by the Congressional Budget Office and by Mathematica Policy Research for the Congressional Research Service have also focused on these provisions. The explanatory material in this submission and the accompanying tables will also focus on these portions of the bill.

The Department of Health, Education, and Welfare estimates that the FY 1982 net Federal cost of the AFDC, EITC, and Food Stamp aspects of H.R. 4904 to be $3.4 billion.*

The details of this estimate are found in Table 1. Table 2 contains cost estimates for the other components of the bill.

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* This represents an increase of $600 million over the estimate previously provided to the House Committee on Ways and Means in September of 1979. Approximately one-third of this increase is due to the incorporation of the new economic assumptions included in the President's FY 1981 Budget. Another one-third of the change is due to new information concerning State benefit levels in AFDC. Previously, HEW had used 1978 benefit levels to estimate the impact of the bill. However, information on 1979 benefit levels indicates that many States did not increase benefit levels. The relatively lower State benefit levels increase the costs of several provisions of the bill, including the national minimum benefit level. The remaining increases in costs were due to technical and methodological corrections made in estimating techniques and assumptions in response to comments from various Congressional, State, and Executive branch staff.

The HEW cost estimates are obtained using a large microsimulation computer model. The model uses data from the 1976 Survey of Income and Education which provides income data for U.S. households in 1975. The model simulates current and proposed law AFDC benefit costs and caseloads for each State.*

* Greater detail on the HEW micro-simulation model is contained in the attached methodological note on net Federal cost.

TABLE 1

COSTS OF H.R. 4904 for FY 1982
dollars in millions

AFDC-Related:	
National Minimum	+ 478
Disregards, EITC counting, assets	+ 33
Eligibility to break-even	+ 30
Monthly Reporting and Date of Application	- 100
Minimum Monthly Benefit	- 5
Mandate of UP	+ 89
Other UP Changes	+ 432
Offset from WIN Credit Expansion	- 30
Increase in Matching Rate	+ 778
Administrative Costs	+ 94
Subtotal, Direct AFDC	+1,799
Other:	
Hold Harmless Payments	+ 513
Net Cost of EN Block Grant	+ 154
WIN Tax Credit Expansion (gross)	+ 170
EITC impact of WIN Credit Expansion	+ 6
FICA impact of WIN Credit Expansion	- 16
UI impact of WIN Credit Expansion	- 5
Food Stamp changes	- 232
Medicaid changes	+ 64
Subtotal, Direct AFDC and Other	+2,453
Internal Revenue Code Changes:	
Expansion of the EITC	+ 562
Food Stamp Cash-Out:	
Increase in SSI outlays	+ 625
Decrease in Food Stamp outlays	- 222
Increase in Food Stamp outlays due to Jeffords Amendment	+ 15
Subtotal	+ 418
TOTAL COST OF AFDC, EITC, AND FOOD STAMP PROVISIONS	+3,433

TABLE 2

COSTS OF CHILD SUPPORT AND SSI PROVISIONS OF H.R. 4904 IN FY 82
(dollars in millions)

Child Support Enforcement (Title IV-D)	- 70
SSI-Related:	
Couples Living Apart	+ 2
Individuals in Certain Medical Institutions	+ 55
Sheltered Workshops	+ 2
Burial Expenses	+ 3
Deletion of the term child	+ 5
Assets Disposal	- 23
Rounding Cost of Living	- 19
Aliens	- 12
Disabled Child Services	+ 30
One-third Reduction	+ 35
Adjustment of Retroactive Benefits	- 27
Total SSI Impact	+ 51
Medicaid Impact:	
Deletion of term child	+ 1
Assets Disposal	- 3
Aliens	- 2
Total Impact, SSI-Related	+ 47

III. State Distribution of Federal Funds ("Flow of Funds")

One possible result of any proposed change in Federal expenditures is an alteration in the percentage of Federal dollars which flows into each State. The "flow of Federal funds" is defined as the impact on the distribution of net Federal expenditures across States caused by a particular policy change. This concept differs from "fiscal relief" which measures the difference between pre- and post-reform State and local spending on AFDC and related program activity. Fiscal relief is discussed in the next section.

HEW has estimated the Federal flow of funds that would result from H.R. 4904. These estimates were generated by using the State output from the HEW microsimulation model. The model distributes AFDC benefits across States. Food Stamp changes were distributed according to the net change in AFDC benefits for each State, since the decrease in Food Stamp costs occurs only because of the additional AFDC benefits to Food Stamp participants (i.e., Food Stamp benefit amounts depend (inversely) upon AFDC benefit amounts).

The distribution of Hold Harmless payments and Medicaid benefits are determined by secondary models which use the output of the main HEW model. The Hold Harmless calculation is made seperately for each State and is determined by the expected change in State AFDC costs given the programmatic provisions of the bill and the proposed decrease in the State matching rate. The Medicaid changes are estimated in a small model which determines the overall changes in State AFDC caseload and estimates the impact of existing State medically needy programs on the net change in Medicaid caseloads. The Emergency Needs block grant is distributed in accordance with the formula specified in the bill using data from AFDC program records for 1978. National estimates of the existing emergency assistance program are obtained from the Social Security Administration and distributed across the States on the basis of 1978 data. The effect of the WIN tax credit expansion is distributed according to estimated AFDC benefits for each State. This is assumed to account for differences in the relative size of State caseloads and prevailing wages. Administrative cost changes due to caseload changes are estimated on a State-by-State basis using average cost per case. Other administrative costs, such as those due to monthly reporting or the savings due to the standardization of work expenses, are distributed on the basis of post-reform AFDC benefits.

The State distribution of the Earned Income Tax Credit expansion is taken from the main HEW model and applied to Department of Treasury estimates of the national impact of the EITC expansion. The State impact of the cash-out of Food Stamps for certain SSI recipients is distributed on the basis of SSI data from the Social Security Administration and Food Stamp data from the Department of Agriculture.

Three flow of funds tables are included in this submission:

- o Table 3 shows the distribution of funds on the basis of the four Census regions: Northeast, North Central, South, and West. Separate flows are given for the total cost of the AFDC reform provisions of H.R. 4904, for the Food Stamp cash-out provision, for the tax portion of Title I(EITC), and for the non-tax portion of Title I("Cash Assistance"). Both dollar figures and percentage distribution across regions are shown.

- o Table 4 shows the dollar distribution across each State.

- o Table 5 shows the percentage of the various funds received by each State.

Because of the limited sample sizes in some of the smaller States, the regional distributions are more accurate than the State-by-State distributions, especially for specific provisions.

Each of the above tables also includes other distributions for comparative purposes.

- o Total pre-reform Federal AFDC benefits (AFDC PR). This is obtained by using FY 1982 national estimates of AFDC benefits from the Social Security Administration and the CY 1978 distribution of AFDC benefits across States.

- o Total post-reform Federal AFDC benefits (AFDC PO). This is obtained from the HEW model as described in Section II of this submission.

- o Total population (POP) and total population in poverty (POOR). This is obtained from Census publications based upon the 1975 Survey of Income and Education.

- o Fiscal relief (FR) and fiscal relief plus hold harmless (HH) payments. The distribution by State is in Table 6. These estimates are explained further in Section IV.

Many flow of funds analyses also include the amount and percentage of taxes paid by each State to the Federal government. However, unlike population or poverty counts, there is no uniform method of distributing these tax flows. In recent years, the Commissioner of Internal Revenue, the National Tax Foundation, and the National Insitute of Education have each published distributions which differed from one another. These differences result from many factors. Some distributions, for example, are unable to differentiate between Federal taxes paid by persons who both work and reside in a State and taxes paid by persons who work in one State but reside in another. There is no consensus among experts as to which is a better measure of a given State's contribution to Federal revenues. For this reason, the HEW analysis does not include a State distribution of Federal tax revenues.

The results of the attached tables, while complex, are not very sur- surprising. H.R. 4904 is a bill which increases benefits to the most needy families in the United States through provisions such as the national minimum benefit and which at the same time attempts to relieve the States of some of the financial burdens of welfare through changes in the rate at which the Federal government matches State-determined AFDC benefits. Most of the new Federal funds, therefore, flow to States with the lowest benefit levels while most of the fiscal relief accrues to States with highest benefit levels. Thus, while the South, where there are many low-benefit States, gets 57% of the new Federal funds, it gets only 7% of the fiscal relief plus hold harmless payments. On the other hand, the Northeast, where there are many high-benefit States, gets 12% of new Federal funds but 43% of the fiscal relief plus hold harmless payments.

The HEW results appear to differ substantially from those recently produced by Mathematica Policy Research for the Congressional Research Service. The full version of the Mathematica study cites a number of limitations which can significantly affect the distribution of funds across States, such as the fact that their analysis did not include the cash-out of Food Stamps or the effects of the asset test liberalization. While all estimates suffer from a certain number of uncertainties and omissions, the Mathematica results seem implausible. Two examples may clarify:

- The Mathematica report shows substantial declines in caseloads in the relatively high-benefit States, a sixteen percent decline in New York, for example. There are no provisions of H.R. 4904 which could cause this sort of reduction. The only provision which would make any significant reduction in the number of families eligible for AFDC in New York is the change in the earnings disregards. H.R. 4904 would lower the "break-even" point on earned income(or "eligibility ceiling") by $1,025 for a family of four (from $12,360 per year to $11,335 per year).* The 1975 and 1977 AFDC characteristics surveys show that only 9% of the AFDC caseload in New York report any earnings, and this conforms with information from New York State and City welfare officials. Even if every person reporting earnings was made ineligible by the disregard changes (which is certainly not the case), the caseload reduction in New York would be only 56% of the Mathematica estimate. HEW estimates using two separate data sources show only a one to three percent decrease in New York's caseload due to this bill (the three percent estimate includes the impact of monthly retrospective budgeting on the number of ineligible cases). Previous estimates provided to us by New York State

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* This example assumes no day care, but its inclusion would not affect the relative change in the eligibility ceiling.

officials showed an even smaller decrease. The caseload reduction shown by Mathematica affects the flow of funds in the following way. By simulating -- implausibly as we just indicated -- a substantial reduction in caseload, Mathematica also simulates a reduction in AFDC outlays, which are matched by Federal dollars. Hence, their analysis yields a lower flow of Federal dollars in part because of the reduction in caseloads. Therefore, some doubt is raised about the validity of the overall results.

o The Mathematica report also shows a very large increase in the caseload for the unemployed parents segment of the AFDC program. HEW estimates an increase which is large but less dramatic than Mathematica's (130 percent vs. 350 percent). A principal reason for this difference is that in the Mathematica simulation, the earnings amount at which one becomes ineligible for AFDC-U -- the $500 per month "gross earnings cutoff" -- was applied only at application, whereas the bill requires that it be applied to continuing recipients as well. Because Mathematica incorrectly simulated the bill, their estimate shows too large an increase in AFDC-UP caseloads.

IV. Fiscal Relief Estimates

Fiscal relief is a reduction in State and local expenditures. In a world of perfect knowledge, fiscal relief equals the amount of money a State would have spent with no change in the law, less the amount of money a State actually spent under the new law. Thus, in order to estimate fiscal relief for H.R. 4904, one must estimate for a future year State expenditures in the absence of reform and State expenditures under the bill. Hold-harmless payments are made to States when their expenditure exceed some pre-defined base which approximates State expenditures in the absence of reform.

Fiscal relief estimates are presented in Table 6. The methodology by which they are obtained is discussed in the Methodological Note on Fiscal Relief Estimates, below. Fiscal relief (column 1) equals pre-reform State AFDC outlays less post-reform State outlays. Under H.R. 4904, if fiscal relief is less than 5 percent of the pre-reform base, a hold harmless payment (column 2) is made so that fiscal relief plus the hold harmless (column 3) equals 5 percent of pre-reform State AFDC spending. Column 4 contains fiscal relief plus hold harmless as apercent of pre-reform spending.

NET FEDERAL COST (EXPENDITURE) IN 1982 OF WELFARE REFORM - IN - MILLIONS

PROGRAM	NORTHEAST DLRS.	NORTHEAST PCT.	N.CENTRAL DLRS.	N.CENTRAL PCT.	SOUTH DLRS.	SOUTH PCT.	WEST DLRS.	WEST PCT.	U.S. DLRS.	U.S. PCT.
TOTAL FEDERAL COST	414.0	12.1	617.3	18.0	1963.1	57.2	434.9	12.7	3429.3	100.0
CASH ASSISTANCE	263.3	10.8	418.1	17.1	1456.3	59.5	311.3	12.7	2449.0	100.0
FS/SSI CASH-OUT	53.3	12.7	79.0	18.9	258.6	61.8	27.4	6.6	418.3	100.0
EITC	97.4	17.3	120.1	21.4	248.3	44.2	96.2	17.1	562.0	100.0
PRE-REFORM FED. AFDC	2171.0	31.9	1895.9	27.8	1209.7	17.7	1539.0	22.6	6815.4	100.0
POST-REF. FED. AFDC	2368.4	27.8	2200.8	25.8	2202.5	25.9	1746.9	20.5	8518.5	100.0
POPULATION	48.8	23.1	57.0	27.0	67.9	32.1	37.7	17.8	211.3	100.0
POOR POPULATION	4.3	18.1	5.3	22.2	10.4	43.4	3.9	16.3	24.0	100.0
FISCAL RELIEF	306.0	155.8	130.5	66.4	-413.5	-210.5	173.5	88.3	196.4	100.0
FR + HH	307.5	43.4	158.5	22.3	46.5	6.6	196.7	27.7	709.2	100.0

FEBRUARY 15, 1980

TABLE 3

TABLE 4

FEDERAL COST OF WELFARE REFORM IN 1982
(IN MILLIONS OF DOLLARS AND THOUSANDS OF PEOPLE)

STATE	TOTAL	CASH	FS CO	EITC	AFDCPRE	AFDCPOST	POP	POOR
01 AL	188.6	152.5	23.2	12.8	67.9	175.7	3585	507
02 AK	3.3	1.5	1.3	.5	10.2	11.3	345	23
03 AZ	26.5	14.2	4.4	7.9	16.6	23.7	2274	314
04 AR	69.1	50.4	9.2	9.6	46.3	86.0	2126	392
05 CA	226.9	174.3	.0	52.6	1116.5	1225.7	20981	2192
06 CO	17.7	9.3	2.7	5.8	48.3	55.1	2536	230
07 CT	20.1	11.6	2.4	6.0	104.2	111.1	3062	204
08 DE	9.6	7.3	1.0	1.3	17.0	21.2	575	47
09 DC	4.2	.8	1.7	1.6	56.8	57.0	693	86
10 FL	143.2	93.7	18.7	30.7	106.3	165.5	8493	1225
11 GA	182.4	139.6	23.6	19.3	83.5	170.7	4908	803
12 HI	15.6	10.4	3.4	1.8	52.4	59.0	842	67
13 ID	4.9	1.4	1.3	2.2	16.6	17.4	823	85
14 IL	97.3	58.8	17.5	21.0	434.3	461.4	10983	1150
15 IN	54.9	34.9	6.4	13.6	84.3	103.0	5258	424
16 IA	37.5	29.4	2.4	5.7	75.9	100.1	2836	225
17 KS	26.9	18.0	3.4	5.6	46.6	61.8	2227	178
18 KY	131.3	107.3	12.5	11.5	102.3	183.6	3372	596
19 LA	149.7	112.3	24.3	13.1	80.8	158.3	3739	720
20 ME	18.8	12.4	2.7	3.8	42.3	52.9	1054	126
21 MD	53.0	38.6	5.2	9.2	101.6	126.5	4055	313
22 MA	52.9	43.2	.0	9.7	307.9	352.0	5746	408
23 MI	134.5	105.3	12.9	16.3	486.6	574.6	9063	821
24 MN	30.8	17.3	5.1	8.5	112.9	126.6	3888	324
25 MS	91.9	63.0	18.5	10.3	30.7	85.9	2325	607
26 MO	64.6	40.5	12.3	11.8	113.2	137.2	4704	565
27 MT	13.7	10.9	1.0	1.8	11.1	18.7	745	86
28 NE	9.6	4.0	1.7	3.9	26.9	30.2	1527	147
29 NV	6.4	3.8	.7	1.9	4.8	6.9	601	53
30 NH	5.1	2.7	.5	1.9	16.2	17.8	818	65
31 NJ	67.5	43.7	10.7	13.1	310.2	339.4	7240	586
32 NM	31.7	23.2	3.8	4.7	27.9	43.2	1152	223
33 NY	131.7	83.4	15.9	32.5	831.9	894.9	17815	1671
34 NC	114.0	68.7	20.3	25.0	114.5	167.7	5369	788
35 ND	6.3	3.7	.9	1.8	10.6	13.5	621	66
36 OH	111.9	75.3	15.6	21.0	305.3	364.8	10632	997
37 OK	34.2	20.1	5.5	8.7	58.6	72.9	2680	370
38 OR	40.7	32.2	3.5	5.0	86.4	112.0	2290	204
39 PA	106.8	61.5	18.7	26.6	498.0	537.4	11563	1133
40 RI	6.4	2.5	1.7	2.2	42.6	43.9	912	80
41 SC	93.2	67.1	13.8	12.3	48.1	99.3	2781	478
42 SD	8.2	5.2	.9	2.1	15.3	19.1	672	08
43 TN	169.8	132.6	20.5	16.8	64.5	168.1	4178	660
44 TX	419.8	330.7	40.6	48.4	93.8	277.3	12287	1870
45 UT	8.0	4.2	.9	2.9	34.7	37.3	1221	103
46 VT	4.6	2.3	.8	1.6	17.9	19.0	469	63
47 VA	62.6	35.7	13.7	13.2	93.4	118.6	4707	513
48 WA	37.4	24.9	4.2	8.2	109.8	132.2	3496	299
49 WV	46.6	35.8	4.2	4.5	43.6	68.2	1792	270
50 WI	34.6	25.8	.0	8.8	184.0	203.5	4569	352
51 WY	2.1	.9	.2	.9	3.7	4.4	376	33
TOTAL	3429.3	2449.0	418.3	562.0	6815.4	8518.5	211311	23790

TABLE 5

PERCENT DISTRIBUTION FEDERAL COST-OF WELFARE REFORM IN 1982

STATE	TOTAL	CASH	FS CO	EITC	AFDCPR	AFDCPO	POP	POOR
01 AL	5.5	6.2	5.6	2.3	1.0	2.1	1.7	2.4
02 AK	.1	.1	.3	.1	.1	.1	.2	.1
03 AZ	.8	.6	1.0	1.4	.2	.3	1.1	1.3
04 AR	2.0	2.1	2.2	1.7	.7	1.0	1.0	1.6
05 CA	6.6	7.1	.0	9.4	16.4	14.4	9.9	9.1
06 CO	.5	.4	.6	1.0	.7	.6	1.2	1.0
07 CT	.6	.5	.6	1.1	1.5	1.3	1.4	.9
08 DE	.3	.3	.2	.2	.2	.2	.3	.2
09 DC	.1	.0	.4	.3	.8	.7	.3	.4
10 FL	4.2	3.8	4.5	5.5	1.6	1.9	4.0	5.1
11 GA	5.3	5.7	5.6	3.4	1.2	2.0	2.3	3.7
12 HI	.5	.4	.8	.3	.8	.7	.4	.3
13 ID	.1	.1	.3	.4	.2	.2	.4	.4
14 IL	2.8	2.4	4.2	3.7	6.4	5.4	5.2	4.8
15 IN	1.6	1.4	1.5	2.4	1.2	1.3	2.5	1.8
16 IA	1.1	1.2	.6	1.0	1.1	1.2	1.3	.9
17 KS	.8	.7	.8	1.0	.7	.7	1.1	.7
18 KY	3.8	4.4	3.0	2.0	1.5	2.2	1.6	2.5
19 LA	4.4	4.6	5.8	2.3	1.2	1.9	1.8	3.0
20 ME	.5	.5	.6	.7	.6	.6	.5	.5
21 MD	1.5	1.6	1.2	1.6	1.5	1.5	1.9	1.3
22 MA	1.5	1.8	.0	1.7	4.5	4.1	2.7	1.7
23 MI	3.9	4.3	3.1	2.9	7.1	6.7	4.3	3.4
24 MN	.9	.7	1.2	1.5	1.7	1.5	1.8	1.4
25 MS	2.7	2.6	4.4	1.8	.5	1.0	1.1	2.5
26 MO	1.9	1.7	2.9	2.1	1.7	1.6	2.2	2.4
27 MT	.4	.4	.2	.3	.2	.2	.4	.4
28 NE	.3	.2	.4	.7	.4	.4	.7	.6
29 NV	.2	.2	.2	.3	.1	.1	.3	.2
30 NH	.1	.1	.1	.3	.2	.2	.4	.3
31 NJ	2.0	1.8	2.6	2.3	4.6	4.0	3.4	2.4
32 NM	.9	.9	.9	.8	.4	.5	.5	.9
33 NY	3.8	3.4	3.8	5.8	12.2	10.5	8.4	7.0
34 NC	3.3	2.8	4.9	4.4	1.7	2.0	2.5	3.3
35 ND	.2	.1	.2	.3	.2	.2	.3	.3
36 OH	3.3	3.1	3.7	3.7	4.5	4.3	5.0	4.2
37 OK	1.0	.8	1.3	1.5	.9	.9	1.3	1.5
38 OR	1.2	1.3	.8	.9	1.3	1.3	1.1	.9
39 PA	3.1	2.5	4.5	4.7	7.3	6.3	5.5	4.7
40 RI	.2	.1	.4	.4	.6	.5	.4	.3
41 SC	2.7	2.7	3.3	2.2	.7	1.2	1.3	2.0
42 SD	.2	.2	.2	.4	.2	.2	.3	.4
43 TN	5.0	5.4	4.9	3.0	.9	2.0	2.0	2.8
44 TX	12.2	13.5	9.7	8.6	1.4	3.3	5.8	7.8
45 UT	.2	.2	.2	.5	.5	.4	.6	.4
46 VT	.1	.1	.2	.3	.3	.2	.2	.3
47 VA	1.8	1.5	3.3	2.3	1.4	1.4	2.3	2.1
48 WA	1.1	1.0	1.0	1.5	1.6	1.6	1.7	1.2
49 WV	1.4	1.5	1.5	.8	.6	.8	.8	1.1
50 WI	1.0	1.1	.0	1.6	2.7	2.4	2.2	1.5
51 WY	.1	.0	.1	.2	.1	.1	.2	.1
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

FEBRUARY 15, 1980

TABLE 6

FISCAL RELIEF : 1982

STATE	FISCAL RELIEF	HOLD HARMLESS	FISCAL RELIEF+ HOLD HARMLESS	(FR+HH) + PRE TOTAL
01 AL	-41.9	43.3	1.4	5.0
02 AK	1.5	.0	1.5	14.2
03 AZ	-5.9	7.0	1.1	5.0
04 AR	-11.8	12.6	.9	5.0
05 CA	169.5	.0	169.5	15.2
06 CO	3.4	.0	3.4	7.9
07 CT	15.4	.0	15.4	14.8
08 DE	-1.0	1.9	.8	5.0
09 DC	14.1	.0	14.1	24.8
10 FL	-27.6	31.3	3.7	5.0
11 GA	-41.6	43.6	2.1	5.0
12 HI	5.3	.0	5.3	10.1
13 ID	1.1	.0	1.1	12.2
14 IL	66.3	.0	66.3	15.3
15 IN	-4.9	8.0	3.1	5.0
16 IA	-.7	3.6	2.9	5.0
17 KS	-.6	2.6	2.0	5.0
18 KY	-27.2	29.6	2.4	5.0
19 LA	-30.9	32.7	1.8	5.0
20 ME	-.6	1.5	.9	5.0
21 MD	-2.7	7.8	5.1	5.0
22 MA	40.5	.0	40.5	14.1
23 MI	39.3	.0	39.3	8.1
24 MN	8.7	.0	8.7	9.7
25 MS	-13.0	13.4	.4	5.0
26 MO	-5.2	8.9	3.7	5.0
27 MT	-2.7	3.0	.3	5.0
28 NE	2.2	.0	2.2	11.1
29 NV	-1.1	1.3	.2	5.0
30 NH	.6	.0	.6	5.5
31 NJ	44.6	.0	44.6	14.4
32 NM	-5.7	6.3	.6	5.0
33 NY	143.5	.0	143.5	17.3
34 NC	-15.0	17.8	2.7	5.0
35 ND	-.2	.5	.3	5.0
36 OH	8.9	3.5	12.4	5.0
37 OK	-2.1	3.8	1.7	5.0
38 OR	-2.1	5.5	3.4	5.0
39 PA	55.8	.0	55.8	13.8
40 RI	5.5	.0	5.5	17.6
41 SC	-20.2	21.0	.8	5.0
42 SD	-.4	.8	.3	5.0
43 TN	-38.1	39.5	1.4	5.0
44 TX	-141.3	143.8	2.5	5.0
45 UT	1.8	.0	1.8	11.1
46 VT	.7	.0	.7	8.8
47 VA	-4.0	7.6	3.6	5.0
48 WA	8.4	.0	8.4	7.6
49 WV	-9.3	10.4	1.1	5.0
50 WI	17.1	.0	17.1	12.8
51 WY	.1	.1	.2	5.0
TOTAL	196.4	512.8	709.2	12.1

V. Caseload Estimates

HEW's estimates of changes in AFDC caseloads are intended to reflect conditions in FY 1982 with and without the passage of H.R. 4904. The distribution across States of pre-reform estimates are based on the actual distribution of caseloads among the States in calendar year 1978 (CY 78). Oregon, which eliminated its AFDC-UP program in 1979 (and will presumably have none through 1981) is an exception to this procedure. Oregon was assumed to have a caseload of zero for AFDC-UP. The adjusted CY 78 distribution was then used to allocate projected FY 82 national caseload totals, which were derived by the Social Secuity Administration based on past caseload behavior and projections of inflation, unemployment, and population.

Post-reform estimates were derived from projections made by HEW's micro-simulation model of the low-income population using the 1976 Survey of Income and Education (SIE). This model provides ratios of post-reform to pre-reform caseload counts which are then applied State-by-State to the pre-reform caseload figures described above. A special calculation is made to estimate post-reform AFDC-UP caseloads in States that have no such program now. After the post-reform base numbers are calculated, they are adjusted further to take into account caseload changes expected from two other provisions of H.R. 4904: 1) retrospective monthly budgeting; and 2) mandated retroactive payment for the period between a recipient's application for benefits and the approval of an applicant's eligibility.

Caseload estimates are presented in Table 7 for one-parent and two-parent families and for the total AFDC caseload. For each group, 1982 caseloads with and without H.R. 4904 are presented, as well as the percentage change between the two. The table shows considerable variations in the growth rate of AFDC-UP caseloads in the smaller states. This is due both to the relatively small sample sizes in those states and to the very small size of the pre-reform AFDC-UP caseloads in those states.

TABLE-7.

1982 AFDC CASELOADS
PRE AND POST-REFORM, IN THOUSANDS

STATE	1-PARENT FAMILIES PRE	1-PARENT FAMILIES POST	1-PARENT FAMILIES PCT Change	2-PARENT FAMILIES PRE	2-PARENT FAMILIES POST	2-PARENT FAMILIES PCT Change	TOTAL PRE	TOTAL POST	TOTAL PCT Change
01 AL	61.2	79.0	29.1	.0	4.6	- -	61.2	83.6	36.7
02 AK	5.0	4.7	-6.2	.0	.2	- -	5.0	4.9	-1.7
03 AZ	18.1	19.2	5.9	.0	.8	- -	18.1	20.0	10.4
04 AR	31.1	36.4	17.2	.0	2.1	- -	31.1	38.6	24.0
05 CA	460.5	439.4	-4.6	40.0	51.1	27.8	500.4	490.5	-2.0
06 CO	29.6	29.0	-2.0	.9	1.8	86.7	30.5	30.8	.7
07 CT	46.4	44.5	-4.1	1.0	1.3	21.8	47.4	45.8	-3.5
08 DE	11.1	12.0	8.0	.3	.3	-2.9	11.4	12.3	7.7
09 DC	32.9	29.6	-10.2	.4	.4	-5.0	33.3	29.9	-10.1
10 FL	85.9	98.0	14.1	.0	5.2	- -	85.9	103.1	20.1
11 GA	83.3	99.2	19.2	.0	3.7	- -	83.3	102.9	23.6
12 HI	18.4	17.9	-2.9	1.0	2.0	96.9	19.4	19.9	2.3
13 ID	7.2	6.7	-8.0	.0	.3	- -	7.2	6.9	-4.0
14 IL	218.7	209.3	-4.3	8.6	10.7	23.6	227.3	220.0	-3.2
15 IN	54.1	55.9	3.4	.0	3.6	- -	54.1	59.5	10.0
16 IA	33.0	29.1	-11.9	1.0	11.1	983.3	34.0	40.2	18.1
17 KS	26.3	24.9	-5.1	.4	3.9	890.0	26.6	28.8	8.0
18 KY	63.4	72.2	14.0	.0	13.6	- -	63.4	85.8	35.5
19 LA	66.3	76.7	15.6	.0	7.0	- -	66.3	83.6	26.1
20 ME	21.2	20.8	-1.7	.0	2.2	- -	21.2	23.0	8.5
21 MD	74.5	79.3	6.4	1.6	5.3	231.4	76.1	84.6	11.1
22 MA	124.4	114.4	-8.0	6.4	12.1	88.7	130.8	126.6	-3.3
23 MI	195.6	198.0	1.3	14.5	20.3	40.6	210.0	218.4	4.0
24 MN	47.7	47.7	.0	1.6	3.9	149.6	49.3	51.6	4.7
25 MS	55.4	55.7	.5	.0	3.8	- -	55.4	59.5	7.4
26 MO	71.4	77.4	8.4	.5	1.9	307.1	71.9	79.3	10.3
27 MT	6.4	6.8	6.1	.3	1.3	399.5	6.7	8.1	22.0
28 NE	12.8	11.9	-6.8	.1	1.8	2369.8	12.9	13.7	6.6
29 NV	3.8	4.2	11.0	.0	.2	- -	3.8	4.4	16.7
30 NH	7.9	7.9	.5	.0	.4	- -	7.9	8.4	5.9
31 NJ	145.6	137.6	-5.5	5.6	8.7	54.6	151.2	146.3	-3.3
32 NM	17.6	20.2	15.1	.0	1.2	- -	17.6	21.5	22.2
33 NY	378.8	366.4	-3.3	12.0	17.3	44.2	390.8	383.7	-1.8
34 NC	76.9	81.7	6.3	.0	2.3	- -	76.9	84.0	9.3
35 ND	5.0	4.8	-5.2	.0	.9	- -	5.0	5.7	12.6
36 OH	164.7	161.1	-2.2	15.2	26.1	71.9	179.8	107.2	4.1
37 OK	29.9	31.3	4.8	.0	3.8	- -	29.9	35.1	17.5
38 OR	42.0	41.3	-1.6	.0	5.3	- -	42.0	46.6	11.0
39 PA	209.2	203.4	-2.8	8.8	12.6	43.7	218.0	216.0	-.9
40 RI	17.7	17.1	-3.4	.3	.4	57.9	18.0	17.5	-2.5
41 SC	52.6	55.6	5.7	.0	1.4	- -	52.6	57.0	8.4
42 SD	7.7	7.4	-3.4	.0	1.3	- -	7.7	8.7	13.3
43 TN	61.4	72.8	18.5	.0	5.4	- -	61.4	78.1	27.2
44 TX	98.2	132.5	34.9	.0	12.5	- -	98.7	145.0	47.6
45 UT	12.6	11.9	-6.0	1.0	1.6	56.5	13.7	13.5	-1.2
46 VT	6.4	6.2	-2.4	.3	.5	38.5	6.7	6.7	-.3
47 VA	60.5	62.7	3.5	.0	3.4	- -	60.5	66.1	9.1
48 WA	47.8	46.3	-3.1	4.0	7.9	97.4	51.8	54.2	4.7
49 WV	23.3	29.2	25.1	1.1	1.8	75.5	24.4	31.0	27.3
50 WI	70.1	65.6	-6.4	3.2	7.5	135.1	73.3	73.1	-.3
51 WY	2.4	2.5	2.3	.0	.2	- -	2.4	2.7	9.7
TOTAL	3504.0	3565.6	1.8	130.0	298.8	129.9	3634.0	3864.4	6.3

JANUARY 30, 1980

Methodological Note on Net Federal Costs

As noted in Section II, the HEW cost estimates are based on the results of a large microsimulation model. The model was constructed by first simulating current law AFDC costs and caseloads by State.

Once the model is calibrated to replicate the actual costs in 1975, several modifications are made in order to incorporate changes made in the AFDC program since 1975 and in order to account for price changes between 1975 and the first year of full implementation of H.R. 4904, FY 1982. Program characteristics related to prices are deflated, data for States which have eliminated or adopted the AFDC Unemployed Parents program or other options are adjusted accordingly, and more recent benefit levels are built-in.

The model then simulates the current law AFDC program as HEW expects it to look in FY 1982. At the same time, a series of changes are made to account for the provisions of H.R. 4904 and a simulation of the revised AFDC program is run. This simulaton of the "post-reform" program incorporates an increase in the participation rate for two-parent families and the labor supply results from the Seattle-Denver Income Maintenance Experiments. The model produces pre-reform and post-reform estimates of those on welfare during the year,average monthly caseloads, and benefit costs for both single-parent and two-parent families for each State. Similar estimates are produced for the Food Stamp program in order to determine the impact of the AFDC changes on its costs and caseloads.

The model's results are fed into a special program which determines the ratio of post-reform benefit costs and caseloads to pre-reform costs and caseloads. These ratios are then applied to estimates of the current law FY 1982 AFDC costs and caseloads produced by the Social Security Administration. The application of the model results to the Social Security estimates is intended to adjust for any errors that the model may make in simulating out-year program costs. Food Stamp program savings or costs are obtained in a similar manner.

Secondary models are used to compute matching rate changes, hold harmless and guaranteed fiscal relief provisions, monthly reporting and accounting effects, and Medicaid program impacts. Out-of-computer cost estimates are used for the WIN tax credit expansion, administrative costs, and the emergency needs expansion.

Methodological Note on Fiscal Relief Estimates

The pre-reform base used to calculate both fiscal relief and hold-harmless payments starts with an SSA estimate of total national FY 82 AFDC benefits. We assume that the distribution of total AFDC benefits in FY 82 is approximately the same as in FY 78. We then multiply this estimate of total AFDC benefits in FY 82 by the State's Medicaid matching rate percentage in FY 81 to find pre-reform expenditures. For the four States that currently do not use the Medicaid percentage, we use their FY 79 State shares based on the AFDC formula.

Post-reform State expenditures consist of post-reform State AFDC benefit costs plus the change in State expenditures for AFDC administrative costs plus the change in the State share of Medicaid due to the bill.

We derive post-reform AFDC by multiplying the percent change in AFDC benefits from our SIE simulation times SSA-estimated pre-reform FY 82 AFDC benefits. Because we have no pre-reform estimates for the Unemployed Parents program in States that would be affected by the UP mandate, we adjust the SIE simulation for those States using the participation rates in the AFDC-UP program in States which currently have the program and the relative participation rate in the non-UP program in the State being estimated. We make additional adjustments to account for the requirement that eligibility be dated from the date of application and the introduction of retrospective monthly budgeting. Finally, we calculate the new State matching rates and multiply this percent times our post-reform AFDC benefits to get State AFDC costs, post-reform.

The change in total AFDC administrative costs is distributed across States as a function of caseloads and total post-reform AFDC expenditures. The State share of AFDC administrative costs would be no more than 50 percent.

The change in Medicaid costs is calculated as a function of the change in the size, demographic composition, and duration of AFDC caseloads. An additional adjustment is also made for retrospective monthly accounting. We use the FY 81 Medicaid matching rates to determine the State share of the change in Medicaid.

The State share of post-reform AFDC benefit costs and the change in AFDC administrative costs and Medicaid costs sum to post-reform total State expenditures.

Senator MOYNIHAN. As it stands, it is devastating. As it stands, it is just devastating to this bill.

The chairman has said we will have full committee hearings and I hope we do. This is a Presidential year, there are a number of things that are coming up, but we are certainly going to try—at least I am going to try.

What is this known as in parapsychology? Sympathetic magic. By holding these mock hearings we are hoping to induce real hearings. These are not, in fact, mock hearings. These are hearings which will set the basis for some thinking about this subject.

Mr. PALMER. I just want to say that welfare reform remains a very top priority of both Secretary Harris and President Carter and we are anxiously looking forward to working with you and the full committee on this. While our proposal is one we think is a very sensible and reasonably well-structured one, there is obviously nothing set in concrete on it and we hope to engage in a very constructive dialog with you.

Senator MOYNIHAN. That is a very handsome way to wind up, Mr. Secretary. We appreciate what you are saying. We have not heard from Secretary Barth or Secretary Van Lare but we see you all the time anyway. It is our other guests who came from further away who are more exotic than familiar.

I thank you and I am sorry to have to terminate this hearing, but I have to rush over and participate in the major legislative effort of this year, which is to dismantle the Federal Trade Commission, a pre-Wilsonian institution of reform. You would have thought it would have been safe. Last night, by two votes, we kept it from being dismantled altogether and that means that every one of us who voted not to dismantle it is personally responsible back in our State.

We thank you all, and we thank our always faithful reporter.

[The prepared statement of Mr. Palmer follows:]

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20201

DRAFT

STATEMENT BY

JOHN PALMER

ACTING ASSISTANT SECRETARY FOR PLANNING AND EVALUATION

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

BEFORE THE

SUBCOMMITTEE ON PUBLIC ASSISTANCE

OF THE

SENATE FINANCE COMMITTEE

WASHINGTON, D.C.

FEBRUARY 7, 1980

MR. CHAIRMAN, I am John Palmer, Acting Assistant Secretary for Planning and Evaluation. Accompanying me this morning are Michael Barth, Deputy Assistant Secretary for Income Security Policy, and Barry Van Lare, Deputy Assistant Secretary for Legislation. We welcome this opportunity to discuss with you several of the issues that must be considered as the nation sets its income maintenance policy agenda for the last two decades of the 20th Century.

The issues that emerge as the most significant will command our attention. They will be the subjects of policy analysis, research, data collection, and ultimately, legislation. This overview of income maintenance issues and opportunities will shape our perception on how program administration, regulation, and legislation can be coordinated to achieve the critical goals of income maintenance. We take these goals to be the effective and efficient provision of adequate assistance to those in need while concurrently we reduce or eliminate their dependence on that assistance. Our task is the continued growth of the extent to which we fulfill those critical goals. Accordingly, your leadership in the examination of these matters well deserves our attention and effort.

Among the many issues that might be examined in this context, we believe five stand out. These are:

1. Poverty in America
2. The Reduction of Welfare Dependency
3. Equity and Adequacy in Public Assistance
4. Federal-State Financial Roles in Public Assistance
5. The Administration of Public Assistance

These issues are, of course, not independent; decisions in one sphere frequently impact upon decisions in another.

The conclusions drawn from an examination of these issues will go far toward developing an agenda for action and analysis in the income maintenance area.

I. POVERTY IN AMER. A

Poverty means not having enough -- not enough food, clothing, housing, opportunity, or perhaps most importantly, not enough hope. The quantifiable aspects of poverty that are reflected in the official poverty counts to which I will refer compare the income of individuals and families with a poverty threshold. The concept of a poverty line measurement was first given prominence in the early 1960's and with some changes, is still in use today. The poverty threshold varies by family size, composition, and farm-nonfarm residence. It is adjusted each year by the change in the Consumer Price Index. In 1959, when the poverty line was first published, it was $2,973 for a nonfarm family of four; in 1978 it was $6,700.

These official poverty counts do not include, in the definition of income, the value of in-kind transfers, such as, for example, Food Stamps. There continues to be debate over how to value in-kind transfers and which of them should be added to income in determining whether a family is or is not poor. If the value of Food Stamps were added to the income of low-income families the poverty rate in 1978 would fall from 11.4 percent to about 9.8 percent (based upon results of a Congressional Budget Office study). The rapid growth of the Food Stamps program has, under this reckoning, had a substantial impact on poverty. Whether and how to value other in-kind transfers is much more problematic. The essential point is that while this nation has made great progress in improving the lot of its poorest citizens, poverty has continued to be a critical problem.

When one examines the official Census Bureau statistics on poverty several observations and inferences stand out.

- The number of people in poverty has been reduced enormously over the last two decades; from 22.4 percent to 11.4 percent of the total population using the official definition (or to 9.8 percent using an income definition that includes Food and Housing programs). Yet many Americans are still impoverished. We believe that an explicit goal of our efforts in the income security area should be the continued reduction and ultimate elimination of poverty.

- Poverty reduction appears to have halted during this decade; there were 20,000 more poor families in 1978 than in 1970. This leveling and slight increase over the past decade appears to be related to several economic and demographic factors. Overall economic growth, as measured by the average annual increase in real median family income, has slowed from three percent in the 1960's to eight-tenths of a percent during the 1970's. In addition, the country experienced a severe recession between November 1973 and March 1975. Further, real growth in public transfers has also abated.

- There has been only a relatively small decrease in the incidence of poverty among female-headed families, while at the same time the number of these families has been growing. Of the 5.3 million families in poverty in 1978, approximately 2.8 million were single parent families--95 percent of which were maintained by women. While poverty among male-headed families decreased 66 percent between 1959 and 1978, the decrease for female-headed families was only 26 percent. The differences in median income between different family types in 1978 are indicative: for all male-headed families it was $19,229, for husband-wife families $19,340 ($22,109 if both parents were in the labor force), and for female headed families $8,537. The disproportionate incidence of poverty can be substantially explained by two factors. Single-parent families -- the vast majority of which are female-headed -- have fewer potential earners than husband-wife families but have the same child care responsibilities. At the same time, women earn only about 60 percent as much as men. In addition, a large percentage of female-headed families are Black.* Forty-one percent of all Black families are headed by women, whereas female-headed families make up about 12 percent of all white families. Correspondingly, while 24 percent of white female-headed families are poor, twice that many (51 percent) black female-headed families are improverished. Thus, sex and race combine to produce a very high poverty rate for black female-headed families--the outcome of years of discrimination in education and the labor market.

- The incidence of poverty among the aged has declined more rapidly in the last twenty years than in any other group. Over 35 percent of persons over 65 years of age were poor in 1959 as compared to 14 percent in 1978. This 60.2 percent reduction can be explained in large part by the improved benefits and availability of the Social Security and Supplemental Security Income programs.

- Two-thirds of poor people are white, but Blacks continue to experience the highest incidence of poverty. Blacks are 11.6 percent of the total population but comprise one-third of the total poor population; 31 percent of all Blacks are poor. The incidence of poverty is four times greater among Black families than white, a fact that is reflected in the income differential between those two groups.

- The South continues to have a disproportionate share of the nation's impoverished population; as of 1978, 42 percent of the poor lived in the South, which had 32 percent of the total population. In regard to Southern poverty by race, 58 percent of all poor Blacks lived in the South, and 52 percent of all blacks lived in the South. And although most of the poor, in 1978, lived in metropolitan areas the incidence of poverty in nonmetropolitan areas remained higher.

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*The Current Population Survey separately identifies persons by race (Black, White, Japanese, etc.) and whether or not they are of Spanish origin (and whether Black or White). Racial and ethnic data in poverty statistics are given only for Whites, Blacks, and persons of Spanish origin. Blacks represents 92.6 percent of the non-Whites in poverty in 1978. Persons of Spanish origin represented 10.6 percent of all the poor in 1978.

What can we conclude from this brief statistical picture of poverty in America? We made enormous progress in reducing poverty in the 1960's and early 1970's, largely because of two factors: first, a buoyant economy which facilitated the earnings increases of two-parent working families and, second, the increase in real welfare benefits and the enlarged program coverage (i.e., increased OASDI and SSI benefits and AFDC participation rates). Thus as we moved further into the 1970's the reduction of poverty virtually ceased. While this is a complex matter, the poverty plateau on which we unhappily sit appears to be related to at least three factors: (1) economic growth has slowed markedly, while claims on national income from other priority areas have grown; (2) family types that could most easily make their exit from poverty did so in the earlier period; leaving single-parent families as the dominant group in poverty; and (3) in-kind transfer programs are expanding less rapidly and real benefit increases no longer take place. (The Food Stamp Program is an exception to this in terms of coverage, but not in terms of benefit levels.) In these circumstances we believe that scarce resources must be directed to where they are most needed. Benefits for the poorest families with children must be raised while we seek ways to achieve the long-term solution to the poverty problem--the reduction of dependency, a subject to which I now turn.

II. THE REDUCTION OF WELFARE DEPENDENCY

A principal objective of our income assistance policies must be to reduce the need for welfare. Perhaps the best way to do this, for families with an employable member, would be to provide enough jobs in the private sector to give all such families a minimally adequate income. The poverty data discussed earlier show clearly that in families where work is more feasible, poverty is reduced more easily. Accordingly, federal efforts to combat discrimination, stimulate the economy, and subsidize the hiring of low-income workers in the private sector promote the goal of alleviating poverty through increased earnings.

Despite these efforts to increase private sector employment, many families remain poor. To alleviate poverty for families with a member who wants to work but cannot find a job, the government has three choices:

a. provide no assistance;

b. provide cash or in-kind assistance, in some cases contingent on a breadwinner's willingness to seek and accept a job; or,

c. provide a public service job or training opportunity.

The alternative of providing no assistance to families with a member who can work has been tried in the past. While incentives to seek employment may be maximized by this option, families that fail to find jobs suffer severe deprivation. It is unlikely that in the near future the private sector will produce enough jobs for which the poor can qualify and which meet their income needs. As a result, some kind of direct assistance is and will be necessary.

Two basic forms of cash assistance are available to families with a member who can work but is unable to find a job. Families with fairly regular earnings contribute to Unemployment Insurance and Social Security. Benefits from these social insurance programs maintain family income during periods when there are no earnings. Although there are usually categorical tests for eligibility (retirement, unemployment, etc.), these programs are not means-tested, i.e., they are not restricted to those below some income level. AFDC, General Assistance, and Food Stamps are alternative forms of assistance for this group, but they are also means-tested programs. A family must be below certain income and asset limits to qualify for assistance. Eligible families can receive cash assistance or food coupons from these programs when the breadwinner is out of work as long as he or she does not refuse any reasonable offer of employment. Many families who are eligible for these programs do not participate, however, and many States do not provide help for two-parent families through AFDC-UP or General Assistance.

The appropriate mix of these two types of income assistance has long been a central issue in income assistance policy. Each has its advantages. Income-tested programs have the advantage of targeting their benefits to a greater extent on those with the lowest incomes. Non-income-tested programs are less stigmatizing, run less risk of identifying the poor as a separate group, and may thus enjoy a broader base of political support. The absence of a direct income test can result in greater monetary work incentives although in some cases, categorical requirements of the non-means tested social insurance programs, e.g., retirement disability, or unemployment, can also produce work incentive problems.

Since passage of the Social Security Act in 1935, we have been committed to a combination of both types of programs. The proper mix has been a subject of continuing debate. Your own work on children's allowances, Senator, stimulated considerable interest in universal payment systems that would reduce the need for means-tested assistance. Recently, considerable attention has been paid to ways to use this type of program to help support single-parent families. The Earned Income Tax Credit represents an innovative approach to helping the working poor which, while technically income-tested, avoids the need for separate application to a welfare office and separate identification of recipients. While the Administration's current welfare reform proposal concentrates on improvement of our income-tested programs, we chose expansion of the Earned Income Tax Credit as the best way to increase assistance to low-income working families.

As an alternative or supplement to cash assistnce, many people advocate that persons who can work, but cannot find jobs in the private sector, be given public sector or subsidized private sector jobs. When society provides assistance in the form of public sector jobs, it receives some services in return, and welfare payments are reduced. More important, when a breadwinner takes a job, he or she also takes a step that may reduce a family's long term dependence on public welfare. Participants in jobs programs can learn skills and work habits and receive credentials that will equip them to move into the private sector and eliminate their dependence on the government. Even if individuals cannot be moved quickly into private sector jobs, they may feel that subsidized jobs provide more dignity than cash assistance.

There are, of course, disadvantages to providing assistance in the form of jobs. It is more expensive to run a jobs program than a welfare program providing similar income. It may be difficult to find useful work for all people who are expected to work. A program that is limited in size will tend to accept the best qualified applicants who need the program least. A jobs program with good wages and good training opportunities may attract workers who could otherwise find private sector employment.

A balanced attempt to meet the income needs of the poor, at a low cost and in a manner consistent with the preference of taxpayers and the poor's own desire not to be "on welfare", suggests that cash and jobs should be viewed as complements - jobs being the preferred vehicle for those who can work, and cash assistance a necessary supplement and safety net when jobs are not available.

It is also critical that our assistance program be designed in such a way as to encourage work and not hinder development of self-reliance. For example, despite pressure to reduce income eligibility ceilings, earnings disregards must be sufficient to ensure that a recipient will always be better off when working than when not working. In addition, recipients must receive encouragement and the supportive services needed to encourage their employment efforts. And finally, administrative procedures must enforce the requirement that recipients seek and accept offers of employment so that they understand that cash assistance is a temporary safety net and not a permanent source of support.

The Administration's welfare reform proposal places major emphasis on increasing work and training opportunities for low-income families with available breadwinners. Over 600,000 slots serving over one million low-income families will improve incomes, increase self-reliance and long term prospects for self-support, while decreasing federal and state costs of AFDC and Food Stamps. This is a bold step. It will ensure that earnings, rather than welfare payments, will be the principal means of support for this group.

The Administration's proposal makes several changes in income assistance programs to encourage the transition to work. An expansion of the Earned Income Tax Credit will increase the rewards of work. In the Unemployed Parent program, the definition of unemployment is changed from hours worked to money earned. This together with the more rapid phase-out of benefits for AFDC-UP recipients eliminates the infamous "100 hour notch" in that program. In many States today, if an AFDC-UP recipient moves from a half-time job to a full-time job, the family's total income can decrease. Our proposal would correct that. Our proposal also provides funding to allow an expansion of job search assistance activities. Procedures for referring recipients to job search and employment opportunities and imposing sanctions on recipients who do not comply with those requirements have been streamlined and strengthened. Although income eligibility ceilings are lowered as a result, recipients are always better off working than not working.

In short, a major emphasis of our proposal is on decreasing the dependence on the welfare system of those who can work. We believe this is best done by promoting work incentives and expanding job search assistance in the private sector. These efforts should be supported by a generous and flexible program of work and training opportunities in the public sector, coupled with stern sanctions for those who can but won't work.

III. EQUITY AND ADEQUACY IN PUBLIC ASSISTANCE

Next I would like to examine briefly the adequacy and fairness with which the Nation provides public aid to people in need. In such an examination, we must remain aware that clear policy guidelines are few and far between. We are not attempting to determine the exact size of an adequate benefit or how to tell whether a difference in benefits between States is too great. Rather, we will call attention to some of the issues and suggest considerations to be taken into account.

Three dimensions of a person's or family's situation should be examined in a discussion of adequacy and equity -- amount of need, family type, and geographic location. Nearly all assistance programs provide greater assistance to those with smaller incomes, thus complying with the canon of vertical equity -- people with the greatest need, should receive the greatest help; those who need less, should get less. The adequacy of particular income levels depend, of course, on standards of comparison. When compared to official poverty levels, nearly all welfare incomes are inadequate.

The equity of aid by family type and location are best examined in the case of families with equal need. For simplicity, consider families or persons with no income. Table I provides a snapshot of the important relationships. For four different family types with zero income, it shows the benefits available in different states, from different programs. The principal inferences thatcan be drawn from these data are the following:

- o Regarding location, a poor family receives more money in New York than in Mississippi or Indiana.(Precisely how much better off they are depends upon cost of living differences between each place, a treacherous subject on which there is not yet a firm conceptual underpinning or adequate data, or even agreement on the definition of "place".). Benefits, and thus adequacy, vary because States set AFDC benefit levels and SSI supplemental payments, if any. (The Federal-State aspects of this issue are discussed in a succeeding section of this testimony.) There are clearcut differences in the amount of aid provided to equally needy people, depending upon where they live. Having made this observation, the appropriate response is less than obvious. Should the Federal government's concern be met by having it assure a minimum benefit or should Federal policy drive states toward greater equality of benefit levels? At this time a consensus seems to exist for the former.

- o Food Stamp benefits, which are fully federally funded, are available on equivalent terms across the Nation. However, benefit size varies inversely with cash aid, i.e., actual Food Stamp benefits are greater in states whose cash assistance is lower. SSI benefits, which have a federally-funded floor above which States may supplement, are next in equality. AFDC benefits, set by the States and federally matched, vary substantially from state to state.

- o An aged couple receiving SSI is better off than an equally poor non-aged mother and child. Moreover, States meet AFDC needs differently. Indiana, for example, provides no cash aid to two-parent families. Thus, even though federally funded Food Stamps make up part of the gap (about 30 percent), equally needy families are treated differently within State boundaries as well as across State lines--an observation that does not indicate what should be done to remove these inequities. We believe that need should be deemed a public concern no matter what the category or location of the person who experiences it. This does not imply, however, that all need should be responded to in precisely the same manner. Society can, for example, decide that families with small children should receive priority over, or treatment different from, single individuals.

This brief portrayal of some aspects of the equity and adequacy of public assistance indicates that there are departures from equity resulting in different levels of adequacy. Some of these are minor and some are not. All have existed for some time and have been the subject of comment, debate, and legislative proposals. Variations in aid to the aged, blind, and disabled were, until 1973, quite similar to those currently found in AFDC, for much the same reason. At that time, the Congress decided to mergealize the programs of aid to the aged, blind, and disabled into one Federal program SSI. The welfare reform bill before your Committee does not propose to make AFDC Federal program, but it does propose measures that would increase the adequacy of the welfare system, while reducing benefit disparities.

- o By instituting a minimum benefit standard in terms of AFDC plus Food Stamps, the benefit gap across states would be narrowed.

- o The minimum benefit would also reduce the gap in benefits between the aged and non-aged.

- o Several steps would be taken to improve the adequacy of benefits for families with two parents and for the working poor.

  - -- States would be required to provide assistance to two-parent families whose principal earner is underemployed. This would eliminate the benefit disparity between one- and two-parent families in States like Mississippi and Indiana.

  - -- Earned Income Tax Credits would be expanded, thus providing more aid to low-income working families and improving their situation relative to non-working welfare families.

  - -- The Work and Training Opportunities Act of 1979 would provide jobs and training to potential earners in welfare-eligible families.

- o The President's proposal would also increase equity (and adequacy) in two areas not shown on Table I: (1) it would provide a federally-funded grant for emergency needs, bringing such a program to needy citizens in all States, and (2) it would provide cash in lieu of Food Stamps to many SSI recipients. Many who are currently eligible for the stamps, but do not use them, would benefit.

The next section examines aspects of the Federal-State relationship that affect these benefit level differences.

TABLE I

Public Assistance Benefits to Families with Zero Income, by Selected Family Types, Programs, and States, January 1980

	4-Person Single-Parent Family	4-Person Two-Parent Family	2-Person Single-Parent Family	Aged Couple
Benefit				
Mississippi				
AFDC	120	0	60	--
Food Stamps	196	209	115	44.00
SSI	--	--	--	312.30
Total	316	209	175	356.30
Indiana				
AFDC	275	0	175	--
Food Stamps	149	209	85	44.00
SSI	--	--	--	312.30
Total	424	209	260	356.30
New York City				
AFDC	476	476	333	--
Food Stamps	89	89	38	20.00
SSI	--	--	--	391.78
Total	565	565	371	411.78

IV. FEDERAL-STATE FINANCING ROLES IN PUBLIC ASSISTANCE

Income assistance programs reflect a wide variety of relationships between federal, state, and local governments. In some programs, most notably Social Security Retirement and Survivors Insurance, the Federal government administers and funds the program exclusively. In other programs, such as General Assistance, the federal government has no role whatsoever. In many programs, several levels of government play a part.

The three major welfare programs illustrate the diversity of these relationships.

- o Food Stamps: The federal government pays all benefit costs. While the federal government sets all eligibility rules and most procedures, the program is administered by state, and sometimes local governments, with the federal government paying 50 percent of administrative costs in most instances.

- o SSI: The federal government funds and administers a uniform basic payment. States may supplement this benefit at their own expense and the supplement may be administered by either the federal or state government.

- o AFDC: The states set benefit and eligibility levels, and they also determine administrative procedures within certain federal constraints. The federal government pays a major share of the benefit cost based on state per-capita income and pays 50 percent of administrative costs. State and local governments share the administration of the program and the remainder of the benefit costs in a variety of ways.

The differences in these programs result from many factors. In part, they reflect different enactment dates--AFDC is over 40 years old, SSI only six. In part they reflect the difficulties involved in adapting the structure of income assistance programs to the changing political and economic environment.

The financial relationships among the federal, state, and local governments in these programs can be looked at in two ways: what is the flow of federal funds across the states? And how heavy are the state and local tax burdens that support these programs?

The distribution of federal dollars to the states for cash assistance is to a great extent determined by the program's structure, particularly the extent to which state decisions on benefit levels affect federal costs. Because SSI has a nationally uniform, federally funded benefit level, the distribution of federal funds is governed by the distribution of the aged and disabled poor. Because AFDC benefits are set by states and benefit costs are matched without limit by the federal government, more federal funds go to states with higher benefit levels, and in turn their residents. Although Food Stamp benefit schedules are uniform across the states, actual Food Stamp benefits are lower in states with higher AFDC and SSI benefit levels because the Food Stamp program counts AFDC and SSI benefits when it determines need.

State and local taxpayers carry dramatically different burdens for these programs. These differences are caused by:

- o the level of benefits selected by the state for AFDC, SSI supplements, General Assistance, and Medicaid;
- o the number of poor people in the state, the categories of poor people served, and the level of access to services;
- o a state's per-capita income, which affects its share of AFDC and Medicaid costs;
- o a state's decisions to share some or all of its costs with local governments.

The difference between these two concepts, the distribution of federal dollars and the distribution of state and local tax burdens, is an important one. Studies that investigate the distribution of federal funds, often called "flow of funds analysis," have provided much of the fuel for the so-called Sunbelt-Snowbelt controversy of recent years. In distributing federal dollars to states, how should the need for a program and a state's ability to pay for it be balanced? In defining need, should uniform measures such as the national poverty line be used, or should measurements such as the BLS lower living standard that allows for state variations be used? Should states have some say in defining need? In measuring a state's ability to pay, should we look only at its present tax capacity or should we take some note of a region's dynamics -- are its industrial and commercial sectors expanding or contracting -- is its physical capital old or young?

The alleviation of state and local tax burdens, on the other hand, is usually referred to as fiscal relief. This is a very different concept than the flow of Federal funds. It is not necessarily true that states that receive a relatively large share of the federal dollars spent on income assistance programs enjoy a relatively low state and local tax burden as a result. In fact, just the opposite is true. The states that spend the most state and local dollars are the ones that receive the most federal dollars. They also happen to be the states with above average per capita income levels. As a result, proposals to establish a national minimum benefit level and to increase federal-state matching rates to make them more uniform would decrease the percentage of federal program dollars going to the higher benefit states and decrease <u>their</u> tax burdens more than the tax burdens of lower benefit states. To put it another way, states that now pay high benefits and have a low federal matching rate would benefit from a relatively large decrease in their currently large tax burdens; states that now pay low benefits would gain from relatively large increases in federal funds because they have larger low-income populations.

As noted earlier, a consensus has developed for the federal government to guarantee a minimum benefit standard for all families with children. Beyond that, the question arises as to whether the federal government should share in the costs of payments above the minimum. In AFDC, the federal government now shares in the costs of all benefits with no limit. The Administration's welfare reform proposal retains that feature. Although it sets a national minimum benefit for AFDC, it does not mandate a nationally uniform benefit. The states would still decide how much more than the minimum they will pay, and the federal government would share in that expenditure.

Perhaps the most difficult problem to be faced will be how to divide administrative and financial responsibility in a way that weds local initiative and flexibility to national objectives. In dividing responsibilities for an income assistance program, the following questions must be answered: Who makes the rules? Who sets the procedures? Who administers the program? And who pays for it? In general, if the federal government directs that something be done, it pays all or most of the cost, at least for some transitional period.

If the federal government wants to encourage a particular activity, but leave the final decision to the states, it often shares part of the cost. The greater the federal share in the cost, the more the activity is encouraged. However, when state decisions and administrative practices control the expenditure of federal funds, it is important that states have a strong financial interest in the marginal dollar so that their interest in efficient administration is encouraged.

Admittedly, there are always tensions in the federal-state relationship. These are particularly evident in the case of AFDC. A high state share of the marginal dollar ensures that states retain strong incentives for efficient administration. On the other hand, a high federal share of the marginal dollar encourages states to keep benefit levels in step with inflation, to serve all the eligible population, and to make programs accessible to those eligible.

Balancing these tensions involves coming to some conclusions about applicants' needs and states' motivations and abilities. The process is bound to be difficult and will require wisdom, good faith, consultation, and compromise among all the parties involved.

The Administration's proposal retains the basic structure of the current AFDC program with the following changes:

a. a national minimum benefit;

b. greater standardization of administrative procedures in the states;

c. an increase in the federal share of benefit costs;

d. an increase in the federal share of certain administrative costs, and funding for the testing of innovative administrative practices;

e. funds for a study of the structure of AFDC matching rates.

Although these are useful steps going in the right direction, they do not fundamentally reformulate the federal and state roles. The dialogue on these basic issues must continue even while we make these long overdue and broadly supported adjustments.

A final issue that merits attention is consideration of the use of local funds to finance welfare costs. Many people think that national funds are a more appropriate source of welfare financing than state tax funds. Similarly, some opinion finds state tax dollars more appropriate for welfare use than local tax funds. On the other hand, justification for local contributions has been found in intrastate variations in living costs and benefit levels. Beyond that, the cost of welfare is but one of many governmental costs shared by state and local governments and the small share of welfare costs paid by a locality may not accurately reflect its total tax burden for human services.

Local governments' share of AFDC costs has been declining. In 1965, 26 states received some local contributions to AFDC benefit costs, representing about 27 percent of the non-federal portion of benefit payments. Our latest estimate, based on 1978 figures projected to 1980 to account for announced changes in California's local contributions, indicates that only 10 states will receive local contributions representing only 14.1 percent of total non-federal benefit payments. These changes have taken place without federal direction as a result of state and local decisions. In general, the federal government has viewed decisions on the allocation of responsibility between state and local governments as state matters.

V. The Administration of Public Assistance

Any policy that is adopted is only as good as its implementation. Unless we pay as much attention to the administration of a program as to the policy underlying it, we face the possibility that the policy will never come to life in the form of efficiently delivered humane services.

In an earlier section of my testimony, I discussed the nature of the Federal-State partnership that controls the delivery and funding of almost all income maintenance programs. It appears that both political and service delivery considerations will keep the partnership in operation for the foreseeable future. Therefore, we need to focus on the administrative aspects of that partnership and the ways in which all levels of government may be held accountable for their performance.

There are several salient points that must be kept in mind as we examine administrative issues.

- The three levels of government that administer the welfare system have made considerable progress over the last decade. Access has been improved and errors have been reduced. We have a record as public administrators that we can be proud of. While we must continue to seek improvements, the system is neither corrupt nor incompetent.
- As we publicly focus on the need for improvement, we should not allow that focus to contribute to the widespread myth of a system fraught with fraud and abuse. There is fraud in welfare; there is abuse. But there is not much of either. While those

problems must continue to be addessed, they must not be allowed to obscure that fact that the vast majority of recipients are eligible and that their need is real. While new legislation will help improve program integrity, change must focus as well on gaps in coverage, the inadequacy of benefits, and the unnecessary complexity of the program itself. To focus solely on tightening the current administrative system is not only to ignore the most pressing needs of our poor but to ignore as well the public's just concern for the humane and efficient administration of income maintenance programs.

- Programs must be designed so that they can be efficiently and effectively administered. The way to achieve gains in error reduction, for example, is to have statutes and regulations that make the system simpler and less error-prone and to develop management systems that reduce error.

In developing legislation, I believe we should consider five major administrative areas:

- access to services and benefits,
- accuracy of benefit and eligibility determination,
- cost-effectiveness of eligibility requirements and administrative procedures,
- appeals processes for aggrieved applicants or recipients, and
- accountability for program administrators and/or governmental jurisdictions.

Access, accuracy, and cost-effectiveness of the income maintenance system are inextricably intertwined. By their very nature, income maintenance programs create serious administrative tensions. Program administrators have the responsibility of making payments to all eligible recipients and to no ineligible recipients. Tension arises from the fact that eligibility screening devices are far from perfect and that procedures stringent enough to exclude ineligible claimants may also exclude significant numbers of eligible claimants as well. In addition, since benefits are finite and generally decline as recipient income increases, it is necessary to relate the cost of continued eligibility verifcation procedures to their impact on benefit payments. Otherwise, the program may be investing more in administration that it does in benefits.

Further, it is critical to remember that each of these issues is related to both basic program design and administrative choices. Decisions made about targeting benefits on the basis of categorical eligibility or in relation to a variety of income and asset tests will substantially affect access, accuracy, and cost-effectiveness. Congress cannot decide to limit benefits to those who are willing to work without imposing an employment test, nor can it avoid paying benefits to recipients with homes or valuable assets unless it develops procedures to verify ownership and establish value. The intricate relationship between these factors is too often ignored in the basic legislative design of income maintenance programs.

The current welfare system is complex (and thus error-prone), difficult to administer, burdensome to clients and staff alike, and expensive. While much progress has been made at all levels of government in addressing those problems, substantial progress is still needed and is possible only if existing programs are simplified and made more rational.

Consequently, we would urge Congress to consider carefully a variety of program changes that are designed to remove complexities, to improve access to service, to reduce the opportunity for error, and to allow for less costly administrative systems. Areas for consideration should include:

- establishing common eligibility criteria for all income maintenance programs to allow for less complex applications and common verification;
- allowing for standardized work-expense disregards as a substitute for the complex and error-prone calculations of individual work expenses which now must be made;
- requiring the use of flat grants to minimize errors in benefit calculations instead of the itemized procedure now used in many states;
- standardizing eligibility procedures, such as monthly reporting of income and a retrospective accounting period for benefit calculation;

- establishing more effective and enforceable work requirements by, for example, eliminating program components of no demonstrable value.

Cost-effectiveness not only reflects the impact of program design but a variety of other factors as well. Automated systems, work measurement, training, and organization may all positively or adversely affect costs. Since state and local budget constraints unrelated to welfare costs may have a major impact on welfare expenditures, special attention needs to be given to the authority of the Secretary to review and set standards and administrative budgets, to prescribe cost-effective administrative procedures, and to provide financial incentives for necessary state investments in new equipment or procedures. The present flat reimbursement provisions do not provide the needed leverage.

No system will operate without some administrative errors that adversely effect individual clients. To protect against such effects, the current welfare system provides for a system of fair hearings. However, this system rests largely upon regulations and court decisions and does not provide for a federal appeals process. Consideration must be given to continued protection of recipients' rights.

Accountability of program administrators and state and local governments is a critical problem. At the present time, we rely upon quality control sanctions and a cumbersome, seldom used, compliance process to ensure that federal directives are implemented. Special consideration needs to be given to the modification of these tools. In assessing performance, we need to look at a variety of measures that will assure us that access, accuracy, and cost-effectiveness are all present. We also need assurance that the Federal government has the tools in the form of both penalties and rewards, that will encourage and mandate cooperation. This balance is lacking in the current system. We believe it can be restored through a modification of the quality control system, improved budgeting criteria, and effective use of publicized performance measures.

In conclusion, these remarks have touched upon several of the major issues that need discussion, analysis, and action as we seek to improve the structure and operation of this nation's public assistance system. It is clear that sincere observers of thse issues can have legitimate differences regarding the resolution of these issues. The Administration's proposals represent modest but achievable improvements which have attracted broad support. We believe they can and should be enacted in 1980. The Administration is committed to working with all of the members of the Finance Committee as your deliberations on welfare reform begin. We appreciate your leadership in this area, Mr. Chairman, and look forward to working with you in the coming months to enact a meaningful welfare reform bill.

[Whereupon, at 3 p.m. the subcommittee recessed, to reconvene at the call of the Chair.]

[By direction of the chairman the following communications were made a part of the hearing record:]

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February 4, 1980

The Honorable Daniel Patrick Moynihan
Chairman
Subcommittee on Public Assistance
442 Russell Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

Although the National Council of State Public Welfare Administrators, of the American Public Welfare Association, will not be testifying at the Subcommittee's February 6-7, 1980, seminar on public welfare programs and alternatives for their reform, we did wish to state, for the record, the Council's current position on proposed welfare reform legislation.

The House of Representatives (beginning with the Administration's proposal, H.R. 4321) passed the Social Welfare Reform Amendments of 1979, H.R. 4904, in early November. The Council has endorsed the Administration's "compromise-incremental" approach and supported the bill during its consideration in the House.

The Council is pleased that you introduced the Administration's bill, S. 1290, in the Senate, with the bi-partisan cosponsorship of Senators Ribicoff, Bradley, Kennedy, Williams, Danforth, Baker, Bellmon, and Hatfield. Now that the House-passed bill has been forwarded to the Senate for action, we look to you, once again, to take the initiative.

We urge that you use the House-passed bill as your vehicle for welfare reform legislation and for any perfecting amendments you may wish to consider. The Council does believe the House-passed bill can and should be improved upon and, toward that end, we stand ready to assist you in any way that we can. Nonetheless, in our judgment it is the best vehicle for these important reform efforts.

With best regards,

Sincerely,

John T. Dempsey

John T. Dempsey, Ph.D.
Chairman, National Council of State
Public Welfare Administrators
and
Director, Michigan Department of
Social Services.

JTD:dr
cc. Members of the Senate Finance Committee

Policy Committee—Massachusetts State Employment and Training Council, Statement Regarding the Job Component of Welfare Reform

In 1979 the Carter Administration submitted to Congress its second version of welfare reform. Like the original Better Jobs and Income Program which died in the 95th Congress, this year's version relies on an employment strategy which views jobs as the vehicle for moving people from dependence to self-sufficiency. The Policy Committee of the Massachusetts State Employment and Training Council fully supports this approach and urges Congress to give serious consideration to H.R. 4425, the Administration's welfare reform jobs bill, and H.R. 4426, co-sponsored by Congressmen Hawkins (D.-Cal.) and Perkins (D.-Ky.).

While the Policy Committee supports an employment strategy to welfare reform, there are many issues which arise in connection with the Administration's bill, and these must be resolved if welfare reform is to succeed. The essence of the jobs portion of the Administration's proposal is a mandated, assisted job search period of eight weeks for the primary earner in a family with children which is eligible for Aid to Families with Dependent Children (AFDC). If, after eight weeks, no job is secured, then the individual is referred to a job or training slot under CETA.

The mandatory job search requirement has much to recommend it. During the eight weeks it is assumed that some people will find unsubsidized employment and move off the welfare rolls; thus, the total cost of the subsidized job program is reduced. The job search period has the potential also of rooting out a few fraudulent cases where recipients are secretly working. Most importantly, however, the job search period allows the client to "test the waters", by allowing the labor market to respond to a person's qualifications for job entry and to indicate the parameters of the person's need for training. Thus the response of the labor market may form the basis for the development of an employability development plan for the individual, geared toward overcoming the deficiencies which were identified as a result of the job search.

While a mandatory job search period is desirable, the eight weeks specified in the Administration's bill is too flexible. For many welfare recipients, lack of marketable job skills is the major cause of welfare dependency. For these people who will be unable to find jobs in the unsubsidized sectors, skills training will be a more appropriate strategy than a job search which results in an inevitable PSE slot after eight weeks. When the employability development plan calls for training, the individual should be referred to a training slot quickly, as an appropriate one arises, and should not have to wait eight weeks. For this reason, a flexible job search period, of perhaps three to a maximum of eight weeks, would be preferable to the Administration's proposal.

With regard to the form of training itself, the Administration's bill appears to envision a program of training coupled with PSE on the model of Title IID. It is important that training not be limited to this model, but that classroom training and on-the-job training, more intensive forms of skill training, also be allowed under the welfare reform jobs program. While this will make it more difficult for the Department of Labor to estimate the number of slots that will be available for any given amount of funding, the experience of the CETA system in serving welfare clients dictates that all forms of skill training must be available if the variety of clients' needs is to be satisfied.

An additional issue with regard to training is this: in the Administration's bill, the allowable costs are: 80 percent for wages, and 20 percent for training and program administration. These cost categories indicate an intention to provide far less training than the experience of the CETA system in serving welfare clients would dictate. For this reason, it is imperative that the costs for training should come out of the 80 percent, not out of the 20 percent.

This point raises the issue of the adequacy of the proposed funding for the jobs component of welfare reform. The Administration estimates that approximately 600,000 slots will be needed in the welfare reform program, but in addition to the new slots which would be created in the proposed Title IIE, the Administration proposes to take slots from Title VII, Title IIB and 167,000 slots from Title IID. This "raid" on Title IID in particular is totally unacceptable. Title IID is intended to serve the structurally unemployed, some of whom are on welfare, but many of whom are not. Title IID must remain untouched in order to serve these people. Instead of diverting IID in the proposed fashion, the Administration should ensure that there are enough funds in the jobs component of welfare reform itself to serve all those eligible. The only way to ensure that demand will be met, as the Administration claims, is to create an entitlement to the prime sponsors. If the Administration is as confident of the 600,000 figure as it claims to be, entitlement should not prove to be a problem. Entitlement also eliminates the need for an allocation formula which would be most difficult to construct in such a manner as to distribute funds according to need.

Perhaps the most difficult issues to come to grips with in welfare reform concern the design of the delivery system. The Administration's bill proposes that the Governor of each state will decide which agency shall deliver job search assistance during the eight week job search period, but that CETA prime sponsors will deliver the work and training opportunities that are available after that period. This design creates the potential for tremendous duplication, confusion and conflict in two areas, assessment and the development of an employability development plan, in the likely event that a system other than CETA is designated to provide job search assistance. In reality, because one does not know in advance of assessment which clients are likely to need a CETA job or skills training, CETA must be involved up in front of the eight weeks job search in the assessment of each client. Furthermore, CETA must be the system to develop the EDP since that is the system which will have the responsibility for carrying it out: CETA cannot be made responsible for carrying out an EDP developed by another organization which the Governor might designate. Because of its logical role in assessment and crucial role with regard to the EDP, the CETA system should be designated legislatively to carry out the job search assistance program, and the funds to run this program must go directly to the CETA system. This of course means that the 10 percent match in the job search program required by the Administration's bill must be dropped.

With regard to one final issue, the Administration proposes to limit its welfare reform program to principle earners in families receiving AFDC, thus eliminating from eligibility single individuals and childless couples. This limitation is due to budgetary reasons rather than programmatic concerns or analysis of need; thus, eligibility should be extended to all welfare recipients.

In conclusion, the Policy Committee of the Massachusetts State Employment and Training Council supports the basic concept behind the jobs component of the Administration's welfare reform proposal, and with the changes suggested in this statement supports the bill.

Income Security and Social Support: Should the Federal Role Be Reduced?

In this debate or really exchange of views, I am sure that neither Alvin Schorr nor myself will take the simple positive or negative, and say, yes, the Federal role should be reduced, or not reduced. It is a characteristic of present-day debates over welfare and income support that we no longer have any simple answers—at least among the well-informed. Many of us no longer have much hope, as we did in the late 1960's and early 1970's, that by ignoring services and setting up a simple, mechanical negative tax-system, we could get rid of many of the problems of welfare. It was a nice slogan, and so clearly sensible, to say that all the poor needed was money, and obviously if that was all they needed, it had to come from the Federal government. But the amount of money that poor have been getting has increased enormously over the past ten years, because of the expansion of old programs and addition of new programs—but we have no greater feeling of satisfaction that we are dealing more effectively with problems of welfare. Four times now the Federal government has tried to launch major efforts to rationalize and in measure nationalize the welfare system by means of a guaranteed minimum family income. Each version gets more complicated, less publicity, and less support.

What was the original hope of this now almost abandoned effort to introduce something like a national income-support system to replace welfare? There were many objectives, but the chief ones were: First, equity or justice. Welfare support should not be so much lower in the South than the North and West. Second, to eliminate the incentive to family split-up in order to get welfare. While it is true that even in 1969 in many states a husband-wife family with children could get welfare, in a good number of states only the abandoned, divorced or separated mother could qualify. Third, encourage work by the adult able-bodied. Different approaches to this objective have been emphasized at different times: child-care, job-training, incentives to work by permitting the welfare recipient to retain larger shares of earnings without loss of welfare benefits, or pressures requiring registering for work.

There were other objectives of course—reduce the incentive to the dependent poor to migrate to high-welfare areas or to stay in them, increase the amount going to the poor, relieve state and local governments of fiscal burdens, reduce the stigma of welfare—with whatever consequences that might have—by reducing the discretion of individual social workers and investigators, and by making welfare more of a right, and less of a benefit. But undoubtedly the major objectives were to get national uniformity for greater justice and equity, to support family stability, to encourage work so the welfare recipient could get out of dependency.

All these were admirable objectives: But it turned out the road to them was more complicated than anyone realized ten years ago. Not that we could not have noticed that there were going to be problems. In 1969 I examined the welfare system of New York City, because it was so very much like the new, national, uniform non-stigmatizing income-maintenance system that was then being proposed. The husband-wife family could get support, a proportion of earned income could be retained, one could get on welfare through a simple declaration. As a result, welfare had expanded enormously during the second half of the 1960's—despite the fact that this was a period of high employment in New York City. The benefits provided, the numbers aided, the welcome offered, had all expanded greatly under Mayor Wagner and Mayor Lindsay. But it was very hard to see any of the hoped-for benefits from these changes. The poor were certainly not happier in New York. Their neighborhoods were ravaged than before by crime and drugs. Illegitimacy and single-parent families, far from being curbed, had grown rapidly. In a time of prosperity, an increasing number of the city's children and mothers were being supported by public funds, and it was hard to see that they were any better off at the end of the 1960's, when benefits were so much more generous and distributed with so little restraint, than they were at the beginning of the 1960's. One could seriously wonder, then, whether there was any reason to spread the enlightened system of income-maintenance of New York City to the rest of the country, which is after all what national income-maintenance proposals intended to do. The chief characteristic of all the Federal reform proposals between 1969 and 1979 was that they did very little to change things in New York, but a good deal to change things in the rest of the country so that, when it came to welfare, it was more like New York. Now was that a very sensible thing to do?

What has been neglected in the proposals for a national income maintenance system is that welfare not only relieves distress—it also has dynamic effects, it creates that which it relieves. It is of course noble and charitable and meritorious to provide an assured income for a mother left alone with young children and relieve her of some of the burden of making a decent life for them. But it turns out that as this provision becomes more generous, more assured, less stigmatized, more a matter of right and less a matter of charity, it encourages mothers to live alone if they find their hushands inadequate. This was the unsettling finding of some of the income maintenance experiments. Even if, as in these experiments, income was available to the husband-wife family, it encouraged wives to leave husbands, or husbands to leave wives. Well, you will say, if the husband beat her, if he was drunk or a drug addict, if he was incapable of supporting her and the children, better that she did leave him. But the dynamic aspect of welfare is that it assures that more and more husbands will be found to be inadequate. What husband, with poor earning skills, is going to get a job that will automatically provide more money when the rent goes up, or when a new baby is born, or when growing children need more clothes and shoes, or provide unlimited funds for medical care? That is what welfare does; and it is a rare low-income earner who can match that deal. Thus the very fine objective of providing more generously for the mother living alone and her children insures that men who might have considered themselves decent and providers will now find that their pay is totally inadequate to compete with welfare.

I would urge all of you to read a book that has received all too little attention, George Gilder's Visible Man. It is a book-length study of a single teen-age black youth in Albany who keeps on getting into trouble. His mother is on welfare, his girl-friends are on welfare. Where does that leave him? This book is if anyting even more valuable than Susan Sheehan's Welfare Mother because it focuses not on the direct recipient of welfare but on those in the shadows—the men who have fathered the children and are companions to the mothers, and who live in a culture in which every young woman is assured ready cash and services that make young men simply superfluous in their key roles as earners and providers.

Now Visible Man bears directly on the Federal role because in the conclusion of that remarkable book George Gilder, the author, accompanies his young protagonist on a trip to the South to find his southern family and relatives. They are better off than he is, and better off than the members of his family that have moved to Albany, and living in the shadow of that generous capital. More of the Southern family members are working, more are living in regular families, more indeed have hope.

Now the problem of the expanding Federal role in welfare is that it wants to spread what we have in New York, Massachusetts, and other generous Northern and Western states, and make sure that the South—the delinquent and reluctant part of the country—will have it too. That has to be effect of a greater Federal role in welfare. The Federal presence must mean greater uniformity. It will not push up benefits in the generous states—they have gone about as far as they can go, and the additional funds will go to push up benefits in Southern states, in Texas, for example, which is regularly put forward these days, whether in the Wall Street Journal or Newsweek, as just about the stingiest and least generous state in the union. In other words, a greater Federal role means spreading the benefits of New York to Texas. Now I realize that not everything good in Texas is related to its low welfare benefits, and not everything bad in New York is related to its high welfare benefits—and I realize too that not everything is good in Texas, or bad in New York. But undoubtedly the high rate of employment in Texas is related to the fact that welfare benefits are so low; and the high unemployment in New York City is related in some measure to the fact that welfare benefits are so high. The links are of a number of kinds: If welfare is high, first, fewer people have to work, and second, businessmen and investors, paying higher taxes, have less to invest in creating jobs.

We should be very careful before we decide that what they do in Texas is awful, and spread over the entire country a common Federal benefit level and system of requirements. This is a country of many cultures, regional, ethnic, racial. This does not mean that in each state they therefore automatically know what it is best to do for the needs of their various subgroups. But if some states are tough on welfare recipients, and some states easy, if in some states it is seen as charity and in others as a right, if in some states benefits are low and others high, I do not believe we know enough about the dynamic effects of welfare to say that the practices of the rights-oriented and high-benefit states should be spread to the others, nor do I think we would even be doing any good for the poor. I don't believe that young black and Mexican men in Texas are worse off than young black and Puerto Rican men in New York and Massachusetts because welfare benefits are low there and high in the Northeast. I am not even single mothers and their children are worse off. Indeed, I believe George Gilder is right in arguing that these young men of the North are worse off when all around them they see the young women they should be husbands to, the young children they should be fathers to, being better than care of by welfare than they can.

Does that mean we do nothing, Well, when this administration started asking all over for advice on how to reform welfare, three years ago, a lot of very well-informed people said, don't try, leave it alone, reform something else. Basically we have to find means of support of the poor that are not dynamic, in the sense of encouraging people to become poor or stay poor so they get the support. There are such means, and I think the next step in thinking about income-maintenance should be to find them. A universal child allowance is one such means. Everyone gets it, it doesn't require investigation, it will take some part of the welfare population off welfare, and since it comes whether the father or mother works or not, it will encourage men and women to work, rather than encouraging them to find ways to qualify by earning less income, concealing income, and dropping out of the labor force. Collecting money from absent fathers is not a bad idea—in some places. It seems to work well in Michigan, according to a study just published. It's never worked well in New York. There might be reasons for that we may be able to apply elsewhere. But if it works well in Michigan because of its Friend of the Court System, as David L. Chambers argues, then we should realize that system was not created by Federal regulation—and one wonders whether it can be effectively spread through Federal regulation.

The Friend of the Court has a general concern for the child—something like the old charity organization, which weren't limited to one narrow function, whether to provide income or some supportive service. I think one of the reasons it works is that the Friend of the Court not only has power—he expresses a local community standard that parents should support their children. The federal role all too often overrules a more stringent local standard . . . and in many cases that is not a good idea.

Another thing we need is a system of health insurance which does not severely penalize the low-income earner who is not on welfare. Perhaps the best idea—though a very hard one to implement—is to find ways to make low-paying jobs more competitive with welfare. We won't do that by raising welfare benefits and making them easier. They already offer far too potent competition to the kind of jobs the poorly educated and unskilled can get. We have to see how we can attach some of the benefits of welfare to jobs. This means that a man's income should go up as the number of children he has to support goes up. It means that he should do as well in getting free or low-cost medical care as the welfare recipient of the same income. It means he should have some vacation and leisure, so that there is not so radical a contrast between the nonworking welfare recipient—whether a direct recipient or an indirect one—and the low-income worker. It will not be easy to make these kinds of jobs competitive with welfare. But we won't get there by making welfare better. We have to leave welfare where it is, letting the states struggle with it in their various ways, and set about making jobs better instead.

In speaking of child allowances, health insurance, and making low-wage jobs better, I am, of course, speaking of an expanding Federal role. But this expansion, I hope, will substitute for welfare. The issue is how we expand the Federal role—whether by means of a general income maintenance system, the export of New York and Massachusetts to Texas and Mississippi, or by new programs that reduce incentives to dependency and replace them with encouragement and the requirement of family responsibility and productive work. It is such programs we must think of, rather than universalizing the welfare standards and practices of the most liberal states.

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