SOCIAL SECURITY AMENDMENTS OF 1971

HEARINGS

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-SECOND CONGRESS

FIRST AND SECOND SESSIONS

ON

H.R. 1

TO AMEND THE SOCIAL SECURITY ACT TO INCREASE BENEFITS AND IMPROVE ELIGIBILITY AND COMPUTATION METHODS UNDER THE OASDI PROGRAM, TO MAKE IMPROVEMENTS IN THE MEDICARE, MEDICAID, AND MATERNAL AND CHILD HEALTH PROGRAMS WITH EMPHASIS ON IMPROVEMENTS IN THEIR OPERATING EFFECTIVENESS, TO REPLACE THE EXISTING FEDERAL-STATE PUBLIC ASSISTANCE PROGRAMS WITH A FEDERAL PROGRAM OF ADULT ASSISTANCE AND A FEDERAL PROGRAM OF BENEFITS TO LOW-INCOME FAMILIES WITH CHILDREN WITH INCENTIVES AND REQUIREMENTS FOR EMPLOYMENT AND TRAINING TO IMPROVE THE CAPACITY FOR EMPLOYMENT OF MEMBERS OF SUCH FAMILIES, AND FOR OTHER PURPOSES

JULY 27, 29; AUGUST 2 AND 3, 1971, AND
JANUARY 20, 21, 24, 25, 26, 27, 28, 31; FEBRUARY 1, 2, 3, 4, 7, 8, AND 9, 1972

PART 2 OF 6 PARTS

Public Witnesses
(January 20, 21, 24, and 25, 1972)

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE
72-573 O WASHINGTON : 1972

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402 - Price $2.25

COMMITTEE ON FINANCE

RUSSELL B. LONG, Louisiana, *Chairman*

CLINTON P. ANDERSON, New Mexico	WALLACE F. BENNETT, Utah
HERMAN E. TALMADGE, Georgia	CARL T. CURTIS, Nebraska
VANCE HARTKE, Indiana	JACK MILLER, Iowa
J. W. FULBRIGHT, Arkansas	LEN B. JORDAN, Idaho
ABRAHAM RIBICOFF, Connecticut	PAUL J. FANNIN, Arizona
FRED R. HARRIS, Oklahoma	CLIFFORD P. HANSEN, Wyoming
HARRY F. BYRD, Jr., Virginia	ROBERT P. GRIFFIN, Michigan
GAYLORD NELSON, Wisconsin	

TOM VAIL, *Chief Counsel*

CONTENTS

Discussions Between Members of the Committee on Finance and the Witnesses—Continued

Administration Witnesses

Public Witnesses

Public Witnesses—Continued

Public Witnesses—Continued

Public Witnesses—Continued

Public Witnesses—Continued

Public Witnesses—Continued

Public Witnesses—Continued

Public Witnesses—Continued

Public Witnesses—Continued

Public Witnesses—Continued

Communications

Communications—Continued

Communications—Continued

Communications—Continued

Communications—Continued

Communications—Continued

Communications—Continued

Communications—Continued

Communications—Continued

Communications—Continued

Additional Information

Additional Information—Continued

Additional Information—Continued

Additional Information—Continued

Additional Information—Continued

Selected tables and charts—Continued

Additional Information—Continued

Appendixes

Appendix A—Volume 1

Appendix B—Volume 1

Appendix C—Volume 1

Appendix D—Volume 1

Appendix E—Volume 1

Appendix F—Volume 2

Appendix G—Volume 4

Appendix H—Volume 4

Appendix I—Volume 4

SOCIAL SECURITY AMENDMENTS OF 1971

THURSDAY, JANUARY 20, 1972

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to notice, at 10 o'clock a.m., in room 2221, New Senate Office Building, Senator Russell B. Long (chairman) presiding.

Present: Senators Long, Anderson, Talmadge, Fulbright, Ribicoff, Byrd, Jr., of Virginia, Bennett, Curtis, Miller, Jordan of Idaho, Fannin, and Hansen.

OPENING STATEMENT OF THE CHAIRMAN

The CHAIRMAN. The committee is beginning its public hearings today on H.R. 1, the administration's social security, medicare, and welfare expansion bill. As I have stated, this bill will be accorded top priority by the committee this year.

True welfare reform certainly deserves our highest priority, for there is widespread agreement that our present welfare system is badly in need of overhaul. In our society we place a high value on work as the means to economic independence, yet our welfare system rewards recipients who do not work, places obstacles in the way of their working, and penalizes them financially if they work despite these obstacles.

Our society places a high value on family life and the responsibility of parents for providing for their children, yet our welfare system rewards illegitimacy, and desertion, and penalizes efforts at self-help among the poor. Significantly, illegitimacy and desertion are the two major causes contributing to the phenomenal increase in the welfare rolls in the last few years.

Speaking as one member of the Committee on Finance, this Senator will be most interested in hearing testimony pointing out ways our present welfare system can be reformed to remove this inconsistency between what our society values and what we are actually encouraging through our welfare system.

It seems to me that true welfare reform must accomplish these objectives: It must discourage family breakup and foster family units; it must prevent cheating and dishonesty, and, when this fails, detect it and deal firmly with it; it must reward efforts at self-help rather than rewarding idleness among the employable; and it must provide adequate child care services for children of low-income working mothers and mothers on welfare.

Unfortunately, the welfare provisions of H.R. 1 would not correct the glaring deficiencies of our present welfare system but only make them several billion dollars more expensive. To deal with these situations, I have already introduced legislation to involve the Federal Government in collecting child support from fathers who desert their families or who have never married the mother of their children and to provide child care services.

I am also preparing legislation to reward individuals for working rather than not working, and to mount an attack aimed at ending welfare cheating and welfare deceit.

For years now the Department of Health, Education, and Welfare has been saying that welfare ineligibility was less than 1 percent. Just a few months ago they released a pamphlet, entitled "Welfare Myths," in which they continued to propound this myth of 1-percent ineligibility. But I am pleased to say that they are now replacing welfare myths with welfare facts. For they have just recently released a study showing ineligibility in aid to families with dependent children to be about 6 percent, and they have admitted that even this figure is probably low.

In my view, eliminating the ineligibles from the welfare rolls is an essential element of true welfare reform. The taxpayers of America, who are supporting the welfare program with their own hard-earned money, are entitled to a program under which welfare benefits go only to the truly needy.

In summary, then, I would hope that we will hear testimony that deals with the true causes of our welfare problems today and constructive ways of dealing with those problems rather than aggravating them.

With respect to health care legislation, I would also hope that the committee will receive testimony regarding my proposal to provide insurance protection against the costs of catastrophic illness. A similar proposal was agreed to by the Committee on Finance in 1970, by a vote of 13 to 2. I am pleased that my amendment has attracted such strong support. In my opinion, protection against the cost of catastrophic illness, coupled with the extension of medicare to the disabled as H.R. 1 provides, along with improvements in medicaid would meet the most pressing shortcomings of our Federal health care system.

I might also point out that there will be introduced shortly a bill that will provide additional work incentive and tax relief to low-income workers. Under my proposal, workers with incomes below the poverty level would receive general fund payments equal to both the employer and employee shares of the social security taxes paid on their earnings. As I have said before, I do not believe we should use the hard-earned tax dollars of American citizens to pay a welfare allowance to an individual if we can help him directly by lifting some of the Federal tax burden from his back.

We will now call the first witness.

Senator RIBICOFF. I wonder, Mr. Chairman, if I might make a few comments?

Senator BENNETT. Mr. Chairman, I am sure that you and I are on the same wavelength with respect to most of the reforms we want to see made in this bill, although we may differ in degree or in method; but I am very hopeful that when we get through that we will have

developed a bill which will reserve welfare for those who really need it and who have no other reasonable expectation of taking care of themselves. On that basis I am sure we do agree.

The CHAIRMAN. Thank you, Senator.

Senator Ribicoff?

STATEMENT BY SENATOR RIBICOFF

Senator RIBICOFF. Mr. Chairman, I think it is only fair to point out that during the consideration of the tax bill you assured the Senate that the Finance Committee would start immediately on H.R. 1; and we have done so and it was your objective to get this legislation before the Senate on March 1, and I am confident that that can be done.

There is no question that H.R. 1 remains highly controversial; some call it a sham; some call it an extravagance. You, Mr. Chairman, and I have some differing opinions on different phases of this legislation. But I believe that before the Senate is through that we can enact a worthy bill into law.

I have introduced a series of amendments beginning with the basic guarantee that no welfare recipients will be worse off under H.R. 1 than they are now under the present welfare system.

My amendments would provide an additional payment level of $3,000 for a family of four; each year payment levels would increase until by 1976 no recipient would receive less than a poverty level adjusted annually for rises in the cost of living.

The State and local governments would also receive major fiscal relief over the next 5 years. They would pay a decreasing percentage of their calendar 1971 costs each year until by 1976 the welfare program would be financed fully by the Federal Government.

While most welfare recipients are unable to work, my proposal provides jobs for those who are able-bodied, 300,000 jobs in the public sector, at no less than the Federal minimum wage, and day care for those who need it.

Mr. Chairman, I would like to point out that my amendments now have the support of 22 Senators, 14 Governors, and numerous public interest groups.

It is my personal opinion that passage of H.R. 1 with these improvements will end the inadequate, debilitating system in operation of our welfare program across our Nation.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. I will insert the press release of the committee announcing these hearings and then we will hear the first witness.

(The press release follows:)

PRESS RELEASE

FOR IMMEDIATE RELEASE
December 29, 1971

COMMITTEE ON FINANCE
UNITED STATES SENATE
2227 New Senate Office Building

FINANCE COMMITTEE FIXES HEARINGS ON SOCIAL SECURITY AND WELFARE

Senator Russell B. Long, (D., La.), Chairman of the Finance Committee announced today that on Thursday, January 20, 1972, the Committee will begin public hearings on Social Security and Welfare legislation in connection with its consideration of H. R. 1. The hearings will begin at 10:00 a. m. on Thursday, January 20 in Room 2221, New Senate Office Building.

Senator Long noted that the Committee had already received testimony from Administration witnesses on H. R. 1. He recalled that the President had asked the Committee to set aside its work on the bill in order to act on the economic program involving the restoration of the investment tax credit. He stated that the President had also urged that the Committee return to consideration of the welfare measure after the work on the tax bill had been completed.

Senator Long stated: "Now that that bill has been signed into law, the Committee will be according top priority to action on Social Security, Medicare and Welfare legislation.

"I expect that the Committee will be most interested in hearing testimony on the ways the welfare provisions of H. R. 1 can be revised to bring about true welfare reform. It is elementary common sense that society should pay for those things it values rather than those things it looks down upon. This means an acceptable welfare program must pay people to work rather than not to work if they are employable, and must reward marriage and responsible parenthood rather than illegetimacy and desertion. When we speak of the 'welfare mess' today we mean that we are rewarding people for doing exactly the opposite of what our society values.

"Unfortunately, H. R. 1 does little about the present welfare mess, except to make it worse by several billions of dollars. The major causes of the tremendous increase in the welfare rolls in recent years have been illegitimacy and desertion. No welfare proposal can be true reform unless it deals with these problems. It was for this reason that I introduced S. 3019 to add strong new provisions to the laws involving the Federal Government in collecting child support from fathers who desert their families or who have never married the mother of their children.

"Far from providing incentives to work, the welfare provisions of H. R. 1 represent a tremendous expansion of our welfare rolls with little hope of reduction at any time in the future. Like the present welfare mess, H. R. 1 pays money to persons who do nothing and then starts taking it away from them when they start working.

"I intend shortly to introduce legislation to do exactly the opposite--to reward individuals for working rather than not working.

"I also plan to offer amendments to put a stop to the widespread cheating that permeates today's welfare system.

"If we are going to reform the welfare program, then we should include in the bill those provisions which will make it true reform. The taxpayers of America deserve no less."

Requests to Testify -- Senator Long advised that witnesses desiring to testify during this hearing must make their request to testify to Tom Vail, Chief Counsel, Committee on Finance, 2227 New Senate Office Building, Washington, D. C., not later than Wednesday, January 12, 1972. Witnesses will be notified as soon as possible after this cutoff date as to when they are scheduled to appear. Once the witness has been advised of the date of his appearance, it will not be possible for this date to be changed. If for some reason the witness is unable to appear on the date scheduled, he may file a written statement for the record of the hearing in lieu of a personal appearance.

Consolidated Testimony -- The Chairman also stated that the Committee urges all witnesses who have a common position or with the same general interest to consolidate their testimony and designate a single spokesman to present their common viewpoint orally to the Committee. This procedure will enable the Committee to receive a wider expression of views on the total bill than it might otherwise obtain. The Chairman praised witnesses who in the past have combined their statements in order to conserve the time of the Committee. And he urged very strongly that all witnesses exert a maximum effort, taking into account the limited advance notice, to consolidate and coordinate their statements.

Legislative Reorganization Act -- In this respect, the Chairman observed that the Legislative Reorganization Act of 1946, as amended, requires all witnesses appearing before the Committees of Congress --

> "to file in advance written statements of their proposed testimony, and to limit their oral presentations to brief summaries of their argument."

The statute also directs the staff of each Committee to prepare digests of all testimony for the use of Committee Members.

Senator Long stated that in light of this statute and in view of the large number of witnesses who desire to appear before the Committee in the limited time available for the hearing, all witnesses who are scheduled to testify must comply with the following rules:

> (1) All statements must be filed with the Committee at least one day in advance of the day on which the witness is to appear. If a witness is scheduled to testify on a Monday or Tuesday, he must file his written statement with the Committee by the Friday preceding his appearance.
>
> (2) All witnesses must include with their written statement a summary of the principal points included in the statement.
>
> (3) The written statements must be typed on letter-size paper, (not legal size) and at least 50 copies must be submitted to the Committee.
>
> (4) Witnesses are not to read their written statements to the Committee, but are to confine their ten-minute oral presentations to a summary of the points included in the statement.
>
> (5). Not more than ten minutes will be allowed for the oral summary.

Witnesses who fail to comply with these rules will forfeit their privilege to testify. Those who have already requested to testify need not submit a second request.

Written Statements -- Witnesses who are not scheduled for oral presentation, and others who desire to present a statement to the Committee, are urged to prepare a written position of their views for submission and inclusion in the printed record of the hearings. These written statements should be submitted to Tom Vail, Chief Counsel, Committee on Finance, Room 2227, New Senate Office Building not later than Friday, February 18, 1972.

The CHAIRMAN. The first witness is Mr. John S. Pillsbury, Jr., chairman and chief executive officer of Northwestern National Life Insurance Co. of Minnesota, and on behalf of the Life Insurance Association of America and the American Life Convention.

Mr. Pillsbury?

STATEMENT OF JOHN S. PILLSBURY, JR., CHAIRMAN AND CHIEF EXECUTIVE OFFICER, NORTHWESTERN NATIONAL LIFE INSURANCE COMPANY ON BEHALF OF AMERICAN LIFE CONVENTION, THE LIFE INSURANCE ASSOCIATION OF AMERICA AND THE LIFE INSURERS CONFERENCE, ACCOMPANIED BY RICHARD MINCK, ACTUARY, LIFE INSURANCE ASSOCIATION OF AMERICA

Mr. PILLSBURY. Mr. Chairman and gentlemen, my name is John S. Pillsbury, Jr., and I am chairman and chief executive officer of the Northwestern National Life Insurance Co., Minneapolis, Minn.

I appear today on behalf of the American Life Convention, the Life Insurance Association of America and the Life Insurers Conference. These three associations have an aggregate membership of 407 life insurance companies, accounting for 93 percent of the life insurance in force in the United States. These companies also hold 99 percent of the reserves of insured pension plans in the United States. We very much appreciate this opportunity to express our views on H.R. 1 and I might add that my testimony is directed to the social security provisions of the bill more than to—and not to the welfare provisions.

While my prepared statement covers a number of the provisions; however, I would like to discuss for a moment the relationship of the social security system to the private retirement system.

Since the inception of social security, we have always understood it to be the policy of Congress that this system is not intended to be the only means for providing retirement security for American workers and their families. Rather, social security has properly been designed to provide individuals with a basic floor of protection in their retirement. It has been left for various private savings media, including insurance company products, to provide retirement income above this level.

These private plans offer flexible arrangements which can be designed to fit an individual's particular needs. It is important, therefore, that the social security system not be structured or expanded so as to prevent the ability of individuals to use private savings media to provide retirement income for themselves beyond the social security floor of protection.

Maintenance of a strong private retirement income system is also important for the economy as a whole. Savings through life insurance, pension funds and other private savings media make a major contribution to the supply of private capital needed for an expanding economy. The social security system, quite properly, I might add, does not generate capital but redistributes virtually all of the tax revenue as received.

Thus, maintaining a proper balance between the social security system and the private retirement media is important. If the proposed

increase in the earning base, that is, the base on which social security benefits and taxes are computed, which is included in H.R. 1, is adopted, we believe that the balance will be seriously distorted. On January 1 of this year the earnings base was increased to $9,000 pursuant to the social security bill passed last year. H.R. 1 would now further increase this base to $10,200. We strongly oppose this further increase.

We believe that the average earnings of regularly employed male workers represent an appropriate dividing line between the area in which the Government should have responsibility to provide basic retirement benefits and the area in which the individual, acting alone or with his employer, should have responsibility to provide retirement security through private media. In our opinion, the social security system clearly reaches beyond its role of providing basic economic protection when it provides benefits based on earnings above this average.

Under our estimates, the average earnings of regularly employed male workers will not even reach the $9,000 wage base presently in effect until 1973 and will not reach the proposed $10,200 wage base until several years thereafter. Thus, an increase to $10,200 would bring the earnings base to a level substantially in excess of the estimated average earnings.

What is the practical effect of raising the earnings base above a justifiable level? First, the increase would entitle workers with above-average earnings to additional social security benefits based on their earnings included in the newly covered earnings band and, in this manner, would raise the benefits of these workers substantially above the floor of protection standard. Moreover, the increase would require workers at these earnings levels to pay substantially higher social security taxes.

For example, the social security taxes payable by an employee earning $10,200 would be increased in 1973 by 18 percent, from $468 to $551, largely attributable to the earnings base increase in H.R. 1. This increase would be added to the 15-percent increase in his social security taxes which already took effect in January 1972, resulting in a total tax increase over a 2-year period of 36 percent from $406 to $551.

It is also important to note that, for younger employees, these increases are far in excess of the cost of the new benefits they will receive. The proposed earnings base increase would thus seriously impede the ability of and undermine the incentive for the affected individuals and their employers to provide for retirement income through the many types of private media available.

Finally, and of substantial importance, is the interrelationship of the proposed earnings base increase and the provision in H.R. 1 for automatic adjustments in the earnings base to account for future increases in earnings. Although our industry, in the past, has opposed the concept of automatic increases in both benefit levels and the earnings base, we accept the fact that such provisions are likely to be enacted. However, such automatic adjustments should be made to an otherwise proper earnings base. If the initial base is too high, the excess will forever be built into the system as the future automatic increases will merely be added to an inflated earnings base.

For all of these reasons, we strongly urge that the earnings base be continued at its existing $9,000 level. Additional costs arising under

H.R. 1 should first be financed through any favorable actuarial balance in the present program and beyond that the social security tax schedule should be drawn upon as a source of funds. In this connection, we have noted the possibility that the methods for measuring the financial needs and resources of the social security trust funds may be revised.

I believe Secretary Richardson testified on this matter last summer. If such a revision is made and a significant actuarial surplus arises, we strongly believe that a part of such surplus should be used to meet those revenue needs of the system that would be met under H.R. 1 by an increase in the earnings base.

Turning to another provision, H.R. 1 would increase social security benefits by 5 percent across the board effective June 1972. We believe that this increase should be deleted and instead the provision for automatically increasing benefits to reflect cost-of-living increases, which we recognize, as I have already said, will be included in the bill, should be allowed to operate as intended, effective January 1973.

If a benefit increase is to be specifically included in the bill, it should not, in any event, exceed the rise in the cost of living since January 1971, the date of the last benefit increase, and should, as the House bill provides, be in lieu of any increase that would otherwise result under the automatic provisions. It is unnecessary to go beyond this inasmuch as there have been two substantial across-the-board benefit increases within the past 2 years which, in the aggregate, considerably exceed the intervening cost-of-living increases.

Again, let me express appreciation for this opportunity to present the views of our three associations. I would, of course, be happy to try to answer any questions you may have. Moreover, I hope that we may be permitted to file such additional material for the record as may be appropriate in the light of matters raised during the remainder of your hearings on H.R. 1.

Thank you very much. Are there any questions?

The CHAIRMAN. Thank you. Are there any questions?

Senator CURTIS. Do you happen to know what the median wage is? You referred to the average wage.

Mr. PILLSBURY. I don't know whether my associate here—from one of our associations—has that information or not.

Mr. MINCK. My name is Richard Minck. I am actuary of the Life Insurance Association of America.

Senator, the wage we refer to in our testimony is the median wage for male workers who are working on a full-time basis and——

Senator CURTIS. The figure used, then, was the median wage?

Mr. MINCK. Yes, sir.

Senator CURTIS. That is a median wage for what?

Mr. MINCK. Male workers gainfully employed full time, four quarters of coverage each year under the social security system.

Senator CURTIS. All male workers?

Mr. MINCK. Yes, sir.

Mr. PILLSBURY. Full time.

Mr. MINCK. Excluding those working part time.

Senator CURTIS. What was that figure?

Mr. PILLSBURY. $9,000.

Mr. MINCK. We estimate sometime next year it will be $9,000; it is currently $8,500.

Senator CURTIS. By its very terms, roughly half of the full-time employed people earn less than the median?

Mr. MINCK. Yes.

Senator CURTIS. So if increased benefits are financed by raising the base, it means increasing benefits by raising the taxes upon a part of the workers and part of the employers; is that correct?

Mr. MINCK. I think that is correct, sir.

Senator CURTIS. I think without a doubt there are times that the base should be raised and thus to carry part of the costs, but it does present an easy way for the Congress that is not a sound way to make a practice of financing increased benefits by raising the base because it is entirely possible that someone could make the claim, and it will be true, that the majority of people under social security would have no tax raise and still get an increase in benefits?

Mr. MINCK. That is correct.

Mr. PILLSBURY. Senator, I call your attention to the fact that H.R. 1 as it now stands has an automatic provision for increasing the base. Isn't that correct?

Mr. MINCK. Yes, sir.

Senator CURTIS. Was that in the bill of a year ago?

Mr. MINCK. Yes, sir.

Senator CURTIS. I have mixed feelings about automatic increases of benefits. From one standpoint, I am for it, in that the people, particularly the people of low income and small social security benefits would get their increase without having to wait on the Congress. Oftentimes it gets tied up in controversial things like it is right now. On the other hand, knowing the bent of Congress wanting to vote benefits to give to people, we may end up perpetually with a system of both—automatic increases and congressional increase.

I won't take further time but I want to thank you for your testimony.

Mr. PILLSBURY. Senator, let me say that the bill has a provision in it which requires that the Congress be notified before an automatic increase would normally go into effect under an increase in cost of living which gives Congress the opportunity to vote its own increase——

Senator CURTIS. I understand that.

Mr. PILLSBURY. Which would then preempt the automatic increase for that time.

Senator CURTIS. I can't help but feel that the increase in social security has been held a captive now for a number of months to try to get through a guaranteed annual income and that is unfair to the social security beneficiaries.

The CHAIRMAN. Time is going to be short on us in these hearings as well as in our executive session and whenever I can submit my question—I am going to submit it rather than ask it.

We will have a secretary in the room right behind us where the witness can respond to the written question. I am going to submit this question to Mr. Pillsbury and ask him to give us the answer to the secretary. If I find the answer is not adequate then I will find him before he gets out of town and pursue it.

Thank you very much.

(The Chairman's question with the response follows:)

Question. **Mr. Pillsbury, in your prepared statement you mentioned the notch effect of the life insurance excludable amount. Would you please explain more fully the notch effect and how you would suggest eliminating it.**

Response. Under H.R. 1, if a family has less than $1,500 of life insurance, the full cash value of its policy is an excludable amount in determining the family's resources. However, if a family has more than $1,500 in life insurance (for example, $1,600) none of the cash surrender value is excludable.

This in effect is an all-or-none provision. This could be corrected by providing that families with more than $1,500 of life insurance may exclude the portion of cash surrender value attributable to $1,500 of life insurance.

As indicated in our testimony, we also propose that the $1,500 figure be increased to $4,000.

Senator FANNIN. Mr Chairman, just one question before Mr. Pillsbury is excused.

We are trying to make H.R. 1 into a workfare program, to be fair to everyone. I wonder if it would be possible for you to expand, not at this time, but if you could give us more information about the savings through life insurance pension plans and other private savings making a major contribution to the supply of capital? Not at this time but could you give us more information on that?

Mr. PILLSBURY. We would be very happy to. As a matter of fact, there is more information in the full statement which we have submitted.

Senator FANNIN. Thank you.

The CHAIRMAN. Thank you very much, Mr. Pillsbury.

(The prepared statement of the previous witness and material referred to by Senator Fannin follows. Hearing continues to page 750.)

STATEMENT OF AMERICAN LIFE CONVENTION, LIFE INSURANCE ASSOCIATION OF AMERICA AND LIFE INSURERS CONFERENCE

SUMMARY

It has been the clear policy of Congress that the Social Security system is not intended to be the sole means for providing retirement security for American workers and their families. Rather, the system has properly been designed to provide individuals with basic economic protection in their retirement. It is important that the system not be structured or expanded so as to impede the ability of individuals to provide additional income for their retirement through private savings media.

Within this framework, the statement discusses the following provisions contained in H.R. 1.

(1) Increase in Earnings Base

H.R. 1 would increase the earnings base to $10,200. We strongly urge that this increase be deleted and that the base be retained at its existing $9,000 level. The proposed increase would raise the earnings base to a level substantially in excess of the average earnings of regularly employed male workers which we estimate will not reach $10,200 for several years. In this regard, the increase would seriously breach the proper relationship between the Social Security system and the private retirement media and, in addition, would severely distort the operation of any provision for automatic increases in the earnings base to reflect increases in average earnings.

(2) Across-the-Board Benefit Increase

We believe that the 5 percent across-the-board benefit increase in H.R. 1 should be deleted and, instead, the provision for automatically increasing benefits to reflect cost-of-living increases—which we recognize will probably be included in the bill—should be allowed to operate as intended, effective January 1973. If a benefit increase is to be enacted, it should not, in any event, exceed the rise in the cost of living since January 1971—the date of the last benefit increase—and should (as H.R. 1 provides) be in lieu of any increase that would otherwise result under the automatic provisions.

(3) Certain Other Benefit Liberalizations

We seriously question whether the aggregate cost of certain of the benefit liberalizations in H.R. 1 can be justified at the present time when there is serious concern on the part of many people over the financial impact of the high Social Security taxes on American workers.

(4) *Retirement Earnings Test*

We support the liberalization in the retirement earnings test contained in H.R. 1.

(5) *Payments to Survivor or Estate of Deceased Employee*

We support the provision in H.R. 1 which would exempt from Social Security taxes any amounts which are earned by an employee in covered employment but which are not paid until after the year in which he died. Moreover, we believe it would be appropriate to extend the exemption to cover disabled employees.

(6) *Treatment of Life Insurance in Measuring an Individual's Resources for Welfare Purposes*

Under H.R. 1 an individual's life insurance policies need not be counted in determining his resources for purposes of qualifying under the family assistance program if the face amount of such policies does not exceed $1,500. We believe the $1,500 should be raised to $4,000 and that the notch effect of this exemption should be eliminated.

STATEMENT

My name is John S. Pillsbury, Jr. I am Chairman and Chief Executive Officer of the Northwestern National Life Insurance Company of Minneapolis.

I appear today on behalf of the American Life Convention, the Life Insurance Association of America and the Life Insurers Conference. These three associations have an aggregate membership of 407 life insurance companies accounting for 93 percent of the life insurance in force in the United States. These companies also hold 99 percent of the reserves of insured pension plans in the United States. We appreciate this opportunity to express our views on H.R. 1, especially as it relates to the old-age, survivors, and disability insurance program.

SOCIAL SECURITY'S ROLE

Since the inception of Social Security, we have always understood it to be the policy of Congress that this system is not intended to be the sole means for providing retirement security for American workers and their families. Rather, Social Security has properly been designed to be a vehicle for providing individuals with basic economic protection in their retirement. It has been left for various private savings media, including insurance company products, to provide retirement income above this level.

Private plans offer flexible arrangements which can be designed to fit an individual's particular needs. The necessity for providing nearly universal coverage does not permit the Social Security system to offer this flexibility. Another difference between Social Security and the private system is that the latter offers products with benefits fully geared to the level of contributions. Thus, an individual in the private market is able to determine for himself—on the basis of his own spending priorities—the level of retirement income he desires and to provide accordingly. Consistent with this framework, it is important that the Social Security system not be structured or expanded so as to pre-empt the ability of individuals to use private savings media to provide retirement income for themselves beyond the Social Security floor of protection.

Maintenance of a strong private retirement income system is also important for the economy as a whole. It is generally agreed that, if our economy and productivity are to grow in the years ahead, there must be an increasing supply of new investment capital. Savings through life insurance and pension funds and other private savings media make a major contribution to this supply of capital. For example, in 1970, noninsured private pension plans invested $4.7 billion in stocks and $1.6 billion in bonds of U.S. corporations. During the same year, life insurance companies invested $2.0 billion in U.S. corporate stocks, $1.6 billion in U.S. corporate bonds, and $1.8 billion in mortgages on business property. Other savings media, such as savings and loan associations, mutual funds, and state and local pension plans also make substantial investments in these sectors of the economy.

If Social Security benefits are expanded at the expense of private pension funds and savings, there will be a reduction in the generation of capital, since, in contrast to private savings, the Social Security system, quite properly, does not generate capital but redistributes each year virtually all of the tax revenue received.

Since the inception of the Social Security system, it has been customary for Congress to review it from time to time to determine whether it is properly carrying out its role. Proposals to revise the system must be considered, however, not only in terms of broad social need but also in terms of the cost and the proper relationship between public and private programs. While necessary changes and improvements have properly been made, we cannot stress enough the fact that undue expansion of the Social Security system would have a far-reaching impact on voluntary private mechanisms and, in turn, on our economy as a whole.

Within this frame of reference, I would now like to discuss various provisions of H.R. 1.

INCREASE IN EARNINGS BASE

On January 1 of this year, the earnings base—that is, the base on which the Social Security taxes as well as benefits are computed—increased to $9,000 pursuant to the Social Security amendments passed by Congress last year. H.R. 1 would now further increase this base to $10,200. (While the House-passed version of H.R. 1 would make this increase effective on January 1, 1972, we assume that, because this date has already passed, any further increase would not take effect until 1973.)

To put this proposed increase in historical perspective, it should be noted that, in the years from 1936 to 1965, the earnings base was increased $1,800 from $3,000 to $4,800—an increase of 60 percent in a thirty-year period. The increase to $10,200 would mean an increase of $5,400, or 113 percent, in a period of only eight years.

We believe that the increase in the base from $9,000 to $10,200 would seriously breach the proper relationship between the Social Security system and the private retirement media and, in addition, would severely distort the operation of any provision for automatic increases in the earnings base to reflect future increases in earnings.

Let me be more specific:

We believe that the average earnings of regularly employed male workers represent an appropriate dividing line between the area in which the government should have responsibility to provide basic retirement benefits and the area in which the individual, acting alone or with his employer, should have responsibility to provide retirement security through private media. In our opinion, the Social Security system clearly reaches beyond its role of providing basic economic protection when it provides benefits based on above-average earnings, as would be done under H.R. 1. Likewise, when the system raises revenues through taxes at these above-average earnings levels, it drains off financial resources which the individual and his employer might otherwise put into private savings. In each situation, the freedom of individual choice is eroded.

Under our estimates, the average earnings of regularly employed male workers will not even reach the $9,000 earnings based presently in effect until 1973 and will not reach the proposed $10,200 wage base until several years thereafter. Thus, the increase to $10,200—effective January 1, 1973—would bring the earnings base to a level substantially in excess of such estimated average earnings at that time.

What is the practical effect of raising the earnings base above a justifiable level? First, the increase would entitle workers with above-average earnings to additional Social Security benefits based on their earnings included in the newly covered earnings band and, in this manner, would raise the benefits of these workers substantially above the floor-of-protection standard. Moreover, the increase in the earnings base would require workers at these earnings levels to pay substantially higher Social Security taxes. For example, the Social Security taxes payable by an employee earning $10,200 would be increased in 1973 by 18 percent from $468 to $551—largely attributable to the earnings base increase in H.R. 1. This increase would be added to the 15 percent increase in his Social Security taxes which already took effect in January 1972, resulting in a total tax increase over a two-year period of 36 percent from $406 to $551. It is also important to note that, for younger employees, these increases are far in excess of the cost of the new benefits they will receive. The proposed earnings base increase would, thus, seriously impede the ability of—and undermine the incentive for—the affected individuals and their employers to provide for retirement income through the many types of private media available.

Moreover, using an increase in the earnings base as a mechanism for financing benefit increases or other provisions of H.R. 1 is an inefficient process. This results from the fact that part of the additional revenue which is raised will be drained off into providing benefits on earnings above the level presently appropriate for Social Security. Thus, only a portion of the increased revenues will be available for meeting the cost of the benefit liberalizations which are the primary objective of H.R. 1.

Finally, and of substantial importance, is the interrelationship of the proposed earnings base increase and the provision in H.R. 1 for automatic adjustments in the earnings base to account for future increases in earnings. Although our industry has, in the past, opposed the concept of automatic increases in both benefit levels and the earnings base, we accept the fact that, in light of the current provision in the House bill and the action by the Senate in 1970, such automatic increase provisions are likely to be enacted. Since the automatic adjustments would be applied to increase the earnings base currently in effect, it is important that the initial earnings base be set at a proper level. If it is too high, the excess will forever be built into the system as the future automatic increases will be added to an inflated earnings base.

For all of these reasons, we strongly urge that the earnings base be retained at its existing $9,000 level and that the increase in the House bill be deleted. Any additional costs arising under H.R. 1 should first be financed through any favorable actuarial balance in the present program and beyond that the Social Security tax schedule should be drawn upon as a source of funds. In this connection, we have noted the possibility that the methods of measuring the financial needs and resources of the Social Security trust funds may be revised. If such a revision is made and a significant actuarial surplus arises, we strongly believe that a part of such surplus should be used to meet those revenue needs of the system that would be met under H.R. 1 by an increase in the earnings base. Adherence to these principles will ensure that the Social Security system remains in a self-supporting posture while at the same time financing its benefit increases in an efficient manner that is consistent with its role in relation to private retirement media. These, we think, are extremely important objectives for the Social Security system.

ACROSS-THE-BOARD INCREASE

H.R. 1 would increase Social Security benefits by 5 percent across-the-board, effective June 1972. We believe this increase should be deleted from the bill. As I have already mentioned, we accept the likelihood that the final version of H.R. 1 will provide a system for automatic increases in Social Security benefits to reflect increases in the cost of living. As we understand the House bill in this regard, the automatic provision standing alone will most likely result in a benefit increase, effective January 1973, of a magnitude in the neighborhood of the 5 percent increase specified in the bill. On the other hand, if H.R. 1 itself provides a benefit increase, this will pre-empt the automatic increase. Given this choice, we believe that it would be most consistent with the objective of the new automatic provision to let it operate as intended instead of accelerating the benefit increase to June 1972.

If a benefit increase is to be specifically included in the bill, it should not, in any event, exceed the rise in the cost of living since January 1971—the date of the last benefit increase—and should (as H.R. 1 provides) be in lieu of any increase that would otherwise result under the automatic provisions. It is unnecessary to go beyond this inasmuch as there have been two substantial across-the-board benefit increases within the past two years—15 percent effective January 1970 and 10 percent effective January 1971. In the aggregate, these two increases amounted to 26½ percent—considerably more than the 16½ percent increase in the consumer price index from its level in February 1968, the effective date of the last prior Social Security benefit increase, to its level in January 1971.

CERTAIN OTHER BENEFIT LIBERALIZATION

In addition to the across-the-board increase, H.R. 1 contains several other benefit liberalizations which, when taken in the aggregate, will add substantially to the cost of the Social Security system. These provisions include (1) a special minimum benefit—which could be substantially higher than the regular minimum—for employees who have worked under Social Security for at least 15 years, (2) increased benefits for individuals who continue working after age 65, (3) additional drop-out years for computing average monthly wage, and (4)

computation of benefits on the combined earnings of a husband and wife under certain conditions. While there may be good reasons for each of these liberalizations, we seriously question whether their aggregate cost can be justified at the present time when there is a very real concern on the part of many people over the financial impact of the high Social Security taxes on American workers.

LIBERALIZATION OF THE RETIREMENT TEST

We support the provisions in H.R. 1 for increasing the amount an individual may earn without a reduction in Social Security benefits and for revising the formula for reducing Social Security benefits when earnings exceed the exemption level. We believe that these changes are not inconsistent with a sound retirement test.

TAX TREATMENT OF PAYMENTS TO THE SURVIVOR OR ESTATE OF A DECEASED EMPLOYEE

We support the provision in H.R. 1 which would exempt from Social Security taxes any amounts which are earned by an employee in covered employment but which are not paid until after the year in which he died. As indicated in the House Committee Report, present law—which requires Social Security taxes to be paid in this situation— has worked a hardship in the case of deceased life insurance salesmen whose renewal commissions have been taxed for many years after their death, since these tax payments do not result in any additional Social Security benefits for their survivors. We believe it would also be appropriate to extend the provision in the House bill in a similar manner to disabled employees.

TREATMENT OF LIFE INSURANCE IN MEASURING AN INDIVIDUAL'S RESOURCES FOR WELFARE PURPOSES

Under H.R. 1, a family would not be eligible for benefits under the new family assistance program if it has resources in excess of $1,500. However, certain items may be disregarded in making this determination. Among the exclusions is a life insurance policy or policies if the total face amount does not exceed $1,500. If the face amount does exceed $1,500, then the cash surrender value of the policy or policies must be counted in applying the resource test.

We believe two changes should be made regarding the treatment of life insurance:

First, the full exclusion should apply to a larger face amount of insurance. Unlike other assets, if a family is required to surrender a life insurance policy, it may be difficult, if not impossible, to replace if the family's income subsequently increases. A savings account, for example, can always be rebuilt to its previous level without any substantial loss. If a life insurance policy is surrendered, the individual may no longer be insurable when he goes to replace it. If he is insurable, the premium rates will be higher to reflect his being older than when the first policy was issued and the new contract will have to bear the costs of commissions and underwriting expenses. Thus, it is important that the exclusion level be set at a realistic amount so as not to require families to surrender life insurance coverage which is basic to their needs.

Families need more life insurance than the $1,500 excludable under H.R. 1. The costs incurred in terminal illnesses, and for burial and other attendant expenses normally run much higher than that. On the average, families earning $3,000 or less currently own $4,000 of individual life insurance and we suggest granting a full exclusion to policies up to this face amount.

Second, the notch effect in the House bill should be eliminated by providing that only the cash surrender value attributable to the face amount in excess of the excludable amount should be counted in determining a family's resources. Such treatment is consistent with the rules in the bill applicable to other excludable items. For instance, a family's home, household goods, and personal effects are excludable to the extent of a reasonable amount. Presumably, under this provision, if the value of the family's home exceeds the excludable limit, only the excess is counted in determining the family resources. The rule for life insurance is different under the House bill—if the face amount exceeds $1,500, even by only a small amount, the entire cash surrender value is included in countable resources. This is an inequitable rule and should be modified as suggested.

AMERICAN LIFE CONVENTION,
LIFE INSURANCE ASSOCIATION OF AMERICA,
WASHINGTON OFFICE,
Washington, D.C., February 14, 1972.

HON. PAUL J. FANNIN,
U.S. Senate,
Washington, D.C.

DEAR SENATOR FANNIN: During the appearance of Mr. John S. Pillsbury, Jr. before the Senate Finance Committee during the hearings on H.R. 1, you asked for additional information on capital formation through life insurance companies, pension plans and other savings media.

In response to your inquiry, Mr. Pillsbury alluded to a portion of his full statement which he had submitted for the record but which the time limitation precluded his reading. That portion of the statement follows:

"Maintenance of a strong private retirement income system is also important for the economy as a whole. It is generally agreed that, if our economy and productivity are to grow in the years ahead, there must be an increasing supply of new investment capital. Savings through life insurance and pension funds and other private savings media make a major contribution to this supply of capital. For example, in 1970, noninsured private pension plans invested $4.7 billion in stocks and $1.6 billion in bonds of U.S. corporations. During the same year, life insurance companies invested $2.0 billion in U.S. corporate stocks, $1.6 billion in U.S. corporate bonds, and $1.8 billion in mortgages on business property. Other savings media, such as savings and loan associations, mutual funds, and state and local pension plans also make substantial investments in these sectors of the economy.

"If Social Security benefits are expanded at the expense of private pension funds and savings, there will be a reduction in the generation of capital, since, in contrast to private savings, the Social Security system, quite properly, does not generate capital but redistributes each year virtually all of the tax revenue received."

We thought that you might also be interested in the attached table which shows the growing importance of pension savings as a part of personal savings.

The savings accumulated through private pension funds are invested in corporate securities, mortgages, state and municipal bonds, and U.S. Government obligations. They thus provide financing for the construction of industrial plant and equipment, single-family homes, apartment buildings, commercial properties of all kinds, public utilities, transportation and communication facilities, roads and other public facilities, and many other kinds of capital projects. The capital expenditures made possible by pension savings provide increasing job opportunities in our economy and contribute heavily to improved productivity and thus to higher living standards.

Should you desire any additional data, please let us know.

Sincerely yours,

AMERICAN LIFE CONVENTION,
WILLIAM B. HARMAN, JR.,
General Counsel.

LIFE INSURANCE ASSOCIATION OF AMERICA,
KENNETH L. KIMBLE,
Vice President and General Counsel.

Attachment.

THE CONTRIBUTION OF PENSION FUND SAVING TO THE ECONOMIC GROWTH OF THE UNITED STATES

[Dollar amounts in billions]

	Average per annum				
	1946–50	1951–55	1956–60	1961–65	1966–70
Personal income [1]	$203.0	$283.4	$366.0	$472.3	$691.9
Personal saving [1]	$11.7	$17.2	$20.0	$23.5	$40.9
Pension saving [2]	$2.7	$4.6	$7.2	$10.8	$16.4
Personal saving as percent of personal income	5.8	6.1	5.5	5.0	5.9
Pension saving as percent of personal income	1.3	1.6	2.0	2.3	2.4

[1] National income accounts of the U.S. Department of Commerce, Survey of Current Business.
[2] Flow-of-funds accounts of the Board of Governors of the Federal Reserve System. This figure measures the increase in assets held by private pension plans, pension programs administered by state and local government units, and the Federal employee and railroad retirement benefit programs. It includes both insured and noninsured plans. It excludes OASDI.

Note: National income accounts prepared by the U.S. Department of Commerce, the importance of pension fund saving.

The CHAIRMAN. Now, the next witness is Mr. Peter Hughes, Legislative Representative of the American Association of Retired Persons and the National Retired Teachers Association.

Mr. HUGHES. Good morning, Mr. Chairman.

The CHAIRMAN. Mr. Hughes.

STATEMENT OF PETER HUGHES, LEGISLATIVE REPRESENTATIVE, NATIONAL RETIRED TEACHERS ASSOCIATION AND THE AMERICAN ASSOCIATION OF RETIRED PERSONS, ACCOMPANIED BY ROBERT SYKES, LEGISLATIVE REPRESENTATIVE, NRTA AND AARP

Mr. HUGHES. Mr. Chairman, my name is Peter Hughes and I am the legislative representative of the National Retired Teachers Association and the American Association of Retired Persons. With me today is my colleague, Mr. Robert Sykes, who is also a legislative representative for our associations.

Mr. Cyril Brickfield, our legislative counsel, was unfortunately called out of town and was not able to appear so, Mr. Chairman, in the interest of time, I should like to just submit our statement, make the request that we may submit additional material on the medicare section of H.R. 1.

The CHAIRMAN. Thank you very much, sir. We will print your statement just exactly as written and you may be assured it will be considered by the committee.

Mr. HUGHES. Thank you very much.

Senator BENNETT. Mr. Chairman, I assume we have the privilege of submitting questions to the association based on that statement——

Mr. HUGHES. Yes, sir; we would be very happy to answer it.

Senator BENNETT (continuing). And expect them to give us written replies?

Mr. HUGHES. We would be very happy to reply.

The CHAIRMAN. Thank you very much, sir.

(The prepared statement and a subsequent statement received on medicare follows. Hearing continues on page 754.)

TESTIMONY OF THE NATIONAL RETIRED TEACHERS ASSOCIATION AND AMERICAN ASSOCIATION OF RETIRED PERSONS

SUMMARY

Cost of Living Adjustments

Our Associations favor the automatic cost-of-living adjustment but we feel that benefits should be raised *before* the automatic adjustment is employed.

Benefits Increase

Our Associations urge an across-the-board increase of 15% with a minimum monthly benefit of $120.

Liberalization of Earnings Test

Our Associations recommend an earnings figure of $3,000 without loss of benefits.

Widow's Benefits

Our Associations support the increase in the widows' benefit from 82½% to 100% of her deceased husband's benefits.

Uniform Method of Computation of Benefits: Men and Women

Our Associations support this principle of uniform computation and the resulting benefits increase.

Out-of-Hospital Prescription Medicines

Our Associations agree with the HEW Task Force and recommend that outpatient prescription medicines be included in Medicare coverage.

Special Age 72 Payments

Our Associations recommend a greater increase in benefits to those persons age 72 or over who were originally excluded from Social Security benefits but now receive a meager sum under the "Transitional Insured Status"; and, also urge that the restriction placed on persons in that category who receive public pensions be raised to $150 per month, before they are denied the meager Social Security benefit.

Universal Medicare Eligibility at 65

Our Associations strongly support the provision for voluntary enrollment at age 65 of those persons otherwise ineligible for hospital insurance benefits under Medicare.

TESTIMONY

Mr. Chairman, my name is Cyril F. Brickfield. I am Legislative Counsel of the National Retired Teachers Association and the American Association of Retired Persons. Accompanying me today is Mr. Peter Hughes and Mr. Robert Sykes, Legislative Representatives for our two Associations.

Our Associations have a combined national membership of more than 3.4 million older Americans. We are nonprofit, nonpartisan organizations of persons age 55 and over, dedicated to the belief that dignity, independence, and purpose enable the older person to continue a life of meaningful activity, usefulness, and service to others.

We appreciate this opportunity to appear before the Committee in continuation of our Associations' support for the fine work of the Committee on legislation designed to provide economic security for all older and retired Americans.

Mr. Chairman, during 1970 the Senate Special Committee on Aging, under the leadership of Senator Williams, conducted a study entitled: The Economics of Aging: Toward a Full Share in Abundance. Even before this series of hearings began, our Associations were well aware of the economic plight of large numbers of elderly persons in this country. The Task Force Report, the Background Papers, and the testimony of dozens of witnesses before this Committee offered additional documentation and forceful dramatization of the harsh realities faced by so many older people. But, this work of the Senate Special Committee on Aging accomplished much more. It gave us an assessment of the great strides we have made in the past and the tremendous tasks still facing our Nation in dealing with the economic problems confronting all Americans facing retirement years.

Fundamental to creating a meaningful life in old age is ensuring sufficient economic resources to support it. While possession of monetary resources does not necessarily guarantee happiness, the absence of such resources can keep people of any age level from dignity, happiness and usefulness.

In 1970 the income in the United States for a 35 year old skilled worker averaged $11,000 per year. In the same year the income need of an elderly couple with a moderate living standard was about $4,500. In contrast, one finds that the maximum Social Security retirement benefit which a worker (and spouse) can receive under today's Social Security law is a little over $3,800. The truth is that nearly one-third of the more than 20 million Americans 65 years of age and older are living below the poverty level. An even more shocking fact is that many of these people were not poor until they became old.

One of the ways in which we may meet the economic problems of older Americans is by liberalizing and updating the existing Social Security laws. Our Associations are happy to note the passage of the Social Security Amendments of 1971 by the House of Representatives in June of 1971. These Amendments are most welcome and our Associations support them. However, we feel that there are major reforms still urgently needed to improve this vital but still imperfect program.

In assessing the current Social Security system in light of immediate and future needs, one characteristic stands out: it does not adjust quickly enough to the fast moving economy of today. The record is clear. First, rising prices have usually outdistanced Social Security benefit increases making older persons more acutely aware of the increased costs experienced during inflationary periods. Secondly, despite the fact that average living standards of those still in the work force have risen year after year, Social Security benefits in real terms have improved very little.

The need to develop a dynamic Social Security system which keeps pace with the changes in the economy is apparent. Of course Congress in the past has periodically adjusted Social Security benefits but the increases have not even kept pace with increases in the general price level.

COST OF LIVING ADJUSTMENT

The history of Social Security adjustments is that benefits are voted in election years. What is the overriding motive? Is it to provide justice and equality in keeping with our spiraling economy or is it used as a vote-getting device? If Social Security increases for older Americans are to any degree a political football in election years, the House passed bill has a remedy to offer. The automatic cost-of-living adjustment mechanism which will take effect in 1972 as provided in the House passed bill is urgently needed and most welcome. This provision indicates the willingness of Congress to take Social Security adjustments out of politics and gear such adjustments to our ever increasing national productivity. However, we believe that benefits must be raised to a more realistic level than provided in the House bill before this automatic escalator is employed.

BENEFIT INCREASE

We note that the bill contains a 5% across-the-board increase on benefit payments. Due to the rising cost of living since the last across-the-board increase, our Associations urge a 15% across-the-board increase at this time. The House bill fails to deal adequately with the problem of minimum benefits. Because of the present inadequate base, a 5% raise will only increase the minimum monthly benefit for a single person from $70.40 to $74.00 a month. For this reason our Associations urge a minimum monthly benefit of $120. Only through such an increase can we begin to move millions of older Americans out of poverty and ensure that millions more who are on the poverty border are not pushed below it. Such an increase would permit our older citizens to live their remaining years in dignity and free of severe economic hardship. In addition, we believe that the Congress, by adopting our suggestion for a minimum payment of $1,440 a year for the single person age 65 and older, could take the greatest step toward the elimination of poverty among our elderly that has ever been taken in our Nation's history.

LIBERALIZATION OF EARNINGS TEST

We are very disappointed with the provision contained in the House bill concerning the earnings limitation. Under the present law, an individual who is eligible for Social Security benefits loses $1 for every $2 he earns in excess of $1,680 a year, up to $2,880. He loses dollar for dollar on earned income above $2,880. H.R. 1 would amend this provision to permit earnings up to $2,000. The eligible recipient would then forfeit $1 in benefits for every $2 of earned income above that amount.

Such a severe limitation imposed on the earnings of an individual eligible for Social Security benefits acts as a penalty clause and is, in fact, a partial denial of the very basis upon which the Social Security program has been constructed—that basis being one of insurance of retirement income. The proposal contained in H.R. 1 is little more than a token gesture.

Because Social Security originated at a time when this Nation was trapped in the depths of a great economic depression, it was understandable policy in those years to discourage the continued employment of older Americans in order to open up the ranks of the working force to the thousands of middle-aged Americans looking for jobs.

Today, however, we are facing an entirely different situation. Not only do we have a different labor climate, but many businesses and industries have a vital need for the skills and labor which can be provided only by the older, more experienced worker.

And yet thousands of older Americans who possess these needed skills, who are willing and able to work will not work because of the penalty which will be imposed upon them by the earnings limitation contained in the present law. Nor will this penalty be meaningfully reduced by the proposed change.

Results of the latest medical research in the aging processes seem to indicate that one of the major problems crucial to the well-being of older people—perhaps almost as important as the slowing down of the physical mechanism—is the inability to contribute. A job, even on a part-time basis, may enhance not only the financial health of an older person, but may be therapeutically and psychologically invigorating as well.

Older Americans simply do not understand why this Country, which is now reaping the fruits of their hard labor, is at the same time denying them the opportunity, indeed the right, to both add to their own financial security and contribute their talents to an environment in which they are needed. Should the right to a job, and with it dignity, a feeling of independence and sense of accomplishment, be legislatively denied to millions of older Americans?

It is our recommendation that the older person be permitted to earn at least $3,000 in the year before he suffers any loss of his Social Security benefits.

100 PERCENT BENEFITS FOR WIDOWS

We were pleased to learn that the House Bill would increase widows' benefits from 82½ to 100% of the deceased husband's primary benefit. This improvement in the Social Security program is long overdue. This provision alone if enacted by the Congress this year will correct a long-standing inequity for almost three million widows and at a relatively minor cost.

Providing the widow with same benefit for which the husband was qualified, in addition to the monetary benefit, will provide the widow with an additional measure of self-respect and independence.

UNIFORM METHOD OF COMPUTING BENEFITS FOR MEN AND WOMEN

We are pleased to note that H.R. 1 also provides that Social Security benefits for men and women be computed on the same basis. The increased benefit which would result from such a change is notable; the resulting principle of uniformity may be even more important. We urge your Committee to accept this important suggestion for uniform treatment between the sexes.

OUT OF HOSPITAL PRESCRIPTION MEDICINES

We believe that the time has arrived when the Congress must take action to include the costs of prescription drugs for hospital out-patients within the coverage afforded in-patients by the Medicare program.

Under the present program, patients in hospitals and extended care facilities are provided with these drugs. However, out-patients who must have the very same drugs in order to keep themselves healthy and *out* of the hospital are denied reimbursement for their costs.

Although older Americans represent only 10 percent of the population, they use nearly 25 percent of all prescription drugs, and their per capita expenditures for medicines are more than 3 times that of younger Americans.

These proportions take on increased meaning when we note that the Nation's total expenditures for health and medical care, which includes drugs, increased by 1.9 percent during fiscal 1969. This one year rate of increase was more than one-third faster than the growth rate of the gross national product.

The unconscionable burden which this situation has placed upon the millions of older Americans living on fixed retirement incomes is obvious.

The Senate recognized the importance of enacting legislation to remedy this situation in 1966, when it passed a Prescription Drug Program. Unfortunately, the House did not agree. But in 1967, the Congress directed the Secretary of Health, Education and Welfare to study the feasibility of such a program. A Task Force appointed by the Secretary recommended that prescription drugs be covered by Medicare. Soon after assuming office, Secretary Finch appointed a Committee to study the recommendation of the former Secretary's Task Force. Not only did Secretary Finch's Committee agree that Medicare should cover out of hospital prescription drugs, but it urged an even more extensive coverage than had been recommended by the Task Force.

Thus, Mr. Chairman, we urge that the Congress act now to make these changes recommended by the Senate in 1966 and the Special Study Groups of two Secretaries of Health, Education and Welfare.

SPECIAL AGE 72 PAYMENTS

Four years ago, in 1965, Congress established a "Transitional Insured Status" for persons age 72 or over, who were excluded from Social Security benefits because their working lives were completed or substantially completed before coverage was extended to their former occupations.

We are pleased that the House members recognize the need to increase the present meager $48.30 a month benefit now permitted these older people. However, we feel that the increase of $2.50 to $50.80 is in itself meager.

We do deplore the fact that the blanketing-in amendment added by Congress in 1966 denied the special benefit (now $48.30 a month) to the 72-year old teacher or other retiree who was drawing as much as $46 a month in any form of public pension. Such a restriction is contrary to the original intent of the Prouty Amendment and should be corrected by the Congress.

We recommend that the Congress eliminate that restrictive earnings limitation and replace it, if necessary, with a more realistic one. If a limitation must be

applied to the special benefit for these older persons, we would suggest that they be allowed to receive at least $150 per month in public pension before being denied the meager special Social Security benefit.

Such a restriction would prevent a member of Congress from drawing the benefit, but it would not deny it to the 80-year old teacher, for example, who has qualified for a small pension but has never worked in employment covered by Social Security.

ALL PERSONS WILL BE ELIGIBLE FOR MEDICARE UPON ATTAINING AGE 65

Our Associations traditionally took the position that health insurance benefits did not need to be tied to the Social Security program. However, when the Medicare bill was passed in 1965, eligibility for part A of the Medicare program was made dependent upon eligibility for Social Security, and a cut-off date was set at January 1, 1968, which provided that the person who had not qualified for Social Security benefits by that date, was not eligible for the benefits of Part A of the Medicare program. This provision has worked a genuine hardship and injustice on many thousands of retired teachers and some other persons retired from public retirement systems. Many of these were people who were participants in a retirement system in which the teachers or other members had been permitted by legislation passed by the Congress to exclude themselves from the Social Security program. When Medicare and Social Security were joined in 1965, many of these people had therefore, excluded themselves from the benefits of Medicare.

In each of our Association Conferences, held in nine areas of the Country in 1971, I requested an indication by our retired teachers of the number ineligible for Part A of the Medicare program. In most areas, at least ¼ of these older retirees are excluded from the benefits of that part of the Medicare program.

It is our position that no person should be excluded from any part of the Medicare program because he made the choice of remaining outside of the coverage of Social Security. We are therefore pleased that the House Bill includes a provision which would allow people reaching age 65 who are ineligible for hospital insurance benefits under Medicare to enroll on a voluntary basis for hospital insurance coverage. While the cost to the individual is high we feel this provision is a step in the right direction.

Mr. Chairman, we have additional comments which we should like to make with respect to specific portions of the Medicare section of H.R. 1, with the Chairman's permission, however, we should like to submit these for the record at a later date.

MEDICARE-MEDICAID

Our Associations, the National Retired Teachers Association and the American Association of Retired Persons, have come before Congress on numerous occasions in the past seeking the changes necessary to improve the Medicare-Medicaid system. As organizations representing over three and one-half million older persons, we feel that we speak with authority on the responsiveness of the present system to the hospital and medical needs of the intended beneficiaries—over twenty million elderly citizens.

Our Associations recognize that the present system may, perhaps soon, be superseded by a national plan of health care for the entire population. However, until that time, we shall continue our efforts to perfect the present system by improving and expanding the quality and comprehensiveness of care, increasing operating efficiency, expanding our limited hospital and medical resources, and reducing waste in the allocation of these resources.

In order to secure for our older citizens an adequacy of hospital and medical protection, our Associations make the following recommendations for the Committee's consideration:

Since most persons who survive to 80 years of age have need of some form of long term care, but lack the financial resources necessary for private purchase, Medicare benefits should be extended to include long term care (without limitations of calendar days or kinds of care and service covered), for such persons.

Medicare should also provide an intermediate care benefit for those who require institutional care and service, greater than room and board, but less than skilled nursing care. Such an extension of Medicare benefits would increase comprehensiveness and reduce the unnecessary demand made upon more costly forms of covered service.

Parts A and B of Medicare should be combined, with the increased cost of such improvement perhaps alleviated by a reasonable reduction in the number of covered hospital days.

The present "insurance" definition of a spell of illness should be changed to eliminate such contingencies as an individual's place of abode or his ability to survive a certain number of consecutive days without need of institutional care or service.

The present requirement of at least three days of hospitalization as a prerequisite for the receipt of non-hospital benefits should be eliminated since the requirement only contributes to the costly and wasteful over-utilization and misallocation of hospital resources in order to secure eligibility for other Medicare benefits.

The Secretary should be given authority to determine norms for care regimens, length of stay required by diagnosis, and area-wide cost factors, with payment guaranteed whenever such norms are not exceeded and payment of excess cost denied in the absence of reasonable justification by the provider of service or attending physician.

Moreover, Medicare should provide a guaranteed minimum number of days of post-hospital benefits upon proper transfer from a hospital to another participating institution or to home-health care. A guaranteed period, for so long as is necessary for the receiving agency's utilization review committee to make a determination of the need for covered care and service, would eliminate that retroactive denial of benefits which unjustly penalizes the receiving agency and the patient (who is thereby rendered liable for the cost of care and service received) for the actions of those who preceded them in the continuum of care—the transfering hospital and attending physician.

In order to stimulate investment in those facilities which provide care and service to Medicare beneficiaries, present law could be amended to include, as an element of the reasonable cost of covered services, a reasonable return on the equity capital invested in such facilities by nonprofit providers of service. While the present system allows a reasonable return to, and thereby provides an incentive for investment by, profit-seeking entrepreneurs, it illogically fails to provide any such incentive for investment by nonprofit organizations. Such an incentive for the investment of nonprofit capital should be provided to accelerate the rate of expansion of those hospital and medical facilities providing care and service to Medicare beneficiaries.

Finally, as a condition to participation in health care programs funded by the Government, providers of service should be required to afford the Government access to their financial records for the purpose of determining the true cost of such service.

With these recommendations in mind, our Associations now turn to the specific provisions of H.R. 1 to make the following comments and suggestions:

Our Associations endorse S. 201 of the bill insofar as it would extend coverage under Medicare for hospital and supplementary medical insurance to disabled qualified railroad retirement annuitants, who have been entitled to disability benefits for at least two years. However, we believe that such extension of benefits makes it imperative that rehabilitation be clearly established as an identifiable group of services and rehabilitation facilities as categorical providers of such services, since rehabilitation services will be among those primarily required by this new category of Medicare beneficiaries.

Since it is our Associations' position that Congress should assure that each person will become eligible for the benefits of Medicare at such time as he reaches the statutory age or otherwise becomes eligible for Social Security cash benefits based on age, whichever first occurs, we must, therefore, approve the general purpose of § 202 of the bill, which would make available hospital insurance coverage under Medicare, on a voluntary basis, to persons age 65 and over who are not entitled to such coverage under existing law. However, our Associations believe that the attempt to make this extension of coverage contingent upon the full financing of the cost of such coverage by electing enrollees, who would be required to pay a monthly premium, initially set at $31, will effectively preclude receipt of any medicare benefits by those intended beneficiaries who are most in need, but lack the economic resources to pay the premium costs. Consequently, we urge the Finance Committee to consider alternative forms of financing this desirable and necessary extension of Medicare benefit protection.

Our organizations continue to advocate the consolidation of Parts A and B of Medicare, elimination of the premium payment under Part B, and removal of all deductibles and coinsurance features of both parts. In the light of our declared position, we must actively oppose the proposed increase (from $50 to $60) in the annual deductible under the supplementary medical insurance program

provided by § 204 of the bill. Also, our Associations must oppose §205(b), which provides for the application of a daily coinsurance amount (equal to ⅛ of the inpatient hospital deductible for each day of inpatient hospital coverage during a benefit period) beginning with the 31st day and continuing through the 60th. To enact these sections without change would indicate an insensitivity to the imposition of additional financial burdens on those most in need of relief—elderly patients requiring medical and hospital care.

The increasingly severe financial burden that the amount of the supplementary medical insurance premium will come to represent in future years is of serious concern to NRTA–AARP. We continue to advocate consolidation of Parts A and B and elimination of premium payments under Part B precisely because the probable significant increases in the premium rate will occur without the slightest consideration being given to the ability of beneficiaries, living on reduced retirement incomes, to meet these increased costs. With the hope that the Congress will move further toward the adoption of our position, our Associations endorses § 203 of the bill, under which an increase in the supplementary medical insurance premium will be allowed in any given year only if monthly cash social security benefits have previously been increased and under which the amount of any such premium increase will be limited to a percentage not in excess of the percentage by which cash social security benefits had been increased. Consequently, while premiums would still be required under the supplementary medical insurance program, any increase in such premiums would at least bear some relation to the beneficiary's ability to pay.

Health maintenance organizations, their development and their effective utilization have all been strongly endorsed by our Associations. Organized plans, particularly those on a prepaid basis, have, in some cases, demonstratively discouraged overutilization of more expensive inpatient care. Consequently, we support the provisions of § 207 which would encourage states to contract with health maintenance organizations, neighborhood and community health centers and similar organizations by increasing (by 25%, up to a maximum of 95%) Federal matching on premiums paid by the states under contracts with such organizations. However, our organizations oppose those provisions of § 207 which would impose new limitations on care in general and tuberculosis hospitals and the length of stay in mental institutions and which would reduce the Federal medical assistance percentage for inpatient services in skilled nursing homes. While we generally support legislative and administrative action to insure efficient, economic delivery of Medicare/Medicaid services and effective utilization of our medical facilities, nevertheless, we feel that these provisions are overly restrictive and insensitive to the needs of individual patients.

If unnecessarily higher health care costs are to be avoided in the future, where such costs result from duplication or irrational growth of health care facilities, our Associations must agree with the House Ways and Means Committee that the connection between sound health facility planning and the prudent use of capital must be recognized and that Medicare/Medicaid programs must be consistent with state and local health facility planning. Accordingly, to avoid the use of Federal funds to support unjustified capital expenditures and to support health facility and service planning activities in the various states, our associations approve the provisions of § 221 of the bill whereby the Secretary of H.E.W. will be authorized to withhold or reduce reimbursement amounts to providers of services and health maintenance organizations under Title XVIII for depreciation, interest, and, in the case of proprietary providers, a return on equity capital, related to capital expenditures determined to be inconsistent with state and local health facility plans. However, since our primary concern is the development and maintenance of quality health care in every state and locality, we believe that, prior to any such withholding or reduction, the Secretary should be required to determine that the quality level of health service in the appropriate area will not be impaired as a result of any such action.

Also in support of the Federal Government's attempts to control rising health care costs, our organizations approve § 222 under which experiments and demonstration projects would be authorized to develop incentives for economy in the provision of health services and test the concept of prospective reimbursement as a means of encouraging institutional policy-makers and managers, through financial incentive and concomitant risk of loss, to plan, innovate, and manage effectively in order to maximize financial reward. However, we urge that this section be amended to authorize the development and conduct of demonstration projects designed to test better ways of providing care both in and outside of institutional settings. Moreover, this section should require that consumer and professional groups be afforded the opportunity to participate in the plan-

ning and conduct of all such projects and that the Secretary of Health, Education and Welfare be required to document the maintenance of quality service under them.

While our Associations share the concern of the House Ways and Means Committee over escalating costs for skilled nursing homes and intermediate care facilities, we seriously question the wisdom of super-imposing arbitrary limits (as § 225 of H.R. 1 would do) on Federal financial participation as the proper method of limiting further cost increases.

NRTA–AARP have long advocated the establishment of a system of rapid determination and screening procedures, under the Medicare/Medicaid program, to determine an individual's eligibility for coverage prior to admission to an extended care facility or prior to receipt of home health services. Under present law, a determination of whether a patient requires the level of care that is necessary to qualify for such benefits cannot generally be made until some time after the services have been provided, with the result that, in many cases, benefits are retroactively denied, unexpectedly shifting the financial responsibility for such benefits to the patient, who may not be able to pay. As a progressive step toward the elimination of eligibility uncertainty with respect to these benefits, our Associations welcome the provisions of § 228 whereby the Secretary of Health, Education and Welfare will be authorized to establish periods for which a patient would be presumed eligible for benefits, with such periods of coverage limited, for the present, to those conditions, which program experience has indicated, are most appropriate for extended care or home health service following hospitalization.

To supplement efforts to control the rising costs of the Medicare/Medicaid program, our organizations endorse § 229 which grants the Secretary authority to terminate or suspend payments for services rendered by any supplier of health or medical services found to be guilty of program abuses. However, we feel that the section should be amended not only to require the Secretary to make public the name of such persons or organizations, but also to require that such persons or organizations disclose any such action taken against them to each potential Medicare/Medicaid patient, before any services are provided.

Our Associations must oppose § 230's elimination of the requirement that states move toward developing comprehensive Medicaid programs as regressive and detrimental to the development and maintenance of quality health care on a nationwide basis.

Since the meeting of medical needs and the meeting of psycho-social needs are known to be mutually reinforcing, the requirement of present law, that an institution must engage the services of a professional social worker in order to qualify, under the Medicare program, as an extended care facility, is a valuable move. Consequently, our organizations strongly oppose § 265's elimination of that requirement as a condition of participation as an extended care facility under the program.

Our Associations believe that every extended care facility should have a full- or part-time medical director and at least one registered nurse, depending on the number of patients served. Consequently, we must vigorously oppose § 267 of the bill, under which the Secretary would be authorized to waive the Medicaid requirement, with respect to skilled nursing homes in rural areas, that all such facilities have an organized nursing service under the direction of a full-time professional registered nurse. If this requirement of present law constitutes an undue hardship for skilled nursing homes in some areas, the remedy should not be its elimination, with the consequent encouragement of substandard nursing services, but legislation and appropriations to encourage the education and training of more nursing personnel and to induce the location of such personnel in those rural areas where the need is great.

Finally, while our organizations approve of § 273, under which the Secretary is required to conduct a study of chiropractic services covered under state plans approved under Title XIX, we believe the scope of any such study should be expanded to determine which professional services, presently excluded under the Medicare/Medicaid programs, should be included.

As our statements should indicate, our Associations are not entirely satisfied with the House-passed revision of H.R. 1; too many inadequacies would still remain in the Medicare/Medicaid system. It is our hope that the Senate Finance Committee will, in its wisdom, correct these.

The CHAIRMAN. The next witness is Mr. Paul F. Henkel who is chairman of the Social Security Committee of the Council of State Chambers of Commerce.

STATEMENT OF PAUL P. HENKEL, CHAIRMAN, SOCIAL SECURITY COMMITTEE, COUNCIL OF STATE CHAMBERS OF COMMERCE, ACCOMPANIED BY WILLIAM R. BROWN, ASSOCIATE RESEARCH DIRECTOR

Mr. HENKEL. Mr. Chairman and members of the Senate Finance Committee, my name is Paul Henkel and I am manager of payroll taxes for Union Carbide Corp. I am chairman of the Social Security Committee of the Council of State Chambers of Commerce and I am appearing on behalf of the council's 28 member State chambers of commerce which are listed at the end of our prepared statement as having endorsed our positions. Accompanying me is Mr. William R. Brown, associate research director of the council.

We thank the committee for the opportunity to present our statement on the welfare reform and social security provisions of H.R. 1. Our oral presentation will be contracted as required by the rules of this committee.

Concerning welfare reform issues, we support the continued separate treatment and the increased Federal funding for the indigent aged, blind and disabled persons under the categorical aid programs. We would prefer, however, that the Federal benefit vary according to geographical differences in the cost of living rather than being uniform.

We feel the greater share of Federal funding, however, for these benefits will in effect be revenue sharing which should help lighten the State and local government financial burdens.

We urge this committee to weigh heavily the July 1971, Tella report which was included as part of the report of this committee in its hearings on H.R. 1 last year. The Tella report indicates that income maintenance plans, including the one proposed in H.R. 1, could discourage welfare recipients from working. We think this is cause for concern.

We object to the provisions of H.R. 1 which would supplement the income of the working poor above poverty levels and thus add 10 million people to relief rolls.

We support the objectives of H.R. 6004, which was introduced by Representative Ullman, and which makes a sharper distinction between employable and unemployable welfare recipients. That bill excludes the working poor from receiving FAP payments, but it provides a work expense allowance and free child care for them. It also provides special revenue sharing to help State and local government welfare financing. Its provisions seem to us to be more reasonable and more acceptable to the working public.

We are glad to see that the mandatory State supplementation of FAP payments above poverty levels as originally proposed in H.R. 1 has been eliminated. We have long contended that there should be a minimum of restraints and obligations imposed upon the States by the Federal Government. We believe that in the past there have existed situations in welfare where the States have been actually pressured by HEW actions to overextend their financing of welfare through broadened eligibility and narrow disqualification procedures and to relax their investigations into financial needs.

It is our view that the provision for a $720 annual earnings disregard in connection with FAP payments on the basis of it being a work

expense item is rather costly when it applied to family incomes above the poverty level. We suggest that it could be scaled down or eliminated. Its elimination could cause the reduction in the H.R. 1 welfare reform bill, a reduction of costs of approximately $1.1 billion annually.

We disagree with the proposition that H.R. 1 would discourage fathers from leaving home so that the family could qualify for welfare. Last year's hearings on H.R. 1 held by this committee indicated that there would be no substantial discouragement. We strongly support the objectives of S. 3019, sponsored by the chairman of this committee, which would provide more vigorous Federal action in requiring child support by deserting fathers and fathers of illegitimate children.

The hearings on welfare reform thus far have established that there are unmet needs. The principal question appears to be how much more and how the Federal Government will appropriate funds to meet these needs. But throughout these hearings there have been areas that have received little attention.

There has been a widespread public impression—a man-in-the-street attitude, if you will—that too many abuses continue to exist and that welfare officials may not be doing all that they could to contain the costs of welfare.

We have been deeply disturbed by Federal court decisions that have held unconstitutional some State actions to limit welfare payments. We urge the Congress to consider all possible avenues to help reinstate the rights of the States to protect the majority taxpaying segment of its citizens. We suggest that no individual should be able to invoke constitutional rights as a protective cover to perpetrate a fraud or other abuses upon the public.

With respect to issues of social security, we are certain that this committee is well aware of the positions of State chambers of commerce and, in general, the views of business and industry. Our statement reiterates those positions and includes data for committee staff analysis.

We cannot agree that an increase in the social security taxable wage base to $10,200 is justified at this time. We have indicated that it would generate some excess social security tax collections of $57 billion over the next 7 years. Moreover, the base has been raised to $9,000 this year and we submit that a $2,400 increase in the wage base in just 1 year is too much for employers and employees to shoulder.

It would seem illogical for the Congress to consider this during a period of wage and price controls. Last year the congressional Joint Economic Committee pointed out the adverse consequences of raising the taxable wage base to $10,200. It suggested that the time was not propitious because of the size of the proposed tax increase and because of the state of the economy. We concur.

We suggest that the proposed substantial reallocation of social security taxes to the hospital insurance trust fund for medicare beneficiaries should be considered along with the payroll tax costs of any proposed national health insurance program.

We stress our objection to the proposed automatic escalation in the taxable wage base, in benefit levels and in the retirement earnings offset provision. In our prepared statement we have shown the proposed tax increases that will be placed upon the young people at the end of this century and the beginning of the next.

We have shown also how the major change in the concept of financing by relying solely on increases in the taxable wage base will work a double disadvantage to the future semiskilled and skilled workers. Their tax costs—and we are speaking only of social security tax costs—will escalate tremendously. Also, the wage replacement ratio of their ultimate benefit levels will not be as great as that of today's retirees.

We have also stressed alternatively how, through individual initiative—Mr. Chairman, may I request that Mr. Brown continue? I am developing a cough.

The CHAIRMAN. Yes.

Mr. BROWN. I will carry on here so you won't be delayed. We have also stressed alternatively how through individual initiative the mere accumulation in savings accounts of amounts equal to the proposed tax increases could generate a far greater amount of private benefits.

Finally, we have reiterated our deeply felt concern that the excessive expansion of the social security program will cause the existing complimentary aspects of that program and industrial retirement plans to disappear. We envision the day when employers will not be able to maintain and absorb the costs of both social security and private retirement plans. The social security program inexorably will force industrial retirement plans out of existence if present trends continue to accelerate.

We agree that there will be inevitable future changes and improvements in the social security program; we remain adamantly opposed to the adoption of the automated escalation provisions which are likely to develop overly liberal benefits for low-income recipients and overly repressive taxes for the middle and higher income recipients.

At the hearings held thus far on both welfare reform and social security, the views of the individual taxpayer unfortunately have been largely conspicuously absent. We urge this committee to evaluate these two major issues as only two facets, but important facets, of the total national needs and to share our concern over the equally important and mounting overall tax burdens of the public.

Thank you.

The CHAIRMAN. Thank you very much for your statement here today, gentlemen.

What I have to say, I think, is more of just a brief statement than it is a question.

Mr. BROWN. Fine.

The CHAIRMAN. But I really do say this as one who has not always supported the position of the chamber of commerce. I suppose in some years I have been marked as public enemy No. 1 by the chamber of commerce because of differing with them on some issue where I would see it one way and they would see it another. But in this area of what I call the guaranteed annual wage for not working, I believe the chamber of commerce, more than any organization in this Nation, has seen the threat that that posed to this Nation. I, for one, am in favor of providing a comfortable income level to those who are disabled, those who are unable to work, those who are aged, for little children if you can't make parents do their duty. But this thing of providing a program where parents are able to victimize their children and live on the public with a comfortable guaranteed annual wage for not working could destroy this Nation, in my judgment, and merely because you call it welfare reform doesn't make it anything other than what it is.

This idea of making it possible by means of people having it within their power to cheat and get away with it or by means of people victimizing a program or victimizing their own children could very well establish a new type of morality which could make this a second or third rate nation, if it could survive at all. The fact that your organization saw the dangers in this bill when the catch phrases and nice words and the welfare reform slogan caused others to gloss over it and failed to look at the fine print, I think, marks the national chamber of commerce—and the State chambers—as the organizations more than any other one that saw the dangers that were inherent in this proposal when it came down.

I will be as strong as I know how in support of all we can for those who can't help themselves, but for those who can work, they ought to be provided the opportunity to work.

I think that we have reached that point now that the Government should provide everyone an opportunity to work if he wants to work. But if he doesn't want to work I don't think that we ought to try to provide any guaranteed level of income for a person who prefers to do nothing.

Mr. BROWN. Thank you, Mr. Chairman.

In that regard we would certainly concur with the objectives that you stated in your opening statement this morning as to what you would like to achieve; and we will be pleased to cooperate in any way we can in achieving them. We simply have not been able to convince ourselves that true welfare reform means adding a lot more people to the welfare rolls. We think that true welfare reform means putting them to work and getting them off the welfare rolls.

The CHAIRMAN. Exactly. Thank you.

Senator BENNETT. Mr. Chairman, may I have a question?

You have raised a question that I think is here for the first time, and that is the possible effect of increases in the welfare system on the private employer-supported or employer-employee-shared insurance.

Do you have any figures showing the comparative cost of the social security system and the comparative benefits that that cost produces alongside of the amount of money that is being spent for private insurance systems and the benefits that those produce to the employer? Which is the larger?

I realize you may not be able to answer the question here, but I would appreciate it if you could get those figures.

Mr. BROWN. We will be pleased to get that for the record, Senator.

Mr. HENKEL. I think the first witness would be in a better position to supply that information, from the life insurance companies and the banks and trust companies that administer industrial retirement plans.

Mr. BROWN. We will be pleased to contact them though and get what figures are available.

Senator BENNETT. It is your testimony, and it would be good. I think you should support it if you can.

Mr. BROWN. Certainly.

Mr. HENKEL. I see what you mean.

Senator BENNETT. Thank you, Mr. Chairman.

(The witness subsequently supplied the following table:)

EMPLOYER CONTRIBUTIONS FOR OASDI AND PRIVATE PENSION-DEFERRAL PROFIT SHARING PLANS

[In millions]

Year	OASDI [1]	Percent increase from 1950	Pension-profit sharing [2]	Percent increase from 1950
1950	$1,308		$1,750	
1955	2,825		3,280	
1960	5,650		4,740	
1961	5,716		4,870	
1962	6,242		5,190	
1963	7,496		5,510	
1964	7,853		6,170	
1965	8,391		7,040	
1966	11,022		7,730	
1967	11,853		8,510	
1968	13,177		9,380	
1969	15,717	120.16	11,060	63.2
1970	16,335		(3)	
1971	18,600	142.2	(3)	

[1] Source: U.S. Department of Commerce, Bureau of Economic Analysis.
[2] Source: HEW, Social Security Bulletin, April 1971, p. 27.
[3] Not available.

Comparable data is not available on benefits financed by employer contributions.

The CHAIRMAN. Any further questions?

Senator CURTIS. Based upon past experience, has it been the States or the Federal Government that has sought to reduce the welfare rolls, restrict their expansion, and eliminate what most people would classify as abuses?

Mr. BROWN. Senator, I can speak from personal experience in that regard since I worked at the State level for 16 years before coming to Washington; and I was back at the State level in the 1950's when we first saw this problem coming on, when the aid to dependent children program started to mushroom.

In the State of Missouri, we made very serious efforts to try to contain it. We had numerous legislative proposals introduced, one by the present Governor of Missouri when he was a State representative, and another by a present Congressman, and inevitably what we ran into when we tried to push legislation to restrict eligibility to those who were truly in need, we were advised by the State welfare director that he had received word from Washington, "You enact that legislation or we will cut off your funds."

We were stymied every time.

Senator CURTIS. As a matter of fact, a review of the court cases or any other observation shows that it has been the States that have made an effort to reduce, and curtail, and eliminate abuses; isn't that right?

Mr. BROWN. Right; very definitely.

Senator CURTIS. Can you point to any such effort on the part of the Federal Government?

Mr. BROWN. I would have to do some considerable research, I think, to find any such effort.

Senator CURTIS. That leads to my next question.

If we move either abruptly or gradually to a total federally administered and financed welfare program, we eliminate all the restraint that has come from the States in the past; isn't that right?

Mr. BROWN. Very definitely.

Mr. HENKEL. That is our position.

Senator CURTIS. Now, isn't that true partially when we adopt a hold harmless clause and advise the States that if these future costs get out of hand it will be no financial concern of theirs; isn't that right?

Mr. BROWN. I think it can definitely work that way.

Senator CURTIS. Yes. I think the country must realize that the so-called welfare reform of H.R. 1 is in a practical way abandoning all restraints we have had in the past and turning it over to agencies that haven't by the record shown any great diligence at all in curtailing, and restricting, and eliminating abuses.

Now, I am sympathetic to Governors and others in State legislatures who are just scrambling for money everywhere they can turn; but I think the burdens of this committee and the burdens of the Congress become much greater by reason of the fact that in their desperation to solve their own budget problems some State officials are willing to buy anything that takes an obligation off them and puts it on the Federal Government.

Mr. BROWN. We would certainly concur, Senator.

Senator CURTIS. But the same people pay the Federal taxes as pay the State taxes; is that right?

Mr. BROWN. That's right.

Senator CURTIS. That is all.

Mr. BROWN. Definitely. The facts in our prepared statement are along the lines of the statement you made in regard to the actions of the Federal Government—we make a statement something to the effect that what is proposed here in H.R. 1 in effect, in our opinion, is asking the "fox to guard the henhouse," that instead of moving in a logical direction in terms of what the record shows, they are moving just the opposite.

Senator CURTIS. My first concern is to stop the enactment of some of these very destructive features that can only lead to near disaster. My own solution to it, my second one, is that we ought to enlarge the roles of the States. We ought to turn the administration back to them.

Mr. HENKEL. That has been the historic position of the Council of State Chambers of Commerce and State chambers generally. They would like to see the States retain a greater measure of responsibility.

Senator CURTIS. I had a measure pending on that and I didn't know whether you had any comment on that or not. That is all, Mr. Chairman.

The CHAIRMAN. Any further questions, gentlemen?

Well, thank you very much.

Mr. HENKEL. Thank you, Mr. Chairman and members.

The CHAIRMAN. Thank you, Mr. Henkel and your associate. I certainly appreciate the advice you have given us here today.

(The preceding witness' prepared statement follows. Hearing continues on page 770.)

STATEMENT OF PAUL P. HENKEL, ON BEHALF OF MEMBER STATE CHAMBERS OF THE COUNCIL OF STATE CHAMBERS OF COMMERCE

SUMMARY

1. *Support welfare reform, but not a form of guaranteed income that will extend welfare coverage to the working poor.* This includes support for day care facilities for *welfare recipients* participating in work and training programs. It is suggested that the Committee consider elements of several bills, the Ullman Bill (H.R. 6004), the Curtis Bill (S. 2037), and the Long Bill (S. 3019) in arriving at its welfare reform proposals.

2. *Support the periodic Congressional review and improvements in Social Security benefits*, the retirement test, and financing, but oppose most strenuously automatic escalation as provided in H.R. 1.

STATEMENT

Mr. Chairman and members of the Senate Finance Committee: My name is Paul Henkel and I am Manager of Payroll Taxes for Union Carbide Corporation. I am Chairman of the Social Security Committee of the Council of State Chambers of Commerce and I am appearing on behalf of the member State Chambers of Commerce of the Council which are listed at the end of this statement as having endorsed our statement. Accompanying me is Mr. William R. Brown, Associate Research Director of the Council.

Briefly with respect to public welfare, we support "welfare reform," but not "guaranteed income." We view the Family Assistance program contained in H.R. 1 as a form of guaranteed income. We support provision for day care facilities for *welfare recipients* participating in work and training programs. We oppose extending welfare coverage to the "working poor" who are not now entitled to welfare, which is a basic element of the Family Assistance proposal. We recognize that Congress enacted very significant welfare reforms last year in H.R. 10604 that tightened up work and training requirements for welfare recipients, but more might be done in this direction.

With respect to Social Security, we support the periodic Congressional review and improvements in Social Security benefits, the retirement test, and financing, but we oppose most strenuously *automatic* escalation as provided in H.R. 1.

When we appeared before this Committee in 1970 on H.R. 16311 we said that: "The State Chambers of Commerce and, we believe, the general public support constructive welfare reform. Constructive reform is long overdue. Most Americans agree on this point."

This is certainly still true today. But, making almost 10 million more recipients eligible for government income maintenance, as H.R. 1 would do, is not the kind of "welfare reform" which the public is demanding. We understand that many of the additional 10 million recipients woul be "working poor" and a "theoretical" argument for including the "working poor" can be made on the basis of "equity." We urge the Committee to take cognizance of the substantial taxpayer resentment against the idea of further supporting low income families.

THE OBJECTIVE OF WELFARE REFORM SHOULD BE TO REDUCE WELFARE ROLLS

It is recognized that in some respects the welfare provisions of H.R. 1 are an improvement over the Family Assistance Plan as passed by the House in 1970. We believe that much credit for this should go to this Committee because of the exhaustive critical examination it gave to the 1970 House Bill. Although some defects have been corrected, the most basic weakness of all remains—that is, making up to 10 million additional persons eligible for government income maintenance payments.

The primary objective of "welfare reform" should be to get people off welfare. The supporters of H.R. 1 are hopeful that the bill will eventually reduce the welfare rolls. Although this is their goal—and ours, we feel that this hope is unrealistic. We are convinced that there are much better ways to reduce the welfare rolls than by making 10 million additional persons eligible.

SUPPORT FOR WELFARE REFORM

We support moves to improve the financial position of the unemployed poor by bringing their income up to poverty levels, but we object to the supplementation of the income for the working poor above the poverty level. In this regard, when the Ways and Means Committee held hearings on Universal Health Care problems late last year, we supported the Government financed medical benefits for the poor but not the working poor. We urge the Committee to assess the future impact indicated by the July 1971 Tella Report included as Appendix E, pages 493–531 in the Report of Hearings on H.R. 1 of this Committee. That report indicates that the income maintenance plan such as is proposed in H.R. 1, could in itself discourage people on relief from working. There should be cause for concern.

We disagree with the proposition that H.R. 1 would discourage fathers from deserting their families in order to qualify them for welfare. The hearings of this Committee on H.R. 1 indicated that the discouragement would not be substantial. S. 3019 is a far better approach in this respect.

In addition to the welfare reforms recommended by this Committee in 1970, we suggest consideration of several proposals which were introduced last year: (1) H.R. 6004, introduced by Representative Al Ullman, (2) S. 2037, introduced by a distinguished member of this Committee, Senator Carl Curtis, and (3) S. 3019 on child support introduced by the Chairman of this Committee, Senator Long. It is suggested that a combination of the reforms approved by this Committee last year, a version of the work and training provisions of H.R. 1, elements of the Ullman Bill, the special revenue sharing proposed in the Curtis Bill, and the child support provisions of the Long Bill would provide *real* welfare reform of the type being demanded by the public. The remaining portions of this statement suggest how this can be done and why it would be far superior to the welfare provisions of H.R. 1:

1. Sharp distinction between "employables" and "unemployables."—The Ullman Bill makes a much sharper distinction than does H.R. 1 between persons in need who are "employable" and those who are "unemployable." Under both the Ullman Bill and H.R. 1 the "employables" would become primarily a Federal responsibility to provide training, training allowances, child care facilities, job placement facilities and public service employment. Under the Ullman Bill only the "unemployables" would be eligible for "welfare" which would continue to be a State and local responsibility, but a three-year transitional "special" revenue sharing program would provide Federal funds to help States and cities over their immediate "welfare fiscal crisis." This contrasts with H.R. 1 which would give complete control and responsibility to the Federal government for "unemployables" although many States would be expected to turn over funds to the Federal government to supplement the basic Federal benefits. Also, H.R. 1 blurs the distinction between those who are found to be employable and those considered to be unemployable by providing the same basic Federal benefits for both categories. The "working poor" would be entitled to the same Federal benefits under H.R. 1 as would welfare recipients, whereas the Ullman Bill does not include the "working poor" in the same benefit structure with welfare recipients. The Ullman Bill would, however, provide a work expense allowance and free child care for the "working poor," so that they would not be penalized for working.

The Ways and Means Committee report on H.R. 1 (p. 192) unintentionally indicates why the public is likely to regard the new Federal family programs as *one* big welfare program when it says:

"Your committee expects that contractual arrangements, authorized by the bill, between the Department of Labor and Health, Education, and Welfare would provide integrated administration of these two programs nationally. Field installations would perform the income maintenance functions with respect to all families in the Opportunities for Families program and in the Family Assistance Plan."

2. Distinction between "insurance" and "welfare" programs.—When we testified before this Committee in 1970, we indicated our belief that Social Security Administration involvement with welfare programs would lead to a weakening of public confidence in the "insurance-type" programs now administered by this agency. It was our contention that a sharp distinction should be maintained between welfare programs based on the concept of need and employer-employee financed "insurance" programs where benefits are available as a matter of earned right. We believe that if both programs are administered to any degree by this one agency, it would be difficult to maintain a sound and proper separation.

The Ways and Means Committee recognized the validity of this concern on page 198 of its report on H.R. 1 where it says:

". . . While the administration of the assistance programs for families would be completely separate and distinct from the social insurance programs, the committee would expect that the computer equipment and other capabilities of the Social Security Administration would be utilized in the administration of the family programs to the extent it is economical and efficient to do so . . .

"It is the intent of your committee that a new agency be established in the Department of Health, Education, and Welfare to administer the Family Assistance Plan and to handle assistance payments for the Opportunities for Families program. . . ."

Then when the Ways and Means Committee decided to "federalize" the adult programs of assistance to the needy aged, the blind and the disabled, it provided for administration of the new adult program by the Social Security Administration thus completely scrambling the "social insurance" and the "welfare" eggs. On p. 158 of its report the Ways and Means Committee says:

"Your committee recognizes the practical problems involved in determining how the actual disbursements for administrative expenses should be made when

the same offices will be providing services for both the OASDI and the new adult assistance program."

What the Ways and Means Committee failed to recognize is much more important than any "practical" problem—that is by combining the administration of a welfare program based on "need" with social insurance that is wage-related and available as an earned right, it may well be undermining the public confidence in the social insurance program. We believe the Congress should be very hesitant to take any action that might contribute to the loss of public confidence in the social insurance system.

It is not necessary to federalize the adult programs to achieve the objective of providing fiscal relief to the States. This could be done through special revenue sharing for the adult programs with continued administration by the States. The States do not have any serious problems in continuing to administer the adult programs. Their problems are almost completely with the Aid to Families with Dependent Children, AFDC programs.

3. *Monolithic Federal Administration would be an unworkable administrative monstrosity.* It is unbelievable to those working at the State level that the Federal government can completely take over the administration of the family and adult welfare programs and bring order out of the current chaos. The State Chambers have had firsthand experience that much of the current welfare crisis has resulted from the Federal government blocking the States from taking corrective action when they saw the AFDC problem mushrooming. It appears to us that the fox is now being invited to guard the chickens!

Among determinations to be made by HEW or the Labor Department under provisions in this bill for the family programs are the number of children, family relationship, school attendance and age, amount of income and the particular income that is excluded or included, excluded or included resources, amount of payments, underpayments, and overpayments, registration for training, availability of jobs and demonstrated capacity for particular jobs and/or training allowances. We believe initial determination on these diverse conditions would be difficult. Most, too, would be subject to frequent change.

We agree with Representative Ullman when he told the House on June 22 (*Cong. Record*, 6–22–71, page H5715) during the debate on H.R. 1, that:

"I just want to make one other point in regard to the supplement income or guaranteed income formula that you have in this bill. In my judgment, it is unsound; it is unworkable. The Federal government under this title is going to send out some 4 million checks every month to 4 million individual family recipients.

"They are going to try to stay on top of these checks with three variables included. One is the variable of assets which could easily disqualify a family. Second, is the variable of family size. And third, is the variable of fluctuating income. In my judgment, it is totally impossible for the Government to stay on top of this problem, and to mail out checks on this complicated formula."

4. *A strengthened Federal-State partnership is needed for real welfare reform.*—There are many who believe that under the present Federal-State welfare system, the States are very much a junior partner. In any case, the welfare provisions of H.R. 1 would relegate the States to a still more junior position. In fact, about the only real option left the States in a Federally administered and controlled welfare program would be to turn over some of their tax money to the Federal government to permit the Federal government to add a supplement to the basic Federal benefit so that welfare recipients would not receive less than they have been getting. A Committee amendment to H.R. 1 added on the floor of the House puts the onus on the State by providing automatic supplementation up to the level of June 1971, plus the value of food stamps, unless the State takes specific action to set a different level of supplementation or no supplementation. This amendment apparently was added to reassure those who feared that some States might be tempted to secure some relief for their taxpayers by not supplementing a Federal program over which they would have no real control or responsibility.

What is needed is a new and strengthened Federal-State partnership. The needy persons who are unemployable should be taken care of through a Federal-State welfare program with the States being given more leeway to correct abuses and being given fiscal relief through special revenue sharing.

SOCIAL SECURITY ISSUES

The further proposed increase in the taxable wage base in 1972 to $10,200 will cause a 30% increase in one year's time. We submit this is too drastic, too extreme, and unwarranted. It will generate $11.4 billion in excess social security tax collec-

tions over the next four years exclusive of the Hospital Insurance Tax.[1] We understand that the Social Security Administration, Office of the Actuary has estimated that by the end of 1977 the combined excess Social Security and Medicare Taxes attributed to H.R. 1 would be $57 billion! This excess will be used, not to reduce general tax revenues, but to stimulate greater Federal Government spending during that period.

The public has too little knowledge of the complexities of allocating the social security taxes among the old age, disability, and hospital insurance trust funds. Too few people know that half of the proposed increase in taxes will be allocated to the hospital insurance trust fund to reduce the insolvency of the current Medicare program. To illustrate, we have attached a table showing the past, present, future and proposed allocations of taxes (see Table I). The maximum 1972 employer-employee tax is allocated:

	Total tax	OASI	D.I.	H.I.
Past law	$811.20	$631.80	$85.80	$93.60
Present law (Public Law 92-5)	936.00	729.00	99.00	108.00
Proposed law (H.R. 1)	1,101.60	765.00	91.80	244.80
H.R. 1 over present law	+165.60	+36.00	−7.20	+136.80

We wonder how receptive employees would be to a national health insurance program financed by more payroll taxes if they were aware of what already is being allocated to hospital insurance for Medicare beneficiaries.

Our further objection to the proposed increase in the taxable wage base in 1972 is that the obvious result will be an inequitably increased tax burden on higher paid employees. In comparing 1971 and 1972 proposed annual wages (up to $18 more), whereas those earning $10,200 will pay $142.20 more.

In a period in which the Country is experiencing price-wage controls, it is inconceivable that the Congress should take arbitrary action to reduce further, through taxation, the disposable income of its taxpayers. The argument will be made that these taxes will, in effect, be transfer payments and will be distributed among social security beneficiaries. That argument fails in light of the fact that there will be $11.4 billion excess tax collections over the next four years.

These higher taxes will not result in a proportionately higher potential benefit for the high-paid employee. The proposed C.P.I. escalation formula for increasing benefits (discussed below) limits the increase to 20% of the increased wage base.

Automatic Escalation in Benefits

We reiterate our objections to this proposal. It is significant that the Senate Finance Committee staff has found that social security beneficiaries have fared much better in actual past practice than if the automatic escalation formula had been in effect since 1940. Congress increased social security benefits by 251.5%, while the cost of living increased only 171.8%.[2]

We object to the absence of a provision for the downward fluctuation in benefits if the C.P.I. decreases. Also, the C.P.I. index is changed every ten years and the proposal is indefinite as to which C.P.I. will control when a new C.P.I. is being developed.

Automatic Escalation in Taxable Wages

Our most strenuous objection exists in regard to this proposal. It is, as H.E.W. Secretary Richardson states, a device to generate future tax increases by raising the taxable wage base only. It will obviate the necessity of raising future tax rates. The proposal quite naturally will fasten the bulk of future increased taxes on the middle and higher income workers and high-wage industries. We think the concept of "ability to pay" is already overworked and is being strained further.

In 1970 this Committee's staff prepared an excellent summary of the arguments for and against the automatic escalation in the taxable wage base.[3] The summary stated that if the proposal had been in effect since 1940 the wage base would have been $14,400 instead of $7800 in 1970. Many would argue that this would have been good—that higher social security benefits could have been paid over the past years. But no one could prove that this would have been acceptable to the taxpayers!

[1] Pages 132–133, House Report 92–231, May 26, 1971.
[2] Page 2, Part 2, Staff Data 9/29/70.
[3] Staff Data on H.R. 17550—9/27/70.

The staff summary made the further cogent point that there has been no analysis of the effect of the proposed automatic increases on the future cost of labor or on the future consolidated Federal budgets.

Furthermore, this Committee's staff stated, and we wholeheartedly concur, that the automatic provisions make assumptions of future events that are difficult to evaluate for legislative planning, and that there would be no way of anticipating whether the trust funds would be in actuarial balance.

The Social Security Tax-Benefit Relationship

We have made some calculations of accumulated maximum taxes that would be payable over a 34-year career—from age 21 through age 64. We accumulated the employee tax alone, the combined employee-employer taxes, the portion of the combined taxes for old age insurance and for disability insurance. We have compared the accumulated tax data to the expected lifetime benefit at age 65 for each person attaining age 21 through age 64 in 1971. We made these comparisons on the basis of the pre-existing law, the law as amended in March of 1971 (P.L. 92–5), and also as the law would be amended by H.R. 1. In the latter instance, we used only the proposed benefit schedule and the proposed $10,200 taxable wage limitations.

We did not attempt to gauge the effect of the automatic escalator provisions.

We feel that our methodology was fair and conservative.

The results have been summarized in three tables that are attached (Tables II, III, IV). Table II displays the maximum accumulated old age and survivor taxes over a given career and the respective maximum monthly benefit obtainable. Table III displays the maximum accumulated taxes for disability insurance and for hospital insurance. (We suspect that few employees have considered what they already are committed to pay for the Medicare program). Table IV displays a comparison of accumulated taxes in Table II with expected lifetime benefits obtainable.

A. DISABILITY AND HOSPITAL INSURANCE

We would point out some rather startling but little known results on Table III. With respect to disability insurance, the younger an employee is, the greater will be his tax cost and his tax cost increase attributable to P.L. 92–5 and H.R. 1. The magnitude of these increases is significant. Similar but more extreme results (with respect to hospital insurance) are evident in Table III. A succinct summary of the increase in the tax costs to be sustained by today's 6-year-olds in relation to today's 64 year olds can best be highlighted in the following manner:

Increase in tax costs to be sustained by today's 6-year-olds:

[In percent]

For—	Pre-existing law	Present law	H.R. 1
Disability insurance	477	585	781
Hospital insurance	1,140	1,330	1,913

B. OLD AGE SURVIVORS INSURANCE

Table IV shows the magnitude of the increased OASI taxes that will be paid by and for today's youngsters. The March 1971 enactment increased the maximum tax accumulation by $5700; and increased maximum potential benefits by $7700. H.R. 1 would increase the tax accumulation further by $12,400 and would increase the potential benefits further by only $6800. H.R. 1 will cause an increase in maximum taxes greater than the increase in maximum benefits for today's "under age 35" individuals. Here we begin to see the decreasing attractiveness of social security for the young who will be the future's higher paid employees. This is further demonstrated on the lower part of Table IV in the tax-benefit ratio comparisons on the basis of age and under the pre-existing law, the present law and H.R. 1.

This data is the foundation of our concern that H.R. 1 social security financing and benefit structure would have an adverse economic effect on the majority of future employees. Apart from the even more deleterious effects of the automatic escalators for benefits and taxable wages, it represents a further distortion of the financing and the benefits formula, a distortion that favors

the low income bracket person with higher benefits and little tax cost and disadvantages the middle and high income bracket persons with the reverse. It most certainly weakens the historic "wage-related" concept that has guided the progress and contributed to the popularity of the social security program.

As we indicated above, the material and data developed does not take into consideration the more drastic effects of automatic escalation in benefits and taxable wages. No reliable data or estimates have been offered by H.E.W. or S.S.A. as to these effects. There is one possible effect that apparently has not been envisioned. Benefits could rise more than 3% per year under the C.P.I. formula; however, the proposed limit of an increase in the maximum monthly benefit (PIA) to 20% of the excess over $10,200 or $850 per month could make the "3% increase" provision inoperative with respect to the maximum benefit. To illustrate: assume in 1995 the taxable wage limt is $24,000 ($2,000 a month). By then, the maximum monthly PIA could be no more than $561.20 ($331.20+ 20% of ($2000—$850)). If the C.P.I. were to rise 4% per year over the 24 year span (1972–1995) or 76%, the maximum monthly PIA would be $583, but for the proposed limit. It would seem that some future Congress may inherit and have to come to grips with this problem.

Effect of OASDHI Tax Increase on Disposable Income

The following data indicates the extent to which the present and proposed OASDHI tax increases could affect the disposable income of the middle income and higher paid employee.

The maximum annual employee tax deduction under pre-existing law would have been $460.20 in 1987; under the present law will be $544.50 in 1987, and under H.R. 1 will be $754.80 in 1977 (if the taxable wage base is still $10,200). The annual deduction could be $1,628.00 if the base rises to $22,000 at or about 1995.

What would be the aggregate of these tax increases over a 43-year career span (from age 22 through age 64)? Further, what would be the result if the employee were able to accumulate the amount of these tax increases in a savings account at 4.5% compound interest during the same span of years?

	Years involved	Annual tax increase	Accumulated taxes	Compounded at 4.5 percent
1971 law over prior law	1987–2030	$84.30	$3,624.90	$10,560.80
$10,200 base over 1971 law	1987–2030	210.30	9,042.90	26,345.63
$22,000 base over $10,200 base	1995–2038	873.20	37,547.60	109,391.00

Undoubtedly, if the enormity of these proposed future taxes were made known to and were understood by the young people, they might have second thoughts about the efficacy of the social security program. Some will argue that these tax increases will not be significant in relation to expected higher earnings levels in the future. But can the Congress be assured that the young share this view? Now that the 18 year olds can vote, their reactions to these possibilities ought to be assessed. The result should prove interesting.

Another way of looking at the alternatives to the foregoing tax increases is to double the accumulations so that they represent the combined employee-employer OASDHI taxes. The results represent amounts that might be used otherwise to provide greater fringe benefits, better industrial pensions, higher wages or more disposable income for the employee during his working career!

Effect of OASDHI Taxes on Employers

On previous occasions, we have pleaded with both the Ways and Means Committee and this Committee to be more mindful of the effect of OASDHI taxes as a cost of doing business. We have pointed out that these taxes have risen faster than any other fringe benefit including industrial pension costs. We have pointed out that these tax costs can either be borne by the public as increased prices, or be reflected in lower business earnings and lower Federal Income Tax collections from business. The proposed tax increases will be detrimental to plant expansion, more job opportunities and increased productivity on a national scale. In effect, they will have a counteracting and deterring effect to other moves being taken to revitalize our economy.

We have also made the point that it is likely that employers will not be able to continue to improve their private industrial retirement programs and to pay increased social security taxes at the same time. There are companies whose combined employer-employee social security tax costs already are greater than

the cost of their private noncontributory pension plans. The prospective tax increases will merely worsen this situation. We suggest that this aspect—the possible stultification—might be an avenue of investigation by the Congress more appropriate than the current investigations which seemingly intended to shackle the growth of these plans. We suggest, too, that the Congress consider how much additional sales an employer must generate in order to stay even with increases in his own social security tax and to maintain his employees after tax income.

The Congressional Joint Economic Committee Recommendations

The recommendations of the Joint Economic Committee, in its 1971 Midyear Review of the Economy dated August 16, 1971 include the following comments:

"Our second recommendation, the postponement of social security tax increases, has been less widely discussed. *The magnitude of scheduled and contemplated Social security tax increases may not be generally recognized.* An increase in the social security tax base from $7,800 to $9,000 is already scheduled for January 1972 as a result of action taken by Congress last spring postponing this tax increase from the January 1971 starting date originally recommended by the Administration. This Committee supported that postponement. January 1971 was not an appropriate time to raise taxes. *The continued sluggish performance of the economy makes it highly probable that January 1972 will be an equally inappropriate time to raise taxes.* Therefore we believe that this increase in the tax base should be postponed for an additional year.

"The social security and welfare reform legislation presently being considered by Congress (H.R. 1) contains, as presently formulated, a further increase in the social security tax base from $9,000 to $10,200 and an increase in the social security tax rate from 10.4 to 10.8 percent, both scheduled to take effect in January 1972. *Coupled with the tax base increase already legislated, these provisions would result in one of the largest social security tax increases in history and would exert a significant and most unfortunate restraining effect on the economy.* Therefore, we believe that these further tax increases should be put into effect gradually, with none of them beginning any earlier than January 1973. *The social security trust funds presently contain a large surplus. Even without the tax increases, this surplus will grow by some $7 to $8 billion in fiscal 1972.* Thus, postponement of these tax increases does not present any danger of impairing the sound financing of the social security system . . ."

We concur with the foregoing. In conclusion, we again urge most strenuously that the Senate Finance Committee reexamine the possible adverse effects of the proposed automatic escalator provisions in H.R. 1.

* * *

The following State Chambers of Commerce have endorsed this statement:

Alabama Chamber of Commerce
Colorado Association of Commerce & Industry
Connecticut Business & Industry Association
Delaware State Chamber of Commerce
Georgia Chamber of Commerce
Idaho State Chamber of Commerce
Indiana State Chamber of Commerce
Kansas Association of Commerce & Industry
Kentucky Chamber of Commerce
Maine State Chamber of Commerce
Maryland State Chamber of Commerce
Michigan State Chamber of Commerce
Minnesota Association of Commerce & Industry
Montana Chamber of Commerce
New Jersey State Chamber of Commerce
Empire State Chamber of Commerce
Ohio Chamber of Commerce
Oklahoma State Chamber of Commerce
Pennsylvania Chamber of Commerce
South Carolina State Chamber of Commerce
East Texas Chamber of Commerce
South Texas Chamber of Commerce
West Texas Chamber of Commerce
Lower Rio Grande Valley Chamber of Commerce
Virginia State Chamber of Commerce
West Virginia Chamber of Commerce
Wisconsin State Chamber of Commerce
Greater South Dakota Association

72-873 O - 72 - pt. 2 - 5

TABLE I.—HOW THE EMPLOYEE-EMPLOYER MAXIMUM ANNUAL TAX IS ALLOCATED TO OLD AGE (OASI), DISABILITY (D.I.), AND HOSPITAL (H.I.) TRUSTS

	Tax			Maximum annual tax		Allocation to trust funds						
						Old-age and survivors insurance		Disability insurance		Hospitalization insurance		
	Base	Rate (percent)	Doubled (percent)	Employee	Doubled [1]	Rate (percent)	Amount	Rate (percent)	Amount	Rate (percent)	Doubled (percent)	Amount
1937–49	$3,000	1.0	2.0	$30.00	$60.00	2.0	$60.00					
1950	3,000	1.5	3.0	45.00	90.00	3.0	90.00					
1951–53	3,600	1.5	3.0	54.00	108.00	3.0	108.00					
1954	3,600	2.0	4.0	72.00	144.00	4.0	144.00					
1955–56	4,200	2.0	4.0	84.00	168.00	4.0	168.00					
1957–58	4,200	2.25	4.5	94.50	189.00	4.0	168.00	0.5	$21.00			
1959	4,800	2.5	5.0	120.00	240.00	4.5	216.00	.5	24.00			
1960–61	4,800	3.0	6.0	144.00	288.00	5.5	264.00	.5	24.00			
1962	4,800	3.125	6.25	150.00	300.00	5.75	276.00	.5	24.00			
1963–65	4,800	3.625	7.25	174.00	848.00	6.75	324.00	.5	24.00			
1966	6,600	4.2	8.4	277.20	554.40	7.0	462.00	.7	46.20	0.35	0.7	$46.20
1967	6,600	4.4	8.8	290.40	580.80	7.1	468.60	.7	46.20	.5	1.0	66.00
1968	7,800	4.4	8.8	343.20	686.40	6.65	518.70	.95	74.10	.6	1.2	93.60
1969	7,800	4.8	9.6	374.40	748.80	7.45	581.10	.95	74.10	.6	1.2	63.60
1970	7,800	4.8	9.6	374.40	748.80	7.3	569.40	1.1	85.80	.6	1.2	93.60
1971	7,800	5.2	10.4	405.60	811.20	8.1	631.80	1.1	85.80	.6	1.2	93.60
Pre-1971 law:												
1972	7,800	5.2	10.4	405.60	811.20	8.1	631.80	1.1	85.80	.6	1.2	93.60
1973–75	7,800	5.65	11.3	440.70	881.40	8.9	694.20	1.1	85.80	.65	1.3	101.40
1976–79	7,800	5.7	11.4	444.60	889.20	8.9	694.20	1.1	85.80	.7	1.4	109.20
1980–86	7,800	5.8	11.6	452.40	904.80	8.9	694.20	1.1	85.80	.8	1.6	124.80
1987	7,800	5.9	11.8	460.20	920.40	8.9	694.20	1.1	85.80	.9	1.8	140.40
1971 law:												
1972	9,000	5.2	10.4	468.00	936.00	8.1	729.00	1.1	99.00	.6	1.2	108.00
1973–75	9,000	5.65	11.3	508.50	1,017.00	8.9	801.00	1.1	99.00	.65	1.3	117.00
1976–79	9,000	5.85	11.7	526.50	1,053.00	9.2	828.00	1.1	99.00	.7	1.4	126.00
1980–86	9,000	5.95	11.9	535.50	1,071.00	9.2	828.00	1.1	99.00	.8	1.6	144.00
1987	9,000	6.05	12.1	544.50	1,089.00	9.2	828.00	1.1	99.00	.9	1.8	162.00
H.R. 1:												
1972	10,200	5.4	10.8	550.80	1,101.60	7.5	765.00	.9	91.80	1.2	2.4	244.80
1973–74	10,200	5.4	10.8	550.80	1,101.60	7.5	765.00	.9	91.80	1.2	2.4	244.80
1975–76	10,200	6.2	12.4	632.40	1,264.80	8.95	912.90	1.05	107.10	1.2	2.4	244.80
1977	10,200	7.4	14.8	754.80	1,509.60	10.95	1,116.90	1.25	127.50	1.3	2.6	265.20

[1] Including employer tax.

TABLE II.—COMPARISON OF ACCUMULATED EMPLOYER-EMPLOYEE MAXIMUM SOCIAL SECURITY TAXES (FOR OLD AGE AND SURVIVOR BENEFITS ONLY) WITH THE MAXIMUM MONTHLY SOCIAL SECURITY BENEFIT (PIA) OBTAINABLE

Age in 1971	Retiring Jan. 1	Pre-1971 law		1971 law		H.R. 1		
							PIA	
		Tax cost	PIA	Tax cost	PIA	Tax cost	Effective Jan. 1, 1971	Effective June 1, 1972
64	1972	$7,234	$196.40	$7,234	$216.10	$7,234	$216.80	$227.00
63	1973	7,866	198.90	7,963	221.70	7,999	223.10	234.30
62	1974	8,560	201.50	8,764	226.00	8,764	228.80	240.30
61	1975	9,254	204.20	9,565	228.80	9,529	245.50	257.80
60	1976	9,948	206.70	10,366	233.10	10,442	255.60	268.40
55	1981	13,359	214.50	14,445	248.00	15,762	279.40	293.40
50	1986	16,530	219.70	18,280	258.10	21,047	286.40	300.80
45	1991	19,701	224.30	22,115	265.70	26,331	291.40	306.00
40	1996	22,746	231.20	25,827	276.60	31,490	299.40	314.40
35	2001	25,461	242.70	29,211	286.40	36,318	310.40	326.00
30	2006	27,744	250.70	32,163	293.40	40,715	315.40	331.20
25	2011	29,313	250.70	34,400	295.40	44,397	315.40	331.20
20	2016	29,851	250.70	35,604	295.40	46,915	315.40	331.20
15	2021	29,851	250.70	35,604	295.40	48,027	315.40	331.20
10	2026	29,851	250.70	35,604	295.40	48,027	315.40	331.20
6	2030	29,851	250.70	35,604	295.40	48,027	315.40	331.20

TABLE III.—ACCUMULATED EMPLOYER-EMPLOYEE MAXIMUM SOCIAL SECURITY TAXES ALLOCATED FOR DISABILITY AND HOSPITAL INSURANCE

Age in 1971	Retiring Jan. 1	Disability			Hospital		
		Pre-1971 law	1971 law	Proposed (H.R. 1)	Pre-1971 law	1971 law	Proposed (H.R. 1)
64	1972	$662	$622	$662	$487	$487	$487
63	1973	708	721	714	580	595	731
62	1974	794	820	806	682	712	976
61	1975	880	919	829	783	829	1,221
60	1976	965	1,018	1,005	884	946	1,466
55	1981	1,394	1,513	1,622	1,446	1,594	2,771
50	1986	1,823	2,008	2,259	2,070	2,314	4,097
45	1991	2,252	2,503	2,897	2,756	3,106	5,423
40	1996	2,681	3,098	3,534	3,458	3,916	6,749
35	2001	3,089	3,472	4,151	4,160	4,726	8,075
30	2006	3,401	3,850	4,671	4,862	5,536	9,401
25	2011	3,666	4,181	5,144	5,452	6,233	10,615
20	2016	3,689	4,257	5,370	5,686	6,561	11,322
15	2021	3,689	4,257	5,483	5,866	6,768	11,404
10	2026	3,689	4,257	5,483	5,975	6,894	11,404
6	2030	3,689	4,257	5,483	6,037	6,966	11,404

TABLE IV.—COMPARISON OF ACCUMULATED MAXIMUM OASI TAXES[1] WITH MAXIMUM EXPECTED LIFETIME OASI BENEFITS[2]

Age in 1971	Retiring Jan. 1	Pre-1971 law		1971 law		H.R. 1	
		Taxes	Benefits	Taxes	Benefits	Taxes	Benefits
64	1972	$7,200	$35,400	$7,200	$38,900	$7,200	$41,400
63	1973	7,900	35,800	7,900	39,900	8,000	42,200
62	1974	8,600	36,300	8,800	40,700	8,800	43,300
61	1975	9,300	36,800	9,600	41,200	9,500	46,400
60	1976	9,900	37,200	10,400	42,000	10,400	48,300
55	1981	13,400	38,600	14,500	44,600	15,800	52,800
50	1986	16,500	39,500	18,300	46,500	21,000	54,100
45	1991	19,700	40,400	22,100	47,800	26,300	55,100
40	1996	22,700	41,600	25,800	49,800	31,500	56,600
35	2001	25,500	43,700	29,200	51,600	36,300	58,700
30	2006	27,700	45,100	32,200	52,800	40,700	59,600
25	2011	29,300	45,100	34,400	52,800	44,400	59,600
20	2016	29,900	45,100	35,600	52,800	46,900	59,600
15	2021	29,900	45,100	35,600	52,800	48,000	59,600
		TAX/BENEFIT RATIO					
64	1972	1:4.9		1:5.4		1:5.8	
63	1973	1:4.5		1:5.1		1:5.3	
62	1974	1:4.2		1:4.6		1:4.9	
61	1975	1:4.0		1:4.3		1:4.9	
60	1976	1:3.8		1:4.0		1:4.6	
55	1981	1:2.8		1:3.1		1:3.3	
50	1986	1:2.4		1:2.5		1:2.6	
45	1991	1:2.1		1:2.2		1:2.0	
40	1996	1:1.8		1:1.9		1:1.7	
35	2001	1:1.7		1:1.8		1:1.6	
30	2006	1:1.6		1:1.6		1:1.5	
25	2011	1:1.5		1:1.5		1:1.3	
20	2016	1:1.5		1:1.5		1:1.2	
15	2021						

[1] Combined Employer-Employee OASI Taxes.
[2] Rounded to Nearest $100.

The CHAIRMAN. We will next hear from Warren S. Richardson, general counsel of the Liberty Lobby.

Senator ANDERSON Will you tell us who is the Liberty Lobby?

Mr. RICHARDSON. Pardon me?

The CHAIRMAN. We want you to tell us who is the Liberty Lobby. Would you mind telling us more about your organization?

STATEMENT OF WARREN S. RICHARDSON, GENERAL COUNSEL, LIBERTY LOBBY, WASHINGTON, D.C.

Mr. RICHARDSON. You want a description of the organization?

We are a citizen lobbying group, located on Capitol Hill, founded in 1955, been in continuous existence occuping the premises on the Hill since 1961.

Col. Curtis B. Dall is chairman of the board, former son-in-law of F.D.R.

Senator BENNETT. When you you are located on the Hill, you do not mean you are located in any Government building?

Mr. RICHARDSON. That is correct. I will make the record exactly clear. We are at 300 Independence Ave. SE., back of the Library of Congress.

Mr. Chairman and members of the committee——

The CHAIRMAN. Yes.

Mr. RICHARDSON. I will take advantage of your offer to answer questions that are submitted in writing and to conserve the time of teh committee I will not read this testimony, which I assume you all have copies of. I would make one or two comments in about 2 or 3 minutes.

I can see, from listening to previous witnesses, that our testimony is somewhat repetitive of what you have heard this morning.

We are opposed to the philosophy of the bill. We do not go into it on an item-by-item basis. If our philosophy is wrong then whatever may be right or wrong within the context is still wrong.

We do agree with the chairman and others who have testified, that certainly the sick, the handicapped, and the aged should be provided for—anyone who is incapable of work. The handicapped are of a particular personal concern of mine, having a partially handicapped child and my wife donating much of her working time to designing clothes and otherwise helping handicapped people.

I think that one of the greatest comments that has ever been made about the American system in the philosophy was enumerated by Mr. Richard DeVos, the president of Amway Corp., a man that I would suggest, if he could be obtained, would be a marvelous witness, who proclaims to all audiences far and wide that the greatest welfare that could be provided this country are more jobs. Jobs are the true welfare, if you want to look at it that way.

So, with those remarks, I would close and wait for any written questions that you may have.

The CHAIRMAN. Thank you very much, Mr. Richardson. We appreciate your statement and I appreciate your appearance here.

I have been reading your statement while you were were summarizing it and I find myself in agreement with a great deal of what you have to say. Thank you, sir.

Mr. RICHARDSON. Thank you, Mr. Chairman.

Senator BENNETT. Mr. Richardson, I haven't had time to read your statement, obviously. In it you deplore the welfare mess. Do you have any specific suggestions, substitute proposals or ideas, for dealing with the basic problem of welfare other than those contained in the bill?

Mr. RICHARDSON. Yes, sir. It would fall—my answer would fall—into two categories: First, I do have a short memorandum here prepared by the staff. One of the members of our staff has a father who is a township commissioner in Ohio and has been for 30 years. I understand that the gentlemen who occupy these positions are not paid. It is done—they are apparently elected but they receive no pay.

At the beginning of his term of office—he is reelected on an annual basis—welfare was administered at that township level. He has personally witnessed the transfer of welfare authority from the township to the county to the State to the Federal Government.

He wrote his son recently and made the observation that each time it goes to a higher level of government the overhead of burden costs increases and it would be our position—that is simply an illustration—it is the Lobby's position that the welfare for the aged and the sick and the handicapped could best be performed at the lowest possible level of government. We are not prepared to say what is the best level but certainly a State would be a better level than the Federal Government and presumably a county level would be even better.

I think that you must also look at these problems more like a rope. We are examining one strand of the rope. Other strands would be your problem of financing at lower governmental levels; and that brings us around to the concept of revenue sharing and I don't see how you can consider one without at least paying a nodding acquaintance to the other.

The second part of my answer would lie in this area: that our home has been the home for Mormon missionaries for about 2 years and I am sure that most of us realize that the Mormons have a very fine system of helping their own people. I think that their system should be studied and whatever principles or philosophy which can be gleaned from it should be somehow worked into our welfare system.

The basic principle they invoke is that those who don't have jobs work and they are provided for; and I think this is sound philosophy and I would recommend it.

The CHAIRMAN. Thank you very much, sir.

Senator BENNETT. Mr. Chairman, as the only Mormon on the committee, someday I would be glad to tell the committee about the Mormon welfare system, but it is based on donated services and labor and things from the members of the church who have them. You can only operate it in a closed system. You can't operate that on a basis where there is no relationship between the various people who are going to make contributions and the people who are going to receive them.

I have watched the Mormon system since it was inaugurated in the middle thirties and, as I say, it can only operate in a closed system. I don't think you can expand it to take in the whole population, where there is no incentive of relationship to persuade people to contribute.

For instance, in this area the Mormon system operates a dairy farm on the Eastern Shore and while they have one or two paid people whose

salaries are paid by contributions from members of the church who can't get out and work on the dairy farm, the work on the dairy farm is done by the members of the church and, therefore, all of the income from the farm is available for welfare purposes. But you can't persuade the American people that all of the social services in our system are going to be supplied by donated labor.

Mr. RICHARDSON. I appreciate your comments, Senator Bennett. My dentist is a Mormon and I am aware of his contribution to the farm because it happened that he scheduled us for an appointment on the day he had to be on the farm, so we have had many discussions with him and, as I tried to indicate in the first part of my remarks, I am sure that the system could not be adopted in its entirety but I suggest that the basic principles and some of the philosophy try to be incorporated in whatever ultimate system of welfare reform we achieve.

Senator BENNETT. Well, I wish in this country we had that kind of brotherhood relationship but I am afraid it is a long way off, particularly in these days of alienation and riots and what have you.

I am sorry, Mr. Chairman.

The CHAIRMAN. That is all right.

Senator BENNETT. I am through.

The CHAIRMAN. Thank you very much, sir.

Mr. RICHARDSON. Thank you, Mr. Chairman.

(The previous witness' prepared statement follows:)

STATEMENT OF WARREN E. RICHARDSON, GENERAL COUNSEL, LIBERTY LOBBY

SUMMARY

I. Welfare program origin—academic or special interests, not business management.
II. Government Spending.
  (a) Subsidies for ⅓ of population
  (b) Subsidy system "out of control"
III. Welfare Case Histories
  (a) England—17th century
  (b) New Jersey—1969 to today
IV. Welfare State
  (a) Kills many more people than it saves
  (b) Destroys nations
  (c) Sources of revenue:
    (1) Taxation
    (2) Printing money
    (3) Diversion of funds from other government programs

STATEMENT

Mr. Chairman and members of the committee: I am Warren S. Richardson, general counsel of Liberty Lobby. I appreciate the opportunity to present the views of Liberty Lobby's 20,000-member Board of Policy, and also to appear on behalf of the 135,000 subscribers to our monthly legislative report, *Liberty Letter*.

Critics claim that virtually all of the government programs to deal with poverty, and the welfare program in recent years, have come from the academic community, or special-interest lobbies in Washington—that there has been little visible input from business management experts.

The theory which academic planners evolved during the 1960's on the way to overcome poverty has been called an "income strategy." In the words of Milton Friedman, the Chicago economist, "It's simple—give 'em money."

During the 1968 campaign, Mr. Nixon declared that he opposed a guaranteed annual income, whether called a "family allowance" or a "negative income tax." He said he was convinced that it "would not end poverty," and that it would have a "very detrimental effect on the productive capacity of the American people."

After becoming President, however, in a message to Congress on Aug. 11, 1969, Mr. Nixon called for a welfare-reform program with a "nationwide minimum payment to dependent families with children," including federal payments to supplement the income of the "working poor." On June 10, 1970, the President broadened his proposal "to extend the principles of this income strategy to other domestic programs—such as medicaid, food stamps, and public housing." In his 1971 State of the Union message, the President urged Congress: "Let us place a floor under the income of every family with children in America . . . but let us also establish an effective work incentive and an effective work requirement."

GOVERNMENT SPENDING

The Washington *Daily News* of Jan. 12, 1972 reports editorially that U.S. government subsidies in one form or another cost the taxpayers at least $63 billion in the 1970 fiscal year and that the total is undoubtedly higher, since new subsidies regularly are in the works. The Joint Economic Committee of Congress says the subsidy system is out of control.

In June of 1971, a report from the Tax Foundation indicated that more than one-third of the Nation's population was getting some form of income maintenance support from federal, state, or local government at the end of 1970. They estimated that 72.8 million individuals were receiving money from government. That is more than one-third of our entire population. Not counted in this estimate are those persons and private institutions receiving direct support under such special purpose programs as federal farm support, scholarships, research and training grants, etc.

The welfare plan adopted by the House makes two basic changes. It nationalizes the system and it converts the dole into a guaranteed annual income.

The Milwaukee *Sentinel* of June 24, 1971, makes a good point: If the federal government were capable of handling a welfare system, the American Indians would be a great deal better off.

HISTORICAL EXAMPLES OF GUARANTEED INCOME

This notion of supplementing wages to bring an individual or a family income up to a prescribed minimum is by no means original or new. A conspicuous example in point, with its consequences, is to be found in English history around the 17th century. The nation was then rife with poverty, so dire as to be unimaginable today, and people were pouring into the cities from the outlying countryside. The industrial revolution, with its immediate exploitation of women and child labor, but its eventual employment opportunities, was still in the future. The monasteries that had fed the beggars had been closed. While skeptics contended that they "did but maintain the poor they created," neither they nor the barbarously cruel laws and regulations against begging, nor the Malthusian virtual contention that starvation was the only ultimate solution of birth control, could solve the nationwide problem that was primarily economic.

At that time one area of Britain, Speenhamland, conscious of the tragedy of its poor people, devised a formula in the hope of aiding its destitute. They decreed that when the price of bread exceeded a certain figure and if the wage of a day laborer were below a certain figure, a subsidy from the relief fund should raise his daily income to a specified amount.

But the consequences were far different from those anticipated. Some employers, realizing that their laborers would receive a certain minimum regardless, paid less than the minimum. Some workers, knowing that they would receive the minimum whether they did a good day's work, loafed on the job. The evil results spiralled until it was said that hard was the lot of the day laborer, harder that of the landowner, hardest of all, that of the independent worker who would not claim the subsidy. Before long, many farms went out of cultivation and the area was virtually bankrupt. The act was repealed.

I am indebted to Dr. Mollie Ray Carroll, writing in the publication *Task Force*, for that short bit of economic history.

WHAT HAPPENED IN NEW JERSEY

According to a report by James Welsh, in the Washington *Star* of Oct. 26, 1970, fewer than 300,000 people were on welfare in the state of New Jersey as of Dec. 31, 1969. Today, according to the chief statistician of New Jersey, 409,713 people are on welfare, an increase of about 35%. The expenditure of $31,570,223 for welfare recipients during 1971 has the state of New Jersey on the brink of legis-

lation which would require a state graduated income tax, an increase in the state sales tax, and a state property tax.

According to the Senate Republican Policy Committee, it is estimated that the U.S. government now spends in excess of $72 billion a year for social programs of some nature.

It is Liberty Lobby's view that if this Nation should fail it will not be because of a hydrogen bomb, but because of a philosophy: an idea that says an individual is not responsible for his own economic welfare nor responsible for his own moral conduct.

WELFARE OR SURVIVAL

The attitudes of self-sufficient taxpayers, in the immense majority of cases, fall into one of the following two categories:

1. One type of taxpayer pictures welfare recipients as persons who either fake or exaggerate physically or psychologically disabling conditions in order to avoid having to work to earn a living. When the subject of welfare is raised, such people react with resentment and indignation. This is the more conservative citizen.

2. The second type of taxpayer, in his thinking about welfare, pictures persons who are truly disabled, either physically or psychologically, and who truly cannot earn enough to meet their basic needs. For such people, the subject of welfare evokes feelings of sympathy and a desire to help those who are in need. This is the more liberal taxpayer.

For both categories of self-supporting citizens, there is little awareness of a "personal stake," in the issue of welfare. They do not stand to receive welfare, and they are only vaguely aware that the funds to support welfare must come ultimately out of their own pockets. Those who oppose it invoke the work-ethic of individualism. Thoughts of welfare cheats, in the context of this precept, generate righteous indignation *against* welfare. Likewise, those who tend to favor welfare do so on moral-ethical grounds. Thoughts of the suffering of those who cannot help themselves, in the context of the altruistic principle of need, generate righteous indignation in *support* of welfare.

The immense majority of the self-sufficient liberal taxpayers do not deny that welfare cheating is taking place, and the immense majority of them deplore it. Supporting welfare fakers is emotionally repugnant to them in much the same way as to the more conservative taxpayer. However, they see no effects of supporting welfare cheats which justify the cost of attempting to eliminate them from the welfare rolls. There is no way to reduce the number of persons who are mistakenly *denied* it. The more welfare eligibility requirements are tightened, the limit being the abolition of welfare, the largest number of truly needy persons who will be made to suffer or starve. If, for example, psychological problems of the type which impair learning ability are not grounds for welfare, most chronically unemployed persons become ineligible. Many are fakers, of course, and will not starve if denied welfare. But many others are not fakers, and will literally starve to death if denied welfare. To catch the cheats, it is necessary to let those who are not cheats starve. To the more liberally oriented taxpayer, catching the cheats does not seem to be worth the cost.

We believe this argument to be the foundation for the welfare state. Let's focus on it. Some persons are unable to earn enough to meet their basic needs. Undeniable. Further, private charity will not take care of all of them. Some, if only through human error, will be denied benefits and will starve. Again, undeniable. The problem, then, lies in the attempt to decide whether an applicant is eligible for benefits. So long as standards are applied, some applicants will be turned down. And so long as some are turned down, some will be turned down in error.

No argument. Therefore, so the argument goes, lives will be saved if the government dispenses welfare, and the number of lives saved will be directly proportional to the looseness of the government's eligibility requirements. In the limiting case, in which the government employs no standards of eligibility, the maximum number of lives will be saved.

We think this reasoning is hogwash.

The argument assumes that persons who are self-supporting never die for lack of money. It assumes that none of the 60,000 Americans who die in automobile accidents each year die for lack of money; that none of the 750,000 Americans who die of heart disease each year die for lack of money. No one suffering from heart disease ever died because he or she was unable to afford a labor saving device such as a power lawn mower, a washing machine, vacuum cleaner, or a dishwasher. None of the 350,000 persons who die of cancer each year die for

lack of money. None of these persons could have been saved if they had gone in for a checkup after they wrote out their checks to the IRS. Not one of the 55 workers killed each day on the job, nor one of the 8,500 who are disabled, nor one of the 27,200 who are injured, would have been saved if corporate taxes had been less. Tax loads have nothing to do with the rate of replacement of industrial plant and equipment.

In essence, welfare kills many more people than it saves. In fact, welfare doesn't merely kill people, it also destroys nations.

How? The money to support welfare may be obtained by:

1. Taxation;
2. Printing of money;
3. Diversion of funds from other government programs.

When welfare statism comes to dominate the political system of a nation, all three methods are employed. Taxation is usually the first. But taxation soon begins to draw a reaction at the polls, and the politicians are forced then to begin the fatal process of government induced inflation. In the U.S. this amounts to printing government bonds to create our money, which of course is deficit financing and debt money. Two things happen:

1. As the deluge of government bonds drives present prices down, interest rates rise to crushing levels. (Interest rates are inversely proportional to bond prices. The lower the price of a bond paying a fixed premium, the higher the yield.)

2. Inflation. And as the printing press debt money hits the markets of the nation it drives all prices up. Thus both effects draw a reaction at the polls, tight credit and high prices.

Next, method 3 is employed: The politicians obtain the money to support welfare programs by diverting funds from other government programs. The police forces, the judicial system, the penal system are starved for funds. Crime rates skyrocket. The courts are swamped. The jails become hell holes, and the inmates riot. As the political clamor for better police protection, better sewage and water treatment, better municipal transportation, etc., all rises, all methods are closed off except one: diversion of funds from the Nation's military.

Once the welfare state reaches this point in its evolution, the end is near. How long will it be, Mr. Chairman, before welfare becomes more important than national defense? Or has it already become more important?

I close with this statement attributed to Father Keller, of Notre Dame University:

"A democracy cannot exist as a permanent form of government. It can exist only until the voters discover they can vote themselves largesse from the public treasury. From that moment on, the majority always votes for the candidate promising the most benefits from the public treasury, with the result that a democracy always collapses, over a loose fiscal policy . . . always to be followed by a dictatorship."

Thank you again for this opportunity to appear today and to present our views.

The CHAIRMAN. The next witness will be Mr. John F. Nagle, chief of the Washington Office of the National Federation of the Blind.

STATEMENT OF JOHN F. NAGLE, CHIEF, WASHINGTON OFFICE, NATIONAL FEDERATION OF THE BLIND

Mr. NAGLE. Mr. Chairman and members of the committee, my name is John F. Nagle, chief of the Washington Office of the National Federation of the Blind. My address is 1346 Connecticut Avenue NW., Washington, D.C.

With your permission, Mr. Chairman, I will read briefly from my testimony and then ask that the entire statement be included in the printed record.

Now, Mr. Chairman, as you consider the provisions of H.R. 1 and strive further to implement the objective of reducing the welfare load and welfare costs, we come before you as we have in the past offering and urging acceptance of another innovative concept in the Social Security Act that would liberalize the disability insurance sections of the act so as to allow blind persons to qualify for payments when

they have worked a year and one-half in social security-covered work and to continue to draw payments so long as they remain blind and regardless of their earnings.

These proposals, contained in S. 1335, have been adopted four times by the U.S. Senate; and, when introduced in the 92d Congress, S. 1335, sponsored by Senator Vance Hartke, was cosponsored by no less than 70 Members of the Senate.

By endorsing S. 1335, by allowing persons with sight to qualify for disability insurance payments on a less-than-the-regular-quarters-of-coverage basis, such payments would be more readily available to more people without sight. They would be available to keep blind people from the need for welfare.

If you approve S. 1335, disability payments will be available to provide fiinancial security at the time when employment is gone and seems likely never to be obtained again. Disability insurance payments would be available, if you will accept S. 1335 as a solid foundation upon which to begin to rebuild a shattered life.

By allowing the person without sight to remain qualified for disability payments regardless of his earnings, such payments would be available to supplement the meager and subminimum earnings of the blind worker in a sheltered workshop which, although in excess of the social security cutoff amount of $140 monthly, still are nowhere near sufficient to assure the blind worker of an adequate living.

If you will approve S. 1335, disability insurance payments would be available to supplement the earnings of the blind person who works at home or from his home—as salesman, piano tuner, telephone solicitor, chair caner—who earns more than the $1,680 annual social security allowable amount that still earns and lives at a starvation level, in spite of determined efforts to help himself and live from his own labors and not upon welfare.

Then, too, Mr. Chairman, by removing the earnings test and allowing a blind person to qualify for disability benefits whatever his earnings, such benefits would serve to equalize the disadvantages of trying to function blind, in a sighted society.

Disability insurance payments, received regularly and predictably each month, would rescue the blind person from a dependence upon family and friends when he has need for sighted help; it would release him from a dependence upon undependable kindness and unreliable generosity.

Disability insurance payments would be a continuing source of funds enabling the blind person to buy, not beg, for the sighted help he needs to function, for whatever he does, whether he works as a piano tuner, a vending stand operator, a lawyer, a teacher, or if a woman as a housewife with groceries to buy and a home to manage. Whatever the blind person does, he must do it in a sight-structured world and if he is to function successfully, if he is to function at all, sight must be subject to his summons and available to his needs and this can only mean hired sight.

Enactment of S. 1335 into Federal law as an amendment to the Social Security Act would give real meaning in the lives of blind persons to the goals of H.R. 1, of encouraging initiative and a desire for self-dependence, of assisting an active determination for self-help.

Enactment of the disability insurance for the blind measure into Federal law would give meaning and reality in the lives of blind per-

sons to these goals by providing social insurance dollars as an earned and merited right rather than the welfare grant as a humiliating and reluctantly given dole.

I thank you very much, Mr. Chairman, for this opportunity to appear.

The CHAIRMAN. Thank you very much, Mr. Nagle.

Senator CURTIS. One question: Mr. Nagle, under existing general social security law, someone with the required number of quarters who can prove that they are permanently and totally disabled gets disability benefits?

Mr. NAGLE. If he earns more than $140 a month, Senator, he does not get it.

Senator CURTIS. Now, in the definition of disability benefits——

Mr. NAGLE. Yes, sir.

Senator CURTIS (continuing). Do they accept blindness as a total, as a condition of total and permanent disability?

Mr. NAGLE. Yes, Senator; it is in the law.

Senator CURTIS. So what you are dealing with and what is involved in this legislation that you are supporting relates primarily to the work limitation?

Mr. NAGLE. That is right, Senator.

Senator, let me give you an example. I am a totally blind person; for some 15 years I was engaged in the practice of law. There were many lawyers in my bar who did not have secretaries. I had to have a secretary. I couldn't read my mail without a secretary; I couldn't function throughout the day without a sighted secretary available to me. Therefore, for me to be able to function at all I had to pay the price of a week's pay for a sighted secretary—an expense that other lawyers had a choice whether they would have or not have.

This is what we are saying, that the disability insurance payments as a continuing source of income to me at the time I practiced law or to another blind person who is trying to earn a living, trying to function with the requirement constantly of sighted help available to him, must have money to purchase sight, sight available to him, on a regular basis.

Senator CURTIS. I have been distressed over the situation that many blind people are encouraged to get an education, and to go into various professions such as the law and they seek Government employment; and, as a practical matter, they aren't furnished with hired sight on those jobs; I have found that in the Government they are discriminated against in other ways and sometimes those around them or their supervisors do not want to be bothered with assisting.

Mr. NAGLE. This is also true in the general economy, Senator.

Senator CURTIS. I expect that is true.

Mr. NAGLE. That's right.

Senator CURTIS. But we have a more direct responsibility here in the Government service.

Mr. NAGLE. That's right. It is possible today, because of techniques and methods that have been developed and opportunities available in training for a blind person to learn to function successfully in a sighted society, but then when he is prepared to function and applies for a job, too often he encounters authoritative opinions on what he can do and what he can't do that, in fact, amount to total discrimination and exclusion.

Senator CURTIS. I won't take further time for it, but I thank you.
Mr. NAGLE. Thank you.
The CHAIRMAN. Thank you very much, sir.
(The previous witness' prepared statement follows:)

STATEMENT OF JOHN F. NAGLE, CHIEF, WASHINGTON OFFICE, NATIONAL FEDERATION OF THE BLIND

Mr. Chairman and members of the committee: My name is John F. Nagle. I am the Chief of the Washington office of the National Federation of the Blind. My address is 1346 Connecticut Avenue, N.W., Washington, D.C. 20036.

Mr. Chairman, anticipating by some thirty-one years the intent and purpose of H.R. 1, the National Federation of the Blind, since its founding in 1940, has argued consistently and worked constantly toward the goal of enabling and encouraging and assisting blind persons on public welfare to get off relief and into employment.

We have always and emphatically rejected the too generally held misconception that blindness is synonymous with helplessness and dependency.

We have always refused to accept the far too generally held view that blind people must all look to public welfare for support, that once receiving aid, they will continue on the aid roles for all of their lives.

The earned income concept and mechanism is now in the federal public assistance law (and in other federal laws and federal programs) because the National Federation of the Blind fought in Congress after Congress to have it included, and this concept, this mechanism, has served as a bridge over which blind persons and other temporarily needy persons may pass as they gradually work their way from dependence upon publically-provided help to achieved self-help and self-support.

Section 2012(b)(1) of H.R. 1 would retain the $85 plus 50% earnings exemption for blind persons and we urge you to give this provision your approval.

When the National Federation of the Blind learned from experience that he above "sliding-scale" earnings exemptions was not sufficiently broad to really benefit part and full-time working students and other blind persons who were employed and also directing their efforts towards the fulfillment of an approved rehabilitation plan for achieving self-support, we asked Congress to exempt all of the income and all of the resources of such persons, and Congress did this.

Section 2012(b)(3)(A) of H.R. 1 would retain this full exemption of income, but since it does not also exclude "resources," which are excluded as well as income in Section 2013(a)(4) of H.R. 1 and Section 1002(a)(8)(B) in existing law, we ask that you not only give your approval to this provision, but we also urge that you amend it to include "resources," that it may then conform to existing law, that it may offer to ambitious and working blind persons the full advantages offered by the inclusion of such term in existing law.

Mr. Chairman, although relatively few blind persons would be affected by this provision and aided and benefited by it, those few who are diligently working to gain the goal of self-support in accordance with an approved rehabilitation plan, would have all of their earnings (if they are employed) and all of their resources (if you will include resources in this provision) to assist them to reach their goal—and the goal of the Vocational Rehabilitation Act—of transforming dependent and welfare-supported people into independent and self-supporting people.

Now, Mr. Chairman, as you consider the provisions of H.R. 1 and strive further to implement the objective of reducing the welfare load and welfare costs, we come before you as we have in the past, offering and urging acceptance of another innovative concept in the Social Security Act, that would liberalize the disability insurance sections of the Act so as to allow blind persons to qualify for payments when they have worked a year and one-half in social security-covered work and to continue to draw payments so long as they remain blind and regardless of their earnings.

These proposals, contained in S. 1335, have been adopted four times by the United States Senate, and when introduced in the 92nd Congress, S. 1335, sponsored by Senator Vance Hartke, was co-sponsored by no less than seventy members of the Senate.

By endorsing S. 1335, by allowing persons without sight to qualify for disability insurance payments on a less-than-the-regular quarters of coverage basis, such payments would be more readily available to more people without sight. They would be available to keep blind people from the need for welfare.

If you approve S. 1335, disability payments will be available to provide financial security at the time when employment is gone and seems never to be obtained again.

Disability insurance payments would be available, if you will accept S. 1335, as a solid foundation upon which to begin to rebuild a shattered life.

By allowing the person without sight to remain qualified for disability payments regardless of his earnings, such payments would be available to supplement the meager and sub-minimum earnings of the blind worker in a sheltered workshop, which, although in excess of the social security cut-off amount of $140 monthly, still are nowhere near sufficient to assure the blind worker of an adequate living.

If you will approve S. 1335, disability insurance payments would be available to supplement the earnings of the blind person who works at home or from his home—as salesman, piano tuner, telephone solicitor, chair caner—who earn more than the $1,680 annual social security allowable amount but still earns and lives at a starvation level, in spite of determined efforts to help himself and live from his own labors and not upon welfare.

Then, too, Mr. Chairman, by removing the earnings test and allowing a blind person to qualify for disability benefits whatever his earnings, such benefits would serve to equalize the disadvantages of trying to function blind, in a sighted society.

Disability insurance payments, received regularly and predictably each month, would rescue the blind person from a dependence upon family and friends when he has need for sighted help, it would release him from a dependence upon undependable kindness and unreliable generosity.

Disability insurance payments would be a continuing source of funds enabling the blind person to buy, not beg, for the sighted help he needs to function, for whatever he does—whether he works as a piano tuner, a vending stand operator, a lawyer, a teacher, or if a woman, as a housewife with groceries to buy and a home to manage—whatever the blind person does, he must do it in a sight-structured world and if he is to function successfully, if he is to function at all, sight must be subject to his summons and available to his needs and this can only mean "hired" sight.

Enactment of S. 1335 into federal law as an amendment to the Social Security Act would give real meaning in the lives of blind persons to the goals of H.R. 1, of encouraging initiative and a desire for self-dependence, of assisting an active determination for self-help.

Enactment of the disability insurance for the blind measure into federal law would give meaning and reality in the lives of blind persons to these goals by providing social insurance dollars as an earned and merited right rather than the welfare grant as a humiliating and reluctantly given dole.

In considering the welfare provisions of H.R. 1, Mr. Chairman, although the National Federation of the Blind is greatly opposed to a combined adult category of aid under the Social Security Act which lumps together the aged, blind, and severely disabled, into one common administrative welfare plan, thereby eliminating or restricting the possibility of considering and satisfying the categorical or group needs of the separate and distinctively different classes of disadvantaged persons, still, if this Congress in its wisdom is determined that the repeal of Titles I, X, and XIV, is essential, we ask, at least, for a safe-guarding amendment to be incorporated in the proposed new welfare title, an amendment which would assure and require the continued recognition of the group and individual needs of the aged, blind, and disabled.

We offer the following amending language for your consideration and acceptance:

"Provided that it is recognized that the standard of need applied with respect to an individual who is aged, blind, or severely disabled, may differ depending upon the group and individual needs of such individual or conditions related to his age or disability."

The National Federation of the Blind strongly supports the federalization of the public welfare program, for it should result in providing needy people with more adequate income and income available to them under less harrassing and humiliating conditions.

We certainly approve the provisions of Title XX of H.R. 1 that eliminate lien and recovery and responsibility of relative practices in public assistance, and from the lives of persons requiring publically-given financial aid.

While, in general, the National Federation of the Blind endorses and supports the monthly amounts of aid provided for in Title XX of H.R. 1, we believe these

provisions should be amended to require those states having a higher assistance standard as of June 30, 1971 (California, Alaska, Massachusetts, Iowa, and New Hampshire), to maintain such higher standards.

Also, Mr. Chairman, the National Federation of the Blind believes Title XX of H.R. 1 should be amended so as to assure that the special needs of recipients of aid are met when such needs are due to special circumstances and which make the total dollar amount of need greater than the flat amount provided for in the pending bill.

Specifically, such special needs would be non-medical, out-of-home care and attendant care costs which alone could run between $200 and $300 a month, the added expense of taking meals regularly in restaurants, telephone service, and laundry service.

Mr. Chairman, we would also emphasize the need for an amendment to Title XX of H.R. 1 to require the recognition and dollar allowance for the special needs of blind persons, needs that are attributable to the circumstances of blindness, needs that must be satisfied if self-care is to be fostered and self-support encouraged and promoted.

Section 2014(f) (1) of H.R. 1, provides that income and resources of a spouse living with an eligible-for-aid individual will be taken into account in determining the benefit amount of the individual whether or not the income and resources are available to meet the needs of the eligible individual.

The National Federation of the Blind believes this provision is most disturbing.

The counting of a spouse's income and resources as those of the recipient should depend upon whether, in fact, such income and resources are actually available to such recipient.

The National Federation of the Blind, therefore, urges that this provision be amended to meet this available-to-the-recipient requirement.

The National Federation of the Blind endorses and supports the provisions of H.R. 1 which authorize an increase in social security payments effective June, 1, 1972, and the provision of an automatic increase in such payments in accordance with the rise in the cost of living.

The National Federation of the Blind particularly approves the proposals of H.R. 1 that extend health care coverage to disability insurance beneficiaries.

This was a long-sought-after goal of the organized blind as we worked and testified in succeeding Congresses in pursuit of this new realized objective.

Finally, Mr. Chairman, the National Federation of the Blind has much concern about and is strongly opposed to the provision in H.R. 1 that requires referral of disabled recipients of aid to the State Vocational Rehabilitation Agencies that would deny financial aid to such persons who refused to accept vocational rehabilitation services without good cause.

The long time experience of the National Federation of the Blind in the rehabilitation field has convinced us that forced acceptance of vocational rehabilitation services is a poor and a wrong way to motivate persons to try to achieve self-support.

We believe there is no organization more intent on strengthening the purposes and provisions of the Social Security Act to help blind people to attain self-support and self-care than the National Federation of the Blind.

However, we believe that voluntary, not compulsory, acceptance of rehabilitation services is a far more effective means of gaining our common goal.

The CHAIRMAN. The next witness will be Mr. Durward K. McDaniel, national representative of the American Council of the Blind.

We are pleased to have you here today, Mr. McDaniel.

STATEMENT OF DURWARD K. McDANIEL, NATIONAL REPRESENTATIVE, THE AMERICAN COUNCIL OF THE BLIND, WASHINGTON, D.C.

Mr. McDANIEL. Thank you, Mr. Chairman.

I will try to summarize a few of the points here from the prepared statement which I would like to ask to be made a part of the record.

With respect to the social security amendments which are contained in H.R. 1, we find we are generally in accord with those. We

are pleased to see that the House of Representatives has extended medicare benefits to disabled beneficiaries. We were distressed, however, to see that they provided for a 2-year waiting period—2 years after entitlement for disabled beneficiaries—which, I suppose, was intended to be an economy measure; but I point out to the committee that most of the medical and hospital costs of the total population are not paid by private insurance plans and that in any event this class of beneficiaries would not be able to afford them. So if the concept is correct that the medicare benefits should be extended to disability beneficiaries, we think it should be extended to all of them.

We think, moreover, regarding the liberalization of the eligibility rule for disability benefits, whether it is the fully insured rule which the House adopted or the bill similar to Senator Hartke's which Mr. Nagle described, that the number of persons receiving aid to the blind and, therefore, entitled to medicaid benefits, would be reduced unless the Congress decided that social security payments should be treated as deferred earned income and not deducted from welfare grants.

We think that the medicaid program, particularly if the requirement for a comprehensive health program is repealed, as provided in H.R. 1, isn't going to be much help to anybody, and we would like to see at least those people in the smallest of the categories, aid to the blind, included, perhaps at the cost of the general revenue fund, in the medicare program. There needs to be some uniformity throughout the country and if there are not going to be comprehensive programs in the States, then we think such coverage ought to be included in the medicare program under title 18.

There are several things about the proposed title 20 which interest us very much. The American Council of the Blind supports the federalization of the adult categories, and particularly assistance for the aged blind; and I will point out, although I think the committee knows it, that over the past dozen years or so this is the category of assistance that has been declining in numbers.

It now includes approximately 81,000 persons in the whole country. Of course, we are glad to see this, and yet we are concerned about the support which blind persons who need this kind of help get from any program which, although the Federal program as proposed here is more liberal than in some of the States, is less liberal than in some others and is actually regressive in some respects, and I will point them out.

For example, the provision of eligibility saying that an eligible individual may have $1,500 in property: H.R. 1 says if he is single, he may have $1,500 in property, or if he is married he and his eligible spouse may still have only $1,500 together, so in that respect people are better off if they are not married, you see.

With respect to excluded earned income, in section 2012(b) the provision is for $1,020 per year for an eligible individual, or if he is marred $1,020 for both spouses, not each, but both, so again they are better off if they are not married.

And in section 2014, where there is an ineligible spouse, the bill says—and it gives some leeway to the Secretary but it says—that the income of the ineligible spouse is considered to be available to the eligible individual whether it is or not. I would say that is another deterrent to keeping people together in one family.

In the same section there is a provision that the income of a stepparent with respect to a child of the other spouse is considered to be available whether it is or not, also a negative influence upon family life.

With respect to the amount of the benefit provided for in proposed title 20, many of the States have more liberal programs than the $130 proposed, and we think that the amount proposed should be greater, but that in any event there should be some provision for supplementation, either by the Federal Government or by the State governments, so that no one is penalized by the federalization of welfare.

There are some proposals already introduced, and Senator Eagleton is going to introduce one, I understand, which would, in effect, "grandfather" into the program all of those who are now eligible, so that the new standards would not disqualify people. We approve of that and we approve of it particularly with respect to two very special State programs. Twenty years ago in Missouri and Pennsylvania people were not getting any Federal aid for aid to the blind because those States had a higher income allowance and higher property allowance than the Federal Government would approve. Ultimately, Congress temporarily approved such Federal aid and extended it over a period of several years, and finally approved it permanently, so there are actually two States—Missouri and Pennsylvania—which have different kinds of federally supported aid programs from the others, and people in those two States are concerned that they may be disqualified by the enactment of H.R. 1. I hope, and I suggest in my prepared statement, that an amendment will be added which would continue those standards in those States so that those people will not be adversely affected by the new legislation.

We don't think that optional supplementation is going to work for anybody. There are too many competitions, too many places that the States need to spend money, and it isn't going to work if you say, "Well, you can do it if you want to."

We think certainly that the States should participate only in the supplementation, but that if there is mandatory supplementation, as we think there should be, the Federal Government should participate in matching.

In section 2016 there are two references to persons who will not be receiving the Federal benefit. The effect of that language, and I quote it in my prepared statement, is to give the Secretary of Health, Education, and Welfare some control over other pension or welfare programs which any State may choose to establish or perpetuate, even though there is no Federal money in it. We don't think that that pension should be in H.R. 1. The States of Pennsylvania and Missouri, in particular, have separate, fully financed State programs—pensions for the blind—and we don't think that, as long as those people don't receive a Federal benefit the Secretary should control it.

With respect to mandatory referral to rehabilitation agencies, we have no quarrel with that; we would suggest that, as in the proposal for title 21, there be some safeguards so that a blind or disabled person who is mandatorily referred is not required to take a job at a subminimum rate of pay or without the usual benefits of regular employment. Without such safeguards he could be put to work in a sheltered workshop at 40 cents an hour and required to work there,

even though it is not really enough income to pay his carfare getting to and from work. We would like to see some safeguards in title 20, pertaining to wages and benefits.

With respect to employment incentives or work incentives, blind people have a special problem. What we need more than incentives to work is incentive on the employer's part to hire, and I have outlined in my prepared statement a tax credit idea which is not far from what Senator Talmadge advocated in the last Congress with respect to Aid to Families with Dependent Children. The idea is a good one; there isn't anything wrong, as we see it, with an individual person, a blind person, in my example, making his own arrangement with an employer. We think that the tax credit should be temporary, that it should be high enough to offer some offset to the employer on a temporary basis, until the blind worker can prove his productivity; then there would be no more tax credit on that individual. We would like to see that work. We have tried all the other existing services, and we would like to see private initiative have a chance, and to give that employer the incentive, which is really what we need.

With respect to judicial review, we are concerned about the H.R. 1 provision which says that the Secretary's finding of fact shall be final, because if that is true, then there won't be much to review. We have found through the administration of the Social Security Act that a lot of mistakes of fact are made, and while the present judicial review system does not work very well, it works better than this would work; and we would like to see everything that social security employees do reviewed and reviewable, so that we could make this system work.

Gentlemen of the committee, I appreciate being able to appear here, and if there are any questions, I will be glad to answer them.

The CHAIRMAN. Mr. McDaniel, you have made some very good suggestions and I am going to instruct the staff, and, in fact, I instruct them now, to be sure that these various suggestions are considered by the committee when we go into the executive session.

I would like to also tell you that Congressman Frank Karsten of Missouri who was a member of the Ways and Means Committee, and who has been very helpful and sympathetic to your suggestions is in the room. I understand he came here particularly to hear your testimony.

Mr. MCDANIEL. Yes, I spoke with him just when I first came in and I appreciate his help on this. He is a real expert, and has been interested in it for a long time.

I understand Senator Percy is going to introduce an amendment, which we endorse, touching on this excluded earned income subject which he proposes to make applicable to all the adult categories.

The CHAIRMAN. Any further questions, gentlemen?

Thank you very much, sir.

Mr. MCDANIEL. Thank you.

(The previous witness' prepared statement follows. Hearing continues on page 790.)

STATEMENT OF THE AMERICAN COUNCIL OF THE BLIND, PRESENTED BY DURWARD K. MCDANIEL, NATIONAL REPRESENTATIVE

SUMMARY

The American Council of the Blind:

1. Favors most if the social security provisions of H.R. 1, but with certain amendments.

2. Favors the inclusion of S. 1335, which provides for disability insurance benefits for blind persons with at least six quarters of coverage.

3. Favors the participation of social security beneficiaries in the periodic evaluation of the program, and advocates the provision of additional procedures for the representation of the interests and views of beneficiaries.

4. Favors entitlement to child's disability benefits for persons becoming disabled before age 22 without regard to the retirement, death or disability of either parent.

5. Favors the extension of medicare coverage to recipients of aid to the blind.

6. Favors the merging of medicaid with medicare.

7. Favors the repeal of Section 224 of the Act.

8. Favors an increase in social security benefits of a least 12½%.

9. Favors application of the fully insured rule to blind beneficiaries of social security.

10. Opposes the two-year waiting period for medicare benefits for disabled beneficiaries.

11. Favors the federalization of welfare benefits for the adult categories.

12. Favors a special amendment to continue eligibility under the proposed Title XX of blind persons who qualify for aid in any State under the present law, and particularly in Missouri and Pennsylvania.

13. Favors an amendment to proposed Section 2011(a) of the Social Security Act to provide that each eligible and each eligible spouse will be entitled to own up to $1,500 worth of nonexcluded property.

14. Favors an amendment to proposed Section 2012 to exclude from consideration income received (including social security benefits) as a result of the earlier investment of earned income.

15. Favors an amendment to proposed Section 2012 (as advocated by Senator Charles Percy) to assure that each eligible individual *and* each eligible spouse will be entitled to have $1,500 of his earned income excluded from consideration, regardless of his age.

16. Favors an amendment to Section 2014(f)(1) and (2) to exclude the income of an ineligible spouse or step-parent when such income is not actually available to the beneficiary.

17. Favors an amendment to provide safeguards at least equal to those in Title XXI for beneficiaries referred to rehabilitation agencies.

18. Favors a tax credit for a limited term for employers hiring blind persons.

19. Favors mandatory State supplementation of federal benefits to assure that there will be no reduction in total payments to eligible persons because of federalization.

20. Favors federal matching for mandatory and voluntary State supplementation to federal benefits.

21. Favors the deletion from proposed Section 2016 of the two references which would give the Secretary unwarranted authority over State supplementation of State pension and other programs which are entirely financed by the State.

22. Favors an amendment to proposed Section 2031 providing that the Secretary's findings of fact shall be subject to judicial review.

23. Favors equality of eligibility and benefits for persons residing in Puerto Rico, the Virgin Islands and Guam. (Sec. 504 of H.R. 1).

24. Favors an amendment to protect the rights, conditions and status of employees of State welfare departments and to require transfer to the Social Securtiy Administration of handicapped employees of State Welfare departments who may be displaced by the enactment of H.R. 1.

STATEMENT

1. H.R. 1

The social security provisions of H.R. 1 are for the most part progressive, with several exceptions which are dealt with in the changes suggested and advocated in this statement.

2. DISABILITY COVERAGE (S. 1335)

The Senate has passed measures similar to S. 1335 on four occasions, and it is sponsored by a majority of the Senate. The desirability of reducing the required coverage to six quarters and the incentive for self-improvement in the absence of any limitation on earnings is well recognized by the Senate. Enact-

ment of this provision would under present law remove a substantial percentage of blind persons from the aid to the blind rolls. This proposal is supported by the major organizations of and for the blind, and we urge its inclusion in H.R. 1.

3. REPRESENTATION OF BENEFICIARIES

Adminitrative remedies available to the individual under existing law provide no methods by which beneficiaries can effectively advocate any improvements and reforms in the administration of the program. The creation of procedures for the representation of the interests and views of social security beneficiaries is desirable and necessary for the effective planning, delivering and reviewing of these important government services. Complaints and proposals for improvements could be dealt with properly and expeditiously on a regular, formal basis through consultation and evaluation of these services by government officials and representatives of such beneficiaries. Section 1602 (a) (16) of Title II of H.R. 14173 (91st Congress) provided for the participation of recipients of aid to the aged, blind, and disabled in the periodic evaluation of State welfare programs. While that provision was not adopted by the House, we urge that those procedures and principles be made applicable to social security beneficiaries by appropriate amendment of H.R. 1. This would be a step in the right direction, but there should be a system by which beneficiaries would select their own representatives. An appropriate model for such procedures and consultation has been established by Executive Order 10988 and related orders which provide a system for choosing representatives of Federal employees.

4. CHILDHOOD DISABILITY BENEFITS

Section 114 of H.R. 1 extends from 18 to 22 the age of eligibility for childhood disability benefits. The Council endorses this progressive change, which will afford protection to young persons who become disabled before they have had the opportunity to qualify for benefits by reason of their own covered employment. Section 114 should be further amended to provide that such a disabled child who has reached the age of majority shall be entitled to benefits if either of his parents is fully insured. In other words, a disabled child who has reached the age of majority should not have to wait until his parent has died, retired or become disabled to receive benefits.

5. MEDICARE COVERAGE FOR THE DISABLED

The extension of medicare benefits to disabled beneficiaries is badly needed, and we urge that this provision be retained in H.R. 1. These benefits will greatly reduce the demands upon the Federal-State medical assistance programs and will assure a uniformity of service to disabled persons no matter where they live. Most of these beneficiaries cannot afford the cost of private health insurance plans.

6. MERGING OF MEDICAID WITH MEDICARE

Medicaid has left much to be desired and has not afforded equal service to public assistance recipients in all of the States. H.R. 1 would repeat the existing requirement that the States establish a comprehensive program by 1977. Thus it is clear that medicaid holds little promise of meeting the substantial needs of medically indigent persons. The extension of medicare benefits to the disabled cuts broadly across the categories of aid to the blind and aid to the permanently and totally disabled. Accordingly, much of thhe health care load will be assumed by social security. In the interest of establishing a health care program which will deal with eligible citizens on equal terms wherever they live, we advocate that those who would be eligible for medicaid only also be included under medicare, and that the cost incurred be born by appropriations from general revenue. Such a solution requires a merger, and it should be done now.

7. WORKMEN'S COMPENSATION (REPEAL SEC. 224, SOCIAL SECURITY ACT)

Section 125 of H.R. 1 is another measure which is good as far as it goes. Whereas under present law social security disability benefits must be reduced when workmen's compensation is also payable, so that the combined benefits will not exceed 80% of the average current earnings before disablement, Section 125 would increase the ceiling. On the fact of it this provision seems more equitable. What generally is not realized, however, is that the periods during which work-

men's compensation benefits are received are often relatively short and that thereafter the disability benefits received fall far short of previous earnings. The excess over 100% of previous earnings during the period of concurrent receipt of disability benefits and workmen's compensation could serve as a partial offset to the decline in income after the termination of workmen's compensation.

The Council recommends that Section 224 of the Act be repealed altogether. Its provisions are an example of the negative concept that a beneficiary should not be as well off as he was while working. Workmen's compensation is not paid for by Federal revenue and should have no bearing on social security benefits. The principal effects of this provision are reductions in the living standards of injured workmen and increases in the profits of insurance carriers.

8. INCREASE IN SOCIAL SECURITY BENEFITS

The proposed increase of 5% was not commensurate with the increase in the cost of living when it was proposed, and in order to allow for the continuing rise in the Consumer Price Index, the increase at this time should be less than 12½% across the board, with special consideration for those receiving the minimum amounts.

9. APPLICATION OF FULLY-INSURED RULE

The American Council of the Blind believes that the disability insurance eligibility requirement of 20 quarters of coverage out of the last 40 quarters is arbitrary and discriminatory, having the effect of excluding many persons who are fully insured as defined in Section 214 of the Social Security Act. This requirement is particularly discriminatory against those persons who became disabled too long ago to qualify under Section 223. Many of those excluded disabled persons have not yet reached retirement age and receive no benefits, although some of them are fully insured. Fully insured status should not have less meaning or effect for one injured worker than for another. Accordingly, we support the abolition of the special coverage and recency test of the present law, which would be accomplished by Section 123 of H.R. 1.

10. TWO-YEAR WAITING PERIOD FOR DISABLED MEDICARE BENEFICIARIES

While Section 201 of H.R. 1 extends medicare benefits to the disabled, it would discriminate against those who are newly disabled by requiring them to wait two years. The onset of disability is the time when the need is greatest for this kind of coverage. The rationale of overlapping insurance coverage would not apply to many cases because only a minor fraction of medical and health costs are covered by private insurance arrangements. The need for extending medicare to the disabled was acknowledged when Section 201 was adopted by the House. The American Council of the Blind opposes this attempt to economize by delaying benefits to one class of beneficiaries, whose coverage is on the average equal to that of those who are favored. Accordingly, we recommend the deletion of the two-year waiting period of medicare benefits.

11. FEDERALIZATION OF ADULT WELFARE CATEGORIES

The American Council of the Blind has consistently advocated the federalization of aid to the blind and now also supports the federalization of all three adult programs of assistance. Federalization will remove inequities existing from State to State in these programs, and will make some improvement in the living conditions of eligible persons in most of the States. Legislation establishing such a program, however, should include the following safeguards: (1) Provision for amounts of aid sufficient to meet the minimum basic needs of eligible persons and additional amounts to meet special needs; (2) provision for automatic cost-of-living adjustments in grants; (3) provision for liberal eligibility standards; and (4) a guarantee that no recipient will receive a reduced grant by reason of federalization of the program.

12. CONTINUED ELIGIBILITY UNDER FEDERALIZED PROGRAM (ESPECIALLY IN MISSOURI AND PENNSYLVANIA)

Proposed Title XX would establish uniform standards of eligibility for the three adult categories without regard for the effect of such standards on amounts of assistance paid and income and resources allowed in some States under the present Law. The American Council of the Blind advocates that the pro-

posed Title XX be amended to guarantee that assistance payments will not be reduced in any State because of federalization of the program. This guarantee can be met by federal funds or by State supplementation, which will be discussed later. In any event, the Federal-State programs in Missouri and Pennsylvania are unique, and a special amendment should be adopted to continue eligibility of blind persons in those States under the proposed Title XX program. First by temporary authorization and then by permanent enactment the Federal-State aid to the blind programs in those two States were accepted by Congress even though the income and resources allowed by those two States were and are substantially more liberal than in any other States. These liberal provisions have improved living conditions for thousands of blind persons and have demonstrated the financial feasibility and the desirability of liberalization of the program, although the demonstration has not been extended to blind persons in any other States. If the amendment advocated here is not adopted, a substantial portion of those blind persons presently in Missouri and Pennsylvania will be disqualified for benefits under the all-federal program. Accordingly, the American Council of the Blind, the Missouri Federation of the Blind, and the American Council of the Blind of Pennsylvania join in advocating the following amendment to proposed section 2011:

To Amend Title III of H.R. 1, by adding at the end of "Section 2011" a new subsection (h) as follows:

> "(h) Notwithstanding any other provisions of this title, any blind person who applies for the Federal benefit and State supplementary benefit shall be considered eligible for such benefits for purposes of Title XX if he received aid as a blind person (or if he would have been eligible to receive such aid if he had been a blind applicant) for June 1972 under a State plan approved under Title X or Title XVI of the Act as then in effect, so long as he remains blind."

13. NONEXCLUDED PROPERTY OF ELIGIBLE INDIVIDUALS AND ELIGIBLE SPOUSES

Under the present provisions of proposed Section 2011(a) of the Social Security Act, the amount of unexcluded property which may be owned by an eligible individual and an eligible spouse is the same ($1,500) as that permitted to a single eligible individual. The American Council of the Blind believes this provision to be inequitable and to be one which would make it more profitable to be unmarried. We urge that this provision, which penalizes married couples, be liberalized to permit the ownership by *each* person of $1,500 worth of property.

14. LIBERALIZED EXCLUSIONS FROM INCOME OF INDIVIDUALS

Proposed Section 2012(b) of the Social Security Act provides that income derived from earlier investments of earned income, including social security payments, will be included for the purpose of determining eligibility for benefits. The American Council of the Blind believes that such a provision is tantamount to a penalty in that the income so derived is deducted dollar for dollar from the proposed benefit. The effect of this provision is a delayed application of the incentive stifling provisions of the present law. We concur in the desire of most people to improve their living conditions. We believe that the Congress supports the principle that people should not be penalized for trying to help themselves, and yet H.R. 1 provides that those who have invested in social security or other arrangements for their future security will be penalized by reductions in or disqualification for benefits.

15. INCOME EXCLUSIONS FOR ELIGIBLE INDIVIDUALS AND ELIGIBLE SPOUSES

Proposed Section 2012(b) is more restrictive than the present law in that, whereas present law allows exclusion of only $1,020 a year of the earned income of an eligible individual and an eligible spouse, nevertheless *each* of such persons is entitled to exclude that amount of earned income. In addition, the ambiguous reference to "age 65" and the time of first claiming the benefit would create two classes of eligible individuals among blind and disabled persons. We see no justification for such a distinction, and the American Council of the Blind will support an amendment to be offered by Senator Charles Percy to eliminate the ambiguous and discriminatory language, to provide for an equal amount of excluded earned income for *both* spouses, and to increase the amount of each exclusion to $1,500 of earned income each year. Since 1960, when the excluded

amount was first increased to $1,020 per year, the Consumer Price Index has increased 37.4%. Such an increase will permit those who are able to earn such amounts to improve their living conditions. The American Council of the Blind supports Senator Percy's amendment and advocates that it be made equally applicable to the disabled and the aged.

16. INCOME OF INELIGIBLE SPOUSES AND STEP-PARENTS

Paragraphs (1) and (2) of proposed Section 2014 provide that the income of an ineligible spouse and of a step-parent (in the case of a child will be considered as nonexcluded income of the beneficiary, even if it is not available to the beneficiary. Such a provision is patently unjust, and Paragraphs (1) and (2) of that proposed subsection should be amended by striking out the phrase "whether or not available to such individual."

17. SAFEGUARDS FOR BENEFICIARIES REFERRED TO REHABILITATION AGENCIES

In both proposed Titles XX and XXI the requirement is made that beneficiaries be referred for rehabilitation services. However, the requirement for referral in Title XX contains none of the safeguards which exist in the similar section of proposed Title XXI, such as the payment of at least the minimum wage. We recommend that amendments be adopted which will assure to beneficiaries referred for employment that they will be entitled to benefits and working conditions which normally prevail in the labor market. We cannot believe that Congress would intend that blind and disabled beneficiaries be required to work on jobs which do not provide such rights and benefits as social security, unemployment compensation, workmen's compensation and minimum or prevailing wages.

18. TAX CREDIT FOR EMPLOYERS HIRING BLIND PERSONS

When the Committee on Finance considered H.R. 17550 in the 91st Congress, it adopted Senator Talmadge's Amendment No. 788, which provided for a tax credit for employers hiring AFDC parents. While we believe that the tax credit provided in Senator Talmadge's amendment was too small to be effective, the American Council of the Blind approves this method as a new approach for getting unemployed blind persons and potential employers together. The tax credit allowed for the employment of a blind worker should be for a limited term, such as two years, and the percentage of credit should be substantial in the beginning and should gradually decline as the term progresses. Senator Talmadge's amendment contained numerous provisions to protect the interests of the government and of the employee. While the principal subject under consideration is a welfare program, we recommend that an amendment to the Internal Revenue Code be included in H.R. 1, which would offer a tax credit to an employer who hires a blind worker, whether he is a recipient of welfare or not.

Senator Talmadge's idea was to create an incentive to work. The tax credit proposed can also be an incentive to employ, and this is an important factor to blind persons, who do not always find the potential employer willing to allow an opportunity to work. The tax credit approach requires no appropriation and will cost the Treasury nothing unless it results in a permanent job.

19. MANDATORY STATE SUPPLEMENTATION

In those States which now pay larger amounts of assistance than H.R. 1 would authorize, there can be no assurance that recipients in those States will not sustain substantial reductions in benefits under the federalized program unless the supplementation by the States is made mandatory. The federalization of the three adult categories will improve living conditions for blind persons in most of the States, but the American Council of the Blind does not want those persons who most depend upon aid to the blind in the higher-paying States to be penalized by the change to an all-federal system. Since under the new program the basic benefit will be paid by the federal government, such mandatory supplementation will not be as costly to the affected States as the present program.

20. FEDERAL MATCHING OF STATE SUPPLEMENTS

While the amount proposed to be paid in monthly benefits by the federal government represents substantial increases over some of the State programs, it is

obvious that the amounts are far below those needed for a decent standard of living. The number of persons receiving aid to the blind has declined over a number of years and is now approximately 81,000 persons in the entire country. The American Council of the Blind advocates that H.R. 1 be amended to provide for federal matching for voluntary State supplementation of federal benefits to blind persons and that there be federal matching to pay for special needs of persons within this category.

21. FEDERAL CONTROL OF STATE-FINANCED PROGRAMS

A part of the language of proposed Section 2016 would give the federal government some control over State supplementation of pension programs which are financed entirely by State government. These provisions (quoted below) would permit the Secretary to control or prohibit increases in State pension plans for blind persons in Missouri and Pennsylvania, even though none of the money would come from the federal government. The American Council of the Blind, the Missouri Federation of the Blind, and the American Council of the Blind of Pennsylvania advocate amendments which would delete the following language from proposed Sections "2016(a)" and "2016(b)(1)(B), respectively:

"or who would but for their income be eligible to receive benefits under this title" (Page 536, lines 16–17, House-Pased version H.R. 1);

"except that the supplementary payment shall not be reduced, on account of income in excess of the maximum amount which such individual could have and still receive such a benefit, by an amount greater than such excess" (Page 537, lines 16–29, ibid.).

There is no justification for federal interference in the administration of such State pension plans, which have no effect upon federal benefits to other blind persons.

22. JUDICIAL REVIEW OF FINDINGS OF FACT

Proposed Section 2031 would make findings of fact of the Secretary conclusive and binding and would exclude such findings from judicial review. This provision is more restrictive than that allowing judicial review for social security beneficiaries. This provision cuts off all judicial recourse for all mistakes of fact and arbitrary judgments of administrative employees of the Social Security Administration. Section 205(g) of the present Act is far from perfect, and this provision of H.R. 1 would create a far worse situation for those affected. The American Council advocates that the Secretary's findings of fact be made subject to judicial review.

23. PUERTO RICO, THE VIRGIN ISLANDS, AND GUAM

The American Council of the Blind concurs with the views of Sen. Abraham Ribicoff on the subject of discrimination against residents of Puerto Rico, the Virgin Islands and Guam in H.R. 1. The benefits proposed to be paid are federal benefits, and there is no justification for reducing the amounts because of the residence of the beneficiary. The cost of living in these Territories is higher than in most States; yet H.R. 1 proposes that people in the Territories receive a fraction of the payments which will go to residents of those State where the cost of living is lowest. We advocate an amendment to place eligible persons residing in Puerto Rico, the Virgin Islands and Guam in an equal status with all others. The present provision of H.R. 1 would lead to an acceleration in the migration of beneficiaries into the States.

24. PROTECTION OF EMPLOYEES OF STATE WELFARE DEPARTMENTS

The federalization of welfare programs will displace many State employees unless some provision is made in H.R. 1 to protect the rights, benefits and status of such persons. The American Council of the Blind is concerned about the future employment of blind and other handicapped employees of State welfare departments and some special agencies for the blind, such as the North Carolina Commission for the Blind, the Virginia Commission for the Blind, and others. These employees have acquired valuable rights and benefits, such as retirement, insurance and leave, which will be lost even if they are transferred to federal employment unless special provision is made. The American Council of the Blind advocates that special provision be made in H.R. 1 to protect the rights, benefits and status of such persons and to transfer them to the Social Security Administration.

The CHAIRMAN. The concluding witness for this morning's session is Mr. Irvin P. Schloss, legislative analyst, American Foundation for the Blind.

STATEMENT OF IRVIN P. SCHLOSS, LEGISLATIVE ANALYST, AMERICAN FOUNDATION FOR THE BLIND, WASHINGTON, D.C.

Mr. SCHLOSS. Thank you, Mr. Chairman. I have submitted a prepared statement which I would appreciate having included in the record.

The CHAIRMAN. Yes; that will be printed just as you submitted it.

Mr. SCHLOSS. In addition to representing the American Foundation for the Blind, I am also representing the American Association of Workers for the Blind and Blinded Veterans Association this morning. All three of these national organizations endorse enactment of H.R. 1, with some amendments which we think will improve and strengthen the various programs under the Social Security Act.

With regard to old age survivors and disability insurance benefits, we wholeheartedly endorse the increases in the benefits and the increase in the taxable wage base to $10,200. We believe that this is the only way that cash benefits under the social security system are going to get anywhere near what people's earnings were so that retirement years won't be years of financial hardship.

We also endorse tying the increase in the cash benefits structure and wage base to the Consumer Price Index during periods before Congress has time to act.

With regard to the survivors' benefits, permitting a widow to receive 100 percent of the primary insurance amount at age 65 is a major step forward.

We would urge the committee to give serious consideration to liberalization of benefits for disabled widows, widowers, and surviving divorced wives. These individuals are extremely hard pressed, and we would strongly recommend that the current requirement that they not be eligible until they are 50 years old be stricken; that there be no actuarial reduction in their benefits; and that the definition of disability for them, the qualifying definition of disability, be made the same as it is for the disability insurance program. It is much too harsh now.

We recently learned of a category which, if we were correctly informed, has been overlooked in this program, and that is a disabled, divorced wife who but for the fact that her ex-husband is still living would otherwise qualify. She is excluded even though for valid reasons beyond the ex-husband's control, support payments may be minimal or nonexistent. We would strongly recommend to the committee that disabled, divorced wives be included for these benefits on the same basis that disabled surviving divorced wives are included.

We also appreciate the provisions regarding disability insurance benefits for the blind in section 123 of H.R. 1. We concur with the previous witnesses in recommending substitution of the provisions of S. 1335. These same provisions have been enacted several times before by the Senate, and we would hope that the committee would continue this support. We believe that these provisions would actually serve as an incentive to rehabilitation of blind beneficiaries whereas now they are

financially penalized in the name of rehabilitation if they are rehabilitated for low-paying employment.

With regard to health care benefits, we certainly think it is a major step forward to include the various categories of disability beneficiaries in the title XVIII program. We would recommend that two additional categories be included: the disabled wife and the disabled, divorced wife.

We would also recommend that the cost of special rehabilitation center services for blind and other severely handicapped individuals be covered under medicare in the same way that other types of extended-care facilities are covered. This is particularly important for elderly blind persons—elderly severely disabled persons who cannot expect to get similar services under the Federal-State vocational rehabilitation program. These are essential services for adequate self-care and adequate personal management which would greatly assist in enabling these individuals to avoid costlier institutionalization and maintain themselves more independently in their own homes.

With regard to the public assistance provisions, we certainly welcome the federalization of the three adult categories, and we concur with the previous witnesses recommending a provision that would require maintenance of effort in terms of assuring higher benefits in those States which are currently paying higher benefits than the new federalized payments would be.

We would also underscore the points made about retrogressive features in title XX as it appears in the bill with regard to the exempt earnings provision, the $85-a-month provision. At present each of a blind couple, each spouse, is entitled to the exemption. Under H.R. 1, only the family unit is eligible. Also under title X eligibility for the exempt earnings provision is not cut off at age 65. Under H.R. 1 it is, and we would respectfully urge the committee to remove these retrogressive restrictions in these two categories.

We would also strongly endorse the referral for vocational rehabilitation services for all disabled beneficiaries under title XX, the cost to be borne by the Federal Government, that is, for individuals under age 65. We believe that a substantial number of individuals who would like to work, would want rehabilitation, and are not now getting it under the Federal-State program would be greatly benefited by these provisions.

The two previous witnesses' organizations, the American Council of the Blind and the National Federation of the Blind, join with the other three organizations I am representing in recommending substantial improvements to title V of the Social Security Act providing for maternal and child health and crippled children's services. This is an essential program which hasn't really realized its potential for ameliorating and preventing disability. By preventing and ameliorating disability in infancy, early childhood, and preschool years, I think we can avoid the costly handicap syndrome: costly special education, costly vocational rehabilitation, costly welfare, dependency, and a lot of heartache. We would strongly urge the committee to add the provisions of S. 2434 to H.R. 1. S. 2434 revises title V completely in very positive and effective fashion, and we believe that this would be a very, very valuable program for mothers, infants, and

young children, in terms of preventing future dependency on account of handicaps and disability.

We, in our prepared statement, have listed several suggested changes in the provisions under S. 2434 which we think would improve it, and we would like to suggest a change in the name so that title V would become the comprehensive children's health services and catastrophic disability program. We would suggest liberalization of the income limitation in the bill which would assist parents to meet the staggering costs of special facilities and medical care for serious health problems of their children. We would suggest authorizing the State agency for the blind to serve those children with severe visual problems.

The fourth point would be in section 511 of the bill where the term "crippled" is still used. We would recommend changing that to "handicapped." The term "crippled" in existing title V has actually kept this program from realizing its full potential in terms of meeting the needs of children with all types of handicaps.

In conclusion, Mr. Chairman, we would strongly recommend that the committee take favorable action on H.R. 1 with the changes we have recommended.

Thank you.

The CHAIRMAN. Well, thank you very much, Mr. Schloss. You have made some very good suggestions here on ways the program could be improved.

Are there any further questions, gentleman?

Well, thank you very much.

(The previous witness' prepared statement follows:)

STATEMENT OF IRVIN P. SCHLOSS, LEGISLATIVE ANALYST, AMERICAN FOUNDATION FOR THE BLIND

SUMMARY

The American Foundation for the Blind, the American Association of Workers for the Blind, and the Blinded Veterans Association endorse enactment of H.R. 1 with amendments.

We endorse a substantial increase in OASI cash benefits, the increase in the taxable wage base to $10,200, and the automatic adjustment in the cash benefits structure and wage base related to the Consumer Price Index.

We recommend amending H.R. 1 to improve survivor benefits for disabled widows, widowers, and surviving divorced wives to eliminate the eligibility at age 50 requirement, eliminate actuarial reduction in cash benefits, and liberalize the definition of disability.

We recommend amending Section 123 of H.R. 1 to substitute the provisions of S. 1335 for disability insurance for the blind.

We recommend inclusion of the cost of prescription drugs and rehabilitation center services under medicare. We endorse extension of medicare benefits to the various categories of disabled beneficiaries and recommend coverage of a disabled wife and disabled divorced wife for these benefits as well. We also recommend coverage of disabled divorced wives for cash benefits.

We endorse enactment of the proposed Title XX of the Social Security Act and recommend continued eligibility of both a blind aid recipient and a blind spouse for the exempt earnings provisions and continued eligibility of both beyond age 65. We endorse referral of all disabled aid recipients under 65 for vocational rehabilitation services.

The American Council of the Blind and the National Federation of the Blind join the three organizations mentioned above in urging inclusion of the provisions of S. 2434 in H.R. 1 with strengthening amendments.

STATEMENT

Mr. Chairman and members of the Committee, I appreciate this opportunity to testify in support of H.R. 1, the social security and welfare reform bill now pending before you. Today I am representing three national organizations—the American Foundation for the Blind, the national voluntary research and consultant agency in the field of services to blind persons; the American Association of Workers for the Blind, the national professional membership organization in our field; and Blinded Veterans Association, the national membership organization of the Nation's war-blinded. All three of these organizations endorse enactment of H.R. 1 with amendments designed to strengthen the programs covered by the Social Security Act.

OASDI INCREASE

The three organizations I am presenting wholeheartedly endorse a substantial increase in cash benefits for all beneficiaries under Title II of the Social Security Act. Rapid increases in living costs in recent years have made it extremely difficult for OASDI beneficiaries, especially those who must rely exclusively on that income, to live at a level adequate for minimum human needs. We, therefore, believe that the increase should be substantially higher than the 5% provided for in the bill. We strongly endorse the provisons in the bill for automatic increases based on increases in the Consumer Price Index. This will avoid severe financial hardship for beneficiaries during periods of rapid rises in the cost of living similar to those experienced in recent years before the Congress has time to act. However, an automatic benefit increase mechanism should not preclude periodic Congressional review to determine the need for further additional benefit increases to make OASDI cash payments more adequate and to take into account generally improved living standards.

Similarly, we endorse the increase in the taxable wage base to $10,200 with provision for automatic increases as wage levels increase, in order to assure adequate benefits to current and future beneficiaries more closely related to their total earnings during their working years. Over the years wage levels have increased, but the taxable wage base has not been raised in the same proportion. As a result, retired persons have found that the so-called "golden years" of retirement to which they have looked forward were, in effect, years of financial deprivation with the need for drastically reduced living standards. Again, automatic wage base adjustments should not preclude Congressional review to assure actuarial soundness of financing and to make necessary adjustments.

IMPROVED SURVIVOR BENEFITS

All three organizations welcome and endorse the provision in H.R. 1 increasing the widow's (or widower's benefit at age 65 to 100% of her deceased husband's primary insurance amount with actuarial reductions if she accepts benefits before age 65. We also welcome the provision in H.R. 1 extending eligibility for disabled child's benefits to individuals whose disability occurred before age 22.

We would strongly recommend liberalization for disabled widows, widowers, and surviving divorced wives, so that these particularly hard-pressed individuals will receive more adequate cash benefits. Existing eligibility requirements on cash benefits for these individuals are unduly harsh. We recommend the following improvements: (1) elimination of the age 50 requirement as the minimum age qualification; (2) cash benefits based on 100% of the primary insurance amount of the deceased individual on whose wage record the benefit is based; and (3) making the qualifying definition of disability the same as that used for disability insurance.

DISABILITY INSURANCE FOR THE BLIND

We appreciate inclusion of Section 123 in H.R. 1 but strongly recommend substitution of the provisions of S. 1335, which would make it possible for blind persons to qualify for cash disability insurance benefits with at least six quarters of covered employment without regard to their ability to engage in substantial gainful activity. Of course, the actual amount of disability insurance cash benefits will vary with the number of quarters in covered employment and the wage credits of the individual. This bill would base the award of cash benefits on a medical determination that blindness exists and that the condition severely curtails opportunities for employment and is a serious handicap in other than economic ways.

We are firmly convinced that enactment of the provisions of S. 1335 into law will definitely serve to spur the rehabilitation of blind persons. By providing blind persons with an economic floor from which to operate while rehabilitating themselves, the Congress will give them an opportunity to explore various occupations without the risk of losing their benefits should they fail in one endeavor and find it necessary to try something else.

On the other hand, the existing law serves as a deterrent to rehabilitation; for there is no incentive to experiment when a blind person has to risk losing the security of his cash benefits when he accepts employment which may provide an income substantially smaller. As you know, the term "ability to engage in substantial gainful activity" in the present definition of disability is variously interpreted across the country by the different state agencies making disability determinations. Thus, an individual who earns anywhere from $840 to $1,680 a year after rehabilitation will no longer be entitled to receive *any* disability insurance cash benefits, depending on the state in which he resides. The liberalization of the retirement test in H.R. 1 on which this formula is based would only increase these amounts to between $1,000 and $2,000. Since the cash benefits could easily have been double the individual's earned income, the present definition of disability works a hardship on the disabled individual and his family in the name of rehabilitation.

We know from the experience of World War II and Korean Conflict blinded veterans that the floor of financial security provided by their disability compensation has been an incentive rather than a deterrent to rehabilitation. We can confidently predict that the same will be true of blind disability insurance beneficiaries under Social Security.

HEALTH CARE BENEFITS

With regard to health care benefits under Title XVIII, we believe that the program should be improved to cover the cost of prescription drugs, a burdensome cost which consumes a substantial aprt of an elderly individual's monthly cash benefit. Adequate medical care of many chronic ailments of the elderly requires the use of expensive medciation. We believe that the cost of covering prescription drugs would be offset by avoiding or delaying the need for costlier inpatient care in a hospital or extended care facility.

We welcome the provision in H.R. 1 covering disability insurance beneficiaries, disabled children, as well as disabled widows, widowers, and surviving divorced wives for health care benefits under Title XVIII. The special needs of these individuals for adequate health care may be even more acute than the needs of most elderly people already covered, while their financial resources may be more limited. However, neither a disabled wife nor a disabled divorced wife are covered for Title XVIII benefits, nor is a disabled divorced wife entitled to receive cash benefits under Title II. We believe that these situations are inequities which should be corrected by appropriate amendments to H.R. 1. The financial problems of severe disability clearly necessitate more favorable consideration by the Committee for individuals in these two categories.

Finally, we would recommend improving Title XVIII to cover special rehabilitation center services designed to train blind and otherwise disabled persons for more adequate self-care. This would be particularly important to older beneficiaries who can not expect similar services under the Federal-State vocational rehabilitation program.

PUBLIC ASSISTANCE BENEFITS

The three organizations I am representing strongly recommend favorable action by the Committee on the proposed Title XX of the Social Security Act federalizing the three adult assistance categories. We believe that these provisions are forward looking and will eliminate unduly low payments made to these aid recipients in some states. However, we would recommend inclusion of a provision to require state supplementation by those states whose payments to recipients are presently higher than the maximum proposed in Title XX in order to prevent serious hardship to aid recipients in those states.

With regard to exemption of certain earnings of Aid to the Blind recipients under the new Title XX, the provisions are retrogressive compared with existing law. We would strongly recommend that blind recipients, including an eligible couple who are blind, each be entitled to exemption of certain earnings in determining their need for assistance and that they be permitted to qualify for this exemption after reaching age 65. Both of these provisions are in the existing law under Title X, and we believe that the new provisions unduly penalize blind aid

recipients. At the same time, we would urge the Committee to increase the basic amount of exempt earnings from $85 a month to $150 a month to make it possible for those individuals who are capable of some work to achieve a better standard of life.

We endorse the provision of H.R. 1 requiring referral of disabled aid recipients under age 65 for vocational rehabilitation services with the full cost of such services to be covered by Federal funds. We believe that this provision if properly administered should result in a large group of severely handicapped individuals receiving more adequate vocational rehabilitation services than has been the case in the past.

MATERNAL AND CHILD HEALTH AND CRIPPLED CHILDREN'S SERVICES

Both the American Council of the Blind and the National Federation of the Blind, whose representatives are appearing before this Committee on other aspects of the Social Security Act, join with the American Foundation for the Blind, the American Association of Workers for the Blind, and the Blinded Veterans Association in advocating improvements in Title V.

Title V of the Social Security Act has been far too limited in reaching and serving children with various conditions which, if not corrected in time, are seriously disabling. In particular, children with serious vision and hearing problems have not been adequately served by the existing program. Limited Federal financing, loose State plan provisions which permitted States to serve only certain types of disabled children, the term "crippled children" itself—all of these have been factors which have seriously limited the effectiveness of the present Title V in providing adequate maternal and child health as well as handicapped children's services. S. 2434 effectively corrects these shortcomings by assuring comprehensive health care and essential related services to mothers, infants, and children; and we strongly urge the Committee to add its provisions to H.R. 1.

We particularly welcome the provision of S. 2434 which would provide diagnostic services to all infants regardless of family income. As the Committee is aware, there are many conditions which are partially or totally disabling in adults, but which, if treated in early childhood, can be ameliorated or avoided altogether. We are particularly aware of two eye diseases which are correctable in children and which will illustrate the value of a nationwide screening program. Strabismus (crossed eyes) is a condition which is readily correctable through the use of prescription eye glasses or surgery. If not corrected, vision in the crossed eye is suppressed until severe sight loss results. Similarly, amblyopia ex anopsia (lazy eye) is a condition which results in severe sight loss in the suppressed eye. Both of these conditions should be detected and treated as early as possible in the preschool years in order to prevent the serious sight loss which may then necessitate costly special education and vocational rehabilitation procedures.

In addition, we strongly support the provisions of S. 2434 which provide a Federal program to assist parents of handicapped children to pay the often staggering costs of special facilities and medical care for their children. We hope that these provisions will be enacted into law.

We would urge the Committee to make several changes which we believe would increase the effectiveness of the program authorized by S. 2434. First, we would recommend that the title of Title V be changed to read "Comprehensive Children's Health Services and Catastrophic Disability Program" to more adequately reflect the scope of the program. Second, we would recommend liberalization of the income limitations in Section 503 to take into account the more pressing needs of families with several dependent children in contrast to using a single annual taxable income figure for every family. Families which have several children including one with a serious costly health or disability problem are more pressed financially. Third, we would recommend that Section 505(a)(4) be amended by adding at the end of the paragraph the following wording: "except that the State agency serving blind persons may be designated as the State agency administering or supervising the administration of that part of the State plan affecting services for children with visual impairments." Fourth, we would strongly urge the Committee to change the word "crippled" in the title and text of Section 511 to "handicapped" to more accurately reflect the scope of the program and to prevent exclusion of research activities on non-orthopedic handicapping conditions.

CONCLUSION

In closing, Mr. Chairman, I should like to express the appreciation of all of the organizations I am representing for the consideration this Committee is giving our recommendations. We believe that these recommendations will strengthen our social insurance programs in urgently needed ways, improve Title V programs, and materially aid public assistance recipients. We sincerely hope that the Committee will take favorable action on these recommendations.

The CHAIRMAN. That concludes this morning session. I will urge that the staff try to make available to members the prepared statements of witnesses for tomorrow so if they have prepared questions that can be submitted in the interest of expediting the hearings, that they can submit questions and also be apprised of what the witnesses are expected to testify to.

Thanks very much to all members for being here this morning.

We will recess until 10 o'clock tomorrow morning.

(Whereupon, at 11:30 a.m., the hearing was recessed to reconvene at 10 a.m., Friday, January 21, 1972.)

SOCIAL SECURITY AMENDMENTS OF 1971

FRIDAY, JANUARY 21, 1971

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to recess, at 10 a.m., in room 2221, New Senate Office Building, Senator Russell B. Long (chairman) presiding.

Present: Senators Long, Anderson, Talmadge, Ribicoff, Byrd, Jr., of Virginia, Nelson, Bennett, Curtis, Jordan of Idaho, Fannin, and Hansen.

The CHAIRMAN. This hearing will come to order.

The first witness this morning is the Senator from Florida, Mr. Edward J. Gurney.

Senator Gurney, we are very happy to have you here today and we will be pleased to hear your views on this bill.

STATEMENT OF THE HONORABLE EDWARD J. GURNEY, A U.S. SENATOR FROM THE STATE OF FLORIDA

Senator GURNEY. Thank you, Mr. Chairman and members of the committee.

I want to take this opportunity to express my concern that immediate action ought to be taken to improve social security benefits for our older citizens and I know the committee agrees with me that the older people of this country should not continue to be denied needed reforms in their social security protection any longer. If we can't agree on changes needed in the welfare program, then we owe it to our senior citizens to pass the social security and medicare parts of H.R. 1 now.

When we talk about our older population we are discussing a large and growing proportion of our people. For instance, the 1970 census counted 20,049,592 older Americans out of a total of 203,165,699 residents, or 9.9 percent. In 1900 the census counted 3.1 million older persons out of 76 million residents, or only 4.1 percent. Today, the under-65 population is two and a half times as large as it was in 1900 but the 65-and-over group is six and a half times as large.

Moreover, the older population is essentially a low-income group even though there are considerable numbers of wealthy among them. In 1970 half of the 7.2 million families, whose heads of household were 65 and over, had money income of less than $5,953. Almost a quarter of the older families had 1970 incomes of less than $3,000. Of the 5.8 million older persons living alone or with nonrelatives, half had 1970 incomes of less than $1,500. It is clear from these facts that

we must take action to improve the economic condition of these individuals who are now retired from the work force but who have done so much to expand our economy in the past.

Only last month a White House Conference on Aging meeting here in Washington pointed out in no uncertain terms that income was one of the most important concerns of the millions of older Americans it represented.

The income section of this conference pointed out that there is no substitute for money if people are to be free to exercise choices in their style of living. Although it recognized that during the sixties the elderly, as a whole, enjoyed increased prosperity due to greater employment opportunities, better old age security and other public and private benefits, the income section also pointed out the last 2 years may have witnessed the reversal of these trends as inflation eroded the purchasing power of fixed incomes and rising unemployment reduced job opportunities for older workers.

The report submitted by this section at the closing session of the White House Conference stated that "direct action to increase the income of the elderly is urgent and imperative."

It was because I share this view that on November 17, 1971, I presented an amendment to the Revenue Act of 1971 which dealt with the social security and medicare improvements contained in the legislation before you today. It was my hope that this action would have prevented unnecessary delays in getting these much-needed and essentially noncontroversial improvements in the Social Security Act passed and the benefits delivered to our older people.

The amendment consisted of three basic parts: First, the provisions relating to old-age, survivors' and disability insurance; second, provisions relating to medicare, medicaid and maternal and child health; and third, provisions relating to certain aspects of welfare.

Mr. Chairman, as you pointed out when this proposed amendment was discussed on the floor, its provisions were basically written by this committee and they are excellent provisions. In fact, the Senate passed them in 1970; however, because the Senate did not want to become involved with numerous other proposed amendments to the Revenue Act, my proposed amendment was tabled.

Therefore, I would like to take this opportunity to highlight the important provisions contained in these amendments which are a part of H.R. 1.

One of the most important provisions in H.R. 1 is the proposed 5-percent increase in benefits in social security effective July 1, 1972. This increase is long overdue and should be acted on at once. Even though 5 percent is not a large amount it will mean a great deal to those older Americans who are struggling along at or below the poverty level.

Another important provision in the bill before us is the automatic cost-of-living adjustments in benefits. The statement I quoted earlier from the recent White House Conference on Aging underscored the importance of this provision. Older people should not have to wait for congressional action which, as has been true with this bill, is often slowed down because of more controversial proposals tacked on to social security legislation.

H.R. 1 also provides for an increase in widows' benefits from the present amount of 82.5 percent of her husband's benefit to an amount equal to 100 percent of the deceased husband's benefit. Instead of suffering a severe drop in income, widows who must still pay the same rent, electricity, heat, water and other bills they did before their husbands' deaths, will see a relative improvement in their economic position.

Another very important provision contained in the amendment I proposed was an increase in the earnings limitation on social security recipients. I realize that the House advocates the $2,000 earnings limit contained in H.R. 1 and that the Senate last year advocated raising that level to $2,400.

Personally, I would like to see the earnings limit removed altogether. If that is impossible at this time, I would like to see a $3,000 limit. It is my hope that the committee will incorporate a $3,000 earnings limit provision into this bill. This will encourage the older American to participate in productive work when it is available rather than withdrawing into isolation.

Other proposals contained in H.R. 1 assist those who are disabled. Under present law, a person must wait 6 months from the time he becomes disabled to the time that he can begin to draw benefits, and then the benefits are not retroactive. This, in effect, amounts to a 6-month wait before one can begin being compensated for benefits to which he is entitled.

H.R. 1 provides for a waiting period for disability benefits of 5 months, and, in effect, adds an additional month of benefits over and above that provided by present law. These are all good provisions and should be adopted.

In addition, due to their urgent need for health insurance protection, medicare coverage should be extended to the disabled.

Another significant provision in this bill provides that should an individual receive an increase in social security benefits, the State could not reduce its assistance to that individual to the point that he receives no benefit from the increase. Now, if a person receives a $10 increase in social security benefits, the State often decreases the amount he was receiving under State public assistance programs. Moreover, a rise in social security often cancels other State benefits to the aged; hence the social security increase is nullified. This inequity must be eliminated.

These proposals, and many others, have been considered carefully in the past by this committee and by the Members of the Senate. There is no sound reason for delaying action any longer. We should think of the older American who is in dire need of an immediate increase in his social security benefits and take the action required to get those benefits to him.

Mr. Chairman, let me dwell for a moment on the welfare provisions of this bill.

Welfare reform, as we all know, is a knotty problem to say the least. I find myself in agreement with the remarks of the distinguished chairman of this committee yesterday in the opening meeting of the Finance Committee as to the objectives of any welfare reform program.

I would hope that this committee will include in this bill provisions for enforcing the requirement that able-bodied people accept work or be removed from the welfare rolls. I also feel that provisions giving people an incentive to work should be included.

Laziness should not be subsidized at the expense of the hard-working people who bear the financial burden of any welfare program we consider.

With regard to the proposed program of family assistance, I feel it imperative that we pass legislation that promotes family unity rather than discourages it and that encourages families to work and eventually get off welfare rather than loaf at the taxpayers' expense. To do anything else would be inconsistent with the other purposes of this bill which are to aid those who have worked for a lifetime and deserve security now that they are unable to support themselves.

Mr. Chairman, I thank you for the opportunity to appear before the committee today and I certainly sympathize with you in your deliberations in marking up this very controversial bill.

Holding the Aged Hostage for Guaranteed Minimum Income for Families

The Chairman. Senator Gurney, along the line of what you are saying, in 1970 we passed that social security bill with a lot of the things you are talking about in it and the House wouldn't even go to conference with us at that time. I went down and talked to the President about this problem. He was anxious to have the family assistance plan considered and I made the point that we had all these provisions that benefited these aged people.

We had social security increase. It was a good bill as far as it went and that is all you can say for any bill—it is a good thing as far as it goes. I have never yet seen a bill that is going to solve the Nation's problem or even the Nation's problems in that field. There will be more problems next year or next month. So I urged the President to put himself in the position of urging a conference to preserve as much as we could of the things that were passed in that bill.

I might as well have been talking to a stone wall because the decision had been made over in the department to hold all these old people hostage for this guaranteed annual income for not working. I think you and I are pretty much agreed that if we are going to have a program for the working poor—and I am for it—it ought to be for poor people who are working and it ought not to be for poor people who are not working.

They ought to have a different program so that if they want to have the dignity of being in the work force they would not be on welfare. We shouldn't downgrade labor and put the honorable working people in the same category with those who should be working, could work, and refuse to work. Plus that, you and I know you have got a tremendous number of people on welfare who shouldn't be there.

A typical example is where a father is making $7,000 or $8,000 a year living right there in the house with the mother. It is not to his advantage to marry her because he can just deny he is paying anything for the support of those children and they can draw the full welfare payment; whereas if they had married they wouldn't get it. That

type of paid subsidy not to marry and paid subsidy for illegitimacy is a disgrace to this country and anybody who votes for it ought to be voted out of office, in my judgment.

Now, that is the difference between a program to help working poor and a program for a guaranteed annual wage for doing nothing.

I couldn't agree with you more that these things that are really noncontroversial or less controversial, should never be held up for 2 years as has been the case here, holding these people hostage, trying to put a lot of people on those rolls who don't belong there, and holding honorable people who have done no mischief in their life as hostage for all this is really, I think, a miscarriage of justice. I couldn't agree with you more on your general philosophy about that.

Senator GURNEY. Thank you, Mr. Chairman.

Of course, that is why that cost of living provision, I think, is so important to the bill because maybe that will move the social security hostage aspect out of bills in the future. I mean social security raises in the future and I think we ought to do that. Thank you.

The CHAIRMAN. Any questions?

Senator CURTIS. I just wanted to thank the Senator for his statement. You have had, among other things, given us some condensation of some important statistics that have a bearing on this legislatiton. We thank you.

Senator GURNEY. Thank you, Senator Curtis.

The CHAIRMAN. Thank you so much, Senator Gurney. Next we will hear from Mr. Joseph Pechman and Mrs. Alice M. Rivlin, speaking for the Brookings Institution.

We are pleased to have you, Mr. Pechman, also you, Mrs. Rivlin. Are you with the Brookings Institution now or are you still with the Washington Post, or both?

Mrs. RIVLIN. I frequently write for the Post but I work for the Brookings Institution.

STATEMENT OF JOSEPH A. PECHMAN AND ALICE M. RIVLIN, THE BROOKINGS INSTITUTION, WASHINGTON, D.C.

Mr. PECHMAN. Thank you very much for your invention, Mr. Chairman. I am trying to save my voice. I am just over a bout with laryngitis and Mrs. Rivlin has agreed to read our joint statement. I might say that, before she returned to Brookings, Mrs. Rivlin was an Assistant Secretary of HEW and is much more of an authority on this subject than I am.

Mrs. RIVLIN. Mr. Chairman, we are happy to have an opportunity to present our views on welfare reform to this committee.

We believe that such reform is a matter of great national urgency. The present welfare system is unworkable and it is imperative that this Congress take action to overhaul it.

The failures of the current welfare system are well known to this committee and we will not dwell on them. The present collection of public assistance programs do not adequately assist those in need. They do not provide sufficient incentives to work. They treat people in similar circumstances very differently depending on where they happen to live and what kind of family they happen to belong to.

We believe that this patchwork of public assistance programs is a failure and should be replaced with a uniform national system of income assistance designed to accomplish two objectives: (1) It should insure that all Americans have enough income to purchase the necessities of life and especially that no child grows up in such deprivation that he is denied a real chance to grow into a healthy, productive adult; (2) it should insure that everyone can improve his income by working. Not only must there be jobs available but those who fill them must be able to keep a substantial portion of their earnings so that they are demonstrably better off by working than by not working.

We believe that the best way to reach these objectives is to enact a type of system which economists generally refer to by the somewhat unfortunate term of "negative income tax." Under a negative income tax a family with no other income receives a basic allowance determined by family size. As family earnings increase, the payment is reduced, but not by as much as the increase in earnings. The family keeps a fraction of its earnings and is always better off by working than by not working.

The term "negative income tax" arises because such a system is closely analogous to the regular, positive, tax system. Positive taxpayers have to share a fraction of each additional dollar earned with the Government; that fraction is the marginal tax rate. In the same fashion recipients of negative tax payments find their payments reduced as their earnings rise. They, too, have to share a fraction of each dollar earned with the Government. From their point of view that fraction is a marginal tax rate.

The principal welfare reform bill before this committee, H.R. 1, is a step toward a negative income tax system, at least for families with children. We strongly favor such a step. In fact, we have supported the administration's general approach from the beginning, but we believe H.R. 1 has several serious defects which the Senate should remedy.

The basic allowance of $2,400 for a family of four is too low, but perhaps more important, and this is what we want to emphasize in this testimony, the bill does not make it worthwhile for people receiving welfare payments to hold jobs. The rate at which their earnings are "taxed" is too high. We believe that families receiving payments should be able to keep at least half of their earnings—after necessary expenses of working, including payroll and other taxes. To reduce earnings by more than that is to make a mockery of work incentives.

A negative income tax is a conceptually simple system, although in practice, of course, there are many problems to be worked out, such as the definition of income, the accounting unit, and so forth. Any negative income tax system has two important elements: (1) The basic allowance, and (2) the marginal tax rate. Together, these elements determine the break-even point—the level of earnings at which a family receives no further benefits.

For example, if the basic allowance were $2,400 for a certain size family and the marginal tax rate were 50 percent, then a family with $2,000 in earnings would have half of the earnings deducted from the basic benefit and would receive a welfare check for $1,400—$2,400 less half of $2,000. Its total income would be $3,400—earnings of $2,000 plus $1,400 from welfare. Families with higher earning would

receive lower welfare benefits. A family earning $4,800—the break-even point—would get no benefits.

It is important to understand that there is a fixed relationship among the basic allowance A, the break-even level B, and the tax rate t, and it is impossible to vary one of these without affecting at least one of the other two. The relationship is that the basic allowance is the product of the tax rate and the break-even level, or A equals tB. Thus, if the break-even level is $3,000 and the tax rate is 50 percent, the basic allowance is $1,500.

Conversely, if you wish to have a basic allowance of $2,000 and keep the break-even level at $3,000, the tax rate must be 66⅔ percent. Other examples of consistent basic allowances, tax rates, and break-even levels are shown in table 1; there are, of course, many other possibilities.

Table 1. Illustrative basic allowances, tax rates, and break-even levels:

Basic allowance (A)	Tax rate (t) (percent)	Breakeven level (B)
$1,500	50	$3,000
$2,000	66⅔	3,000
$2,000	50	4,000
$3,000	75	4,000
$1,000	33⅓	3,000
$3,000	100	3,000

The last entry in the table shows a basic allowance equal to the break-even level. This occurs whenever the income recipient must give up $1 of his allowance for every dollar of income he may receive; in other words, when the tax rate is 100 percent.

The U.S. welfare system had this feature until the Social Security Amendments of 1967 required the States to permit recipients to keep the first $30 of whatever they might earn plus one-third of the remainder. This provision became fully operative in mid-1969.

A negative income tax appeals to most economists because it can be designed to help those who are already working without destroying their incentives and also to offer an incentive to work to those who are not yet working. Of course, if the tax rate is too high, work incentives will be impaired or destroyed, but that is the fault of the tax rate and not of the negative income tax idea.

If one were setting up a negative income tax system, one would want: (1) To set the basic allowance at an adequate level so that families with no other income would not be destitute; (2) to set the marginal tax rate low so that people who can work would be encouraged to do so because they could retain a substantial fraction of their earnings. Unfortunately, raising the basic allowance and lowering the marginal tax rate both make the system more costly. Compromises have to be made in the interests of keeping costs within bounds.

Raising the basic allowance from, say, $2,400 to $3,000, for a family of four, is costly for two reasons: First, each family aided gets more money; second, more families are aided because—unless the marginal tax rate is raised—increasing the basic allowance raises the break-even level.

If the marginal tax rate were 50 percent, for example, raising the basic allowance from $2,400 to $3,000 would raise the break-even level from $4,800 to $6,000. Since there are a great many families clustered

in this income range, even small payments to them would raise the cost of the system substantially.

Similarly, lowering the marginal tax rate is costly for two reasons: First, each aided family that has earnings receives more money; second, more families are aided because lowering the tax rate raises the break-even level, unless the basic allowance is cut. If the basic allowance is $2,400, a 50-percent tax rate implies a break-even level of $7,200. Such an increase in the break-even level is bound to make the plan considerably more expensive because so many earners are found in these middle-income ranges.

Indeed, the cost of a negative income tax plan is highly sensitive to the tax rate. A plan with a 30-percent tax rate and a $1,600 basic allowance, for example, is somewhat more costly than a plan with a 70-percent tax rate and a $2,800 basic allowance.

Because of these cost considerations, it is tempting, in constructing a negative income tax, to keep the marginal tax rate high. But to do so undercuts one of the major objectives of a negative income tax: making it worth while for low-income people to seek employment. The history of H.R. 1 illustrates this point. The marginal tax rate has been pushed higher and higher to save money and the result is a program which offers almost no incentive to work.

The family assistance plan, first proposed by President Nixon in 1969 and now embodied, with modifications, in H.R. 1, is essentially a negative income tax for families with children. It is not the comprehensive negative income tax that we would like to see replace the whole welfare system, because (1) It excludes couples without children and single individuals, (2) it retains categorical assistance for the adult welfare categories, (3) the basic benefit is so low that most States will have to supplement the Federal benefits if their present welfare beneficiaries are not to be made substantially worse off.

Nevertheless, with all its complexities, it does have the structure of a negative income tax for families with children, and we regard that as a major step in the right direction.

As originally proposed by the administration, the family assistance plan had a basic allowance of $1,600 for a family of four and a marginal tax rate of 50 percent. The first $720 of earnings was to be disregarded, so the break-even level was $3,920.

In H.R. 1, the basic allowance has been raised to $2,400—all cash, no food stamps—and the tax rate has been raised to 66⅔ percent. The first $720 of earnings is still disregarded but with the higher tax rate the breakeven level rises only to $4,320.

In our opinion, the basic allowance in H.R. 1 is too low. No family of four can live on $2,400 a year anywhere, even in a rural area, without severe hardship. We believe the basic allowance should be raised to the $3,000 level proposed by Senator Ribicoff. We also believe that until Federal benefits are adequate, the States must be required to maintain at least their present benefit levels and must receive Federal assistance to help them finance the supplementary payments.

But an even more pressing defect in H.R. 1 is its high marginal tax rate. H.R. 1 gives significantly less incentive to welfare recipients to work than did President Nixon's original proposal and even less than the present law.

If this committee were to limit itself to one change in H.R. 1, hardly a likely prospect, we believe the most important improvement that could be made would be to lower the marginal tax rate at least to 50 percent.

The marginal tax rate in H.R. 1 appears to be 66⅔ percent, the same as the present law, but it is actually considerably higher for a variety of reasons.

A good study by the Urban Institute which we commend to this committee compares H.R. 1 with current law and I quote from that study:

Under current law the first $360 a year and one-third of earnings above that amount are disregarded in computing welfare benefits. Furthermore, a full credit is given for all work-related expenses, including income and payroll taxes, so that essentially such costs and taxes are paid by the welfare office for welfare recipients. Thus the recipient, in this case a female head of family with three children and, hypothetical actual work-related expense of $360, would suffer no loss in benefits at all until an earnings level of $900 is achieved. Beyond that benefits are reduced by 67 cents for every $1 earned until the transfer is reduced to zero at $5,700 of total income. Thus current law actually provides rather liberal work incentives.

. . . in H.R. 1 the tax rate on earnings is raised from the originally proposed 50 percent to 67 percent, ostensibly the same as under current law. In fact, however, most working recipients will face far higher taxes. This is because H. R. 1, unlike current law, does not provide a credit or even a deduction for other taxes or for work-related expenses.

One problem is that since almost all wage and salary earners must pay social security taxes—now 5.2 percent of earnings up to $9,000—the combined marginal tax rate beyond the first $720 of earnings is 72.2 percent.

A further problem is that at $4,300 of earnings, even under the liberalized exemptions allowed under the recent income tax changes, a family head begins to pay income taxes of 14 percent on incremental income, so that the combined marginal tax rate rises to 86.2 percent. In other words, workers in this range would net less than 14 cents on each incremental dollar earned. In terms of work incentives, FAP represents a significant step backward from current law.

Moreover, tax rates under H.R. 1 could be even higher—conceivably over 100 percent—if States elected to impose higher rates on families with earnings above the Federal program's breakeven point.

Moreover, as this committee brought out in its hearings last year, welfare recipients often lose other benefits, such as medical care and public housing, as their earnings rise, so that the effective marginal tax rates facing particular families may well be over 100 percent, meaning that the family would definitely be worse off if members increased their work effort.

We believe that these high marginal tax rates must be lowered if welfare reform is to fulfill its promise of providing work incentives. It is outrageous to give lipservice to work incentives, indeed to require welfare recipients to register for work and training, while at the same time making it virtually impossible for them to improve their families' well-being by taking a job.

We do not favor the recently passed work requirement which makes job holding a matter of coercion and compulsion. In the current situation in which jobs are scarce, particularly for poor people, the work requirement will not increase employment among the poor. It will merely provide unsympathetic public officials with an additional weapon for harassing the needy.

We do favor giving people opportunities and incentives to work. We believe that people who have to give up more than half their earnings are probably likely to be discouraged from making extra work effort. We would therefore favor lowering the marginal tax rate in H.R. 1 to 50 percent and counting payroll and other earnings-related taxes as expenses of working.

The CHAIRMAN. Senator Ribicoff?

Senator RIBICOFF. I do appreciate your statement as provocative. Could you tell us what the additional cost would be of your proposal over the proposal in H.R. 1, or my proposal?

Mr. PECHMAN. I am not familiar with the cost of your proposal because——

Senator RIBICOFF. I think H.R. 1 is in the nature of $15 billion; mine would be in the nature of $22 billion.

Mrs. RIVLIN. That is about right and ours would be a little more costly because the difference is that you have a 60 percent margin tax rate and we are proposing a 50 percent marginal tax rate.

Senator RIBICOFF. Would that be the only difference, that the rate of costs are different?

Mr. PECHMAN. If the State supplementation would be the same.

Senator RIBICOFF. Of course, my proposal does require the States to maintain——

Mr. PECHMAN. Yes, but since we lowered the tax rate to 50 percent, I think that our plan would cost somewhat more than yours.

Mrs. RIVLIN. Yes; it would cost more; it is not uncostly to lower the marginal tax rate.

Senator RIBICOFF. When you say the economists like the phrase "negative income tax"—can't you come up with a phrase that is more palatable? Why keep on using it?

Mr. PECHMAN. The answer is that conservative and liberal economists have tussled with the problem of getting a better term for it, but nobody has come up with a good idea.

I suppose that the economist stresses the relationship between the transfer payment part of the system and the positive income tax. We regard transfer payments as negative, the mirror image, so to speak, of the positive income tax and that is the reason.

REBATE OF SOCIAL SECURITY TAXES FOR LOW-INCOME WORKERS

Senator RIBICOFF. Senator Long has proposed—and I find personally great areas of agreement with his thought—that anyone earning less than $4,000 would receive back a sum of money which would be the equivalent of the total social security payment or, in other words, the person receiving some $4,000 in pay would be receiving back some $400 from the general revenue now. Do I state your position correctly, Senator Long?

The CHAIRMAN. Now yes, for a four-person family.

Senator RIBICOFF. What is your reaction?

Mr. PECHMAN. That is a proposal that appears in a book that I and two colleagues of mine published 3 years ago called, "Social Security: Perspectives for Reform." My colleagues were Henry Aaron and Michael Taussig, and that proposal appears in that book. I think you came to it independently; I think it is a good idea.

The CHAIRMAN. I am pleased to know I was not the only one who thought of the idea.

Senator RIBICOFF. What would be the impact on this program, on poverty and on work incentives with the adoption of Senator Long's proposal, and I may say now for the record that I intend, if the Senator will accept me, to be a cosponsor with him on that proposal because—and may I say, too, that Senator Long receives a lot of abuse, and a lot of liberal critics find he is a man that is easy to take a shot at. Yet, from my experience on this committee, I find Senator Long is a man who has a lot of imagination and a lot of excellent ideas; and some people ought to look at the positive proposals that he makes and not some of the negative ones.

Mr. PECHMAN. I agree, Senator, although the chairman and I have disagreed occasionally, I have never abused him.

Senator RIBICOFF. What are the implications of Senator Long's proposal?

Mr. PECHMAN. Well, the basic reason for Senator Long's proposal was that we thought it was outrageous that a 10-percent tax should be applied to the earnings of poor people. That was the major point.

Now, the point is associated with H.R. 1, because if you start out with high tax rates on payrolls and on income and then add to them a marginal tax rate in the family assistance plan of two-thirds, as we indicated in the statement you get close to confiscatory rates; as a matter of fact, the marginal tax rates for the poor under H.R. 1, are higher than the highest marginal tax rate for the wealthiest people in this country and I think that is outrageous.

Senator CURTIS. Just a minute. Could I interrupt there?

Senator RIBICOFF. That is right.

Senator CURTIS. That isn't a tax rate on anything he may have earned.

Mr. PECHMAN. It certainly is. Present law requires welfare administrations of every State to deduct 66⅔ percent from any earnings above $720 that they have received. I said marginal tax rate. Therefore, an additional dollar of income——

Senator CURTIS. Isn't that a reduction in their welfare allowance?

Mr. PECHMAN. Yes; but the reduction in their welfare allowance is a reduction in take home pay just as a reduction——

Senator CURTIS. No; no. A tax is something imposed upon the income of the individual.

Mr. PECHMAN. When you take away money as a result of the fact that a person earns income, you are taxing that individual's earnings.

Senator CURTIS. No; no. You are lessening the additional amount that you are giving him that he doesn't earn.

Mr. PECHMAN. Well, but the disposable income of the individual after this transaction occurs is the same as if you were taxing him at a marginal rate of 66⅔ percent.

Senator CURTIS. Well, I won't take Senator Ribicoff's time.

Senator RIBICOFF. But if Senator Long would indulge me, I think what is important is that I am looking toward some solutions and I am trying to figure what Senator Long has proposed, which is very intriguing to me. Basically what we are talking about is that people are poor because they don't have more money; it is as simple as that. When all is said and done they don't have money.

Mr. PECHMAN. That is right.

Senator RIBICOFF. If you are trying to eliminate poverty the question is how do you cut a dollar in the pockets of the poor so they can buy food and shelter and clothing and eat; isn't that what we are talking about?

Mr. PECHMAN. That is correct.

Senator RIBICOFF. All right, now; Senator Long comes up with an idea which is simple, uncomplicated. He is saying somebody works; he is working hard; we are going to make sure that $4,000 man has another $400. We are going to make it very simple without a lot of complicated arithmetic. He is just going to get back the accumulated social security paid because of his earnings; so now you give that person an incentive to work—a very simple, uncomplicated one; isn't that right?

Mr. PECHMAN. Additional incentive to work; yes.

Senator RIBICOFF. Are there any other thoughts like that floating around the intellectual community that would make it easy to put money into the pockets of people who want to work but can't find a job or have got a marginal job or their earnings are less? What other thoughts do you have like that?

Mr. PECHMAN. Well, the next easiest thought of this type is to look into the State and local tax system, which taxes the poor very heavily because of the heavy sales taxes. This is a much more complicated problem than the payroll tax because the Federal Government does not levy sales taxes and therefore the remission of taxes on the poor to State and local governments would have to come from the State governments themselves. That is another possibility that the committee could look into—that is, the problem of refunding to the poor taxes that they pay not only to the Federal Government but to the State and local governments.

Senator RIBICOFF. All right.

PLETHORA OF FEDERAL PROGRAMS FOR THE POOR

Now, let's take another point. I have been pressing through these hearings that HEW, and I don't know, Mr. Vail, when I asked HEW for these figures, but I pointed out that we have some 168 Federal programs which are designed to alleviate or take people off of poverty, and the total Federal, total expenditure of those programs is over $31 billion and if you eliminated all of these programs and divided the money up among the poor without any intermediates and middlemen, every family in poverty would have $4,800. In other words, from my long experience in every phase of government, I find that one of the great tragedies that we have is trying to solve our social problems on a programmatic basis and year in and year out keep voting hundreds of millions of dollars on programs that just don't work—their objectives just don't—just are not successful and yet they stay on the books. They build up a constituency.

Now I recognize it is going to be hard to eliminate at one full stroke 168 programs. I asked HEW to give me a list in order of diminishing priority of how they view these 168 programs. In other words, I am concerned. I realize that you can't—a nation can't continue living with billion dollar deficits and I realize it is going to be hard to pass a program that either costs $15 billion or $22 billion, but if we can eliminate unsuccessful programs which are designed to alleviate poverty, then we can start talking about negative income taxes and eliminating poverty and getting money into the pockets of people if we are going to eliminate poverty.

Now, Senator Long has come up with some thought and some idea. We might be able to go to your idea, but does it make any sense to continue pouring out $31 billion on 168 programs to alleviate poverty if many of these billions aren't alleviating poverty at all?

I would like your comment as social economists.

Mrs. Rivlin. Let me have a try at that. I would agree that the highest priority at the moment for alleviating poverty is getting money to the poor, and this is basically why we favor the H.R. 1 approach as amended by you—a more generous income subsidy program with incentives to work.

I also agree that many of the service programs which we have deluded ourselves were going to eliminate the problem of poverty without giving the poor money are not working at all. However, if I look at the Federal budget as a whole, at what I would try to eliminate in order to find some money for a better maintenance program, I don't think I would start by eliminating the programs that serve the poor, except for those that are demonstrably not working at all.

There are a lot of programs that serve the rich that I think——

Senator Ribicoff. All right. On that line, Mr. Chairman, the request was made through you, Mr. Chairman, on July 27, 1971, for a series of requests for information and documentation concerning many of these programs we are talking about. To my knowledge, to date that has never been supplied. If it has been supplied to you, Mr. Chairman, I am not aware of it. I wonder if the staff has received from any of the Federal agencies the information that was requested on July 27, 1971?

No?

I think, Mr. Chairman, I am concerned with this program. The administration is concerned with this program. I think this committee, whether you are conservative, you are liberal, whether you are for H.R. 1 or the Ribicoff proposal or any other proposal, I really think we are entitled to that information if we are going to scrutinize these programs. Everything we are going to vote in this bill is going to cost a lot of money and if I can find some of that money in programs that don't work, I think the Congress and the American people are entitled to know it.

I just want to call that to your attention, Mr. Chairman.

Senator Curtis. Mr. Chairman, could the committee have from Mr. Ribicoff a list of the 168 programs we are talking about?

Mr. Ribicoff. I submitted that; it is part of the record. You may recall I handed Secretary Richardson that whole list.

Senator Curtis. 168 programs in the record are there now?

Senator RIBICOFF. Yes, sir. They are printed in the record.*

The CHAIRMAN. Well, the information ought to be made available if for no better reason than that we have so many programs all over the countryside costing money. Poor people don't know where to go to get it and, frankly, I would suggest that if we couldn't do anything else, the least we could do is have one single office that some poor devil could go to and if he is entitled to something, fill out a blank and say, "Look, I need help and if anybody has some, let me have it." Then everyone who ought to be doing something for him, could respond to one request rather than having him pad all over the countryside trying to find somebody who might have a helpful program.

That should be a start at least to fill out one form instead of 500 or 168.

Senator RIBICOFF. I think we would be doing our country and ourselves a favor if we had some of this information. This is no reflection on this administration; it is an accumulation of programs, most of them passed in other administrations but I have found from long experience that once a program gets on the books it never gets off; whether it works or doesn't work it is never eliminated.

I think all of us would agree that a good objective is to eliminate poverty and the negative income tax or guaranteed annual income, whatever you want to call it, this country eventually is going to have it one way or another.

Now, if they are going to have it, let's try to find out how it can come into being, where it makes sense and cost as little as possible and if we can save it through all programs that are useless—but the reason I started on this is because we have an objective to eliminate poverty and yet we have all of these programs supposedly in poverty and there are more people in poverty today than there were 2 or 3 years ago.

Mr. PECHMAN. Senator, I agree with everything you said.

Senator RIBICOFF. Pardon me. May I call Senator Curtis' attention, that on our hearings of July 27 to August 3, on page 193, is an entire list of the 168 programs that I asked for to be listed on the basis of priority.

Mr. PECHMAN. I agree that many of these programs ought to be folded into a cash benefit program. I think it is quite patronizing of the well-to-do to create assistance programs that require the poor to spend their resources in certain ways. I think a cash benefit system would be simpler and would also be more dignified.

I do think that it is probably extremely difficult to accomplish all of this in one fell swoop. If H.R. 1 with your minimum allowance of—basic allowance of $3,000—were enacted at a 50-percent tax rate, I think that would provide the basis for reorganization and rationalization of all of these programs in the future.

Senator RIBICOFF. To say which comes first is going to be very difficult and I am pretty realistic to put across a program that costs $22 billion but if we can put through a program that will have a $22-billion tag but indicate where we can eliminate billions of dollars in other programs that are not bringing the same results, it will be much more palatable to the Senate of the United States. I am being very pragmatic on every phase of this. If a program isn't working we ought to get rid of it.

---

*See p. 193ff., Committee on Finance Hearings on H.R. 1, the Social Security Amendments of 1971.

Mr. PECHMAN. I think it is just a matter of time and also knowledge of the technical details of each of these programs. It is a very complicated proposition and it probably would be difficult to wipe the slate clean.

Senator RIBICOFF. I understand that OEO has spent some $600 million on appraisals and studies on how different programs work, but none of these studies have ever surfaced. To my knowledge the studies, these independent contractors make these efficiency studies; they are handed down; they are put under lock and key. Congress doesn't see them. I don't know whether the President ever gets a look at them, but we should start finding this out and this is what is bothering me.

I say to both of you, the problem that we are facing here today——

Mrs. RIVLIN. Well, some of these studies do surface, not enough, I agree, Senator Ribicoff. However, I would be skeptical of trying to eliminate all service programs. That, I believe, is going too far. There are still going to be needs which must be met by service programs; for example, day care. If we are going to have a program which actually gets people to work, we are going to need more day care. That would be one, I think, not to eliminate.

Senator RIBICOFF. But you are not going to eliminate them all but I have got a feeling from my experience that out of those 168 you are going to be able to eliminate quite a few that are not delivering anything to anybody except a bureaucracy who are making a living off the poor but the poor don't see a thin dime.

Mrs. RIVLIN. Yes, I would agree with that. If we had an adequate cash program many of those would be unnecessary.

Senator RIBICOFF. Would be unnecessary. I would hope, Mr. Chairman, that you would instruct the staff of this committee to press the administration, the executive branch, for our request of July 1971.

The CHAIRMAN. I will instruct the staff to try to get that for us.

Clerk's Note: Though the material was never furnished to the committee by the Department, the committee subsequently held hearings on Feb. 15, 1972, on the many poverty programs at which administration witnesses testified. These hearings will be published.

Senator HANSEN. Mr. Chairman, if I could make just one observation, I want to say this:

A year ago, as I recall, when representatives of State welfare workers' organizations from New York City or New York State appeared here, and I make this observation apropos of the last comment in doing away with bureaucracy, those persons testified for an hour or more. They pointed out that they felt that if we were to make welfare a Federal concern and obligation and were to relieve the States of their role, it was most important that the present State welfare employees be placed on Federal employment with paidup benefits such as they would have had had they been employed all the time by the Federal Government.

They spoke also about assurance that had been given them that they would have not more than a 35-hour workweek in the summertime and possibly dropping that down to a 30-hour workweek and that they should have the other longevity benefits that would go with Federal employment over a comparable period of time. Then they closed by saying that if they did not get all of these benefits they might indeed become part of the unemployed and part of that great number of people on welfare.

So I would appeal to my good friend from Connecticut that we do not be too cavalier in saying let's do away with bureaucrats because we might increase the welfare rolls. [Laughter.]

The CHAIRMAN. Senator Fannin?

WORK INCENTIVES

Senator FANNIN. Well, I appreciate very much what you have said. We now have programs that do not provide sufficient incentives to work and they treat people in similar circumstances very differently depending on where they happen to live and what kind of family they happen to belong to.

This is one of the very serious problems we have in trying to work out an equitable welfare program. I think one of the incentives for work is on the last page of your testimony. But I don't agree with your conclusion. I think the chairman has made it very plain that he favors a work-fare program and that we must have provisions that people accept employment; and you call it coercion and compulsion.

I don't see that requiring the people to work is coercion and compulsion.

Mr. PECHMAN. Senator, the new thing about H.R. 1 is that the welfare system—I hate to use the word because it has such bad connotations, but I want to be clear—the new thing about H.R. 1 is that assistance to needy is extended to people who already work; the people who don't work, people who are in families with no working family member for good or bad reasons, are already on AFDC and all of the abuses that the chairman and others have called attention to the current system, not the extension of H.R. 1 to the working poor.

You have been given these figures many times. I don't have them clearly in mind but there are millions of families, regular families with fathers at home who work part or full time. This bill would provide them continued incentives to work and would give them an opportunity to improve the well-being of his family. I hope that you can distinguish between the problem of the present system and the problem of the extension under H.R. 1 to the working poor.

We are trying to protect the incentives of the working poor. The chairman has called attention to the fact that there is now an incentive for a father to leave his family so that his wife and children can get on AFDC. Under H.R. 1, a working father would be getting some additional assistance—he would continue to retain a substantial proportion of his earnings. So that H.R. 1 is designed to maintain the incentives of the working poor rather than to destroy them which is what you are doing under the present system.

Senator FANNIN. What the chairman is trying to do is to see that a father gives assistance to his family and I think that is important. Just a question of what has been said in this testimony about the work incentives that we have in our present system: I think the statement was made that there are greater work incentives in the present system than in H.R. 1. I am not satisfied with H.R. 1 but I also know AFDC has a work requirement and has had that since 1967; but what has been the result?

Mr. PECHMAN. Well——

Senator FANNIN. My great concern is when I pick up a newspaper and I see all these help wanted ads, and then I realize how many people are not working. My question is; we must have some basis of compelling these people to either accept a job or go off welfare, and I don't think you agree with that.

Mr. PECHMAN. I agree with your objective. I just don't think that writing a work requirement into a law which you can't enforce unless——

Senator FANNIN. What do you mean you can't enforce it? If you take them off welfare aren't you enforcing it?

Mrs. RIVLIN. Let's remember who these people are. They are almost all by definition mothers with children; they are also people with low education level and not much work experience. I think the tragedy of the last several years is that the Federal Government has not made a vigorous enough effort to provide training and jobs and day care that would really enable these women to get into the labor force in a serious way.

Senator FANNIN. And you are stating that these are all women? I never heard that statement before.

Mrs. RIVLIN. That is the way the AFDC program is set up.

Senator FANNIN. AFDC? You are talking about the AFDC; I am talking about the overall program that we are talking about.

Mrs. RIVLIN. You are talking about the aged and blind and disabled?

Senator FANNIN. No, I am talking about the able-bodied people that should take a job.

Mrs. RIVLIN. Senator, there aren't hardly any able-bodied men in welfare because the present law does not allow them to be covered.

Senator FANNIN. If the present law were enforced, I would agree but we will not even let the States enforce the present law. We—the State of Arizona—their funds were threatened to be withheld unless they permitted people to be paid, for instance, that had been away from the State for 90 days. They could not even cut them off if they left the State. A welfare recipient, if he left the State or she left the State for over a period of 90 days, without returning should be cut off.

Mrs. RIVLIN. I would agree; one of the objectives of H.R. 1 is to federalize the administration of welfare and that would take care of that problem.

Senator FANNIN. Yes, but the federalizing of it would make it even more extreme in that regard. If the Federal Government will not let the State officials participate to a greater extent, not a lesser extent in handling these programs that should be handled at the local level, then I think we are building up a monstrosity.

Mrs. RIVLIN. I don't agree. I think the monstrosity we have today is that we have 50 welfare systems. I think that the location of a poor person should not control——

Senator RIBICOFF. I think there are 1,150 separate administrative units handling welfare—1,150.

Mrs. RIVLIN. I stand corrected.

Senator RIBICOFF. Of the so-called 12 million people on welfare, only 126,000 are able-bodied males. I think it is important time and time again to know what figures we are talking about.

Mrs. RIVLIN. I agree with Senator Ribicoff. I hope that in our discusion here, Senator, we can distinguish between what is wrong with the present law and extension of assistance to people who are already working, which is one of the major objectives of H.R. 1.

Senator FANNIN. I think our goal——

Mrs. RIVLIN. H.R. 1 does not make the present problem that you are talking about—the few able-bodied males who happen to be on welfare—any worse. It would improve it if you modified H.R. 1 the way we suggested. You are not helping the millions of families who are now poor and where the father is working by keeping him off assistance.

Senator FANNIN. Well, of course, naturally we do not want poverty in this country. We want people to have jobs, and we want to help them in every way possible.

As I go through this list, I see many programs that certainly have been supported by all of us and certainly could not be eliminated, and I don't think perhaps could even be diminished and in some cases should be expanded. But what I am concerned about is what we are going to do about having a program that we can afford to have. We have amendments that will bring it up to $40 or $50 billion that will be offered on the floor when we get to that point, and then I am concerned as to what we can do or cannot do. And the most important problem that we have is a $35 to $40 billion deficit facing us and have a 6-percent or more unemployment.

Mr. PECHMAN. That is another question. I am worried about finances, too. I think that, if we expand some Government programs and do contract others, we will have to increase taxes. I, for one, would be willing to have my taxes raised in order to improve the public assistance system in the United States.

Senator FANNIN. And my argument, all of the evidence that has been submitted here, is that if we take the administration of these programs away from the States we are going to have a far more serious problem so far as financing is concerned and it is illustrated by just what has happened with the challenging of the activities in the States that would assist in these programs and cut down the cost and give incentives for people to go to work.

Thank you, sir.

The CHAIRMAN. Senator Jordan?

Senator JORDAN. Thank you, Mr. Chairman.

Dr. Pechman and Mrs. Rivlin, I think you have made a good contribution to the record here. I followed your statement with a good deal of interest.

On page 2 you said, "The bill does not make it worthwhile for people receiving welfare payments to hold jobs."

That is H.R. 1. And then later you say, "In terms of work incentives, the family assistance plan represents a significant step backward from current law."

In other words, as you pointed out, under present law we have a $30 disregard per month and a third of the earnings can be retained, so,

actually, this is a step back—H.R. 1 is a step backward from existing law; and what is wrong with the present law would also be wrong with H.R. 1 if it were passed; isn't that correct?

Mr. PECHMAN. If it were passed as is, that is correct. But I don't think we want to exaggerate the difficulties of improving H.R. 1.

Senator JORDAN. I am only talking about the work incentive part of it.

Mr. PECHMAN. Well, in our view, all you have to do are two things to provide the work incentive that we all want.

Senator JORDAN. Yes.

Mr. PECHMAN. One is simple but expensive and that is to reduce the tax rate. I regret to use the term "tax rate," Senator Curtis, but that is the way an economist thinks of it. Reducing the tax rate from two-thirds to 50 percent is easy to understand and I think that we all understand what that would do: Increase the incentives to work by that much.

The other is to permit either the Federal Government or probably the State governments to do what they are now allowed to do under present law, namely, to reimburse the recipient of assistance for all other related taxes on his or her earnings.

Well, the Federal Government could relieve them of the payroll taxes; that would be one way to increase incentives. But then there are other implicit taxes as a result of the fact there are other noncash benefit programs—for example, rent supplements. If you don't want to reduce the rent supplement provision, which I think ought not to be done at least in the short run, then you would have to authorize the State or Federal Government to adjust for the implicit tax on the earnings of the poor person, so that his tax rate does not exceed 50 percent. That is done under present law but is not included in H.R. 1. I think you ought to include the present law provision in the family assistance plan.

Senator JORDAN. Dr. Pechman, in a study of which you were co-author, "Is a Negative Income Tax Practical," in 1967, you developed some very interesting tables using various bases and tax rates and you end up with this statement: "The course of action which we think best balances these considerations, is Federal enactment of plan L, with a tax rate of 40 percent. The basic allowances of this plan", you go on to say, "would then, we hope, be supplemented by individual high cost of living States."

I would like to make this document a part of the record by reference, Mr. Chairman, and ask Dr. Pechman if he has ever developed that 40 percent rate that he suggests would be good?

Mr. PECHMAN. Yes, I have. I can insert in the record a table showing the L plan that you referred to. For those who have not read the article, the L plan is the lower basic allowance plan with a 33½ percent tax rate. There is also an H plan for a higher basic allowance with a 50 percent tax rate.

I can put that in the record, Senator.

Senator JORDAN. I wish you would, Dr. Pechman.

(The witness subsequently supplied the following tables:)

TABLE 1.—BASIC ALLOWANCES, BREAK-EVEN POINTS, AND LEVEL AT WHICH PRESENT INCOME TAX SCHEDULE APPLIES UNDER A PROPOSED NEGATIVE INCOME TAX WITH A HIGH BASIC ALLOWANCE

Family size (number of persons)[1]	Basic allowance (received by units with no income)	Break-even point (point at which no allowance is received and no taxes paid)	Level at which present tax rates begin to apply[2]	Present marginal tax rate at income in (4) (in percent)
(1)	(2)	(3)	(4)	(5)
50-percent tax rate:				
1	$800	$1,600	[3] $2,050	14
2	1,600	3,200	3,356	14
3	2,100	4,200	4,453	14
4	2,600	5,200	5,557	15
5	3,000	6,000	6,377	15
6	3,400	6,800	7,200	15
7	3,600	7,200	7,453	14
8	3,800	7,600	7,717	14
40-percent tax rate:				
1	800	2,000	[3] 2,050	14
2	1,600	4,000	4,680	15
3	2,100	5,250	6,258	16
4	2,600	6,500	7,865	17
5	3,000	7,500	9,012	17
6	3,400	8,500	10,084	19
7	3,600	9,000	10,362	17
8	3,800	9,500	10,644	17

[1] Assumes all families with 2 or more members include 2 adults.
[2] Assumes 1-person family is single with no dependents and that families of 2 or more persons file joint returns. Rates used are those applicable to 1972 incomes under the Revenue Act of 1971.
[3] Amounts indicated are the minimum taxable levels under the positive income tax. For families of this size, the break-even point of the negative income tax is below the minimum taxable level under the positive income tax.

TABLE 2.—BASIC ALLOWANCES, BREAK-EVEN POINTS, AND LEVEL AT WHICH PRESENT INCOME TAX SCHEDULE APPLIES UNDER A PROPOSED NEGATIVE INCOME TAX WITH A LOW BASIC ALLOWANCE

Family size (number of persons)[1]	Basic allowance (received by units with no income)	Break-even point (point at which no allowance is received and no taxes paid)	Level at which present tax rates begin to apply[2]	Present marginal tax rate at income in (4) (in percent)
(1)	(2)	(3)	(4)	(5)
40 percent tax rate:				
1	$400	$1,000	[3] $2,050	14
2	800	2,000	[3] 2,800	14
3	1,200	3,000	[3] 3,550	14
4	1,600	4,000	[3] 4,300	14
5	2,000	5,000	[3] 5,050	14
6	2,400	6,000	6,108	14
7	2,550	6,375	[3] 6,550	14
8	2,700	6,750	[3] 7,300	14
33⅓ percent tax rate:				
1	$400	$1,200	[3] $2,050	14
2	800	2,400	[3] 2,800	14
3	1,200	3,600	3,642	14
4	1,600	4,800	5,171	14
5	2,000	6,000	6,732	15
6	2,400	7,200	8,335	16
7	2,550	7,650	8,514	15
8	2,700	8,100	8,708	15

[1] Assumes all families with 2 or more members include 2 adults.
[2] Assumes 1-person family is single with no dependents and that families of 2 or more persons file joint returns. Rates used are those applicable to 1972 incomes under the Revenue Act of 1971.
[3] Amounts indicated are the minimum taxable levels under the positive income tax. For families of this size, the break-even point of the negative income tax is below the minimum taxable level under the positive income tax.

Mr. PECHMAN. I want to mention one thing about the L plan, low basic allowance plan. Don't forget that article was written 5 years ago.

Senator JORDAN. That's right.

Mr. PECHMAN. Prices have risen since then. The cost of living adjustment alone would increase that basic allowance by 20 percent. So I would not now support the basic allowances in the low schedule of that article. As a matter of fact, I think that the passage of time has made the high schedule of basic allowances more appropriate.

Senator JORDAN. So your position now is in favor of virtually Senator Ribicoff's plan with a 50 percent rate?

Mr. PECHMAN. That is correct.

Senator JORDAN. Thank you.

Senator CURTIS. Mr. Chairman, our agenda for this morning lists Joseph A. Pechman, director of economic studies, Brookings Institution, and then I notice a footnote in your statement that both of you are appearing in your own right and this is not the statement of the officers and employees of Brookings Institution.

Mr. PECHMAN. Yes, sir; I would like to emphasize that.

Senator CURTIS. Not to downgrade the high qualifications of both of you, I am just bringing this out as a matter of clarification. Would each of you put into the record a brief synopsis of your own experience in this field? I won't take time for it now and I am asking it just for clarification in the record.

Mr. PECHMAN. We would be glad to.

Mrs. RIVLIN. Certainly.

(The following was subsequently supplied for the record):

Joseph A. Pechman is Director of Economic Studies at the Brookings Institution. He has served as a staff economist with the Office of Price Administration, the Council of Economic Advisers, and the Committee for Economic Development. He was also an assistant director of the Tax Advisory Staff of the Treasury Department and from the period 1960–70 was executive director of the Studies of Government Finance. He has also held faculty positions at the Massachusetts Institute of Technology, Yale University, and the University of California (Berkeley). Dr. Pechman is the author of Federal Tax Policy (rev. ed.), 1971 and *Social Security: Perspectives for Reform* (with Henry J. Aaron and Michael K. Taussig), in addition to numerous articles in professional journals.

Alice M. Rivlin is an economist and a Senior Fellow at the Brookings Institution. From 1966 to 1969 Dr. Rivlin served in the Department of Health, Education, and Welfare as the Deputy Assistant Secretary and then as Assistant Secretary for Planning and Evaluation. Since returning to the Brookings Institution, she has written two books which deal in part with the welfare problem. Systematic Thinking for Social Action (Brookings: 1970) and *Setting National Priorities:* The 1972 Budget (with Charles L. Schultze, Edward Fried, and Nancy H. Teeters; Brookings 1971).

CASH BENEFITS TO HEADS OF FAMILIES

Senator CURTIS. I would like to ask you this question:

Why should an able-bodied head of a family, if work is available, be given a cash incentive by the Government to work?

First, I will ask you, do you think he should be given one?

Mr. PECHMAN. Do I think what?

Senator CURTIS. Do you favor giving an able-bodied head of a family, if there is work available, a cash incentive for going to work and supporting his family?

Mr. PECHMAN. The incentive we are talking about, Senator, is not the provision of a cash payment; it is the reduction of the tax rate on his earnings.

Senator CURTIS. I know what you are talking about.

Mr. PECHMAN. The cash benefit is to help him and his family keep body and soul together. There are people in this country who can't earn enough to support their families.

Senator CURTIS. I understand what you have said, but we have used this expression around this table so much that there should be an incentive for work.

Now, I want to know whether or not you believe that an able-

bodied individual, if there is work available, should be give a cash consideration for going to work?

Mr. PECHMAN. I believe that an able-bodied citizen who cannot earn enough through his work to provide a decent standard of living for his family should be given assistance by the Federal Government. I think that is the way I would put it. The question of work incentives does not depend on whether you would give him assistance, but on whether you tax him too much. We worry about tax incentives of the well-to-do, but we haven't worried enough about tax incentives of the poor.

I repeat, we have a tax rate of 66⅔ percent plus a 5 percent social security tax, which together add up to a higher marginal rate than the highest marginal rate on positive incomes.

Senator CURTIS. Well, I don't want to clutter the record with a long argument but that is not so at all. I don't care what the economists call it; we are not taxing his earnings 1 cent. At the level of income that you are talking about, he is paying no taxes. Under the law if somebody's need is greater than their resources they get more relief, more welfare, and a lessening of the amount of welfare for an individual or family because their need is less is not taxing at all. There are none of these people in this bracket paying any Federal tax; this money that you are talking about is because people are working and paying taxes, other people.

Mrs. RIVLIN. Let me just interject one thing to come back to Senator Long's point. Everybody who earns money pays social security tax on the first dollar of earnings and Senator Long's proposal would reimburse that.

Senator CURTIS. Have you investigated in any State the operation of the 1967 amendments that carried a cash incentive for people to go to work?

Mr. PECHMAN. I have not personally examined the State experience.

Senator CURTIS. Well, I have. The director of our State came in and showed me the figures how the 1967 amendments increased the cost and said what is happening is that no one is leaving the rolls.

As to disregarding work expenses, I am quite sure the committee had in mind lunches and transportation, but the Department ruled that that included union dues, all of these usual work expenses, social security taxes, and Federal income taxes. That was disregarded.

Then the next $30 a month was disregarded and then a third that they earned on top of it; and we had one case that I presented here to the committee where a family or a head of a family was drawing $799.75 a month in Nebraska and was still on welfare, and what was intended as a cash incentive by the government for people to work wasn't that at all; it was a cash incentive to stay on welfare.

Mr. PECHMAN. Senator, did you bother to examine the rolls in your State to find out how many able-bodied males you are talking about? I don't know the statistics for Nebraska but the statistics for the country as a whole indicate that you are not now paying welfare to such people except in rare cases.

Senator Ribicoff mentioned a number.

Senator RIBICOFF. 126,000.

Mr. PECHMAN. 126,000 out of a total of well over 10 million recipients of public assistance. You are not talking about the working poor. You are talking about the nonworking poor. These are women who have children at home who, if they went to work, would incur ex-

penses and you either have to reimburse them for those expenses or it wouldn't be worth their while to work. I hope we can keep the problems of the present welfare system separate from the problem of extending the assistance system to people who are already working. The latter group are not included in any figures you have ever seen for your State.

Senator CURTIS. Yes; it is.

Mr. PECHMAN. I regret to say it is not.

Senator CURTIS. The 1967 amendments enabled people to work and still have their welfare payment. It was not intended as such but it was a miniature H.R. 1.

Mr. PECHMAN. Indeed it was but I also——

Senator CURTIS. It was a miniature H.R. 1 and we ended up with people making substantially $800 a month and still staying on welfare.

Mr. PECHMAN. Senator, your facilities for getting Nebraska statistics are better than mine. I would be willing to wager that the proportion of able-bodied males on welfare in your State is very small.

Senator CURTIS. Well, every——

Mr. PECHMAN. I would like to put that in the record if I could get the numbers.

Senator CURTIS. All right.

(The following information was subsequently supplied for the record:)

In September 1971, the AFDC case load in Nebraska consisted of 11,418 families. These families included 40,378 persons, of which 29,807 were children and 10,571 were adults. There is no information on the number of male adults on AFDC in Nebraska, but if the national average holds for Nebraska the number of male adults on AFDC in Nebraska in September 1971 was of the order of 1,300. Most of these are probably incapacitated, or are already enrolled in work-training programs, or are working. The number of malingerers, if there are any, must be very small.

Senator CURTIS. Every abuse that is pointed out, it is easy to say, well, there are just a few of them. Now, if we are going to reform welfare we ought to look at a few of the basic facts. I don't think there are any abuses of any significance in aid to the aged.

Mr. PECHMAN. I agree.

Senator CURTIS. I do not think there are any abuses of any significant amount to the totally disabled or to the blind.

We are talking about aid to families with dependent children.

Mr. PECHMAN. Do you think large abuses are perpetrated by these poor women in this country? We are talking about women, not about males. The people on AFDC are women.

Senator CURTIS. I understand that; and there were some of these cases that I put in the record from Nebraska where they continued to work and still have their welfare—were women. My point is this, that the criticism of abuses that do exist involve primarily the AFDC——

Mr. PECHMAN. That is correct.

Senator CURTIS (continuing). Category and many of them are able-bodied, not all of them; some of them should be with their children; I am aware of that.

Your proposal for a negative income tax to give everybody a guaranteed minimum income, that is what it amounts to, should be debated separately on its merits.

Mr. PECHMAN. I agree.

Senator CURTIS. It has nothing to do whatever with welfare reform.

Now, if you mean by welfare reform simplifying the administration, the lessening of costs and eliminating whatever abuses there are, and it has nothing to do——

Mr. PECHMAN. Senator, you can't do it. I think Mrs. Rivlin would like to comment on this, but you can't introduce into the system assistance to the working poor without doing something about intergrating the present welfare system with that group. If you keep the two apart, you will find that it will be difficult to administer the two.

H.R. 1 AND FAMILY BREAKUP

Senator CURTIS. I think the record is pretty clear that there is nothing in H.R. 1 that will hold families together. I think that every one of the Cabinet members who came here and argued for H.R. 1 on the grounds that it would do that have backed away from it because there isn't one scintilla of evidence to that effect.

Mrs. RIVLIN. Well, compared to the present system, Senator, there is less incentive for a man to leave his family. But I just wanted to get into the record that nobody is in favor of abuses and if there are families in Nebraska who are earning more than the law allows and still drawing welfare, the law ought to be enforced.

Senator CURTIS. No, the law is enforced and that is what permits them to do it.

Mrs. RIVLIN. It has to be an awfully large family to allow them to draw $800 a month and still be on welfare.

Senator CURTIS. No, because they disregard all the social security taxes, union dues, expenses of going to work, $30 a month, one-third of the balance, and these were found in our hearings here. I submitted 10 cases of them and it is not because the law is not being enforced; it is because the law is being enforced. The Federal Government made us enforce it.

Mr. PECHMAN. I haven't seen those 10 cases. May I comment on them for the record, sir?

Senator CURTIS. Sure.

Mr. PECHMAN. After I look at them?

Senator CURTIS. Sure.

(The following was subsequently supplied for the record by Mr. Pechman:)

Senator Curtis gave details of only three out of the ten cases he referred to in the Hearings before the Committee on Finance on H.R. 1, "Social Security Amendments of 1971," pp. 263–65. It is not possible to explain the total amount of the disregard in the three cases from the data presented. But other data suggest that two out of the three cases are not out of line.

According to the 1967 AFDC study, the following distribution of work-related and child-care expenses were incurred by AFDC families in Nebraska:

Amount	Percent of families in Nebraska Claiming costs of this type—	
	Work related	Child care for Working mothers
$1 to $24	51	9
$25 to $49	32	54
$50 to $74	11	23
$75 to $99	4	10
$100 to $149	2	5

Source: "Findings of the 1967 AFDC Study: Data by State and Census Division, Part II, Financial Circumstances," U.S. Department of Health, Education, and Welfare (August 1970).

The two cases cited by Senator Curtis with women at the head of the family do not seem to be out of the range shown on the table above, on the assumption that a major share of the earnings "disregard" was allowed for child care. The third case involving a working father earning $800 a month—cannot be explained on the basis of the information provided by Senator Curtis.

Mr. PECHMAN. You know, large families will have under an assistance plan——

Senator CURTIS. Where I part ways with you, no one should have to give any ablebodied person a cash incentive to go to work. That is his responsibility. The failure to do so has some rather dire consequences. Also, there are many ways to enable the working poor to increase their earning capacity and upgrade their working skills without putting them on welfare and you do something to them when you put them on welfare.

Mr. PECHMAN. We are increasing the number of people eligible for assistance; I would not call it welfare. It is family assistance and I agree with you that a work requirement without a national program of training and employment—seeking jobs for these poor people—will simply be a sham. I think that we don't do enough of that sort of thing. We ought to help these people find jobs and the manpower programs of this country are designed for this purpose. If you are dissatisfied with that you ought to increase the appropriation for manpower and training.

Senator CURTIS. Well, I don't think anybody is satisfied with what the Labor Department has done on that. We talk about increasing the eligibility by 12 million and somebody says we are going to solve this by providing 300,000 jobs.

Stripped of all of its niceties, this is a guaranteed annual income.

How much would a family of four draw under your plan if the head of the family elected not to work at all?

Mr. PECHMAN. A family of four?

Senator CURTIS. Yes.

Mr. PECHMAN. $3,000.

Senator CURTIS. $3,000. If that was made the law, what would the politicians 2 years from now when the election was over——

Mr. PECHMAN. Well, I agree with Senator Ribicoff; eventually, as the Nation's income increases, the $3,000 should be increased to the poverty line.

Senator CURTIS. How much is that?

Mr. PECHMAN. It is over $4,000 today.

Senator CURTIS. And you would give that to a head of a family if he elected not to work at all?

Mr. PECHMAN. That is correct, and I would also lower his tax rate to 50 percent. I think that is terribly important.

Senator CURTIS. His tax rate on all of his earnings?

Mr. PECHMAN. What?

Senator CURTIS. His tax rate on all of his earnings?

Mr. PECHMAN. Well, that is correct.

Senator CURTIS. Well, that would be all right.

Mr. PECHMAN. You see, with a 50-percent tax rate, out of every additional thousand dollars that he earns, he can keep $500 and at $8,000——

Senator CURTIS. Of course, he can make more money by writing to his Congressman and getting that minimum rate raised and elect not to work. [Laughter.]

The CHAIRMAN. Senator Anderson?

Senator ANDERSON. I am only interested in the answer given to Senator Ribicoff.

Do you have a statement that follows this statement here?

Senator RIBICOFF. What's that, Senator Anderson?

Senator ANDERSON. Do you have a statement on that that preceded that?

Senator RIBICOFF. Senator Anderson, if you will look on page 188 of the same volume you will see the statement describing the situation.

Senator ANDERSON. Are you satisfied with it?

Senator RIBICOFF. We have received nothing, Senator Anderson, from the administration. We have asked for it but they have not given it to us.

Senator ANDERSON. I think this is something which should be supplied.

Senator RIBICOFF. That is why I asked the chairman to see if the staff could not get some answers to the committee about my requests.

Clerk's Note: Though the material was never furnished to the committee by the Department, the committee subsequently held hearings on Feb. 15, 1972, on the many poverty programs at which administration witnesses testified. These hearings will be published.

REFUND OF SOCIAL SECURITY TAX FOR LOW-INCOME WORKERS

The CHAIRMAN. Let me say that I am pleased to know that you suggested in your writings that you should not charge the social security tax to the poor. I was not aware of it. I am glad to know about it. I have had occasion to look at some of your writings on welfare and social security.

Governor Reagan told me when I was suggesting that we ought to supplement the wages of the working poor that he didn't think he could buy that because it seemed to him that the cost of it would go up, up, and up and he couldn't see where the stopping point would be. But he indicated to me that he could support a proposal where you would just give a man back the social security tax that he pays.

I am not sure whether he meant the 5 percent or the 10. My thought is that since the worker generated the whole 10.4 percent just give him back the whole thing. If he doesn't make enough money to owe you an income tax which we have now geared to the poverty level, just give him back the social security tax you collected from him—a far more acceptable and dignified thing to do than to give him a welfare grant. So I am pleased to hear that you like the idea and that you have been recommending it down through the years.

Mr. PECHMAN. Mr. Chairman, let me interject at this point, to congratulate you not only for suggesting that we refund the 5 percent that he pays but also the 5 percent that the employer pays. I think you will find that most economists believe that the employee bears not only the tax he pays but the tax that the employer himself pays on his behalf. Your proposal correctly would refund the total tax on the employee's earnings which is the combined 10 percent tax; and I agree 100 percent.

The CHAIRMAN. Well, now, employers like to think they are paying the whole thing because oftentimes—I see you shaking your head.

Mr. PECHMAN. I agree with you.

The CHAIRMAN. I don't agree with that either because they are not paying the whole thing. They like to think they are paying the whole thing because in addition to what was withheld from the employee they just added their 5 percent and paid it in. But when that fellow buys a product as a consumer that product has been priced 10.4 percent more than it otherwise would be, plus a profit on top of that, so as a consumer he is absorbing that tax when he buys the product of his own effort. Therefore, the social security tax often works out as a hidden sales tax on the consumer. It just means to me we would do as well to just give back to poor people their social security money and if that is what is causing them to apply for welfare then it might take them off the welfare rolls. It would cost a substantial amount of money and that I favor.

It is sort of against my code of ethics to say what the President told me; I feel I am privileged to say what I told him.

Lyndon Johnson used to tell me what Sam Rayburn told him, and people would come back to Sam and would say, "The President said you told him this and that," and he finally would say, "I don't care what I told the President; my point is what did he say to me."

I don't feel that I am privileged to report what a President says except when he releases that.

When I first read the account of this H.R. 1 proposal my reaction to the President was that the $5 billion price tag didn't bother me. I would be happy to distribute $5 billion among the poor, beyond what they were getting; I would be willing to vote for more than that, really, but what concerned me was that I don't think you ought to pay any more to people for not working than you are paying already.

It seemed to me you ought to pay money to people for working. Now, one of the simplest ways would be to give back that social security tax. Another way would be just to add something to a low income earned and you would not have to force somebody to take a slave labor job. You simply say, "There are a bunch of jobs; take any one of them and we will add something to whatever you are making. If you are not working you are not eligible."

Now, Mrs. Rivlin made the point and, of course, there is merit to that, it is not going to do a person any good if there are no jobs available and, frankly, I think we ought to accept the responsibility of saying that we will assure every citizen the opportunity to work, even if we have to create the job. I recall my first job as being a messenger boy. I wanted to work, hoping to be a page or something. My father didn't want to put me on the State payroll, so he let me be a messenger boy in the Governor's office. I was happy to get the job, carry a message somewhere, and he would pay me out of his own pocket. And many persons have done that for relatives, create jobs, make one, find jobs, put a person to work doing something rather than just handing him money for doing nothing.

So I personally would support something where we are increasing the income of low-paying jobs.

OBTAINING SUPPORT FROM FATHERS

Now, here is the big problem about this program, as I see it, and I ask that that chart on page 21 of this committee document which is the speech I made on August 6 and some supporting data be made available to you.

(Material referred to follows:)

AFDC FAMILIES BY STATUS OF FATHER, 1969

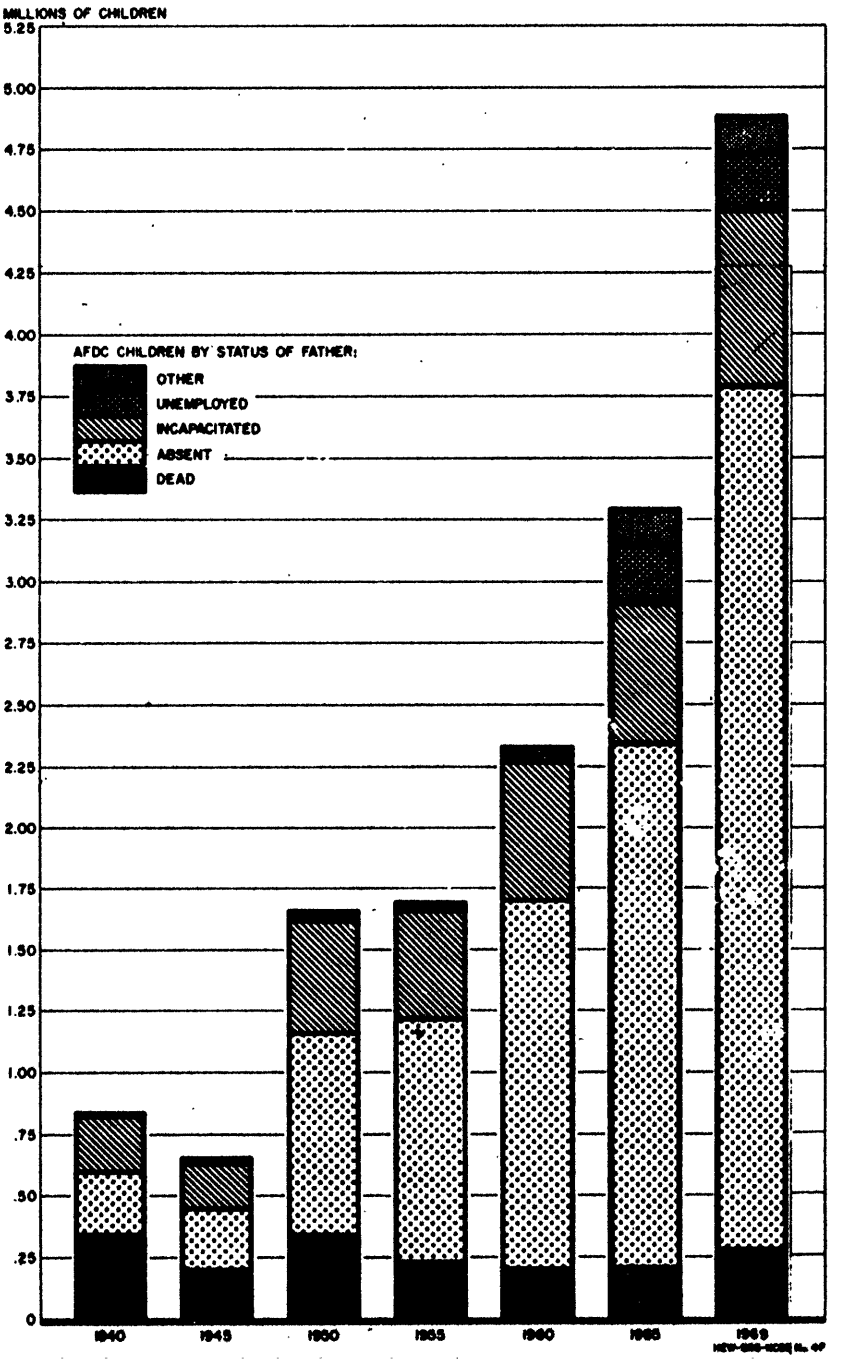
Status	Number	Percent
Total	1,630,400	100.0
Dead	89,700	5.5
Incapacitated	187,900	11.5
Unemployed, or employed part time, and—		
Enrolled in work or training program	36,000	2.2
Awaiting enrollment after referral to WIN	14,800	.9
Neither enrolled nor awaiting enrollment	28,200	1.7
Subtotal	79,000	4.8
Absent from the home:		
Divorced	223,600	13.7
Legally separated	45,200	2.8
Separated without court decree	177,500	10.9
Deserted	258,900	15.9
Not married to mother	454,800	27.9
In prison	42,100	2.6
Absent for another reason	26,700	1.6
Subtotal	1,228,800	75.4
Other status:		
Stepfather case	30,400	1.9
Children not deprived of support or care of father, but of mother	14,400	.9
Not reported	200	(1)

[1] Less than 0.05.

Source: Department of Health, Education, and Welfare.

Chart A

NUMBER OF CHILDREN RECEIVING AID TO FAMILIES WITH DEPENDENT CHILDREN MONEY PAYMENTS BY STATUS OF FATHER, JUNE OF SELECTED YEARS, 1940 TO DATE



The CHAIRMAN. That table, I think, highlights the big problem with the existing program and what will be the problem with the succeeding programs unless we find some way to shore up that shortcoming, and that would indicate this:

In the category of fathers absent from the home in this AFDC program, you have 75 percent of all welfare cases. Now, there are some of those cases where obviously we cannot obtain support from the father. There is not much hope of getting support from him when he is in prison—that is 2.6 percent. If you can't find him, you couldn't get much help, but it would appear that to me that in about 50 percent of these cases the identity of the father is known, and he could be required to provide something for the support of his family. It would seem to me that other than simply providing emergency help for this mother and those children, the answer is to require that father to support that family as we did before we had a welfare program—in fact, as we did up until the court decisions stopped it, rather than to put that family on Uncle Sam's backdoor for the taxpayers to support.

Now, I would just like your reaction to this situation. Here is a situation where a man is living in the house; he is living with a woman who is the mother of his children and children who he admits to be his children but he is not married to the mother.

I am told the HEW regulations today permits that family to go on welfare when the answer should be first to try to get him to voluntarily pay and if he won't, then sue him and declare him to be the father, order him to pay support and if he still doesn't pay it, then put him in jail. That remedy was very, very successful up until we started loading all those people on the back of Uncle Sam.

What is your reaction to that?

Mr. PECHMAN. Well, I doubt the basic fact that you mentioned that 75 percent of the public assistance families, consists of families where you could identify the father and could require him to support the family adequately.

There is undoubtedly some abuse and I would like to strengthen our social services and other methods of improving understanding in this area. This is not a question for an economist to answer. It is a question for sociologists and social welfare experts.

My concern, Senator, is that we keep talking about these great abuses and it turns out that, after you have investigated them, there are relatively few families with males in the home who can't work and that this is being used as a pretext to deny needed assistance to the millions of families with fathers who are in the family and working.

I would agree with you that the law should be strengthened where necessary to take care of the current abuses. But I think that that does not go to the heart of H.R. 1. The heart of H.R. 1 is the question of whether, after you have taken care of the abuses of present law, you want to extend assistance and maintain the incentives of the working poor who are not now covered by welfare.

The CHAIRMAN. Well, Mr. Pechman, a man who is very high in this Government made the statement to me that the people who are most against the existing welfare system are those who live right next door to them.

I live in a rural area and I am under the impression that at one time 100 percent of my neighbors were on welfare and none of them should have been there. There was a man in that family who had been working up until they got the family on the welfare; and from that point on nobody could get him to do any work.

Now, it would seem to me that the answer should have been all along to say with regard to those men that if they are working but not making enough to adequately provide for those children we would add something to their earnings and the families would live a lot better; they would have more income and those men would not have quit their jobs.

As it was they both quit working, enormously increased their consumption of alcoholic beverage and the money, instead of going for the benefit of the children was going largely for the benefit of the adults, with the result that we lost two people from the labor force who could have been, not the best workers on earth, but they could have been marginal workers making their own way with us adding something to their earned income.

Adding to Earnings

Now, I favor and would strongly advocate and support legislation to add something to what those men can earn if they go to work, but I don't see how you can deal with poorly motivated people, how you can do much with them unless you say, "Here we can't help you unless you take the job." Incidentally, both those were working men.

Mr. Pechman. But you have to have a job to give them if you make that requirement.

The Chairman. They both had jobs.

Mr. Pechman. There are 5 million people unemployed in the country today and recent statistics suggest there may be an equal number who are unemployed and not seeking work. In a nation in which 10 million people can't find jobs, I doubt—unless you have a public service employment program——

The Chairman. It is all fine to sit up there in your ivory tower where you are in the Brookings Institution, in your air-conditioned office and say you have 5 million unemployed workers. Of the 5 million, half of them are drawing unemployment insurance benefits which would exceed what the welfare program would provide. I supported that and I am for it. Then those who are not working, a lot of them are between jobs and who have jobs available but jobs they don't want to take—it does not pay enough. But you have three and a half million families in the country that would like to hire some sort of domestic help.

Do you want to challenge that figure; that is the best figure I have on that subject?

Mr. Pechman. I am in favor of an employment service to try to get domestics into the homes where there are jobs.

The CHAIRMAN. Right.

Mr. PECHMAN. But we don't have an adequate service to provide those jobs.

The CHAIRMAN. There are all sorts of low-paying jobs that you can't get anybody to take. I don't too much blame them for not taking them. I would like to increase what they pay so the job would be more attractive. It would seem to me that we would be on a better basis if instead of guaranteeing these people who are presently working a welfare type payment, which he gets whether he works or not, that we would do better to take the view if you are working but not making enough to provide adequately for a family, "We will add something to your earnings."

In that way we don't have to try to make them go to work. We don't have to argue about the desirability of that job they have; otherwise, I think we will be continually confronted with this thing which I have experienced with the National Welfare Rights organization which comes down here and these people say, "I am not going to work no longer," and they all stand up and shout, "Yea," and then they shout, "I am not going to do no working as no domestic." "Yea." And they all cheer and scream and if you hadn't seen that demonstration—I hope they do it for you like they have done it for me on occasion. So they indicate all these jobs are beneath their dignity and they won't take them.

I don't want to be the fellow to be depicted by the Washington Post next thing as using some kind of whip on a lot of poor people trying to make them take jobs they won't take.

If we are going to vote for a new program, I would be willing to vote for one which says there is a job; if we can't find one we will make a job. Put them in the public service; pay somebody to put people to work but take the job; take jobs that are available and then if the job does not pay enough we will add something to it.

Do you find some appeal in that approach?

Mr. PECHMAN. Obviously—Alice, do you have any further comments?

Mrs. RIVLIN. Well, it is not clear to me what you are proposing, Senator, but it seems to me, to go back to your two cases where these people had jobs, those are exactly the kind of people to whom H.R. 1 is addressed. It would supplement their earnings and it would remove this incentive to lose the job to get the wife on welfare.

GUARANTEED INCOME APPROACH VS. PAYING PERSONS FOR DOING WHAT SOCIETY VALUES

The CHAIRMAN. Well, H.R. 1 starts out by putting them on at $2,400 if it is four people and then by the time you look at all the deducts they take, I am in accord with you; I don't care whether you are taking away a person's income by putting a tax on him or taking away his welfare check; it is a distinction without a difference.

Mr. PECHMAN. Right.

The CHAIRMAN. So if he loses about 80 cents on the dollar if you take away the food stamps, medical, you are taking away 80 cents and

if someone is trying to get a babysitter or yardman, he will say, "I will take it providing you pay me in cash and no records kept"—I don't think we ought to see more of that.

I think when you are structuring a program you ought to try to structure it so it is to the person's advantage to do what you think he ought to do. If you do what I would like to do about the social security thing, in order to show that he is eligible for refunds if he is making $2,000 or $3,000 he would have to show he has some dependents to support; so he is claiming them rather than denying them.

Under the existing system it makes it advantageous for him to deny those are his children or that he has either an obligation to support or the income to support them with.

Now, if you can structure a program, and that is what I have been trying to do for years now, to structure the program so that it is to a person's cash advantage to do what you want him to do, then I think he is likely to do it.

I see you are nodding at that because that is the basis of our whole economic system.

Senator RIBICOFF. I find this a very fascinating exchange because, frankly, as I listened to my distinguished chairman, there is no distinction between what you are talking about and what he is talking about.

Mr. PECHMAN. That is correct.

Senator RIBICOFF. Now, we get to the negative tax, so you are trying to find the words and music about what the chairman is talking about. The problem comes about by the fact we are confusing two things: We are confusing general unhappiness with the present welfare system and all the arguments spill over to H.R. 1, the family assistance program which is a program designed not for the no good loafer who doesn't want to work but the man who wants to work and is not making it.

We are all sympathetic. He probably has got the dregs of every kind of job and that is why he probably is making so little and that is why I asked the first question.

Senator Long's proposal of $400 to go back to the person, I think, is just great. I am going to cosponsor it, if he is going to take me. If you listen to Senator Long why don't you go back to the ivory tower that you are working in, if that is where you are working, which is quite a nice place, to come up with the music so that Senator Long can dance to it? [Laughter.]

Frankly, I think we have got ourselves a welfare program; we have H.R. 1.

Mr. PECHMAN. It is the first time anybody has asked an economist to try to make music but I will try to make music.

Senator RIBICOFF. But it must be impressed upon you, as it has upon me, this is what is so confusing because there is so little difference between what you are saying and what Senator Long is saying, and yet everybody puts it at the opposite end of the spectrum.

Mr. PECHMAN. Mr. Chairman, I think that the Senator is quite right; our objectives are the same. I think we are trying to say the same thing, but we say it in somewhat different language.

You say you want to give money to somebody who is working and not to somebody who is not working. Well, what you are doing in the family assistance plan for a man is working is giving him, in effect, a basic allowance that will take care of the first $2,400 of his family earnings, you see, and then you are saying, "For every dollar that you earn you will be able to keep a half dollar."

Now, the combined minimum payment, plus the amount that he keeps from his earnings will work out arithmetically the same as if you design it the other way around; namely, that for every dollar he earns you will supplement his income a certain amount.

I think the family assistance plan is preferable because we don't have to do it on an hourly basis. It is not desirable to do it on an hourly or weekly basis because people have seasonal and part-time jobs and so on. I think the family assistance way is much the simplest way to go about it, namely, you take a man's income for a quarter and if you find he is under the breakeven point you supplement that, making adequate allowance for his dependents.

The CHAIRMAN. Let's just get to the kind of thing that works out under your program. If you have a pencil, just write these figures down and see how it works out:

You would like that person to have about $3,000 of income guaranteed. At that point you are going to try to get him to go to work.

Let's assume you are going to let him keep about $60 a month, which is the figure under H.R. 1, as I understand it; so add $720 a year more.

Mr. PECHMAN. Right.

The CHAIRMAN. I agree with you that a phaseout when you try to hold that marginal tax rate to 50 percent is a proper objective and I favor that. I think it is a good idea and I would like to structure it that way.

Now, what figure are you going to come up with if you are going to let him keep $720 and you start him out with $3,000, how much does he have to make before you get him off welfare? You let him keep $720 of his earnings and you are going to phase out the $3,000 at a 50-percent rate.

Mr. PECHMAN. Another $3,000. In other words, if he earns $6,720 he gets no assistance.

The CHAIRMAN. All right. So you have got to get him up—for a family of four you have got to get him up to $6,720 before you can get him off the rolls, to phase out that initial $3,000.

My approach would be to say, well, let's tell this fellow he is not eligible unless he takes some kind of a job.

Now, let's assume he starts out—so he starts out earning $2,000 and you are building on top of that $2,000 and you are going to make up half the difference between that and the minimum wage, or the poverty level.

Well, if you want to get him up to $3,000 then you only have got to phase out $1,000; if you are phasing out $1,000 by the time he gets up to $4,000 he is off welfare and off your hands.

Now, that makes a lot more sense to me than it does to have him still on welfare when he is making $6,700——

Mr. PECHMAN. Well, but you are getting——

The CHAIRMAN (continuing). Which is a pretty good income.

Mr. PECHMAN. But you are getting into a notch problem. You have to be careful, Mr. Chairman. If you just limit additional assistance that you give him after $3,000 to $1,000, the tax rate becomes 100 percent and the problem is to reduce that tax rate so that there will be adequate incentive to work.

ELIGIBILITY FOR BENEFITS ON THE BASIS OF WORKING

The CHAIRMAN. Let me explain this to you. Suppose you start on the basis of saying that you are not eligible for this program unless you take a job. All right. You refer him to whatever jobs you can find. There are a multitude of jobs; admittedly, none of them start you out as president of the corporation or chairman of the board but there is a job over there. "Take any one of them and if you won't take one of those, we will create some kind of a job, a public service job."

Mr. PECHMAN. Fine.

The CHAIRMAN. Let's assume that job, either because it is not enough hours or not enough wages, only pays $2,000.

Now, that is $2,000 of earnings, but he is not eligible for the program if he is not working.

Now, let us say, and my approach would be to say, all right, the poverty level for that family of four would be $4,000. Let's make up half the difference to him; so you are having to put up $1,000 and that is what you are having to phase back out on so at a 50-percent marginal rate by the time he has made, he has increased his income by $2,000 he is no longer on the welfare.

Mr. PECHMAN. The difference between your plan and my plan is that you have a minimum allowance of $2,000 and I have $3,000; that is the only difference.

The CHAIRMAN. All right. It is exactly what we are talking about.

Now, the big difference is you are starting him out with $3,000 for doing nothing and I am starting him out with $2,000 for working; that is the big difference.

Mr. PECHMAN. It is a big difference.

Senator RIBICOFF. I think we may be able to settle this right in this colloquy. You know, this is very fascinating. The first time we really have had this out on the table.

What Senator Long is saying, and I don't think anybody disagrees, he wants people to work.

Mr. PECHMAN. Right.

Senator RIBICOFF. And he has no sympathy for anybody who doesn't want to work.

Now, he agrees, too, that you are poor because you don't have any money in your pocket so let's say you have somebody, whether he is working in a rural area in Louisiana or he is working in Hartford, Conn., and he is of the lowest possible—on the lowest rung of the economic ladder; and he is earning—he is working and he is doing his best. He has got a family of four and earning $2,400. Instead of all this money business and mumbo-jumbo, and the $4,000 is poverty, so we give that person $1,600 and if he is earning $3,500 and $4,000 is poverty, you are giving him $500.

Now, if you want people to work, and what Senator Long says, you are paying people, encouraging people to work. I agree. I think the

whole semantics of this argument are what is causing all the confusion.

I have no quarrel with Senator Long's objectives, if we look at perspective. In other words, Senator Long says, "I don't want to pay people who don't work; I want to pay people who work," but we are saying that in the family assistance program, part of the President's program, we are saying that those people who are working and who are not earning enough, these are not the loafers and no goods; they are the people who are struggling to keep body and soul together and are working but can't make it.

Then we say as a nation we recognize everybody who is willing to work certainly ought to be at the poverty level or above and if the poverty level of a family of four is $4,000 and that man is earning $2,400, we are going to get $1,600 through a computer without all the intervention of these hundreds and thousands, thousands and millions of welfare workers to do it and we are going to try to train them to upgrade their jobs and we are going to see to it that if there are no jobs even at that level in our private market you are going to have something in the public sector.

I don't think there is any difference at all between Senator Long and myself.

Mr. PECHMAN. Agreed.

Senator RIBICOFF. If we start talking about what our objectives are and work back to them.

Mr. PECHMAN. Senator, I agree 100 percent.

Mr. Chairman, I think that you have described for the working poor what we have called the negative income tax. Start out with $2,000, you see. If he earns $2,000 you are going to give him half the difference between $2,000 and some breakeven level, say, $4,000. That means he will wind up with spendable income of the $2,000 that he earns plus $1,000 that the Federal Government will give him. That is a negative income tax.

The only problem that I have with what you said is, you wish to limit assistance to people who are working. Well, the present bill does do that. It requires anybody who gets assistance under the family benefits plan to register for training and so on, and you have to do something about them.

Suppose somebody does what the bill asks, goes to the employment service or Labor Department and offers himself for work, for domestic service or what have you. I assure you, Senator, that under present appropriations and present administrative arrangements, most of those people will not get jobs.

What are you going to do about the men who offer themselves for work and who are not able to earn income after you have tried to give them a job?

All we are asking you to do is to be sure you give them the minimum $2,000 that you are talking about.

GUARANTEEING AN EMPLOYMENT OPPORTUNITY

The CHAIRMAN. It will be a lot better for this country, it seems to me, to admit that we have reached the point now that we can guarantee that every citizen in this country who is capable of working has an opportunity to find employment at any time.

Now, incidentally, a while back we had this fellow up here who was head of the Hoover Institution, Freeman. He left some of its speeches here and I believe he will be here to testify as one of our witnesses. He is against the negative income tax and he is against the guaranteed annual wage. He says something which I think is significant, particularly since the name Hoover is associated with his organization, which indicates that even those admirers of Herbert Hoover move forward with their thinking like everybody else does. He said that while he is against a guaranteed annual wage for not working, he thinks that the time has come when we ought to guarantee everybody an opportunity to work for a living; and I think that——

Mr. PECHMAN. It is great progress of Mr. Freeman. He probably didn't say that years ago.

The CHAIRMAN. It is great progress for Hoover, too.

Mr. PECHMAN. That's right. [Laughter.]

The CHAIRMAN. But it seems to me we should have agreed by this time in American history that everybody who wants to work ought to have a job made available to him. If he won't take the job, I don't think we have an obligation to support him. I suppose we shouldn't make him starve but I just don't believe in a high standard of living for people who refuse to take any job whatever and want to live on the backs of those out there working very hard and some in adverse circumstances to provide the taxes that pay to keep welfare going.

So it seems to me if we start out by requiring them to take a job——

Mr. PECHMAN. Fine.

The CHAIRMAN (continuing). And then build on top of that——

Mr. PECHMAN. But if you build on top of that, Senator, I repeat, you have to decide what you are going to do for the millions of people for whom you will not be able to provide jobs. They present themselves to the Labor Department and there is simply no job. They have kids at home and they would like to work.

Now, all we are saying is give these poor people who want to work some sort of basic allowance so they can keep body and soul together. You are not destroying their incentives by adding income to them in that case. They have presented themselves for jobs.

You don't have adequate programs in this country to provide adequate jobs for the people who are poor in this country. Until you do, the family assistance system must make some provision for the people who want to work who don't get jobs. Unfortunately, we have not arrived at a national consensus on how to guarantee jobs to people. We haven't done that at all.

It is a very complicated problem and I hope that the Congress does make it possible for the administration, whatever administration it is, to experiment with methods of making employment available to people. But let's not kid ourselves that we know how to do it.

Senator RIBICOFF. May I interrupt? I have been living with the chairman and this committee now for 10 years and I think I know what bugs him.

First, what he is complaining about, we passed under the Talmadge proposal just at the end of Congress—here we have a man at the end of the table, Senator Nelson, a great addition to this committee, who has been fighting for public service jobs in the Congress that you

have been talking about, so we have got those two coming together on people who are thinking alike.

Now, you have Senator Long who is concerned with the cheaters and the chislers, the man who has a family who has run away and has got a job; somebody ought to get him to make him support his children. No one can complain about that. The person who is on welfare and getting payments and shouldn't get payments—but what fascinates me today is that Senator Long now says that he wants people who work, pay people for working.

I think what bothers him—I shouldn't be putting words in his mouth—is the fact that this whole H.R. 1 has been cast in such a way, instead of two bills, it is cast in such a way that these extra 14 million people who are the working poor have suddenly been cast as a welfare recipient.

Now, if you took them out of that category and you recognize what Senator Long is talking about, that you are not now talking about them as a welfare recipient but you are recognizing that as an objective of a policy you want to take people out of poverty; these are not the loafers but these are the working people who are not earning enough to keep body and soul together.

He wants to be sure we take care of those people because these people are not cheating or lazy; they are working; they are doing all they can but can't make it and that is why the $400 he wants to give back to them, which is a step in the right direction, and I think if we start recasting this thing entirely that we are talking about the family assistance part of this bill, not as a welfare-related objective but as a poverty, elimination of poverty objective, I think that almost everybody around this table, from Senator Nelson, who has worked with this problem, to Senator Byrd who is concerned with a big budget deficit, Senator Hansen, all around the table, Senator Long and myself, it is amazing how in our philosophical objectives we are not apart. It is a question of how do we knit them together.

Mr. PECHMAN. You know, perhaps there is something that we could do. Perhaps you might ask the Department of Health, Education and Welfare to recast that part of H.R. 1 precisely the way Senator Ribicoff has been talking, namely, right now the cash benefits under H.R. 1 are separated into two parts: one part for people in the category who are not expected to work if they receive assistance, that is, women, for example, with children under 3 or 6 years of age. These people would get cash benefits and I don't think anybody would force them to work unless they wanted to.

Now, with respect to all of the rest, under the bill they are required to register for training and to accept jobs if jobs are available.

Now, perhaps what you should do is divide that section into two parts: One part is for those people who do accept jobs and who receive income; they will receive additional supplementation along the lines of the formula that the chairman recommended. The only difference between us there, Mr. Chairman, is that our breakeven point is higher than yours because we think that you arrive at too low a level of assistance; but I think that is a matter of cost and not a matter of principle. Now, with respect to those people who have offered themselves for training and employment, and who have not been provided with a job, you have to decide what kind of minimum allowance you are going

to give them because they are not shirkers. They have asked you for a job and you have not given them one and that will satisfy the objectives that you are seeking.

The CHAIRMAN. If we can work it out in that fashion, I could vote for the bill, because if we work it out the way it should be worked out, the money is available only to pay somebody to work. If you can't provide a job then you should pay him any way.

I am sorry for taking so long in interrogating this witness but I believe we have had some very interesting testimony here and I think it should have been explored.

Senator HANSEN. Mr. Chairman, if I could, I would just like to make an observation.

I agree with what has been said by the other distinguished members of the committee that this has been very helpful. But I would hope that we don't assume that philosophically and basically we have received all of the problems.

I recall that some of the criteria that were assumed as being axiomatic, as the administration proposed for a welfare reform bill, among others, included these:

That no one receiving benefits today would receive less under a revised or a reformed bill and that those presently working would not be penalized as nonworkers by giving them encouragement to work.

In other words, the incentives given to people not now working should not result in a person already working being placed in a disadvantageous position.

The net result of those basic premises from which I understand welfare reform was first contemplated, resulted—and I underscore this—resulted in the projection being made that by 1973 there will be under H.R. 1 some 26 million people on welfare.

We have talked this morning about the poverty level.

Mr. PECHMAN. Most of those people will be working, though, Senator. It is terribly important to appreciate that, when you refer to the 26 million, more than 50 percent of them will be the working poor.

The only difference between what——

Senator HANSEN. More than 50 percent will be, you say?

Mr. PECHMAN. It is terribly important. They shouldn't be regarded as welfare cases.

Senator RIBICOFF. Fourteen million?

FAILURE TO APPLY PENALTY FOR REFUSAL TO WORK

Senator HANSEN. I am more than happy that more than half of them would be working, but I would suggest that we keep in mind that under the old WIN program—you earlier testified, Mr. Pechman, that if we didn't get enough people in employment one of the ways to assure that more people would be given employment would be to make further appropriations to these work training programs.

Let me remind you, though I am sure it is not necessary, that that is the very kind of program that some 8,100 people had thought about, and I am referring to the hearings before this committee, part 2, Family Assistance Act of 1970. Under that very program to which you subscribe or I assume you do by virtue of your observation, some 8,100 persons were referred by the Department of Labor to HEW to be dropped from the rolls. These were persons for whom jobs were

available. They were persons perfectly qualified in every respect to take work. They lost track of some 2,000 of them. They don't know whether they moved away or whether they dropped out or what happened to them; they don't know.

They wound up with 6,100 who were referred by the Department of Labor to HEW as failing to take a job when the job was avialable and offered to them and you know how many finally were suspended or removed from the rolls? Two hundred, 200 of the 6,100.

All I am trying to say in urging a word of caution is this: It is easy to play with numbers; it is easy to say 26 million need not disturb us; it is easy to say that as the poverty level rises, let's raise everything along with it.

The thing that I think is part of the equation which is unknown and ought further to be explored before we take what I consider to be a very important and serious departure from all that we might have learned from past experience is what happens to people near these levels? We have talked about the notch system. I think Senator Williams pointed out very persuasively that the trouble with welfare reform, as was proposed a year or two ago, was that you had these notches in here and you come to a point where somebody says, "Why should I do more? Why should I get a better job?"

You talked about an income tax of 67 percent. Senator Williams pointed out that in some instances you might be able to keep, I think, only a dime out of every extra dollar that you made. That is part of the problem.

I don't think it is as simple as it might be, and I don't mean to say this to discredit the earnest desires of everyone here this morning to try to make it better. I want to make it better too. But I think we have got to be aware that there are a number of people, and this demonstrates what I tried to say, who for one reason or another plainly don't want to go to work, and so far the Government of the United States has not demonstrated sufficient resolve to have them penalized just a little bit.

Of the 6,100 in the judgment of the Department of Labor who should have been removed from the rolls, the welfare agency, HEW, and others involved, State agencies, removed only 200. I hope we can do something to make it better.

Mr. PECHMAN. I just have one comment, Senator.

I hope I have not given the impression that this is simple. If I have, I apologize. The committee does not have an easy problem. The bill is not short. It is complicated and it will be difficult to administer.

I think that the present law is difficult to administer. It is clear that at least the present administration of the law fails to live up to the expectations of this committee.

What I am suggesting is that the fact that there are problems does not mean that the basic idea of family assistance is wrong. The basic idea is right and I think that the time has come to try it a few years and see how it can be improved.

Senator NELSON. Well, I certainly can find much with which I agree in what you say, Mr. Pechman, but I must say that I think we—before we adopt this system we ought to review these basic concepts upon which we built this new plan.

I happen to agree with our distinguished chairman that when the drafters and the designers of H.R. 1 assume that no one receiving benefits today should receive less, I say if there are people who are cheating on the program or who, as Senator Long has pointed out, refuse to admit a marital relationship which is in fact there for all the world to see, we ought not to say to those persons, "We are going to let you go along." I think some changes right there ought to be instituted and that is why I think our chairman has done a very valuable service to his country and to this committee in raising these basic questions: Are we encouraging some things that society should not encourage? Are we condoning things that we recognize are wrong?

He has pointed out last year, every effectively, that if you denied being the father of children in a home in which you were living, your wife, for all intents and purposes, could be, I think, about $4,700 or $4,300 better off on a total income of $12,000 than if she were to admit what is indeed a fact.

Well, I won't belabor the point. I hope that we don't think we are just about to get together and resolve the bill.

I appreciate the contribution you have made. Thank you very much.

The. CHAIRMAN. Thank you very much, Mr. Pechman and Mrs. Rivlin. We are very happy to have you.

We have a witness who will not be able to be with us this afternoon and I hope we can hear from him now.

Hon. Samuel A. Weems, prosecuting attorney for the 17th judicial district of Arkansas. Mr. Weems had some interesting experiences this committee would like to know about.

We are very pleased to have you, Mr. Weems.

STATEMENT OF SAM A. WEEMS, PROSECUTING ATTORNEY OF THE STATE OF ARKANSAS AND 17TH JUDICIAL DISTRICT CHAIRMAN, LEGISLATIVE COMMITTEE, ARKANSAS PROSECUTING ATTORNEYS ASSOCIATION

Mr. WEEMS. Thank you, Mr. Chairman.

I also not only represent the 17th judicial district of Arkansas, but I am also chairman of the Legislative Committee of the Arkansas Prosecuting Attorneys Association, and in that particular capacity I would be representing those other 18 prosecuting offices in our State.

Without going into my written statements as such—I think they speak for themselves—I would just summarize it for you and be happy to answer any questions.

I will begin by saying this, that it has been interesting to me to read the statements of Secretary Richardson and Under Secretary Veneman when they tell us that HEW does not interfere in our local operations. I can tell you that based on our own investigation in my own office, I am convinced that I could reduce our welfare rolls in the aid to dependent children section some 30 percent if I had the cooperation of HEW.

Only a month and a half ago Governor Bumpers in our State issued a directive to our State welfare department saying as to the rule on confidentiality it would not apply to criminal activity and an official

of HEW out of Dallas overruled him, sent a memorandum out, made the statement to the Governor, also to our local welfare department, and it went into effect, that there is a congressional action, and I frankly, gentlemen, had not been able to find it, that says that when there is criminal activity involved such as criminal nonsupport that it is a Federal law, that even though the local welfare office knows of the frauds they cannot make it available to my office.

And I am of the opinion, gentlemen, unless this attitude in HEW is changed, regardless of what they say to you here at this witness table, is the way they apply it out in the field, I think, is what continues.

Senator NELSON. Did they recite a title?

Mr. WEEMS. No, sir. I have been asking who made that regulation and also for a copy of it and they have not seen fit to give it to me.

I know you all have asked for things here and they have not given it to you.

Senator NELSON. Is it a regulation of the Department or a provision in the statute passed by Congress?

Mr. WEEMS. They tell us it is law and I researched the law and, frankly, gentlemen, I don't find any congressional act. This is a rule on confidentiality that would hide criminal activity.*

The CHAIRMAN. May I ask you, my own welfare director from Louisiana just happened to drop by my office and he tells me they have an HEW regulation where if he suspects that somebody is on the rolls by fraud——

Mr. WEEMS. Yes, sir.

The CHAIRMAN (continuing). Not entitled to a penny of that money, that they can't inquire of the neighbors about that situation——

Mr. WEEMS. That is true.

The CHAIRMAN (continuing). Without the consent of the person committing the fraud?

Mr. WEEMS. That is absolutely true.

The Chairman. So if a person is guilty of criminal fraud you can't even ask the neighbors about that situation without first obtaining consent?

Mr. WEEMS. I have given you some examples here of what my office has uncovered because I frankly have not gone along with the regulations as they tell me I am supposed to go along with, and there are a number of out and out cases of fraud and I could give you almost 100 of the 534 cases that I know are there, but I have used my subpena powers my office has.

Where the Arkansas Welfare Department has 21 lawyers, I have spent more time in court with their 21 lawyers trying to get access to their files than I have them trying to help me stop the fraud.

The CHAIRMAN. The Governor of Missouri told me that he and his welfare director tried to do a conscientious job of providing welfare

*Material relative to the preceding discussion appears at p. 855.

payments to those entitled to it and denying it to those who are not entitled, and he was confronted with so many threats by HEW to cut off Federal aid unless they paid the money even to people who didn't deserve it, that he finally just told his welfare director, "Just put everybody on; just put anybody on, everybody, and ask no further questions and put them on even though you don't think they belong there."

Mr. WEEMS. Senator, let me tell you this. I think our local welfare office, such as at the county level in my district, have done an excellent job trying to do the same thing. They are bootlegging this information to me. When I go in and subpena a certain type of files, I have—I know where I want to go find it. Now, the welfare department has fired one of the local caseworkers in my State for her activity in my behalf and I am before the Merit Council trying to get her job back and I think that is the lowest, rottenest type of example that could possibly happen. When you have cases such as given you here, this out and out blatant fraud and they fire a welfare employee when they cooperate with a prosecuting attorney to try to stop it, and I am convinced, and this is what it boils down to, we talk a lot about able-bodied fathers. In my district alone, for example, when I took office we were paying $1.5 million a month January 1, 1971. A year later we were paying $2 million a month taking care of other people's children.

When you look at the records themselves of where those able-bodied fathers are, where they are employed, and the local welfare office knows this information, and they could provide it to my office and don't, and they are right there in the same town with them and they are making $500, $600, $700 and $1,000 a month and if I had access to that information I think I could do my job if you would give me the tools to do it. Frankly, I don't have it now and I think if I could prosecute just those fathers where I know where they are, we could hit 30 percent of them right off the bat and bring your total down.

The CHAIRMAN. Are you telling me you are positive in your own mind and you can prove——

Mrs. WEEMS. I guarantee it.

The CHAIRMAN (continuing). That to your certain knowledge there are literally droves of fraud cases on these welfare rolls where HEW tells the State they will cut off Federal aid to the State if the State even permits that information to be known?

Mr. WEEMS. I guarantee.

The CHAIRMAN. The prosecuting attorney who has the duty of putting those people in jail?

Mr. WEEMS. Yes, sir and I guarantee it.

The CHAIRMAN. I think that is an utter outrage.

Mr. WEEMS. I think when you look at page 114 of the transcript that was published just recently, where Secretary Richardson and Under Secretary Veneman say they don't interfere either they don't

know from whence they speak, because that is not the way the program is administered and I would like for somebody—either Secretary Richardson is going to direct his deputy—I wish he would tell the people in Dallas to let us prosecute criminal violations. He told you here they did not interfere with it and I don't believe it is any intent in Congress to let criminal violations go by the board.

Senator RIBICOFF. Mr. Chairman, I think it appropriate that you request HEW to respond to the general statement and the specific of Prosecutor Weems.*

Mr. WEEMS. I could go one step further. You might also request a 15-page memorandum they sent to Governor Dale Bumpers only last week explaining their position which the Governor and I have discussed and neither one of us really understand it.

The CHAIRMAN. I will seek that.

(Material received from the Department follows. The Chairman also directed a request for the memorandum to Hon. Dale Bumpers, Governor of Arkansas. Governor Bumpers responded with a letter appearing at page 844 enclosing a copy of the same memorandum submitted by the Department of Health, Education, and Welfare appearing at page 839.)

THE UNDER SECRETARY OF HEALTH, EDUCATION, AND WELFARE,
Washington, D.C.

Mr. TOM VAIL,
Chief Counsel, Committee on Finance,
U.S. Senate,
Washington, D.C.

DEAR MR. VAIL: In your letter of January 27 you requested a copy of a memorandum concerning confidentiality of welfare case file information, sent by the Department to Governor Bumpers of Arkansas. In testimony before the Committee, Mr. Samuel A. Weems stated that the Department had sent a fifteen page memorandum during the week prior to his testimony explaining our position with respect to interfering with the prosecution of criminal violations.

An extensive search for a document fitting Mr. Weems' description has failed to turn up any evidence that such a memorandum has ever existed. We have checked without success, every possible source of communications of this nature both in Washington and in our Dallas Regional Office, whose responsibility includes HEW programs in Arkansas. In addition we have inquired of the Governor's office and other concerned officials in Arkansas and they have expressed no knowledge of receiving a memorandum or letter such as that described by Mr. Weems. I am enclosing a letter to me from Governor Bumpers describing the written communications he has recently received from the Department concerning disclosure of information. I am also enclosing a letter from our regional staff listing the memorandums it has sent recently to Arkansas officials on the same subject.

Of the recent documents on information disclosure which have been examined in connection with your January 27 request, a regional attorney's opinion of November 22, 1971, which was sent to the Arkansas Commissioner of Social and

*Views of the Department of Health, Education, and Welfare on Mr. Weems' testimony is printed as appendix F, p. 1117.

Rehabilitation Service on November 23, deals in part with several questions raised by Arkansas officials concerning access of prosecuting attorneys to AFDC case records, and may be of some interest to the Committee. The answers to the specific questions raised are clear and unequivocal, I believe—in most cases, a simple "yes" or "no" followed by an explanation.

Such a document can hardly be characterized as evidence of "interference" on the part of the Department with Arkansas' administration of its welfare program. In the first place, the State agency requested the advice; in the second place, our response was a legal opinion, not an "order" from Federal officials to State officials. The thrust of the regional attorney's opinion is that selected case information may be disclosed to law enforcement officials under certain circumstances and should be disclosed in cases of desertion, abandonment, non-support by a parent, and fraudulent applications.

On the other hand, both Federal and State law, regulations, court decisions (cited in the opinion) clearly prohibit a prosecuting attorney from having free access and use of all case files based on a general suspicion of fraud among welfare recipients.

Although there does not appear to have been a memorandum such as the one described by Mr. Weems, I trust that the information provided will be useful to the Committee in evaluating his testimony. I believe it is evident that Mr. Weems' charges are based on misunderstandings of applicable law and Congressional intent.

Sincerely yours,

JOHN G. VENEMAN, *Under Secretary.*

Enclosures.

REGION VI, DALLAS,
February 7, 1972.

Re Arkansas—Confidentiality of Case Records.

(This information received via telephone from Mr. Hall to Mr. Hurley on February 14, 1972.)

This is in response to a telephone request from Mr. John J. Hurley on February 4, 1972. Mr. Hurley dictated to us the following excerpt from the testimony of Mr. Sam Weems of Arkansas before the Senate Finance Committee on January 21:

"I could go one step further, you might also request a 15 page memo they sent to Gov. Dale Bumpers only last week explaining their position which the Governor and I have discussed and neither one of us understands it."

I have checked this matter thoroughly with the Regional Director's office, the Regional Commissioner's office, and the Regional Office of General Counsel. No 15 page memo was sent from Region VI to Gov. Bumpers. On November 23, 1971, I talked to Mr. Dalton Jennings regarding confidentiality of Public Assistance records and sent to him an 8 page memo prepared by Mr. Harold J. Stafford, Regional Attorney. Mr. Stafford's memo also included a number of exhibits on the subject. Mr. Jennings advised us he did not send this document to the Governor's office.

Mr. J. B. Keith, Regional Technical Coordinator, liaison person on the Regional Director's staff for Arkansas, advised me that his contacts in the Governor's office tell him that they have received no such 15 page document as mentioned by Mr. Weems nor was there any discussion between Mr. Weems and the Governor on this subject. As a matter of fact, Mr. Keith stated that the Governor's office wanted to drop the matter following the initial publicity on the part of Mr. Weems. Apparently the document Mr. Weems is referring to is the one prepared by Mr. Stafford and sent to Mr. Jennings November 23 as mentioned above.

DUDLEY S. HALL,
Associate Regional Commissioner, APA.

STATE OF ARKANSAS,
OFFICE OF THE GOVERNOR,
Little Rock, February 8, 1972.

Hon. JOHN G. VENEMAN,
Under Secretary, Department of Health, Education, and Welfare, Washington, D.C.

DEAR MR. SECRETARY: Your office raised a question pertaining to the communications I have received from the Regional Office of DHEW concerning confidentiality of information on welfare recipients.

To date there have been two written communications on the subject. The first was a one-page letter from Regional Attorney Harold Stafford to Garry Brewer on my staff. It was dated November 8, 1971. The second was a letter dated November 23, 1971 from Dudley Hall, AP, SRS, DHEW to Dalton Jennings, Commissioner, Social Services Department of SRS. It contained an eight-page Regional Attorney's opinion with eight attachments. The total package had some 62 pages.

If you need further information, please let me know.

Best regards,

Sincerely,

DALE BUMPERS.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE,
OFFICE OF THE REGIONAL DIRECTOR,
Dallas Regional Office, November 22, 1971.

Memorandum to: Mr. Dudley S. Hall, Associate Regional Commissioner, Assistance Payments Administration, Social and Rehabilitation Service.
From: Office of the General Counsel.
Subject: Letter October 29, 1971, from Dalton Jennings, Commissioner, Department of Social and Rehabilitative Services, Arkansas—Disclosure of Information.

A copy of the Commissioner's memorandum is attached for ready reference hereinafter (Exhibit 1). In this review of the law and regulations pertaining to disclosure of information from the files of individual assistance applicants or beneficiaries it should be remembered that the limitations on the state agency are imposed only in those cases where the state desires to receive federal grants for assistance and are conditions prescribed by the federal law which must be complied with or the Secretary may elect to discontinue further federal grants.

"The state programs are financed by the federal government on a matching fund basis. State participation is not required by the Social Security Act. States may choose not to apply for federal assistance or may join some, but not all, of the programs. Further, the establishment of criteria for need and other factors of eligibility, and the level of payments, are left largely to the states. At the same time, the Act prescribes specified requirements with which all state programs must comply. And so the states are required to submit to the Secretary of HEW, and have approved by him, a plan that describes the programs adopted by the state in conformity with federal law requirements. Once approved, the plan continues to be subject to the Secretary's scrutiny to determine conformity to federal law. 42 U.S.C. §§ 302, 602, 1202, 1316, 1352, 1396a.

"If the Secretary determines that an approved state plan no longer so conforms the Act requires that federal payments be terminated, in whole or in part, until the plan meets federal criteria. Moreover, while the approved plan may conform to federal law, the Act requires that federal payments be terminated, in whose or in part, if the Secretary finds that the state's administration of the plan does not comply substantially with federal law. The Act also establishes a procedure for

determining whether a state plan conforms to, or state administration substantially complies with, the requirements of federal law. Under the statutory procedure, the Secretary must give reasonable notice and opportunity for a hearing to the state agency administering the plan. 42 U.S.C. §§ 304, 604, 1204, 1316, 1354, 1396c. The Act also provides that a state is aggrieved by the Secretary's determination after such a hearing may petition a United States court of appeals for judicial review of the Secretary's order, 42 U.S.C. § 1316." *Connecticut State Department of Public Welfare* v. *Department of Health, Education, and Welfare, Elliot L. Richardson, Secretary, et al.* United States Court of Appeals, 2nd Circuit, Docket No. 71-1574, decided September 3, 1971 (Copy attached as Exhibit 2).

In each of the categorical assistance programs the law prescribes that the State plan for aid and services must:

"(3) either provide for the establishment or designation of a single State agency to administer the plan, or provide for the establishment or designation of a single State agency to supervise the administration of the plan:" (Sec. 402(a)(3), Social Security Act. Aid and Services to Needy Families with Children. For similar provisions see Section 2(a)(3); Sec. 1002(a)(3); Sec. 1402(a)(3); Sec. 1902(a)(5); and Sec. 1602(a)(3)).

In like manner each program further requires that each state plan must:

"(9) provide safeguards which restrict the use or disclosure of information concerning applicants and recipients to purposes directly connected with the administration of aid to families with dependent children:" (Sec. 402(a)(9) of the Social Security Act. For similar provisions: State Old-Age and Medical Assistance Plans, Sec. 2(a)(7); Aid to the Blind, Sec. 1002(a)(9); Aid to Permanently and Totally Disabled, Section 1402(a)(9); Combined Plan for Aid to Aged, Blind, and Disabled, Section 1602(a)(7); and State Plans for Medical Assistance, Section 1902(a)(7)).

Regulations promulgated by the Secretary to implement the disclosure of information and the single State agency responsibility in each of the assistance programs are published as Code of Federal Regulations, Title 45, Part 205.50, Safeguarding information; and Part 205.100, Single State Agency (Copy attached as Exhibit 3). These requirements formerly were in the Handbook of Public Assistance Administration and were transferred to the Code of Federal Regulations February 27, 1971.

Under the foregoing law and regulations the designated single state agency must pursuant to State statute limit the disclosure of information concerning any applicant or recipient to purposes directly connected with the administration of the program. The designated State agency may not delegate this responsibility to other than its own officials. 45 C.F.R. 205.100(c).

The Answers to Specific Questions from the October 29, 1971, letter are therefore:

"1. Can a prosecuting attorney review records of all of our AFDC cases upon demand?"

Answer. No. Information to be furnished prosecuting attorney is for determination by the State Department of Social and Rehabilitative Services and must be limited to that information needed in the administration of the program.

State Agency in administering its program has responsibility to refer information from cases of desertion, abandonment, non-support by a parent, and fraudulent applications to appropriate law enforcement officials and to cooperate in carrying out these phases of the administration of the assistance programs.

For example, Title 45, Code of Federal Regulations, Part 220.48 (b) and (c) provide:

"(b) There must be a plan of cooperation with courts and law enforcement officials and pertinent information must be provided them when their assistance is needed in locating putative or deserting fathers, establishing paternity and securing support.

"(c) In developing plans for cooperation with courts and law enforcement officials, there must be agreement that the information provided by the State or

local agency will be used only for the purpose intended. There must be provision for financial arrangement to reimburse courts and law enforcement officials when it is found necessary for them to undertake services beyond those usually provided in such cases."

"2. (a) *Can the prosecuting attorney review the records upon request on an individual case?*

(b) *If the prosecuting attorney requests the record, under what circumstances may the record be released to him?*

(c) *May the whole record be released to him or only that part relating to a deserting or abandoning father?*"

Answer. 2(a). Normally No. State Department Official charged with custody of Record in most instances would make only information essential to specific enforcement action available. It is conceivable that in some individual case, State agency may consider it advisable for prosecuting attorney to review all the records on the particular case but as provided under 45 C.F.R. 220.48(c), there must be agreement that information provided will only be used for purpose intended.

2(b) and (c). The designated State agency should retain custody of assistance records at all times. When it deems duplicates or photostats are needed in administration of the program, it should supply them.

"*3. Can the prosecuting attorney remove any record from a county welfare office?*"

Answer. No.

"*4. May the prosecuting attorney photostat a record or any part of a record?*"

Answer. If designated State agency believes they are necessary for program purposes it should supply needed duplicate, summary or photostat.

"*5. May the prosecuting attorney subpoena a county record with a Subpoena Duces Tecum?*

"*If the records may not be subpoenaed, will you please cite the authority for denying the records to him under such a subpoena?*"

Answer. The Regulations referred to above contemplate that there may be instances when a case record may be subpoenaed. The Code of Federal Regulations, Title 45, Part 205.50(2)(iv)(v) provide:

"(iv) In the event of the issuance of a subpoena for the case record or for any agency representative to testify concerning an applicant or recipient, the court's attention is called, through proper channels to the statutory provisions and the policies or rules and regulations against disclosure of information.

"(v) The same policies are applied to requests for information from a governmental authority, the courts, or a law enforcement official as from any other outside source."

The State Plan of Arkansas, Section 7230 provides:

"*7230 Release of Information with Permission of or at Request of the Client*

* * * * *

"Information concerning an applicant, recipient or other person known to the agency will not be made available to the court, grand jury or prosecuting attorney except when the client request the release of information *in writing* or by permission of the Commissioner. Any other release of information will be forced by due process of law.

"If an employee or a case record of the Department is subpoenaed by a court, grand jury or prosecuting attorney, the County Director or his representative will immediately telephone the State Office (collect) to notify the Commissioner of the full detail of the case. Usually the County Director will be instructed to confer with the judge of the court or the district attorney, or his County deputy whichever is appropriate to call attention to the provisions of the Social Security Act and Section 32 of Act 280 and the opinion of the attorney general.

"If the Commissioner declines to permit the employee to give testimony or the case record to be used, the Commissioner will attempt to secure a delay so that legal counsel can be obtained. When an employee or a case record is subpoenaed,

the County Director will submit to such legal process and he, or counsel, will plead the law and rules on disclosure of information and explain their purpose to the court."

Section 7251 provides:

"*7251 Opinion of Attorney General Relative to Confidential Nature of Records*

" 'Mrs. HENRY BETHELL,
Commissioner of Public Welfare,
Little Rock, Ark.

" 'DEAR MRS. BETHELL: We have your letter of January 17th in which you inquire as to the confidential nature of records of the State Department of Public Welfare.

" 'You are advised that Section 32 of Act 280 of the Acts of 1939 provides that:

" ' "All applications and records concerning any applicant or recipient of general relief or assistance grants shall be confidential and shall be open to inspection only to persons authorized by the State Department or the U.S. Government in connection with their official duties."

" 'We have, in this State, several statutes dealing with confidential information and communications such as communications between husband and wife, physician and patient, and persons and parties deceased. Our Supreme Court has in many cases held that communications such as the above cannot be forcibly revealed in court. It is our opinion that the Legislature in the provisions of Act 280 placed the records of your Department in the same field as the above.

" 'It is therefore our opinion that the State Department of Public Welfare could not be forced to give out any information, oral or otherwise, contained in a case record, or information obtained by the Department in carrying out its official duties.

" 'You are advised that of course, a court or prosecuting attorney would have the power to subpoena a worker or a case record just as they would have the power to subpoena a physician or other person. The objection to the use of the testimony would have to be raised at the time it was attempted to be used. In other words, the Department of Public Welfare cannot be compelled to disclose the confidential information.

" 'Hoping this is the desired information and if there is anything further, please let us know, we are,

" 'Very truly yours,

" 'IKE MURRY, *Attorney General*' ".

In the case of *State ex rel. Hougland* v. *Smythe, Judge*, 109 Pac. 2d 706, June 6, 1946, before the Supreme Court of the State of Washington on appeal from the Superior Court, this latter court sitting as a juvenile court had subpoenaed the assistance records of the Welfare Department on a fourteen year old incident to the delinquency proceedings and determination of future custody of said minor. In affirming the order of the juvenile court for the subpoena, the State Supreme Court stated:

* * * * *

"(1) It will be noted that the intent of the Federal statute quoted above is to restrict the use or disclosure of such information to purposes directly *connected with* the administration of aid to dependent children, and that the state act empowers the department of social security to establish and enforce reasonable rules and regulations for safeguarding official information against disclosure or use thereof except for purposes directly *connected with* the various kinds of public assistance. It will further be noted that the rules and regulations adopted pursuant to the foreground statutes seek to accomplish the same end, and, anticipating that such records may in certain litigation be subpoenaed, they provide that the officer to whom the subpoena is directed shall appear in court and *plead* such rules and regulations. It is significant that this provision of the rules and regulations does not command or suggest that the officer thus subpoenaed shall in all events disobey any order of the court relative to the production of such records

and the disclosure of the information contained therein, but only prescribes that the officer shall by proper plea inform the court of the existence and prohibitive requirement of the rules."

The Court further stated:

"(5) * * *

"So far as the secrecy of such records of the welfare department is concerned, we are confident that it will as wholeheartedly be respected and as sedulously be preserved by the juvenile court as it will be by the officers of the welfare department. Rem. Rev. Stat. § 1987—10, to which the respondent judge herein referred in his memorandum opinion, makes adequate provision not only for private hearings in such matters, but also for the withholding of all reports in such cases from public inspection and for their ultimate destruction."

"Question 6. If the prosecuting attorney obtains information from a case record, what restrictions regarding the use of this material are applicable to him?

Specifically, may he release any of this information with or without case names to any news media?"

Answer. The Prosecuting Attorney should utilize information supplied him by the Designated State Agency only for the purpose for which it is supplied and as pointed out in 45 Code of Federal Regulations, Part 220.48(c) supra, should agree to this condition under the Agency State plan for cooperation with law enforcement officials.

As to the release of any of this information by the Prosecuting Attorney to the news media, the test in each case would continue to be as to whether this was a use directly connected with the administration of the assistance program and consistent with the agreement under which the State Agency supplied the information.

CONCLUSION

The Social Security Amendments of 1939, Public Law 379–76th Congress provided under Title I—Old Age Assistance and under Title IV—Aid to Dependent Children that effective July 1, 1941, a State plan for these programs had to provide safeguards which restrict the use or disclosure of information concerning applicants and recipients to purposes directly connected with the administration of the respective assistance programs.

Since that date the successor federal agencies administering the assistance programs have consistently required compliance with these restrictions or have withheld federal funds. During this period of thirty years there appear to have only two cases on disclosure that have gone past the findings of the Secretary of Health, Education, and Welfare, or his predecessors in responsibility, to the Courts. In each case the validity of the disclosure law and its administration have been upheld.

The first of these was *State of Indiana ex rel. Indiana State Board of Public Welfare* vs. *Ewing, Federal Security Administrator of the Social Security Act*, 99 Fed. Supplement 734, United States District Court, District of Columbia, September 7, 1951.

In this case a state statute made lists of the names of Old Age Recipients available for public inspection. When the Administrator refused to make further federal payments to the State for old age assistance because this disclosure was not in compliance with the provisions of Title I of the Social Security Act, the State sought Court review of the action. Summary judgment was granted in favor of the Defendant.

This case is attached as Exhibit 4. Also attached is a copy of the case before the Court of Appeals at which time it was remanded by agreement of the Administrator because of the case at that time had become moot. 195 Federal Reporter 2d 556.

General Counsel has also forwarded us a copy of the judgment and opinion in a case before the United States District Court for the Northern District of Illinois which has not been published in the Federal Supplement system. This is the case of *United States of America* (Bureau of Internal Revenue) vs. *Raymond M.*

Hilliard, Director of Cook County Department of Public Welfare, No. 54C 764, March 4, 1955. Copy of the opinion is attached as Exhibit 5.

In this case Internal Revenue by subpoena sought production of Old Age Assistance records. The Court in dismissing petitioner's complaint said:

"It cannot be denied that the records in question were not requisitioned 'for purposes directly connected with the administration of old-age assistance'. The pertinent language of Section 302 is clear and unambiguous."

In the beginning of this memorandum reference is made to the case of *Connecticut State Department of Public Welfare* vs. *Department of Health, Education, and Welfare*. At the beginning of this conformity case a state statute making welfare records available to the State Department of Finance without restricting the disclosure of information to purposes directly related to administration of the assistance programs was at issue.

A copy of the findings of John D. Twiname, Administrator, Social and Rehabilitation Service, September 24, 1971, is attached as Exhibit 6. On issue No. 10(a), Page 4, of the Exhibit he found that the State by legislation effective July 2, 1971 had amended section 17-83(b) of the General Statutes of Connecticut (the statutory provision which gave rise to issue 10(a)). The disclosure issue accordingly was removed from the hearing proceedings.

For reference, however, the recommended findings of the Hearing Examiner on Issue 10(a) is attached (Exhibit 7).

Also attached for reference is a copy of the decision of John D. Twiname of May 28, 1971, in the Connecticut Conformity Hearing, when Issue No. 10(a) on disclosure was still a part of the Hearing (Exhibit 8, see page 7).

HAROLD J. STAFFORD, *Regional Attorney.*

STATE OF ARKANSAS,
OFFICE OF THE GOVERNOR.

Chairman RUSSELL B. LONG,
Senate Committee on Finance.

DEAR SENATOR LONG: Pursuant to your request by telegram dated March 6th, I am enclosing copy of memo dated November 22, 1971, to Mr. Dudley S. Hall, Associate Regional Commissioner from the Office of the General Counsel.* The memo was in reply to a letter from Arkansas' Commissioner of Social Services. Incidentally, the memo is eight pages long. We have no record of a fifteen page memo.

We feel that the confidentiality rules of HEW are unduly restrictive, particularly in their application to public officials, especially prosecuting attorneys.

If my office can be of further assistance, please let me know.

Sincerely,

DALE BUMPERS.

The CHAIRMAN. It has been my impression that about one-third of these family cases don't belong on these rolls at all and HEW contends there is only 1 percent fraud or 1 percent detectible fraud, that they subsequently admitted here in Washington there were 5 percent; and I will now say they put the lady out of a job because she admitted it was 5 percent.

Mr. WEEMS. Senator, here is what the problem is: Is it what you call fraud. To me when you have an able-bodied father and he is not supporting his children, he is making $600 a month and is in the same town where the mama is and he won't give any support to her, I consider that fraud. HEW would say that is not a fraud case because the

*See p. 840.

children are deserving. There is no question the children are deserving. What I am saying to you is they don't count in their statistics; they won't even tell me where the father is or what he is making or cooperating with me in taking that woman off welfare. That is not statistics.

Senator RIBICOFF. Sir, under the laws of Arkansas it is incumbent of the father to support his children and subject to criminal sanctions?

Mr. WEEMS. Yes, sir.

Senator RIBICOFF So couldn't you, if you knew a father was not supporting that family, couldn't you proceed?

Mr. WEEMS. Oh, yes sir, and we do and we act under those general Arkansas statutes. My problem is——

Senator RIBICOFF. Where does the problem come with HEW in that particular type case?

Mr. WEEMS. In that particular type case how am I going to know about it if the welfare department doesn't tell me, if the mother doesn't tell me?

Senator RIBICOFF. Doesn't tell you that the father is not contributing?

Mr. WEEMS. That's right.

Senator RIBICOFF. In other words, they keep paying the welfare to the mother and children and they give you no information?

Mr. WEEMS. Yes, sir.

Senator RIBICOFF. That the father is neglecting to pay anything?

Mr. WEEMS. Yes, sir; that is the problem right there in a nutshell. I think the responsibility should be on them to advise us of all the information that they have to make it available to us.

Senator RIBICOFF. Do they know? In other words, you contend that the welfare authorities know that the father lives in that town, he is earning X amount of dollars and contributing nothing to the support of his wife and children?

Mr. WEEMS. Yes, sir. I have given a number of examples of just this type thing when we subpenaed their files.

The CHAIRMAN. Mr. Weems, this comes as a surprise to me to find out about this. It came to me as a surprise to find out that where you have a man who is the father of the children, living under the same roof with the mother, the HEW regulations require that that family be placed on the welfare rolls merely because that mother says he is not contributing to the support of those children. Now, legally he owes it?

Mr. WEEMS. That's right.

The CHAIRMAN. Let's assume he is making $700 a month and he owes support of the children and, frankly, probably is contributing but it is to his advantage to deny it because they will go on welfare for the full amount if he denies it?

Mr. WEEMS. That's right and they won't tell me when they put them on there.

The CHAIRMAN. My welfare director told me last night—I was amazed to find this out—he is required by Federal regulations to put

that family on and there is no provision for requiring that a suit be filed against that man to determine him to be the father of those children and made to contribute to their support.

Now, if I am the attorney for Uncle Sam, before I load those children on Uncle Sam's back for a lifetime, the first thing I want to do is to see that we sue the man whose children those are, to declare him to be the father and/or require him to support them.

Now can we justify loading these rolls down with people like that and then tax other people to pay for it? You are telling me that the department tells you as a prosecuting attorney that you are denied access even to the records to know about this so you can prosecute the man and do your duty as a prosecuting attorney?

Mr. WEEMS. That is correct, sir.

Let me add one other thing. I am the author of act A–22 of Arkansas which was passed about a year ago which allowed a prosecuting attorney to file a civil action in conjunction with criminal activity and the reason that I did it that way was so we could cut our caseload in half.

What I have done is I have learned of able-bodied fathers that had put their dependents on the welfare rolls. I have filed joint criminal and civil action and we have collected several thousand dollars and paid it back to the State welfare office; and the first $1,200, the first case we collected, they called me in and said, "What do you want us to do with it?" and I said, "What do you mean, what do you want me to do with it?"

"We have no way of taking it back." So we have no way to take it back. We keep spending money. They have 21 attorneys in the welfare department; they never have filed a first suit in our district, never collected the first penny. Instead they spend more time investigating me and being in court with me rather than trying to cooperate with me and I think, frankly, there is something badly wrong with the system when you can't have any kind of coordination other than what we are getting.

And I contend to you if H.R. 1 is passed as it now reads, unless we take care of these kinds of problems we are going to compound the problem.

I think one of the things seriously wrong with our present welfare system is we don't have any enforcement because of the attitude that HEW has taken.

For example, we have gone into food stamps in my district and I mention on page 8 of my testimony, and this is kind of tragically funny, when in July of last year—and I will just give you one case that we found—the local office found the fraud and under their procedure when they find it, they can't send it to me but have to give it to the field supervisor. The field supervisor sent a report of the fraud to the finance section of the welfare department; the finance section sent a report of the fraud to the welfare department's food stamp coordinator; the food stamp coordinator sent a report of the fraud to the committee on overpayment of the Arkansas Welfare Department; the committee on overpayment sent a report of the fraud to the welfare department's attorney who is also a member of the committee on overpayments.

Six months later the legal department—their 21 lawyers—sent a form letter out asking the fellow to pay it back and he didn't and they

forgot it and they have never done anything else and because of this absurd rule on confidentiality they won't give it to me for prosecution.

But in this particular case this woman had falsified her assets and income and when I sent my investigator out we didn't tell her we were coming; we just went, and she said, "Oh, my gosh, we don't want any trouble," and so she sat down and wrote a check, a $1,041 check.

He said, "Lady, is that check any good?" and she handed him the bank statement and she has something like $5,000 in the bank statement. You know, how many of us can write a check for $1,000 on our checking accounts?

I can give you 30 or 40 examples that I stumbled into where I suspended all of the welfare department officials, which they don't like, and knowing those assets are there, knowing this situation is in existence, and yet they do nothing because of this rule on confidentiality.

But I would mention one other thing that I think is the most tragic, most pathetic example of our present welfare situation. I have had to make some rather traumatic decisions that affect young people; in fact, I had to ask for the death sentence of a 15-year-old, which he got, and got off of because of notoriety; but we also have some good things which will become a model for the community.

We also have had things but when I am responsible for making a decision for making a penal sentence for a youngster and the Arkansas Welfare Department has 1,700 employees, $10 million, the psychologists, psychiatrists, and a juvenile section—in several instances this year where they have prepared background work on youngsters who were having troubles and then that youngster finally committed a crime and I deal with them. Then they have the audacity to tell me that because of this rule on confidentiality they cannot share this background, these psychiatric reports and psychiatric studies that might be helpful to me in making a decision affecting that young man's life, when I know that 70 percent of the children I deal with once I send them to an institution they are going to become criminals. Gentlemen, there is something badly wrong in this administrative structure in this regard and I think it is all the way from welfare. The way we approach this whole problem, it is not realistic, gentlemen. It is your position to change it and I think it is going to take legislative action to do it.

I would ask you—I would urge you to give us the tools to do our job so that we can enforce our laws.

The CHAIRMAN. I want to do more than that. The HEW Secretary told this committee he was willing to cooperate with any measure we might pass to require a father to support his children. I would like for you to help us put together a bill that will reimburse the State for any expense it is out so you can hire any help that you need, and will also put a burden on the U.S. attorneys around this country. And these so-called poverty lawyers instead of spending time suing the Government to load the welfare rolls down with people who don't belong there, to sue some of these runaway welfare fathers to make them contribute to the support of their children.

It is because of the kind of thing you are talking about that everybody in this country knows about—the people who live right next door to these welfare cases are adamantly against putting any more into that thing and that is why in 50 States out of 50 you cannot find a single State legslator willing to put more money into it.

Mr. WEEMS. That is true.

The CHAIRMAN. If HEW is covering up all this fraud, how can you expect to uncover it if they are running the program in the pristine fashion they claim they are doing?

Mr. WEEMS. I think Secretary Richardson was sincere in what he said. I don't think he knows what the people in Dallas are doing, evidently. I just can't believe it would be the Department policy to conceal fraud and especially when you see it in 30 percent of the cases—you see in my district because I made an indepth study and used many people on it and this is the reason the American public simply does not have confidence in our welfare system.

I hope in the months to come I intend to subpena every dadblamed file in my district and I hope in the next 18 months I can tell everybody in my district the people on the rolls are entitled to be there.

But the inequities—but let me give you one other example that I think really crystallizes the problem:

In one of my counties I know of one situation where you have a father, three children, and the wife. The father is totally disabled and that family has to get by on, like, $280 a month and this is their total income.

Less than a half mile on the same road where this particular couple lives there is another couple, a papa, a mama, and four kids. We have a formula basis for welfare: the mother making $300 a month and also applying for aid to dependent children getting $156—there she was also getting food stamps—and by the time you totaled this all up she was getting better than $600 a month. Of course, you can't go and check on weekends, either, Senator. But this particular father, when I found him, was working in Little Rock which was some 40 miles away and he was coming home on weekends and he was bringing home something like $440 a month and the tragic part of it is, the Arkansas Welfare Department knew of both of those situations and did nothing about it; and, I submit to you, that is an inequity in our system because that family with a disabled father getting along on $280 needed part of that $600 the other family was getting.

The CHAIRMAN. What was the combined income of the family?

Mr. WEEMS. They were getting over $1,000 a month.

The CHAIRMAN. That is the kind of thing people complain about and if we don't correct that mess, but just add more people to the rolls, we will be properly condemned in my judgment.

Mr. WEEMS. Senator, I know from speaking to all the other prosecutors in our State if you give us the tools and get HEW off our back, I assure you we will reduce the welfare rolls. But if you don't pass some legislation abolishing this rule on confidentiality directing these people to cooperate with us, our hands are going to be tied.

I have mentioned several specific things in here such as the misdemeanor, as I expect you know, of crossing State lines that will really create more problems for us simply because under the interstate compact with States you can only extradite people on felonies so even though the way your language now is, if you make it a misdemeanor, in our State now and all other States a felony, even though we find a fellow in Tennessee, it won't do me any good because I can't bring him back.

The CHAIRMAN. Well, we can place a burden on the Federal Government to prosecute these cases and we can also do what we can to require the State agencies to cooperate with you. You help us draft the law to see that you have adequate authority and that other State at-

torneys have adequate authority, and while we are doing it let's try to impose as much burden as we can on these Federal lawyers to give Uncle Sam and the taxpayers a little break for a change, instead of spending all their time trying to bankrupt this country by loading the welfare rolls and others down with people who don't belong on there. I think we might be able to make this into a program that the people would approve.

Mr. WEEMS. I think that to make it work effectively it is going to take district offices such as mine, State offices such as the State welfare department, your Federal attorneys; it is going to take a really good coordination of all of these agencies from an enforcement end of it, not to embarrass any recipient and I don't think any of us would want to do that; and I think this is the position HEW has taken. I certainly think the identity of innocent people should be protected but when you take it and go to the absurd conclusion that it applies to everybody, that, I think, when somebody is committing fraud we should prosecute them if that is what it takes to remove them from the rolls.

I know one thing, since we started the campaign in my district our applications are not as high percentagewise as they are in any other districts in my State and we convicted more people of it probably than anyone else; and I think it is going to have a positive effect only on those people who are trying to perpetuate frauds on our society as a whole, and I think if we can do this type thing people are going to have confidence again in what we are trying to do. We ask for your help, gentlemen.

The CHAIRMAN. Any further questions, gentlemen?

Well, thank you very much. We appreciate it.

Mr. WEEMS. Thank you.

(The previous witness' prepared statement and excerpts from the Federal Register and Handbook of Public Assistance Administration relative to the preceding testimony follows. Hearing continues on p. 860.)

STATEMENT OF SAMUEL A. WEEMS, PROSECUTING ATTORNEY FOR THE 17TH JUDICIAL DISTRICT OF THE STATE OF ARKANSAS AND LEGISLATIVE CHAIRMAN OF THE ARKANSAS PROSECUTING ATTORNEYS ASSOCIATION

Mr. Chairman, I am Samuel A. Weems, Prosecuting Attorney for the 17th Judicial District of the State of Arkansas. I also appear here today as Legislative Chairman of the Arkansas Prosecuting Attorneys Association, which includes the Prosecuting Attorneys for all of the 19 Judicial Districts of our State.

We who are charged with the enforcement of criminal laws are concerned with some of the provisions of H.R. 1. I would like to take this opportunity to share with you some of my experiences in connection with the administration of our welfare laws. I hope that this view of the welfare program from the side of law enforcement officials will be helpful to the Committee in drafting the final version of H.R. 1.

On page 114 of the transcript published for use of the Senate Committee on Finance as to hearings on H.R. 1, said hearings heretofore on July 27, 29, August 2 and 3, 1971, Senator Byrd made the following statement to Secretary of HEW Richardson:

"Now, Mr. Secretary, on page 2 of your statement you say that during the decade of the sixties, the AFDC rolls increased by 4.4 million people, a 147 percent increase. Then you say further in the year following the President's initial call for Welfare reform, in August, 1969, the rolls increased an additional 50 percent."

On page 115 of the hearings under-secretary Veneman said the following to clarify this point:

"There has not been a new administration with regard to the administration of public assistance programs in this country. The public assistance programs are administered by State and local governments. The Federal Government has absolutely nothing to do with the administration."

Secretary Richardson then added the following statement:

"I would be very glad, Senator, to have anybody scrutinize the processes that have been administered so far as the Federal role is concerned in the interval since January 1969. I hope that such a scrutiny would disclose that in some respects the situation has been tightened up and improved in administration; the audit procedures are more adequate. But I am sure that you will not find that there has been any relaxation."

The Secretary went on to say "I totally agree with your observation that something is radically wrong and of course that is why we are here, to try to persuade you to do something about it."

I would make the following observations as to the administrations' statements:

1. The department has so tied the hands of local officials that it is impossible to reduce the AFDC rolls contrary to Mr. Veneman's and Secretary Richardson's statements.

2. The provisions of H.R. 1 as passed by the House have not properly dealt with the causes of the tremendous increase in the AFDC rolls. H.R. 1 will compound the problem, not solve it, as Secretary Richardson suggests.

Gentlemen, I would begin my remarks with perhaps an over simplification of the Aid For Dependent Children Programs as it applies to the people of the United States.

We do not object to the contributing of our tax dollars to support the elderly, the disabled, widows and above all, children. However, we do object to supporting the families of able bodied fathers.

In my Judicial District I have outstanding as of October 1, 1971, 534 AFDC cases. This is an increase of 100 since January 1, 1971 when I first took office as prosecuting attorney.

Based upon my experience, up to 30 percent of these cases could be removed from the welfare rolls because the father is able bodied and employed.

My office has started a campaign to locate and (1) prosecute able-bodied fathers for failing to support their families and (2) file civil suits to recover from the able bodied father funds paid by the state to support his family.

Even though I am the chief attorney for the State of Arkansas in my district and contrary to the above administration's statement of no federal government interference in the administration of the AFDC program, it is not a correct statement as it is applied by the Department of Health, Education and Welfare to the State of Arkansas. I suspect the same is true in the other states.

The present administration has adopted a policy of confidentiality to such an extent that information necessary for criminal prosecutions is not available to my office.

Frankly, under the provisions of HR 1 the problems will increase because this policy has not been eliminated.

To substantiate this statement I would share with you the results of a recent investigation my office made into several specific cases in one of my counties. I would mention that I subpoenaed these cases at random and made a detailed investigation into each case. I will leave for your judgment if the Administration's statement cited above is correct when applied to a specific state.

Case No. 1: Husband and wife living together

Three children, mother has been drawing welfare since March, 1971. State Welfare office certified that $505.00 paid to support children. Subpoenaed records show $875.00 paid by State.

(1) Action taken: Civil suit against father to recover $875.00.

(2) Subpoena to wife to determine if criminal charges will be filed against her for obtaining money under false pretences. Welfare file reflects wife told welfare workers repeatedly she had not seen father and did not know where he was—yet he is employed in Little Rock.

Case No. 2: Mother and Two Children

File reflects mother has no source of income, yet investigation reveals she is employed. Father is employed in same city where mother lives. State Welfare office certified that $546.00 paid to support children. Subpoena records show $1002.00 paid by state.

(1) Action taken: Civil suit against Father to recover $1002.00 and warrant of arrest for non support of children.

(2) Subpoena to mother to determine if criminal charges will be filed against her for obtaining money under false pretenses.

Case No. 3: Mother Has Four Children

The state welfare office certified the case to my office for action. Investigation revealed that father has been deceased since 9–21–65. Upon subpoenaing welfare records the case file reflected father was deceased as welfare department

had proof of death. Because of welfare policy this information cannot be made available to my office.

Action taken: None.

Case No. 4: Mother and Three Children

State Welfare Department certified the case to my office as non support that $1,471.00 had been paid as support payments—The subpoenaed records reflect that as much as $2,303.00 may have been paid.

The subpoenaed file also reveals father has been paying $25.00 a week in support payments as per the order of the chancery court since 7–27–70. Yet this information is not available to my office except by subpoena.

Action taken: Subpoena of father to determine his earnings in order to determine if state funds can be recovered. There is no information in welfare file as to his earnings.

Case No. 5: Mother and One Child

State welfare office certified the case to my office and states that $840.00 in state funds had been awarded the mother. Subpoenaed file reveals as much as $1,335.00 may have been expended. Investigation reveals that father deserted wife and child, applied for a divorce, had a blood test taken prior to the granting of the divorce, remarried immediately after the divorce and now has a 2nd child by his second wife. He is employed.

Action taken: Warrant of arrest for child abandonment and the filing of a civil suit to recover support payments paid. ($840.00 recovered, paid to State).

Case No. 6: Grandmother and Child

Welfare department certified that $204.00 paid as support. It would appear that this amount is correct. The welfare file reflects father works in North Arkansas when upon investigation father works in South Arkansas.

Action taken: Warrant of arrest for child abandonment and filing of a civil suit to recover state money.

Case No. 7: Mother and Three Illegitimate Children

Investigation reveals that county judge in 1966 made a Judicial determination as to who was legal father. Father was ordered to pay support yet he never has. The state welfare department certified that $5,026.00 has been paid for support. The father is in Little Rock and is employed.

Action taken: Warrant of Arrest for child abandonment and filing of a civil suit to recover support payments paid.

Case No. 8: Mother and Three Children

The state welfare department certified that $4,929.00 had been paid for support. The subpoenaed file reflects that as much as $10,869.00 may in fact have been paid. The file reflects the legal father of one child is unknown. The file reflects the father of one illegitimate child may be deceased. The file reflects the following information as to the third illegitimate child:

The case worker was advised that on 11–15–66 by a reliable source that the mother was living with a certain individual and that he was supporting her. The mother was drawing welfare assistance on the first two children during this period. The welfare director recommended no action be taken.

The subpoenaed file reflects that on 12–19–66 mother came to local office and reported she was pregnant. The mother is now receiving assistance for all three children.

A local welfare official required the third father to sign the following statement: "I ————, acknowledge that ———— is pregnant with my child. I will support ———— while she is sick and will pay her hospital and doctor bills. I further state that I will support this child when it is born."

The file reflects he has never supported the child. This statement would not have been provided my office without subpoenaing the file. The statement will be most helpful in proving the legal father.

Action taken: Bastardy action has been started against the father. Once the Judge has declared him to be the legal father, a civil suit will be filed to recover state funds as the father is employed. If the father continues to refuse to support the child after he is legally declared to be the father, a warrant will be issued for his arrest for child abandonment.

Case No. 8: Mother and Eight Illegitimate Children

State welfare department certified two children to my office and stated that since December, 1970 $1,028.00 had been paid to support the two children. However, the subpoenaed file reflects there are eight illegitimate children, that

the mother has been receiving aid for several years and that at least $13,884.00 has been paid in support payments.

On 4-2-65 Mother stated she needed help and does not know where father is—as to the father she never lived with him and never did housekeeping for him, that she only courted him and had children for him.

The file reflects mother had two more illegitimate children since 4-2-65 and the file reflects the state assisted all the children.

Action taken: Bastardy action has been started against the father. Once the Judge has declared him to be the legal father a civil suit will be filed to recover state funds as the father is employed. If the father continues to refuse to support his children after he is legally declared to be the father a warrant will be issued for his arrest for Child Abandonment.

Case No. 9: Mother and Four Illegitimate Children

Welfare department certified two children to my office—Subpoena file reveals four children not being supported. Welfare department certified that $1,251.00 paid to support children yet subpoena file reflects an undetermined additional sum has been paid.

Of the Four children the last two are alleged to have been fathered by the same father. The mother stated when she applied for assistance that she had to have assistance because she "could not depend upon him for support" yet the fourth child was later born and the mother alleges the same undependable man was the father.

There is nothing in the files to reflect any clue as to where the first father may be located.

Action taken: Bastardy action has been started against the father. Once the judge has declared him to be the legal father a civil suit will be filed to recover state funds as the father is employed. If the father continues to refuse to support his children after he is legally declared to be the father a warrant will be issued for his arrest for child abandonment.

Case No. 10: Mother and Five Children

The father is employed and the state has paid $220.00 for child support. The father is now paying support.

Action taken—Suit to recover state funds paid for benefit of his children. Paid and collected.

Case No. 11: Mother and One Illegitimate Child

In April, 1971 Mother stated in subpoenaed record that father and his "family" have moved to Chicago. Investigation reveals that father is working in Little Rock. The Welfare Department records show that $486.00 has been paid for support.

Action taken: Bastardy action has been started against the father. Once the Judge has declared him to be the legal father a civil suit will be filed to recover state funds as the father is employed. If the father continues to refuse to support his children after he is legally declared to be the father a warrant will be issued for his arrest for child abandonment.

Case Number 12: Mother and Seven Illegitimate Children

Welfare Department certified that $1,561.00 had been paid to support children by the state, however, the subpoena case file reveals that a much larger amount has in fact been paid.

Action taken: Bastardy action has been started against the father. Once the Judge has declared him to be the legal father a civil suit will be filed to recover state funds as the father is employed. If the father continues to refuse to support his children after he is legally declared to be the father a warrant will be issued for his arrest for child abandonment.

Case Number 13: Mother and Two Children

State Welfare Department certified two fathers not supporting their children. The State office stated that $2,049.00 had been expended for the support of the children. However, the subpoena welfare files reveal that at least $3,281.00 has been paid by the state.

The file also reflects that one of the fathers has been a patient at the TB sanatorium for several years. This information was not made available to me when it was certified to my office by the welfare department.

The second father is employed in Little Rock.

Action taken: None against father in TB sanatorium. Warrant of arrest and civil suit filed against able bodied employed father.

Case Number 14: Mother and Six Illegitimate Children

Welfare Department certified one child. Subpoena welfare file reveals a total of six children. The file reveals a court order in 1966 determining legal father and order for support. Yet because of welfare department policy this information was not volunteered to my office.

The file also reflected that one alleged father certified to my office was deceased.

Action taken: Bastardy action has been started against one father. Follow up court action taken as to the prior court order and a warrant has been issued for his arrest for deserting his children.

Case Number 15: Grandmother and Nine Children

Subpoena file reveals that father left nine children in 1964. The Welfare Department states the state has expended $7,832.00 to support the children. However, the case file reflects the state may have expended much more than the cited figure.

Investigation reveals that father has remarried, has one child by second family, takes home $86.00 week and carries all ten children as dependents.

Action taken: Warrant of arrest issued and civil action filed to recover state funds.

I would also mention the operation of the food stamp program as administered by the Arkansas Welfare Department.

In early July of 1970, one of my county offices learned that an individual who stated he was unemployed and received some $2,255.00 in food stamps was in fact employed by a local rice mill.

The following steps were taken:

(1) The local office referred the case to the field supervisor of the welfare department.

(2) The field supervisor sent a report of the fraud to the finance section of the welfare department.

(3) The finance section sent a report of the fraud to the welfare department's food stamp coordinator.

(4) The food stamp coordinator sent a report of the fraud to the committee on overpayment of the Arkansas Welfare Department.

(5) The committee on overpayment sent a report of the fraud to the welfare department's attorney who is also a member of the committee on overpayments.

(6) In mid January, 1971, *some 6 months* after the fraud was discovered, the attorney sent a form letter to the individual telling him he has received $2,255.00 illegally. He spelled out how he committed the fraud and tells him he must pay the money back.

(7) 11 months later, no money has been recovered from the individual. No further action has been taken by the welfare department nor their 21 member legal staff, nor have they requested criminal prosecution.

Yet, because of the rule on confidentiality, this case, nor any of the other 43 cases of fraud my office knows of, has been voluntarily presented to us for criminal action even though 8 different employees of the Arkansas Welfare Department has made an investigation and written reports to each other as to how fraud has been committed.

The following detailed reports have been written by employees of the welfare department.

(1) Individuals drawing food stamps while employed in two or more counties at the same time.

(2) Concealed assets and income. An example is an individual who wrote us a check of $1,041.00 to pay back the value of food stamps and had a bank account of some $5,000.00. How many of us can write a check for $1,041.00 from a $5,000.00 bank account today? This information, as is all others I mention, was in several written reports yet the welfare department and their 21 lawyers took no action.

(3) Individuals who stated they were unemployed when, in fact, they had regular employment.

(4) Forged income statements.

These are just a couple of examples of the fraud my office, without the assistance of the Arkansas welfare department, found in 44 cases in our district just last month.

The only thing I have seen from the welfare department is paper shuffling, report writing to each other, more employees each two years to take care of the more people on welfare and raises in salary for the employees and expanded staffs, yet the problem gets bigger and bigger.

I would make the following comments as to specific sections of H.R. 1:

Section 2172 treats the question of penalties for fraud. This section of H.R. 1 will, for all practical purposes, prevent very little, if any, follow up on fraud for the following reasons:

1. The State prosecuting attorneys are charged with the prosecution of fraud but a federal agency will have all records. Unless the prosecuting attorney is given subpoena powers to conduct investigations, I am fearful of what will happen when a given administration does not want an investigation. At the present time I have grave problems with federal regulations in the field of welfare. Without the power of the subpoena, I would be powerless to prosecute any fraud whatsoever. A section must be written into H.R. 1 to give us this power.

2. The burden of proof is placed on the prosecution in sub-section (1) of Section 2172 to prove "knowingly" and "willfully" making or causing to be made any false statement or representation of a material fact in any application for any benefit under H.R. 1. This is an almost impossible burden to prove. The legislation should make a false statement in any application of a material fact prima-facie evidence of fraud with the burden of proof on the applicant to show why the false statement was made.

3. Regardless of how many convictions I obtained and how much money is involved. a defendant can never be found guilty of more than a misdemeanor and fined not more than $1,000.00 and/or imprisoned for not more than one year.

It would be my suggestion at some point an applicant's conviction should be a felony and perhaps forfeit the right to receive additional welfare benefits.

4. Section 2175 deals with the obligation of a deserting parent. Under this section, a deserting parent is liable to the government for any and all sums paid to support a parent's child or children.

In my judgment, this section should be broadened to allow the prosecuting attorneys to merge civil and criminal actions into one cause of action,. Due to the heavy case load, this will reduce the total support case load in half.

5. The prosecuting attorneys should be given by legislation, action to all federal agencies for assistance in locating absent parents.

6. Section 2176 spells out the penalty for interstate flight to avoid parental responsibilties. Frankly, this section just will not work for the following reasons:

(a) The prosecution must prove that a parent left the state "for the purpose of avoiding responsibility for child support". It should be prima facie evidence that if a parent left the state without providing for the support of his family that he intended not to support them.

(b) The penalty for interstate flight under this section is regardless of how many convictions to the acts are only a misdemeanor and/or a $1,000.00 fine and/or one year in jail.

As a practical matter it is not possible to extradite a defendant from another state on a misdemeanor charge. The present law of Arkansas is that if a parent does not support his family and crosses a state line it is a felony. The reason this Arkansas law was passed was so we could extradite a skipping father. Under the provisions of H.R. 1 this will not be possible.

I also have reservations as to Section 2152 which sets out the eligibility for an amount of benefits.

A few months ago, I had cause to investigate a welfare case where there was a mother and eight illegitimate children. Under the provisions of this section, she would receive $3,800.00. Section 2153 spells out the meaning of income but also establishes certain exclusions from income. The first $720.00 of earned income is exempt. Plus ⅓ of all child support payments are exempt as is all alimony payments.

Notwithstanding any other provisions of this section, the total amount which may be excluded in determining income of a family in a given year, said exclusions shall not exceed the lesser of (a) $2,000.00 plus $200.00 for each member of the family in excess of four or a total of $3,000.00.

Thus under the case I investigated last month, the mother with 8 illegitimate children would receive $3,800.00. If I were successful in securing the father to support his children for an example of $1,200.00, $400.00 would be exempt. Since $720.00 is also exempt, $80.00 would be reduced from the $3,800.00 for a total of $3,730.00 plus $400.00 exempt or a total of $4,120.00 net to the mother.

In addition to this sum of $4,120.00 an additional sum from any source of $3,000.00 could be added as per the language of this section. Thus a mother with 8 illegitimate children could receive $7,120.00 as per this legislation.

There will also be consideration for day care centers. It is my view this concept has much merit. However, I will not go into detail as to my views at this time.

It is my view, and the views of most of the other prosecuting attorneys of the State of Arkansas that we do not want the enforcement responsibility as presently set out in H.R. 1. Unless the Senate of the United States will give us the working tools to do our job, we wish to go on record as expressing our reservations as to the workability of this legislation as it applies to us.

I would offer the following suggestions as to the steps that must be taken if the present welfare problem is to be solved:

(1) Prosecuting attorneys must examine each AFDC and Food Stamp case in our respective districts and compel all able bodied fathers to support their families and remove all that are committing fraud from our rolls and place them in our prisons if necessary. We will need specific legislation and perhaps the removal of welfare bureaucrats before this can be achieved. Prosecuting attorneys must have the cooperation of the local case worker. Today, they are under fear of their jobs if they cooperate. This fear must be removed.

(2) Abolish all hidden committees of the Arkansas Welfare Department and require this department to advise proper judicial officers when fraud is discovered or suspected.

(3) We must have sincere, dedicated appointed employees in the State Welfare Department who will work for the public interest if we are to insure that only those who need our help will receive it. Today I can cite many examples of inequities of those who receive aid and those who do not. For example, in one of my counties I know of a husband who is totally disabled, has a wife and three children whose sole income is less than $260.00 per month. Less than a half mile from him is a mother with four children. The mother is employed, drew AFDC on the four children and bought food stamps. The father is employed in Little Rock and comes home on week ends. This family was receiving more than $1,000.00 per month.

Needless to say, the second family is not so well off today, due to action by my office but this information was known to the welfare department and the bureaucratic mess of our program in this state did nothing to correct this inequity.

It is time our welfare department got in step with the times and honestly faced the problems which we have today.

(4) Abolish the 21 member legal firm of the Arkansas Welfare Department and transfer the duties to the State's Attorney General, and provide the local prosecuting attorney a staff to enforce abuse.

(5) Pass legislation that information regarding a deserting parent would be furnished to appropriate judicial officials from any state or federal agency such as the state revenue department or the internal revenue service.

(6) By legislation, abolish the regulation on confidentiality as it applies to a prosecuting attorney.

(7) Provide for the collection of any and all improper welfare payments by the internal revenue service and the revenue departments in conjunction with civil and criminal actions.

(8) Require maximum use of legal services lawyers—O.E.O.—legal aid, etc. in obtaining and enforcing support orders on behalf of destitute mothers.

(9) Pass legislation making it a crime for any state or federal employee who does not report criminal or suspected criminal activity to the proper officials.

These measures may not totally solve our welfare problems but I believe they can be a start. The time is past due when we should make needed changes in our present welfare system.

It is time that such foolishness as I have mentioned be abolished and we must take whatever steps are necessary to bring the Arkansas Welfare Department out of the dark ages of bureaucratic quicksand and face our problems honestly and in light of our past experience, let's frankly admit something is wrong with welfare and let's change it!

Statute and Regulations Relative to Safeguarding Information

[FROM THE SOCIAL SECURITY ACT]

Sec. 402 (a) (9) of part A title IV of the Social Security Act as amended is as follows:

"Sec. 402 (a) A State plan for aid and services to needy families with children must . . . (9) provide safeguards which restrict the use or disclosure of information concerning applicants and recipients to purposes directly connected with the administration to aid of families with dependent children;"

[From the Federal Register, vol. 36, No. 40—Feb. 27, 1971]

§ 205.50 Safeguarding information.

(a) *State plan requirements.* A State plan under title I, IV–A, X, XIV, XVI, or XIX of the Social Security Act, except as provided in paragraph (b) of this section, must provide that:

(1) Pursuant to State statute which imposes legal sanctions:

(i) The use or disclosure of information concerning applicants and recipients will be limited to purposes directly connected with the administration of the program. Such purposes include establishing eligibility, determining amount of assistance, and providing services for applicants and recipients.

(ii) The State agency has authority to implement and enforce the provisions for safeguarding information about applicants and recipients;

(iii) Publication of lists or names of applicants and recipients will be prohibited.

(2) The agency will have clearly defined criteria which govern the types of information that are safeguarded and the conditions under which such information may be released or used. Under this requirement:

(i) Types of information to be safeguarded include but are not limited to:

(*a*) The names and addresses of applicants and recipients and amounts of assistance provided (unless excepted under paragraph (b) of this section);

(*b*) Information related to the social and economic conditions or circumstances of a particular individual;

(*c*) Agency evaluation of information about a particular individual;

(*d*) Medical data, including diagnosis and past history of disease or disability, concerning a particular individual.

(ii) The release or use of information concerning individuals applying for or receiving financial or medical assistance is restricted to persons or agency representatives who are subject to standards of confidentiality which are comparable to those of the agency administering the financial and medical assistance programs.

(iii) The family or individual is informed whenever possible of a request for information from an outside source, and permission is obtained to meet the request. In an emergency situation when the individual's consent for the release of information cannot be obtained, he will be notified immediately thereafter.

(iv) In the event of the issuance of a subpoena for the case record or for any agency representative to testify concerning an applicant or recipient, the court's attention is called, through proper channels to the statutory provisions and the policies or rules and regulations against disclosure of information.

(v) The same policies are applied to requests for information from a governmental authority, the courts or a law enforcement official as from any other outside source.

(3) The agency will publicize provisions governing the confidential nature of information about applicants and recipients, including the legal sanctions imposed for improper disclosure and use, and will make such provisions available to applicants and recipients and to other persons and agencies to whom information is disclosed.

(4) All materials sent or distributed to applicants, recipients, or medical vendors, including material enclosed in envelopes containing checks, will be limited to those which are directly related to the administration of the program and will not have political implications. Under this requirement:

(i) Specifically excluded from mailing or distribution are materials such as "holiday" greetings, general public announcements, voting information, alien registration notices;

(ii) Not prohibited from such mailing or distribution are materials in the immediate interest of the health and welfare of applicants and recipients, such as announcements of free medical examinations, availability of surplus food, and consumer protection information;

(iii) Only the names of persons directly connected with the administration of the program are contained in material sent or distributed to applicants, recipients, and vendors, and such persons are identified only in their official capacity with the State or local agency.

(b) *Exception.* In respect to a State plan under title I, IV–A, X, XIV, or XVI of the Social Security Act, exception to the requirements of paragraph (a) of this section may be made by reason of the enactment or enforcement of State legislation, prescribing any conditions under which public access may be had to records of the disbursement of funds or payments under such titles within the State, if such legislation prohibits the use of any list or names obtained through such access to such records for commercial or political purposes.

[From the Handbook of Public Assistance Administration]

PART IV. ELIGIBILITY AND PAYMENTS TO INDIVIDUALS

7000–7999 SAFEGUARDING INFORMATION

7000. Safeguarding Information

7100. Provisions of the Act

"A State plan [for old-age assistance, aid to the dependent children, aid to the blind, aid to the permanently and totally disabled] must . . . provide safeguards which restrict the use or disclosure of information concerning applicants and recipients to purposes directly connected with the administration of [old-age assistance, aid to the dependent children, aid to the blind, aid to the permanently and totally disabled, respectively.] (Sections 2(a)(8), 402(a)(8), 1002(a)(9), and 1402(a)(9))

Section 618 of the Revenue Act of 1951 (P.L. 183, 82d Congress, approved October 20, 1951):

"No State or any agency or political subdivision thereof shall be deprived of any grant-in-aid or other payment to which it otherwise is or has become entitled pursuant to title I, IV, X, or XIV of the Social Security Act, as amended, by reason of the enactment or enforcement by such State of any legislation prescribing any conditions under which public access may be had to records of the disbursement of any such funds or payments within such State, if such legislation prohibits the use of any list or names obtained through such access to such records for commercial or political purposes."

7110. Interpretation—Section 618 of the Revenue Act of 1951

Pending further revision of Handbook IV–7200 through IV–7610, dated 1/7/46, that statement is to be read subject to the following interpretation of Section 618 of the Revenue Act of 1951, as originally issued to States in State Letter No. 166, dated November 8, 1951.

In interpreting the language of section 618, it is necessary to realize that the provisions of the Social Security Act which require a State plan to "provide safeguards which restrict the use or disclosure of information concerning applicants and recipients to purposes directly connected with the administration" of the particular assistance program remain in full force and effect except to the extent that they are modified by section 618.

If a State wishes to take advantage of the provisions of section 618, then there must be specific provisions in the State legislation which authorize public access to the records of disbursements or payment of public assistance, prescribe the conditions under which such access may be had, and prohibit the use of any lists or names so obtained through such access for commercial or political purposes.

Under section 618, the State law is only permitted to provide for public access to "records of the disbursement of any such funds or payments within such State." Thus section 618 leaves intact, even for States operating under it, the protections written into the Social Security Act against the release of other information, including case records, which the public assistance agency possesses concerning applicants and recipients of public assistance.

Section 618 permits a State to enact a statute under which "public access may be had" to the type of records discussed above, and places no limitations upon the conditions that the State statute may prescribe under which public access may be had to such records. Therefore, such conditions may be as restrictive or as broad as a State legislature may deem advisable. Moreover, subject to the prohibition of use for commercial or political purposes, the State may permit persons inspecting the accessible records to make any use they may wish of information so obtained. However, it must be noted that the congressional language was phrased so as not to go beyond permitting public access to such records. That is to say, the use in section 618 of the phrase "access may be had" would seem to require that the public take the initiative in seeking access to and examining the records of disbursement and payment and that the State itself refrain from taking the initiative in general distribution to the public of such information by means of publication or otherwise.

7200. Interpretation

When the Social Security Act was enacted on August 14, 1935, no mention was made concerning the safeguarding of public assistance information. How-

ever on December 22, 1938, the Bureau of Public Assistance sent letters to all State public assistance agencies in which the policy was adopted by the Social Security Board on November 29, 1938, was stated as follows:

"The Social Security Board finds that it is an important element in efficient administration of State public assistance plans that the State public assistance agency have authority to promulgate and enforce regulations concerning the use and protection of lists of public assistance recipients and other records relating to individuals receiving public assistance, to confine the use of such lists and records to purposes directly related to the administration of State and local public asistance programs, and to protect from public disclosure communications of an intimate and personal character made in confidence to the State or local public assistance agencies or any of their employees or representatives."

When the Social Security Act was amended August 10, 1939, the provisions concerning safeguarding of information were included as stated under "Provisions of the Act." A letter was sent to all State Public Assistance agencies by the Executive Director of the Social Security Board dated November 15, 1940, advising the agencies of the amendment and stating that in accordance with the terms of this amendment it would be necessary that plan material evidencing the State's compliance with these provisions be submitted and approved by July 1, 1941, the effective date of the amendment.

The Social Security Board then adopted "Standards for Safeguarding Information Concerning Applicants and Recipients of Public Assistance" and issued this statement to all State public assistance agencies on May 7, 1941. The statement did not repeat the statutory requirement necessary for compliance with the amendments of August 10, 1939, as this subject was covered in the Executive Director's letter of November 15, 1940, and it was presupposed that State public assistance agencies have authority to safeguard and regulate the use of their records, but it sets forth standards for administrative action to assure adequate protection uniformly throughout the States.

7210. Objectives

The provisions of the Social Security Act, regarding the confidential character of public assistance information have as their objective the protection of applicants and recipients from exploitation and embarrassment. State regulations should be directed to the objectives of:

1. Developing a relationship of confidence between the agency and the applicant for public assistance which is vital and essential to efficient administration.

2. Defining and protecting the rights of applicants for public assistance through safeguards (a) against the identification of such individuals as a special group segregated on the basis of their need for public assistance, (b) against the exploitation of this group for commercial, personal, or political purposes, and (c) against making information available as a basis for prosecution and other proceedings except in connection with the enforcement of the public assistance laws.

3. Providing a basis for recognition by the courts of the right of the agency to protect its records, and of the privileged character of information made available to the public assistance agency as the process of administering assistance.

4. Developing a relationship of confidence between the agency and the public at large by protecting information made available to the agency by representatives of the public and utilizing such information only for the purposes of the proper functioning of the agency's public assistance programs.

7300 thru 7400: Superseded by SRS Program Regulation 10–11, dated February 27, 1971. See *Federal Register*, Vol. 36, No. 40, dated February 27, 1971, Chapter II, 45 CFR 205.50.

7470: Superseded by SRS Program Regulation 10–11, dated February 27, 1971. See *Federal Register*, Vol. 36, No. 40, dated February 27, 1971, Chapter II, 45 CFR.

7500. Specific Application of Standards.

7510. Disclosure to Law-Enforcement Officers.

Questions have been raised as to the propriety of disclosing public assistance information to Federal and State agencies, particularly law-enforcement officers, for purposes not connected with the administration of public assistance. Since the States' situation in relation to protection of information is analogous to that of the Social Security Board, the Board's experience in protecting the confidential character of the records of the Bureau of Old-Age and Survivors Insurance may

be helpful. The Social Security Board promulgated Regulation No. 1, providing for such protection under the authority vested in it by section 1102, and subsequently of section 1106 of the Social Security Act. On the basis of this regulation, various requests of the Department of Justice and other law enforcement officers for access to the confidential records of the Board for law enforcement purposes have been denied. The Board has consistently followed the policy of refusing to furnish confidential information from its records, except for the purposes of administering the Social Security Act and related programs. To do otherwise would be to violate the assurances under which such confidential information was obtained and the provisions of the Social Security Act as amended in 1939.

It should be especially noted that the Department of Justice has officially recognized the validity of Regulation No. 1. An excerpt from the Attorney General's instruction to all United States Attorneys (Circular No. 3081), issued on February 15, 1938, follows;

"It is the view of this Department that this regulation [Regulation No. 1 of the Social Security Board] is valid and binding on the courts, as well as governmental departments and agencies. It is, therefore, essential that every effort be made to keep the information contained in the official records of the Social Security Board confidential, and it is requested that you cooperate to this end."

The States, under their approved rules and regulations established pursuant to the mandate contained in sections 2(a) (8), 402(a) (8), and 1002(a) (9) of the Social Security Act, designed to limit effectively the use of public assistance information to purposes directly connected with the administration of their programs, are in a position to afford similar protection to their public assistance records.

Like the Social Security Board, the States have the responsibility for protecting confidential public assistance information and should accordingly point out to any law enforcement officers or agencies who request information of this character, in cases not directly affecting the administration of public assistance, the pertinent sections of the Social Security Act and the approved State regulation adopted pursuant thereto.

7520. Recording of Liens

Various types of practices in recording liens against property of recipients which have been found to reveal whole or partial lists of recipients include: use of separate books in which to record public assistance liens; filing of public assistance lien instruments in a separate receptacle; use of a separate index for assistance liens; and use of an obligee-obligor index.

In States having statutory requirements for separate lien books for assistance liens, it should be determined: whether there is a miscellaneous record book and whether the recording of assistance liens in such books is possible; and whether such recording would in fact result in a significant dilution of the assistance list. If, therefore, after consideration of all possible revisions within the present framework of the recording procedures, the State demonstrates that it is faced with a choice between doing away with blanket liens or continuing a recording practice which yields a list, the Social Security Board will not require the abolition of blanket liens but will expect the State to rely on the application of criminal sanctions against persons misusing these lists.

If separate lien books, files, or indexes are being used because of a requirement of the public assistance law, or if their use is merely a matter of administrative convenience, and another satisfactory method of providing notice could be utilized under the regular property procedures relating to notice, appropriate revisions in law and practice will be required.

As to obligor-obligee indexes, since these are a part of the traditional property procedures, it is suggested that if there is a law revision commission within the State, the possibility of not including assistance instruments in this index, together with any other recording problems, be referred to such commission. If feasible, it is recommended that the State consider indexing in the name of the State rather than of the State agency, if thereby the assistance instruments would become unidentifiable as such.

7530. Temporary—War-Related Disclosure of Information

If the State agency determines to revise its policy on exceptions to make possible the release of public assistance information for war-related purposes, the agency should establish essential safeguards limiting and circumscribing the policy to prevent unjust action with respect to the individual applicant as much as possible. Standards and procedures which may be expected to provide such safeguards include the following:

1. The policy should be limited to the duration of the war.

2. Assurance should be available that the information is being released only to duly authorized representatives of an established governmental authority having specific responsibility for making administrative determinations or recommendations with respect to (a) the loyalty or fitness of persons who may be utilized in the military or naval forces or in essential war activities, or (b) persons who may be suspected of engaging in activities inimical to the prosecution of the war.

3. Such information as is furnished should be specifically related to the purposes outlined above. Proper assurance that the use of the information will be limited to the purpose for which it is made available should be obtained.

4. Case record material which contains personal information that has no direct bearing on the purpose for which the information is sought should not be made available but an agency representative can present the pertinent factual information known to the agency and make proper interpretation of the total agency record with specific relation to the question at issue, including consideration as to whether the information available is sufficiently current to be relevant.

In releasing information to properly authorized representatives of a governmental authority, it is not expected that public assistance agencies will relax their standards of protection of information sought by law enforcement agencies for purposes of prosecution unrelated to the war, or for purposes unrelated to the proper administration of public assistance.

7531. Disclosure to Selective Service Boards

The Bureau of Public Assistance believes that Selective Service boards, in order to arrive at valid and consistent decisions regarding dependency, should have access to relevant facts in the possession of the public assistance agencies, including the source of their information. The Social Security Board, on February 10, 1942, approved the recommendation of the Bureau of Public Assistance that in extending services to Selective Service boards, public assistance agencies release information obtained from the Bureau of Old-Age and Survivors Insurance on the same basis as information obtained from any other source. To attempt to eliminate from the reports of the public assistance agency information obtained from the Bureau of Old-Age and Survivors Insurance would result in incomplete and inadequate reports.

In making services available to Selective Service boards State public assistance agencies should be governed by the following policies and standards:

1. The State public assistance agency should develop working agreements on a State-wide basis with Selective Service boards to assure itself in specific terms that such boards accept responsibility to safeguard information made available to them against disclosure, and to restrict the use of such information to purposes for which it was made available.

2. In every instance in which the local Selective Service board has requested the public assistance agency to supply information regarding the registrant, the agency should inform the registrant and his family of the request and of the agency's participation in complying with the request.

3. In making services available in cases already known to the agency, the public assistance agency should report only current, factual information. To do so, the agency will need to reappraise the information already available to it, since that information was obtained for another purpose, and may not be sufficiently current.

4. Only information relevant to the fact of dependency, as construed under the provisions of the Selective Service Act and contained in Selective Service regulations, should be released.

5. Every precaution should be taken to assure that information of a personal and confidential nature (especially medical diagnoses, statements regarding family disorganization, past history of disease, illegitimacy, etc.) will be put into the hands of professional people only who will be in a position to limit its use to the purposes for whch it was made available.

Selective Service boards are governed by regulations issued by the National Headquarters, under the terms of which the records of the Selective Service boards are confidential to them, and information in their files cannot be made available to any interested agency or even to the registrant's family without the consent of the registrant.

7610. State Legislation

The protection of confidential information given by applicants or recipients in connection with their claims is a privilege appertaining to the applicant, and its use is properly confined to that which is appropriate in carrying out the purposes for which it was given to the agency, or otherwise to the extent expressly per-

mitted by the applicant or recipient. One of the best tests of the effectiveness of either a statutory provision or a rule and regulation regarding the confidential character of public assistance records is whether it will protect the case record against disclosure upon court order either through the subpoenaing of records or the giving of testimony.

It is recommended that a statutory provision similar to that below be adopted in order that the authority of the State agency may be clear, especially as lists and records in the hands of other State or local officials may be affected. This type of enabling provision is also preferable to any attempt to draft detailed legislative provisions of a regulatory character. Detailed legislative provisions, unless carefully drawn, may have an effect of denying applicants or recipients the necessary access to such portion of the case record upon the basis of which determination was made as to eligibility for assistance.

Confidential Character of Public Assistance Records.—The rulemaking power of the State department shall include the power to establish and enforce reasonable rules and regulations governing the custody, use, and preservation of the records, papers, files, and communications of the State and county departments. Wherever, under provisions of law, names and addresses of receipients of public assistance are furnished to or held by any other agency or department of government, such agency or department of government shall be required to adopt regulations necessary to prevent the publication of lists thereof or their use for purposes not directly connected with the administration of public assistance.

A statutory provision similar to that below is also recommended as the best method of rendering the misuse of lists and records unlawful. Unless such sanctions already exist elsewhere in State codes, a specific provision will be requisite in the public assistance law or preferably in appropriate sections of the general laws of the State.

Misuse of Public Assistance Lists and Records.—It shall be unlawful, except for purposes directly connected with the administration of general assistance, old-age assistance, aid to the blind, or aid to dependent children, and in accordance with the rules and regulations of the State department, for any person or persons to solicit, disclose, receive, make use of, or to authorize, knowingly permit, participate in, or acquiesce in the use of, any list of or names of, or any information concerning persons applying for or receiving such assistance, directly or indirectly derived from the records, papers, files, or communications of the State or county or subdivisions or agencies thereof, or acquired in the course of the performance of official duties.

Although the Federal requirement regarding the confidential character of lists and records applies only to special types of public assistance, it is recommended that provisions on this subject in State laws be broad enough to protect other assistance and welfare records as well.

The CHAIRMAN. The committee will meet again at 3 o'clock in this room. We will adjourn until that time.

(Whereupon, at 12:35 p.m., the hearing was adjourned, to reconvene at 3 p.m., this date.)

AFTERNOON SESSION

The CHAIRMAN. We are listed to have with us today Mr. Robert Myers. We appreciate, Mr. Myers, your passing your turn so that Mr. Weems could be heard and then be on his way. We are happy to have you here and we have appreciated your good advice in years gone by and we are glad to have your statement today.

Senator CURTIS. Mr. Chairman, I know we are running behind but I will just be a very few seconds.

I want the record to show my very high regard for Mr. Myers. Throughout his career in Government I found him not only a good actuary but very knowledgeable of the social security law in all its aspects; and he has been most helpful to this committee and the Ways and Means Committee over the years and I am so delighted that he is back here to give us the benefit of his thinking.

Mr. MYERS. Thank you very much, Mr. Chairman, and thank you, Senator Curtis.

Senator BYRD. Mr. Chairman, may I make a brief statement before Mr. Myers starts?

The CHAIRMAN. Yes.

Senator BYRD. Mr. Chairman, I have been concerned over the treatment the committee has received by—from HEW and I have specific reference to the fact that a member of this committee, Senator Ribicoff, sought information from HEW in July, 6 months ago, and that request has been completely ignored, so far as I can find out. The information has not been submitted and so far as I can determine no effort has been made to comply with that request by a committee member.

It seems to me that this dramatizes the problem faced by the people all over the United States. How can the average citizen expect to get any consideration from HEW if the Senate Finance Committee itself receives no consideration? So I would hope that HEW would be alerted to comply with requests of committee members and if they don't comply with such requests I would hope that the committee at some future time would consider taking some action.

I thank the chairman.

The CHAIRMAN. Thank you.

STATEMENT OF ROBERT J. MYERS, FORMER CHIEF ACTUARY, SOCIAL SECURITY ADMINISTRATION

Mr. MYERS. Mr. Chairman and members of the committee, my name is Robert J. Myers. I am a professor of actuarial science at Temple University, and also I am a consultant in the field of social security to a number of national organizations.

Quite naturally, I appear here today in my personal capacity, and the views that I express are my own and not necessarily those of any of these organizations.

I shall discuss only the social security and medicare provisions of H.R. 1.

The bill contains many benefit liberalizations, some of which were included in last year's legislation that was not finally enacted. It also includes a number of new liberalizations.

These various changes are each in themselves of considerable merit and of an appealing nature. Their net result, however, is a very significant increase in the cost of the program and in its scope. This is evidenced by the fact that the ultimate combined employer-employee tax rate for OASDI and hospital insurance together will be as much as 14.8 percent of payroll on a $10,200 base initially.

The latter base for 1972 is somewhat higher than would be statistically justified, considering the various bases legislated since 1950 relative to the covered earnings levels.

More specifically, this 14.8 percent contribution rate compares with 12.1 percent under present law, a very considerable rise.

I believe that, desirably, there should be a limit on the level of taxation going to support the social security and medicare programs. If this is not done, and if the tax rates are continually increased to support expansions of the program, there will be decreasing activity in the economic-security field by the private sector. Or, in other words, as Government does more and more in the social security field, people will take less and less responsibility for themselves.

The social security program has been established at such a level in the past that it has been a floor of protection upon which private-sector activities can build, and have so desirably and successfully built. I believe that this is exactly what the social security program should do, but I am afraid that the pending bill moves the program somewhat away from the floor-of-protection theory.

In 1961, when Senator Ribicoff was Secretary of Health, Education, and Welfare, he held an interesting and significant colloquy with the then chairman of this committee, the late Harry F. Byrd. There was complete agreement between these two distinguished and knowledgeable individuals that the absolute maximum tax rate under the social security program—presumably possibly only for the cash-benefits portion—should be 10 percent for the employer and employee combined. We have already gone somewhat beyond this point because the corresponding rate in present law is 10.3 percent. The pending bill, however, would push this to 12.2 percent.

For the reasons discussed previously, I believe that H.R. 1 would expand the cost and the scope of the social security and medicare programs too much, to the detriment of private-sector activities in the economic-security field. Although the various benefit changes proposed are generally appealing and meritorious, I believe that many of them should be eliminated on cost grounds.

Mr. Chairman, in my prepared testimony I then go into considerable detail on a number of technical points. To summarize, there are four important points there:

One is that I think there is a very serious drafting error in the bill in regard to the determination of the premium rate under the SMI or part B portion of medicare.

Second, in the amendments dealing with lifetime reserve days, I believe that a much more desirable change could be made.

Third, with regard to widow's benefits, H.R. 1 contains provisions that are patterned very closely after what this committee very desirably did in the legislation last year. However, I think there is still one anomaly that will put people in a very difficult position and, in fact, probably cause Members of Congress to get letters of complaint. Very frequently, a widow can be severely penalized because her husband made the unfortunate mistake of filing for social security benefits, instead of not filing.

Finally, there is a provision in the bill with regard to the maximum family benefits that I was very pleased to see. This followed the suggestion that I made to this committee in its previous hearings and could quite well solve the problem except for one thing. Rather surprisingly, the maximum family benefit is relatively smaller for low-earnings families than for high-earnings families. It seems to me that a basic principle of social insurance is that low-earnings people should receive at least as favorable relative payments as higher income people. I go into considerable detail in my testimony pointing out how the low-earnings people are not treated as favorably as the high-income people, and how this anomaly and inequity can be resolved.

Finally, Mr. Chairman, I would like to discuss briefly the actuarial methodology for the cost estimate for the social security system.

The Advisory Council on Social Security has recommended drastic changes in the methodology used previously and as is used to develop the financing in the House-passed bill. Specifically, the Ad-

visory Council proposes that the cost estimates should be based on the assumption that, in line with the automatic adjustment provisions in the bill, earnings levels will increase each year indefinitely into the future. Depending upon the relative assumption as to increases in wages, and increases in prices, that procedure may show an apparent what I would call actuarial profit which can be used to finance liberalizations of the program.

It is my understanding from newspaper accounts that the administration supports this approach.

I believe that this is not a prudent course of action, namely, to count on profits arising from future economic changes over a long future period before such changes occur.

On the other hand, under currently used actuarial techniques, the procedure has been to utilize such actuarial gains only after they have materialized. If rising earnings assumptions are considered desirable in connection with the automatic adjustment provisions, I believe that they should be limited to only the next 5 years, with constant wage levels assumed thereafter.

Moreover, the proposed method of procedure of counting on increases in the wage level indefinitely into the future is extremely sensitive to the assumption made. If it is assumed that wages increase at twice the increase in prices, a sizable actuarial profit is shown; but if this ratio is only 1⅔ to 1, such a profit vanishes. It may be noted that in recent years the ratio has been much lower, about 1¼ to 1.

It is most important to note that the question of the financing method is entirely separable from that of the actuarial methodology; in other words, the current cost method proposed by the Advisory Council, and with which I thoroughly agree, can just as readily be followed under the current actuarial methodology as under the changed actuarial methodology proposed by the Advisory Council. Thus, if H.R. 1 as passed by the House were to be enacted, I believe that the future tax schedule could be spread out more; and in my prepared testimony I have indicated a schedule that would finance the provisions of H.R. 1 in as adequate a manner as the tax schedule therein, but spreading the tax schedule out more in the future so that, for example, in 1975–76 the rate for OASDI would not have to be increased as high as 12.4 percent, but rather a lower rate such as 11.6 percent would be sufficient.

This proposed schedule would result in the accumulation of much smaller trust fund balances, along the line of the current cost recommendations of the Advisory Council.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Mr. Myers.

I would like to have placed in the record at the close of your testimony the article you wrote as to the difference between the expansionist philosophy and the moderate philosophy over in the department when you were there, because I think it helps to point up what the two theories are, and as between those who think that social security should provide a bare minimum with people providing on their own such additional coverage as they think they ought to have for security, and those who feel that the Government program ought to provide for everything. And if you have a copy of it—I believe our staff has a copy of it—I think it might be well, after the interrogation of the witness it ought to appear.[1]

[1] See p. 874.

In your statement you expressed your views on the method of financing social security benefits recommended by the Social Security Advisory Council. Other substantial changes in social security financing have been proposed in recent years—I am thinking particularly of the bill, S. 2656, introduced by Senators Muskie and Mondale a few months back. I would appreciate it if you would comment on this bill and any other major changes in financing that had been proposed.

Mr. MYERS. In answering this question, I shall first describe the proposal contained in S. 2656, introduced by Senators Muskie and Mondale (and as described by Senator Muskie in the Congressional Record for October 5, 1971), and I shall then discuss whether the bill provides the proper financing. Finally, I will give my views on the basic principles involved in this proposal.

Under S. 2656, the maximum taxable earnings base under social security would be eliminated for both employer and worker taxes. In addition, workers (both employees and self-employed persons) would have exemptions so that they would not pay social security taxes on certain specified amounts of their earned incomes—namely, in essence, a flat $1,000 per year per family, plus $750 per year per person in the family.

Furthermore, the tax rates for 1972–74 would be adjusted so that, as a result of removing the maximum taxable earnings base and of providing certain exemptions for workers, the total taxes—separately for all employers combined and for all workers combined—would be the same as under H.R. 1. The resulting tax rates under the bill for OASDI and HI combined are 5.2 percent for workers and 4.5 percent for employers (the explanation of the bill in the Congressional Record incorrectly states that the self-employed would continue to pay the present 7.5 percent rate).

In addition, increases in the cash-benefits table would be provided for workers earning over $10,000 per year, but the same benefit would be provided for all workers earning over $20,000 a year. Such benefit increases in the $10,000 to $20,000 band would be relatively nominal.

Finally, the bill provides, in general terms, that tax rates for 1975 and after would be determined (with a general structure parallel to that used in developing the 1972–74 rates), so as to produce results that will follow the current-cost financing method.

I have made calculations to check the adequacy of the tax rates prescribed in S. 2656 for 1972–74. The prescribed 4.5-percent rate for employers on the entire payroll will produce about the same tax income as the 5.4-percent rate on a $10,200 base contained in H.R. 1. On the other hand, the 5.2-percent tax rate on employees and self-employed persons under S. 2656 will not produce as much tax income as the tax rates of 5.4 percent on employees and 7.5 percent on self-employed persons contained in H.R. 1. Instead, such 5.2-percent rate in S. 2656 should be about 6 percent to produce the equivalent financing to that contained in H.R. 1.

Next, considering the general basis of the financing provisions of S. 2656, it should be noted that, on the surface, this bill seems to be producing a political miracle; namely, insofar as workers are concerned, by reducing the social security taxes for 63 million workers and increasing them for only 8 million workers, while at the same time producing the same amount of total tax revenue. According to my calculations, this result would not be achieved if there is to be an equiv-

alent amount of tax revenues raised, because of the inadequacy of the income from taxes on workers, as I have indicated above.

In any event, however, even if an adequate tax rate is used, the proposal would result in far more workers paying lower taxes than those paying higher taxes, but this does raise a question as to the equities involved. In fact, for the highest-income workers, such as those earning over $20,000 a year, the taxes beyond this point produce no additional benefits and impose what is an additional gross income tax of about 5 percent, which may produce an excessive tax burden that will discourage income-producing efforts, and which is contrary to the action that the Congress has taken in recent years to avoid such results.

In my opinion, the general basis of the Muskie-Mondale proposal is not desirable, since it tends to destroy the basic underlying principle of a contributory earnings-related social insurance system providing benefits as a statutory right. Many people will get benefit protection without paying contributions, and they will thereby have much less of a feeling that the benefits are theirs as an "earned right." Conversely, many persons at the middle and higher income levels will receive benefit protection worth far less than their contributions. A social insurance program need not—in fact, should not—provide benefit protection exactly equal to the contributions paid in each case, but it should not have no such correspondence or relationship involved.

The argument made in favor of the Muskie-Mondale proposal is that the present tax basis for social security is regressive, and therefore inequitable. In my opinion, this is not so, because those who argue in this manner fail to look at both sides of the matter—the benefits as well as the taxes. Since the benefit formula is heavily weighted in favor of those with low income, the combination of taxes imposed and benefit protection provided is definitely progressive as we move up the earnings scale to the maximum taxable earnings base. For those above this base, the tax becomes a smaller and smaller proportion of total income, but so equally do the benefits. In other words, the highest-income persons are treated exactly the same in absolute dollar terms as are those at the base—and much less favorably than lower-income persons. Certainly, this is equitable in a social insurance program.

I see no reason why lower-income persons should receive special tax treatment directly within a social insurance program, any more than they should pay lower prices than other persons when purchasing groceries in a store. Social insurance should be considered in the same light as all other goods and services that people buy, and the same relative rates should be charged to all. If the incomes of the lowest-paid workers need to be supplemented, this should be done by a separate program and not by bargain rates on only one item of their normal living expenditures.

The CHAIRMAN. Also in your statement you show a table of recommended combined tax rate schedules. Do you have any available material showing how the trust-fund balance would accumulate under these suggested rates?

Mr. MYERS. I'll supply a table giving the results of my computations of the progress of the combined old-age and survivors insurance trust fund and disability insurance trust fund under the contribution schedule which I proposed. The actual schedule for the OASDI tax rate for the employer and the employee combined is shown in footnote b of the table. The progress of the hospital insurance trust fund is not shown, since it would be virtually the same as shown in the House report on

H.R. 1, because the tax schedule which I recommend for that part of the program would be the same as in H.R. 1, except for the slight difference that in 1977 my schedule would have a combined 2.4 percent employer employee rate (instead of 2.6 percent, all other years being the same.

As can be seen from this table, my proposed tax schedule would result in significantly lower trust-fund balances accumulating. For example, at the end of 1980, such balance would be about $82 billion under my proposed schedule, as against $164 billion, or twice as much under the schedule in H.R. 1.

Or to look at the situation in another manner—and, in fact, the more appropriate way—under my proposed schedule. the trust fund would represent about 1.2 years disbursements in 1980 after having risen slowly from a ratio of about 1 in 1972–74. This situation reasonably closely parallels the financing recommendation of the Advisory Council, which I strongly support and which I have believed in for a number of years. On the other hand, the schedule in H.R. 1 produces excessive growth of the trust-fund balance, according to the current-cost financing basis; the trust-fund balance in 1980 represents as much as 2.4 years outgo.

(The table referred to follows:)

ESTIMATED PROGRESS OF OASI TRUST FUND AND DI TRUST FUND COMBINED UNDER H.R. 1 AS PASSED BY HOUSE USING TAX SCHEDULE IN H.R. 1 AND ALTERNATIVE TAX SCHEDULE PROPOSED BY ROBERT J. MYERS, 1972–80

[In billions]

Calendar year	Contributions	Interest on fund	Benefit payments	Administrative expenses	Railroad financial interchange	Fund at end of year	Fund ratio [1]
Based on tax schedule in H.R. 1:							
1972	$43.3	$2.2	$41.3	$0.8	$0.7	$44.1	0.97
1973	46.6	2.4	44.5	.9	.8	47.0	.97
1974	49.8	2.7	47.8	.9	.9	50.0	.98
1975	61.6	3.1	50.1	.9	.9	62.7	1.17
1976	62.2	3.5	52.6	1.0	.9	73.9	1.31
1977	76.6	4.4	55.2	1.0	.9	97.8	1.65
1978	77.4	5.6	58.0	1.1	.9	120.8	1.95
1979	78.2	6.7	60.9	1.1	.9	142.8	2.19
1980	79.0	7.8	63.9	1.2	.9	163.6	2.40
Based on tax schedule proposed by Robert J. Myers: [2]							
1975	56.7	2.8	50.1	.9	.9	57.6	1.07
1976	57.2	3.1	52.6	1.0	.9	63.4	1.13
1977	57.8	3.3	55.2	1.0	.9	67.4	1.14
1978	63.5	3.6	58.0	1.1	.9	74.5	1.20
1979	64.1	3.9	60.9	1.1	.9	79.6	1.22
1980	64.5	4.1	63.9	1.2	.9	82.2	1.20

[1] Ratio of fund at end of year to outgo for benefit payments and administrative expenses for next year.

[2] Figures for 1972–74 same as in above data for tax schedule in H.R. 1. These tax schedules for the combined employer-employee OASDI rate are as follows:

Calendar years	Percent of— H.R. 1 schedule	RJM schedule
1972–74	8.4	8.4
1975–76	10.0	9.2
1977	12.2	9.2
1978–80	12.2	10.0
1981–83	12.2	11.0
1984–86	12.2	12.0
1987 and after	12.2	12.8

Source of data:

(1) Data for tax schedule in H.R. 1: for 1972–75, from House report on H.R. 1 (p. 132, H. Rept. No. 92–231); for 1976–80 estimated by Robert J. Myers, using assumption that the cost of living and the general earnings level do not increase after 1975.

(2) Data for tax schedule proposed by Robert J. Myers is estimated from data derived in item (1).

The CHAIRMAN. Are there many people left in the Department in a position of responsibility who share your moderate views, Mr. Myers?

Mr. MYERS. I think there are a number of people there that do, but I would say that the people at the top in the Social Security Administration still hold what I would call the expansionist theory.

The CHAIRMAN. Senator Curtis?

Senator CURTIS. Mr. Myers, on page 3, in talking about the costs you refer to the fact that the Government contribution is not determined on an incurred basis, as it properly should be and is done under present law, but rather on a cash basis which produces inequitable results.

Would you just elaborate a little bit so some of us nonactuaries get the picture a little bit?

Mr. MYERS. Yes, Senator Curtis, I would be glad to do that.

This is in regard to the drafting language in the bill about the method of determining the premium rate for part B under the new method that has been suggested by the——

Senator CURTIS. Part B is what? The beneficiary would have to pay it?

Mr. MYERS. Part B relates primarily to physician fees.

Senator CURTIS. Yes; and that is what the beneficiaries have to pay a monthly fee on?

Mr. MYERS. Yes; they pay a monthly premium that is now $5.60 a month and will be up to $5.80 a month next July.

Senator CURTIS. Yes.

Mr. MYERS. This is a rather technical point in determining how much the Government should pay to match the premiums of the beneficiaries. The entire concept of determining premiums under part B is to do it on an incurred cost or on an accrual basis, not as to when the benefits are paid, but when the services were rendered. It seems to me that the only proper procedure is that, when the Government matches these contributions, it should do it on an incurred cost basis, just as the premium rate itself is determined that way.

Senator CURTIS. What would be the practical result of this?

Mr. MYERS. The practical result of the provision as it is now written, which I wouldn't say is a world shaking or devastating effect, is that the matching money coming in from the Government would not be quite as large as it would otherwise be. In other words, I think the fund would not be treated equitably by the Government in this financing, in the so-called matching-financing provision.

Senator CURTIS. If this change were made?

Mr. MYERS. The way the bill is, as drafted now.

Senator CURTIS. The fund would not be treated——

Mr. MYERS. The fund would not be treated properly as it is drafted now. Of course, one of my concerns, and always one of my concerns in the past, is that the social security trust funds should be treated fairly and equitably by the Government in its dealings with them.

Senator CURTIS. I know that you state that you would be glad to assist the staff in any drafting amendments. I can't speak for them but I know they would welcome it.

Now, you referred to a tax rate which you have submitted here. That is based on the assumption—those rates are arrived at on the assump-

tion that the increases in the bill as it passed the House would become the law?

Mr. MYERS. Yes, that is correct, Senator.

Senator CURTIS. Yes; even though you personally have reservations about the enactment of the total package, what you have worked out is for the bill as the House passed it and not for any other proposal that you have made?

Mr. MYERS. Yes, that is correct, Senator. I said that, if you expand the program this much, which I think is going too far, then you ought to finance it by a more pay-as-you-go tax schedule that defers the tax increases more out into the future, rather than starting them in the very immediate future and building up very large funds.

Senator CURTIS. It has always been contended, with considerable merit, that in the OASDI everyone had a participation and that they were making their contribution and it added dignity for the recipient, because the social security payroll tax has paid the whole bill.

Mr. MYERS. That is correct, and it is very important.

Senator CURTIS. Yes. I think that what you point out about an expansionist program getting so high that it endangers the whole program is worth considering because already the social security tax has gotten so high that people are asking for relief from it. Suggestions are being made that perhaps part of the costs should be borne by the general treasury or that certain classes of people have their social security tax returned to them.

Do you regard those as sort of danger signals that we may have the social security tax near a maximum?

Mr. MYERS. Yes, Senator, these are certainly indications that we are very close to that point.

Senator CURTIS. Do you think the fact that the social security program, and, again, I am referring to title II, has been supported by a payroll tax borne one-half by the employees, that in addition to that, giving the recipient a sense of participation, a sense of paying something which results in a feeling of dignity and self-respect, that that system also has served in the past as a reasonable restraint against benefits that might be attractive but cost a lot of money?

Mr. MYERS. Yes, I think you have expressed that very well, Senator Curtis. That has been really the great strength of the program, and I think that is the reason it has such wide acceptance and support among the American public.

Senator CURTIS. Once we deviate from half of it, so far as the employed group are concerned being paid by the employees we take a chance on losing both the restraint as well as the concept of the benefit; isn't that right?

Mr. MYERS. Yes; I think so. People will have less of a feeling that this is something that they and their employer have done for themselves and that it is not a gift or dole from the Government. So I think there is a real danger in departing from the principle that has been followed for the over 30 years of existence of the social security system.

Senator CURTIS. Thank you.

The CHAIRMAN. Any further questions?

Senator FANNIN. Yes, Mr. Chairman.

Mr. Myers, you make, I think, a very profound statement here regarding the actuarial methodology for the cost estimate for the social security system and when you talk about actuarial profit on page 8 and

about the financing and utilization of the program, we hear continuously about what we can do because of this surplus or the amount of money that is going to be available and in the future, speaking from an actuarial standpoint.

Now, I am vitally concerned because I don't think we can depend upon these increases in the future from the competitive standpoint when we realize, for instance, that in Japan, a highly competitive country to ours, our wage rates are about 400 percent over theirs; and when we also consider that when we revalued the yen and devalued the dollar, on only a 17 percent turnaround, do you think it is safe to use a formula or to base our actuarial profit on these increases?

Mr. MYERS. No, Senator, I certainly agree with you. I think it would be most imprudent to, in a sense, use expected gains in the future for benefits today. I think it is only proper to look at the situation today to see if any actuarial profits have developed in the system from its past experience and then utilize them. This is what the Congress has always done in the past, and I think very properly so.

Senator FANNIN. Don't you think we are facing a different situation than before with the tremendous imports into this country, our drop in exports, that there will be a greater tendency to recognize, I hope, the position that we are facing and that we will not jump to conclusions that we are going to be able to continue these increases? In fact, I think perhaps we will level out and in some instances we may see a drop. I know they don't consider it possible but if we look at it from a competitive standpoint, I don't see how we can reach any other conclusion.

Mr. MYERS. Yes, Senator, there are other important factors too, such as ecology. If we spend more and more money to have a cleaner environment, and we quite properly should, this is really going to be a decreasing factor insofar as productivity is concerned and that, too, can have an effect on the future course of wages. So it seems to me most imprudent to project future gains from something that may or may not eventuate.

Senator FANNIN. Because all of those costs enter into the unit costs of a particular product and so when we are talking about what can be done we must take all factors into consideration.

Mr. MYERS. Yes, Senator, that is absolutely correct.

Senator FANNIN. Well, thank you very much, sir.

The CHAIRMAN. Thank you very much.

Senator Byrd?

Senator BYRD. Thank you, Mr. Chairman.

Just two brief questions, Mr. Myers.

You mentioned that in 1961 that we generally agreed that the absolute maximum tax under social security should be 10 percent. Looking at it from the point of view of 1972, what would you regard as the maximum limit?

Mr. MYERS. Senator, I think your very distinguished father really had a very clear concept of this, and it wasn't just a concept that was applicable only then. This is one concept that is ongoing; it is a thing that does not change.

I wouldn't say that 10 percent was the absolute limit. If you go to 10.1 or 10.2 or 10.3 percent, this is not going to produce disaster. But it certainly seems to me that, as soon as you get up around the 10 percent level, you should move with extreme caution in going beyond

it, as H.R. 1 does. You should be certain that, if you go beyond this limit, there are very good reasons for doing it and that it was absolutely necessary to do so and that it wasn't just you were doing it because these benefits seemed attractive. Just as when a person goes to a store, if he is prudent, he buys what he can afford, not what he wants.

Senator BYRD. So the 10 percent maximum limit, you feel, is almost as applicable today as it was 11 years ago?

Mr. MYERS. Yes, Senator Byrd, I do.

Senator BYRD. Just one other question: How sound, actuarially, is the social security fund?

Mr. MYERS. At the present time, it is in very sound shape; that is, insofar as the cash benefits part of the program. The hospital insurance portion of the program, as H.R. 1 recognizes, and as the executive branch has recognized, is in some financial difficulty. There will have to be higher tax rates legislated for it even if nothing else were done, because of the extremely rapid rise in hospital rates that there was in the past 3 or 4 years, much more than anybody had anticipated.

But as far as the major program, the cash benefits one, it is in very good actuarial shape under what I would call very reasonable assumptions and methodology.

The bill—H.R. 1—as the House passed it, and as both the House and the Senate have always done, is soundly financed, but the question is "even though it may be soundly financed, how high a level of taxation do you want to have in this country going into governmental programs and what effect may they have on private programs."

Senator BYRD. Thank you, sir.

Mr. MYERS. Thank you.

Senator BYRD. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Mr. Myers.

Mr. MYERS. Thank you. It is always a pleasure to appear before this committee, Mr. Chairman.

(Mr. Myers' prepared statement, a paper of Mr. Myers referred to by the chairman, and a subsequent letter with attachment of Mr. Myers to the chairman, follows. Hearing continues on page 887.)

STATEMENT OF ROBERT J. MYERS

SUMMARY

This testimony relates only to the Social Security and Medicare provisions of H.R. 1. The principal point made is that, although many of the proposed changes are both appealing and meritorious, there is considerable question of the desirability of the entire package, because of the heavy cost involved and the resulting high tax burdens. The latter would reach an ultimate combined employer-employee tax rate of as much as 14.8% of payroll by 1977, on a $10,200 base initially.

The other major point concerns the financing recommendations of the Advisory Council on Social Security, which I believe the Administration is supporting. I am in complete agreement with the proposal to move more closely to current-cost financing, and I am submitting a tax schedule on this basis different from that contained in H.R. 1 (assuming that its benefit provisions would be enacted as in the House-passed bill). On the other hand, I strongly disagree with the changed actuarial methodology, largely on the grounds that it is not prudent now to count on profits arising from further economic changes over a long future period, before such changes occur.

Finally, several technical comments on the bill are made, such as where the drafting language used is defective, where simplification could be made without

significantly increased cost, or where inequitable situations are produced that could be eliminated without significantly higher cost.

STATEMENT

Mr. Chairman and members of the committee: My name is Robert J. Myers. I am Professor of Actuarial Science at Temple University and also a consultant in the field of Social Security to a number of national organizations. I am, of course, appearing here today only on my own behalf, and my views do not necessarily reflect those of these organizations.

I shall discuss only the Social Security and Medicare provisions of H.R. 1. This bill contains many benefit liberalizations, some of which were included in last year's legislation that was not finally enacted (H.R. 17550). It also includes several new liberalizations.

These various changes are, each of themselves, of considerable merit and are of an appealing nature. Their net result, however, is a very significant increase in the cost of the program and in its scope. This is evidenced by the fact that the ultimate combined employer-employee tax rate for OASDI and Hospital Insurance together is as much as 14.8 percent of payroll, on a $10,200 base initially. The latter base for 1972 is somewhat higher than would be statistically justified, considering the various bases legislated since 1950 relative to covered earnings levels.

More specifically, this 14.8 per cent ultimate rate compares with 12.1 per cent under present law—a very considerable rise. I believe that, desirably, there should be a limit on the level of taxation going to support the Social Security and Medicare programs. If this is not done and if the tax rates are continually increased to support expansions of the program, there will be decreasing activity in the economic-security field by the private sector. Or, in other words, as Government does more and more in the Social Security field, people will take less and less responsibility for themselves.

The Social Security program has been established at such a level in the past that it has been a floor of protection upon which private-sector activities can build, and have so desirably and successfully built. I believe that this is exactly what the Social Security program should do, but I am afraid that the pending bill moves the program somewhat away from the floor-of-protection theory.

In 1961, when Senator Ribicoff was Secretary of Health, Education, and Welfare, he held an interesting and significant colloquy with then-Chairman of this committee, the late Harry F. Byrd (pages 77–78, Hearings on Social Security Benefits and Eligibility, H.R. 6027, May 25–26, 1961). There was complete agreement between these two distinguished and knowledgable individuals that the absolute maximum tax rate under the Social Security program—presumably possibly only for the cash-benefits portion—should be 10 per cent for the employer and employee combined. We have already gone somewhat beyond this point, because the corresponding rate in present law is 10.3 per cent. The pending bill, however, would push this to 12.2 per cent.

For the reasons discussed previously, I believe that H.R. 1 would expand the cost and the scope of the Social Security and Medicare programs too much, to the detriment of private-sector activities in the economic-security field. Although the various benefit changes proposed are generally appealing and meritorious, I believe that many of them should be eliminated on cost grounds.

Before closing, I would like to make several technical comments on the bill. Section 203 revises the method of determining the premium amount for enrollees under the Supplementary Medical Insurance program (Part B). I agree that the proposed changed procedure is desirable, but the drafting language used is defective in a number of instances. Specifically, for one thing, the Government contribution is not determined on an incurred basis—as it properly should be and as is done under present law—but rather on a cash basis, which produces inequitable results. If you desire, I shall be glad to furnish your staff with drafting language which will correct this situation.

The bill would increase the number of lifetime-reserve days under the Hospital Insurance program. I recommend that, instead of doing this, the concept of lifetime-reserve days should be eliminated, and the 60 days now allowed should be available automatically for each spell of illness. This would eliminate many problems that now arise under this provision, both for the beneficiaries and the Social Security Administration, because the beneficiaries must elect individually each time whether or not to use the reserve days. It is not always advantageous to make such use, because, in certain instances relatively negligible benefits are produced by the lifetime-reserve days, and yet the reserve is used, when it might later be used to better advantage.

The beneficiary would, under my proposal as to elimination of the lifetime-reserve concept, not be faced with making a choice which he might not be sufficiently informed to do wisely (especially when he has been in the hospital for a long time). Also, the Social Security Administration frequently cannot know, prospectively, what the best choice is for a beneficiary. My proposal would have no cost effect on the bill, because the savings from not going to 90 days would about offset the cost of giving the additional 60 days in each spell of illness.

Last year when I testified before this committee on H.R. 17550, I recommended that, when primary benefits are increased by a certain percentage across the board, then the maximum family benefits for future claimants should be increased by the same percentage. I am gratified that this approach was taken in the version of H.R. 17550 which your Committee approved last year and also in the legislation enacted this year and in the pending bill.

I believe that this procedure results in a more equitable approach for determining maximum family benefits for the different earnings levels. There is, however, one remaining situation that is not entirely consistent and equitable—namely, for benefits based on low average monthly wages. One of the basic principles of social insurance is that benefit amounts should be weighted in favor of lower-paid workers, or at least not in favor of high paid ones. Yet, surprisingly, in this instance, just the reverse procedure is being followed.

Specifically, for average monthly wages of $239 or less, the maximum family benefit is always 150 per cent of the Primary Insurance Amount. After that point, the ratio increases to 175 per cent for average monthly wages of $352–56, and then rises to a maximum of 187.6 per cent for average monthly wages of $432–36 and thereafter declines to 175 per cent for average monthly wages of $628 and above. I believe that, in all fairness to beneficiaries receiving benefits based on low average monthly wages, the maximum family benefits as shown by the benefit table should be increased for all average monthly wages less than $357 so that they are 175 per cent of the corresponding primary benefit.

The reason that the present inequitable situation occurs for beneficiaries with benefits based on low average monthly wages is that, in the past, there was the restriction of the family maximum not exceeding 80 per cent of average monthly wage, although in no case being less than 150 per cent of the primary benefit. The logic of this approach no longer prevails—and the 80 per cent portion of it has been abandoned—because, as indicated in my previous testimony, the average monthly wage is now recognized as only a notional concept, since it is based on a career-average method of computation. For further information on this point, may I refer you to my article "New Insight as to the True Basis of Social Security Benefits" in the August issue of *Pension & Welfare News*.

As you know, even under present law, the primary benefit can exceed the computed average monthly wage in some instances. In even more instances, the maximum family benefit can exceed the computed average monthly wage. Thus, the fact that maximum family benefits can exceed average monthly wage to a somewhat greater extent under my proposal is not a weakness.

The increase in the cost of the program for my proposal to increase the maximum family benefit for those at the lower earnings levels is relatively low—a level-cost of about .05 per cent of taxable payroll. This could be met—and this inequity could be eliminated—by dropping some of the liberalizations in the bill that are meritorious but are not necessary to correct clearly inequitable situations.

Under the bill, the provision for increasing widow's (and widower's) benefits contains the reasonable limitation that the widow's benefit should not be larger than the benefit that her husband had been receiving (if he had actually filed claim and become entitled to benefits). In certain cases, however, this procedure can result in great inequities and in serious administrative difficulties.

An example will clearly indicate the situation. Suppose that an insured worker is aged 62 and is eligible for a Primary Insurance Amount of $219.30, and thus a reduced primary benefit of $175.50. If his wife is then aged 65, he is confronted with a serious dilemma and the Social Security Administration would have great administrative difficulty in advising him what to do. The problem is that, if he files a claim for benefits, his widow's benefit will be frozen at only $175.50. Thus, if he were to die in a few months, his wife would suffer a great loss (having an actuarial value of about $6,000) as compared with the situation if he had not filed claim (in which case the widow's benefit would have been $219.30).

In other words, in situations like this, where the wife is somewhat older than the husband, there will be considerable question as to the desirability of filing claim. Or there will be the inequity of having to file a claim because of economic necessity and then losing very substantially over the long run thereby. Some people will make the wrong choice, and Members of Congress will hear about it.

The solution to this problem is relatively simple. The limitation involving the husband's benefit should be as follows:

(1) When the husband dies at or after age 65—the amount of the benefit which he was actually receiving (as the House-passed bill provides).

(2) When the husband dies before age 65—the amount of the benefit which he would have received at age 65 if he had survived to that age and had had a so-called round-up recomputation which recognized only the benefits that he had actually received before his death.

Section 128 of the bill desirably and logically remedies a long-standing inequity and anomaly in the law—namely, that wages received after the calendar year of death are taxable under Social Security but are not creditable for benefit purposes. Logically, the same treatment should be given to wages received in any year all of which is included in a period of disability. The House-passed bill does not do this, and I recommend that this change be made.

Finally, I would like to discuss briefly the actuarial methodology for the cost estimates for the Social Security system. The Advisory Council on Social Security has recommended drastic changes in the methodology used previously (and as used to develop the financing in the House-passed bill).

The Advisory Council proposes that the cost estimates should be based on the assumption that, in line with the automatic-adjustment provisions in the bill, earnings levels will increase each year indefinitely into the future. Depending upon the relative assumptions as to increase in wages and increases in prices, this may show an apparent "actuarial profit," which can be used to finance liberalizations of the program. I understand the Administration supports this approach.

I believe that this is not a prudent course of action—namely, to count on profits arising from future economic changes over a long period, before such changes occur. On the other hand, under currently used actuarial techniques, the procedure has been to utilize such actuarial gains only after they have materialized. If rising earnings assumptions are considered desirable in connection with the automatic-adjustment provisions, I believe that they should be limited to the next five years, with constant wage levels assumed thereafter.

Moreover, the proposed procedure of counting on increases in the wage level indefinitely into the future is extremely sensitive to the assumptions made. If it is assumed that wages increase at two times the increase in prices, a sizable actuarial profit is shown, but if this ratio is only 1⅔ to 1, such a profit vanishes. It may be noted that, in recent years, the ratio has been much lower—about 1¼ to 1. This sensitivity is well illustrated by the material on pages 44 and 45 of your Committee Print, "Material Related to H.R. 1: Social Security Cash Benefits and Social Security Financing", dated July 14, 1971.

It is most important to note that the question of the financing method is entirely separable from that of the actuarial methodology. In other words, the current-cost method proposed by the Advisory Council—with which I agree—can just as readily be followed under the current actuarial methodology as under the changed methodology proposed by the Advisory Council. Thus, if H.R. 1 as passed by the House were to be enacted, I believe that the future tax schedule should be spread out more, as for example, in the following manner for the combined employer-employee rate for cash benefits and hospital insurance combined:

[In percent]

	Schedule in H.R. 1	Proposed schedule
Calendar years:		
1971	10.4	10.4
1972–74	10.8	10.8
1975–76	12.4	11.6
1977	14.8	11.6
1978–80	14.8	12.6
1981–83	14.8	13.6
1984–86	14.8	14.6
1987 and after	14.8	15.4

This proposed schedule would result in the accumulation of much smaller trust-fund balances, along the lines of the current-cost recommendations of the Advisory Council.

THE FUTURE OF SOCIAL SECURITY—IS IT IN CONFLICT WITH PRIVATE PENSION PLANS?

INTERRELATIONSHIP OF SOCIAL SECURITY AND PRIVATE ECONOMIC SECURITY PLANS

(By Robert J. Myers, FSA)

The future development and role of the social security program, and its concomitant effect on the private pension system of the country, depend on many factors and elements. This paper will discuss several of these matters, namely:

Scope of Paper

(1) The interrelationship of social security and private economic security plans.
(2) The expansionist philosophy of social security.
(3) The moderate philosophy of social security.
(4) The concept of poverty.
(5) The effect of the consolidated budget on social security.
(6) Income-tax integration rules for private pension plans and similar other requirements.
(7) The influence of social security staff on the development of the program.

The basic question may well be raised as to whether the social security program and private economic security plans—private pension plans and individual insurance and savings—should be competitive and in conflict, or whether they should complement each other.

For many years, the viewpoint has been widely expressed that social security should provide a basic floor of protection upon which private economic security measures can, should, and will build. In other words, under this concept, social security and private economic-security efforts are complementary and are by no means in conflict. Lately, however, in certain quarters, an effort is being made to rewrite history so as to "prove" that the floor-of-protection concept never really existed, except possibly in the minds of those who were basically opposed to the social security program.

There are some, whom I term "the expansionists," who believe that the Government should provide full economic protection for virtually the entire population when an earnings loss occurs. Specifically, they feel that the Government's responsibility for retired persons goes way beyond providing them a level of benefits upon which the vast majority can subsist, but beyond which they can build further economic security by their own efforts. The expansionists feel that the government should provide a level of income replacement that is virtually as high as income before retirement. And they would use the social security program as a tool to do so.

There is a very important philosophical question here. Is this properly and desirably the function of government? Or is it sufficient—and actually better—for the Government to establish a social insurance system which will provide a floor of protection upon which people can build either individually or jointly with their employers? In other words, is it desirably the Government's function to take complete care of all the citizens? If so, then one might well ask how far this should be extended into the private lives of people of all ages, whether working at adequate wages or not.

THE EXPANSIONIST PHILOSOPHY OF SOCIAL SECURITY

Let us now turn to how the expansionists would achieve their goals in the area of cash benefits under social security. I shall not deal in this paper with their goals in the medical care field, other than to state the obvious, but most significant, point that, in the long run, they seek to have all medical care provided directly by the Federal Government, financed either from general revenues or payroll taxes. The irreversible steps in this direction would be taken by extending the coverage of the Medicare program first to all beneficiaries and then to all covered workers and their dependents.

The specific blueprint of the expansionists for "improvement" of the Old-Age, Survivors, and Disability prgoram (OASDI) is first to increase the maximum taxable earnings base from the present $7,800 per year to at least $15,000 currently, and then to keep it up to date with changes in the earnings level. The reason for this is that then the vast majority of workers would have their full earnings covered by the program and, therefore, could have full economic security provided by it.

Next Step

The next expansionist step would be to increase drastically the general benefit level so that, even for workers earning up to the maximum taxable base, the benefits would provide virtually full replacement of the take-home pay before retirement. To achieve this end would require approximately a doubling of the present benefit level.

Now how do the expansionists propose to find the money to finance such changes? One simple, and apparently fiscally painless way, is to introduce a sizable Government contribution or subsidy to the system. Some expansionists suggest that this Government subsidy should average about one-third to one-half of the total cost of the program—i.e., it would equal anywhere from 50 percent to 100 percent of the combined employer and worker contributions.

To put such a matching basis in to effect immediately would be extremely difficult because of the large sums needed from the General Fund of the Treasury. For example, if the Government subsidy were to represent one-third of the cost of a program that would be expanded in line with the aims of the expansionists, it would be in the order of $15,000,000,000 a year currently for OASDI alone, and much more in later years. Accordingly, the expansionists propose the approach of gradualism—or, in other words, the "camel's nose in the tent" process—by having the Government contribution be 5 percent in the first year, 10 percent in the second year, etc.

Still another source of financing the expansionist aims is to tap the employers for a heavier proportion of the cost. For example, the expansionists have proposed that there should be no taxable earnings base for employer contributions (or, in other words, the employer should contribute on his entire payroll). They have also suggested that the employer should contribute at twice the rate applicable to the employee (instead of equal sharing, as has always been the case).

Disability

The goals of the expansionists are not limited solely to the level of OASDI benefits. They also want to expand the disability benefits, so that they would no longer be on a "permanent and total" basis. Rather, they would include coverage for all types of disability—temporary disability, long-term occupational disability, etc.

If the foregoing goals of the expansionists as to levels of OASDI benefits were achieved, the consequences must be clear to everyone. Not only would there be the direct effect of eliminating most private-sector efforts in the economic-security field, but also a most significant effect on our national economy would occur. Private savings of all types, including pension plans and deferred profit-sharing plans, would be greatly reduced. This, in turn, would result in a shortage of investment funds for private industry to expand its economic-productivity activities. Accordingly, private industry would have to turn more and more to the Government for such funds. This would-mean increasing governmental regulation, control, and even ownership of productive activities.

MODERN PHILOSOPHY OF SOCIAL SECURITY

The moderates have a strong belief in the continuing desirability of social security as a floor of protection and, similarly, in the significant continuing efforts of the private sector in providing economic security. The moderates believe that the social security system should be kept up to date with changes in economic conditions and that any weaknesses or deficiencies which show up should be remedied.

Specifically, the position of the moderates is that the benefit level should be kept up to date with changes in the cost of living, whether this be done on an *ad hoc* basis or by automatic-adjustment provisions. Similarly, they recognize that benefits should be reasonably related to recent earnings before retirement, disability, or death, when past economic conditions have produced significantly rising general earnings levels. Such recognition of past earnings trends can be accomplished through a final-pay approach in computing benefits. Virtually the

same effect can also be obtained by adjusting the factors in the benefit formula accomplished through a final-pay approach in computing benefits. Virtually the (as has been done in the *ad hoc* OASDI benefit increases in the past two decades).

The moderates also support periodic adjustments in the maximum taxable earnings base and in the amount of earnings permitted for full receipt of benefits under the retirement, or earnings, test. Such adjustments should be made on the basis of changes in the general earnings level and can be accomplished either on an *ad hoc* basis or by automatic adjustments.

Since 1950, the *ad hoc* procedure has produced quite satisfactory results in connection with changes in the earnings base. The $3,600 base first effective in 1951 covered 81.1 percent of the total earnings in covered employment, while the $7,800 base effective in 1968 covered 83.6 percent. This proportion for the first effective year of the three intervening changes was about 80 percent in each instance, so that the $7,800 base in 1968 might be said to have gone a little too high. Finally, it may be noted that the $9,000 earnings base, effective for 1972, that has recently been proposed by President Nixon will cover an estimated 81 percent of total earnings in covered employment, and thus is in line with the bases actually adopted since 1950.

General Revenues

The moderates are strongly opposed to the injection of general revenues into the OASDI system. They argue that this will seriously weaken cost controls of the program. Changes in the program might be voted without regard to the cost considerations—on the grounds that "the necessary financing can always be easily obtained from general revenues." On the other hand, under the present self-supporting contributory basis, the cost of any benefit changes are fully recognized; they are met by direct, visible financing charges applicable to workers and employers.

One problem which may occur is that, for budgetary or political reasons, the Government subsidy may not be paid in the amount required or at the time specified. Several times in the past, government contributions to OASDI were legislated, but were not actually made, or were delayed for long periods. For example, appropriations for the cost of benefits arising from "gratuitous" military-service wage credits (for periods before 1957) have either not been made at all or have intentionally been made in an amount lower than the required actuarial determinations. Then, too, general-revenue appropriations authorized for the Medicare program have frequently been delayed considerably beyond when they were due (although generally an appropriate interest adjustment was provided).

It is not inconceivable that reliance on Government subsidies for financing a major portion of the cost of OASDI could lead to partial repudiation of the benefit obligations.

Another difficulty which may arise is the pressure that would be generated to impose a means test on the beneficiaries. Then, those who have substantial other income would not be paid benefits—on the grounds that people with large incomes should not receive payments partially financed from general revenues.

Those who oppose a Government subsidy to OASDI do not necessarily oppose benefit changes involving substantially increased costs. They believe, however, that such costs should be openly and completely recognized through direct financing provisions.

THE CONCEPT OF POVERTY

Nowadays, widespread discussion of the subject of poverty occurs—how to eliminate it, how changes in existing programs will reduce the number of persons in poverty, etc. Offhand, to hear this discussion, one would believe that poverty can be scientifically measured, just as can the relationship between the circumference of a circle and its radius, or the distance from the earth to the moon at any particular time, or even the cost of a pension plan.

Actually, such is not the case because the concept of poverty that is so widely used currently is derived from a mechanistic approach. Specifically, this approach proclaims that poverty is present if the individual or family has less annual income than a certain prescribed dollar amount. At times, such amount is varied according to the size of the family—and, at times, according to geographical location. Quite illogically, many of those who use the data seem to believe that, if an individual is just below the so-called poverty amount, then he is indeed in very dire condition, whereas once his income has reached this level, he is in quite different status.

Defining Poverty

Poverty, like sin, is opposed by every person of good will. The problem, however, is to define poverty adequately and not merely to set up meaningless mechanistic standards that have no basis in fact. A clear distinction should be made between "poverty" and "destitution" or "want." Many persons who are under the poverty line, as mechanistically defined currently, are not really in need by any objective standard and, in fact, might be considered affluent according to the living standards of some countries.

Social security was established to prevent want and destitution, and was not intended to deal with this new measure of poorness called "poverty." However, it is quite clear that the social security program has, over the past three decades been the most important governmental program in combatting both destitution and poverty arising from the economic risks of death, disability, and retirement. Those who believe in a complete expansion of the social security system, so that it would virtually take care of the entire economic-security needs of a country, frequently use the poverty concept to support their aims. For example, when poverty is defined in a mechanistic style at a very high level, arguments can be presented for a significant increase in the general level of social security benefits.

Realistic Standards

Those with a moderate philosophy insofar as the role of the social security program is concerned are by no means unconcerned about the problems of poverty and human needs. They believe that the facts of poverty should be demonstrated by objective, realistic standards, and not merely by mechanistic approaches.

THE EFFECT OF THE CONSOLIDATED BUDGET ON SOCIAL SECURITY

A new element has recently arisen that may have an important effect on the future development of the social security program—namely, the consolidated or unified budget. Until recently, the budget of the United States Government involved only direct governmental operations and did not include the operations of the social security trust funds and other similar funds, such as those of the Railroad Retirement and Civil Service Retirement systems. Recently, the budget approach was changed, so that the operations of these various trust funds are included within the budget, which is now on a so-called consolidated basis.

Accordingly, any excess of income outgo for the social security trust funds (including the two Medicare trust funds) tends to produce a budget surplus and vice versa. In actual practice, it was for this reason that in the fiscal year that ended on June 30, 1969, a budget surplus of about $3,000,000,000 was reported. The social security trust fund showed an excess of income over outgo for this fiscal year amounting to about $4,000,000,000. Thus, under the former budgeting approach, without including the social security trust funds, there would instead have been a budget deficit of about $1,000,000,000.

Budget "Surplus"

In the current fiscal year, ending June 30, 1970, a budget surplus of about $3,500,000,000 was forecast by President Johnson in his budget prepared in January 1969. The corresponding excess of income over outgo for the social security trust funds was about $7,000,000,000. Thus, under the former budgeting approach, there would have been a deficit of about $3,500,000,000. As a result, because of the significant effect of the social security program on the federal budget, there are now strong incentives to use it as a budgetary and economic tool.

As a result, there may well be pressures to make changes in the social security system—either in the budget area or in the tax area—primarily to affect the short-range picture and without any real emphasis on the long-range results. I need hardly tell this audience about the dangers of making changes in long range benefit programs solely with a view of the financial impact in the first year or two.

At the present time, and in the next few years, under both present law and, to a lesser extent, under proposals currently being considered by Congress, the trust funds will show sizable annual excesses of income over outgo[1]. Under

[1] Interestingly enough, many of the budgetary and economic-planning experts refer to such an excess of income over outgo as a "surplus", not understanding that an insurance or pension program can have such success in the early years of operation and yet be greatly under-financed.

present economic conditions, when inflation is present, the economic planners are glad to have this excess of income over outgo under the social security program.

Their views might change greatly and rapidly if economic conditions shift and inflation no longer seems the danger, but rather the so-called fiscal drag of the excess of social security income over outgo is "the enemy" (as it was so wrongly considered to be as recently as in 1965). Under these circumstances, the economic planners would press strongly for reduction of the social security contribution rates (and would, in fact, like to have Congress delegate to the Executive Branch the power to do so).

In my opinion, it is not necessary for the social security system to build up large balances in the trust funds. Instead, a good rule of thumb would seem to be to have a balance of about one year's outgo. This should be accomplished by setting proper contribution rates for the future according to the best estimates possible. Then, however, the rates should not be spasmodically varied to react to either actual or speculative changes in economic conditions. Among other reasons for maintaining scheduled contribution rates for a social insurance system is the psychological point that people reasonably expect a certain degree of stability in premium and contribution rates for all types of insurance plans.

INCOME-TAX INTEGRATION RULES FOR PRIVATE PENSION PLANS AND SIMILAR OTHER REQUIREMENTS

Particularly in appearing before this audience, I would hardly wish to expound at length on what should be the proper income-tax integration rules for private pension plans. However, since this subject is interrelated with the level of social security benefits and since the effect of the integration rules can encourage or stifle the growth of private pension plans, a brief discussion is desirable.

Certainly, very restrictive integration rules—such as those that were originally announced by the Internal Revenue Service—could have a serious, stifling effect on the growth of private pension plans, or even on the maintenance of the present high level of activity in this area. The same could also be said for many types of control that could be exerted on private pension plans—such as compulsory vesting—in the guise of requirements for qualification for income-tax purposes.

Integration

Integration rules have been derived to effectuate the Congressional mandate that pension plans should not be discriminatory in favor of high-paid individuals, after taking into account the combination of benefits under such plans and social security benefits. Nobody can argue that this is not a wise and proper requirement. Putting it into effect, however, is easier said than done if a precise procedure is desired.

I am convinced that no completely precise procedure is possible. I believe that the approach that was taken for many years—which might be termed the 37½ percent method—was reasonably satisfactory and, with all the related intricate network of allowances for various types of plans, had worked out quite well over the years. I saw no justification or necessity for changing this approach, especially since there had never been demonstrated any instances where discrimination in favor of high-paid persons had occurred thereunder.

First Reaction

The initial IRS aproach, which would have reduced the integration basis by more than one-third, brought down a tremendous storm of adverse critcisms and complaints on the IRS. It was quite clearly and correctly pointed out that any apparently scientific mathematical computations in this area were of questionable value and significance and that actually they generally seemed to be made in order to arrive at a particular result.

As a result of this storm of criticisms, IRS produced a revised basis—which might be termed the 30 percent method, a reduction of about 20 percent. In my opinion, there is considerable question as to why even this restriction is necessary or desirable in order to prevent discrimination occurring in favor of high-paid individuals.

Believes Expansion Desired

One might well ask why IRS took the action of restricting or deliberalizing the integration rules. In my opinion, this was done—and the technical computations justifying the action were made solely to support such action—primarily and fundamentally to restrict the growth and development of private pension plans. In turn, this would leave more of a vacuum that could only be filled by expansion

of the social security program—a result that was not viewed with any concern or dismay by the government officials involved.

President's Committee

I believe that the same situation is also true—and perhaps to an even greater extent—with regard to the recommendations of the President's Committee on Corporate Pension Funds and Other Private Retirement and Welfare Programs that was established by the Johnson Administration, and especially by the Inter-Agency Staff Committee that was established to study ways to implement the proposals of the President's Committee. The representatives on the Inter-Agency Staff Committee from the several governmental departments consisted of persons who had relatively little knowledge of the specific operations and structure of private pension plans, but who had strong beliefs in the direction that the Government should be the predominant provider of economic security for the nonworking population. This was certainly a clear instance of the fable about having the fox guard the hen coop.

THE INFLUENCE OF SOCIAL SECURITY STAFF ON THE DEVELOPMENT OF THE PROGRAM

By no means least important in determining the future course of the social security program is the influence exercised by top-level staff in the Social Security Administration.

The administrative operations of the program have a well-deserved nationwide reputation for efficient, impartial, and honest functioning. This is due to a devoted and capable group of civil servants, from the top administrative officials down to the lowest grade clerks. Such successful functioning is necessary, regardless of the future role of the program, but this does not mean that the system must expand at the expense of private-sector activities in the economic-security area.

Philosophy and Duty

However, when it comes to the research, program evaluation, public relations, and program planning functions, the situation can be quite different. Even though the staff so engaged may be completely sincere, as well as capable they cannot be expected to present as strong a case against proposals which are contrary to their basic philosophical beliefs as they could in favor of proposals of an opposite nature.

Over the years, most of the Social Security Administration staff engaged in program planning and policy development have had the philosophy—carried out with almost a religious zeal—that what counts above all else is the expansion of the social security program. To some of them, to believe otherwise amounts virtually to being opposed to the program—and even really in favor of its repeal. Thus, such persons have not necessarily tended to be political as between Democrats and Republicans, but rather they have favored and helped those who want to expand the social security program the most.

In fact, one might say that some social security staff members are dedicated to an expansion of the social security program so that it takes over virtually all economic security needs. This is in sharp contrast with the moderate approach, which believes that there should be a reasonable sharing of the economic security field between the public and private sectors, with the financing being on a sound basis and completely visible to all, so that the financial burdens involved are readily apparent.

One might perhaps excuse this expansionist approach of many social security planning officials on the grounds that it is only natural for people to advocate and work strongly for the growth of the activity in which they are engaged. There is, however, a difference in this respect as between workers in the private and public sectors. The civil servant has an equal responsibility to both those who are beneficiaries and those who bear the cost of the benefits. Equal publicity should be—but usually is not—given to those who will pay the increased taxes, as against those who will receive the higher benefits.

Supporting Conclusions

Many social security researchers, as I have observed over the years, have the view that the purpose of research in the social sciences is to gather data to substantiate a predetermined conclusion, so as to attain a desired social goal. As a result, according to this belief, valuable research time, effort, and money should

be devoted solely to proving the desired point and should not be "wasted" by searching for all the facts. This is in sharp contrast with Ruskin's wise saying, "The work of science is to substitute facts for appearances and demonstrations for impressions." In many instances, such biased research cannot be blamed solely on the researchers themselves, but rather to a considerable extent on the policy officials and others who direct their work along those lines.

Civil Service is, in general, a very desirable personnel policy, so as to have efficient and impartial administration in governmental operations. Certainly, in the management and purely technical areas such as accounting and drafting legislation (and, even, preparing actuarial cost estimates), the social and economic philosophy of the individual will have no effect on the results of his work.

In the policy planning field, however, the top policy officials should have staff members working for them who are fully sympathetic to their views and approaches. Too much Civil Service and too little flexibility in filling top personnel posts can easily hamstring and Administration in a particular area. For example, if the high-ranking Civil Service technical employee is of the same conviction as a public advocate of the "out" party, how can it be expected that he will produce a vigorous, air-tight rebuttal for his political superior to an attack on Administration proposals by such an advocate?

CONCLUSION

In summary then, one may well raise the question "How much economic security should be provided through the Government?" Should social security provide only a basic floor of protection, upon which individuals and, in part, their employers should build, with public assistance for the small minority whose basic needs are still not provided for—as the moderates believe?

Why should Government supply complete economic security to the aged, the disabled, and the survivors of deceased workers so as to replace virtually the full wage loss—as some expansionists advocate? If so, what are the implications in other areas such as medical care for the total population and even the ownership and management of industry and commerce?

If all should be guaranteed, or provided, the highest possible medical care by the Government, how about guarantees or provisions so that none shall have incomes substantially below the average, or that none shall have diets that are not the highest nutritional quality, regardless of whether they could afford to—and would wish to—do otherwise?

There is a basic, important question here for America to decide. There is a choice to be made, and the citizens should be given all the facts on both sides, so that they can make a wise decision.

As a postscript, I might add that the social security proposals made recently by President Nixon, and now under consideration by Congress, fully meets the criteria of the moderate philosophy. At the hearings of the House Ways and Means Committee, several proposals were put forth that were definitely along expansionist lines.

SILVER SPRING, MD., *January 24, 1972.*

HON. RUSSELL B. LONG,
Chairman, Committee on Finance,
U.S. Senate,
Washington, D.C.

DEAR MR. CHAIRMAN: I appreciated very much the opportunity of appearing before your Committee at the Hearings on H.R. 1 on January 21.

I also appreciate the fact that you are placing my paper on the expansionist and moderate philosophies on Social Security ("The Future of Social Security—Is It in Conflict with Private Pension Plans?" *Pension and Welfare News*, January 1970) in the record. You may be interested in the enclosed paper, "Where Will the Pending Social Security Amendments Take the Program?", from the *CLU Journal* for September 1971. This paper is an updating of the original paper and deals specifically with H.R. 1. Perhaps it might be of value to place this article also in the record.

Sincerely yours,

BOB MYERS.

Enclosure.

[From the CLU Journal, September 1971]

WHERE WILL THE PENDING SOCIAL SECURITY AMENDMENTS TAKE THE PROGRAM?

(By Robert J. Myers)

Robert J. Myers, F.S.A., F.C.A.S., F.C.A., M.A.A.A., is now Professor of Actuarial Science at Temple University. He also serves as a consultant on Social Security to the American Life Convention, the National Association of Life Underwriters, and the American Medical Association. He was Chief Actuary, Social Security Administration, U.S. Department of Health, Education, and Welfare from 1947 to 1970 and was associated with the U.S. Social Security program for 36 years.

He often served as a consultant to the congressional committees which deal with legislation on Social Security.

He has also acted as technical advisor to other governmental retirement programs in this country and in other countries. In this capacity, he has given technical assistance to help establish or revise social insurance and government-employee retirement plans in Bolivia, Colombia, Cyprus, Dominican Republic, Greece, Iran, Israel, Japan, Jordan, Honduras, Liberia, Nicaragua, Panama, Peru, Ryukyu Islands, Saudi Arabia, Venezuela, and Viet Nam.

Mr. Myers is a member of many national and international professional organizations and in currently President-Elect of both the Society of Actuaries and the American Academy of Actuaries. He also serves on a number of intergovernmental advisory committees. He has written extensively on Social Security, demography, and related subjects and has recently published a book, Medicare. He has also authored Social Insurance and Allied Government Programs.

* * *

"You cannot bring about prosperity by discouraging thrift. You cannot strengthen the weak by weakening the strong. You cannot help the wage earner by pulling down the wage payer. You cannot further the brotherhood of man by encouraging class hatred. You cannot help the poor by destroying the rich. You cannot keep out of trouble by spending more than you earn. You cannot build character and courage by taking away man's initiative and independence. You cannot help men permanently by doing for them what they could and should do for themselves."—ABRAHAM LINCOLN

The future development of the Social Security program naturally has a great effect on the private life insurance and the private pension systems of the country. Even more important, what will happen in the Social Security area will have great effect on the nature and character of our social and economic lives. This paper will be confined largely to considering the cash-benefits part of the Social Security program—Old-Age, Survivors, and Disability Insurance (OASDI)—and will not discuss Medicare or its expansion into National Health Insurance, as is so widely being discussed currently.

OASDI and the private insurance system, using the term broadly, can be complementary, or they can be competitive. I believe that in the latter case, OASDI is bound to win out in the long run, and the private insurance system will be eliminated, or largely so. Perhaps, this may be analogized to Gresham's Law, under which bad money will always eventually drive out good money. On the other hand, if the Social Security program is held at a reasonable level, there will be ample room for the private insurance system to flourish and to do an effective job, with the net result being better for the country than if there were only an all-encompassing, monolithic Social Security system. In turn, within the private system, there should be a good, reasonable balance between individual programs and group programs.

THE EXPANSIONIST PHILOSOPHY

There is in this country a dedicated, well-informed group of individuals who sincerely believe that full economic security for those who can no longer obtain their financial support from current earnings should, for the vast majority of such persons, be provided by governmental programs. This result would, accord-

ing to this philosophy, largely be accomplished through a greatly expanded Social Security program. For purposes of reference, I shall term those with this viewpoint as "expansionists."

None can argue that it is not desirable for persons who have had the economic risk of old-age retirement, disability retirement, or death of the breadwinner befall them to have sufficient economic security so as to be able to maintain their previous level of living. The expansionists take the simplistic approach that—this being the case—let us do a complete and efficient job and have a governmental plan accomplish the desired results.

Those who oppose the expansionist philosophy, and instead believe in the complementary roles of Social Security and the private insurance system, believe that a governmentally-imposed fully-expanded Social Security system would produce undesirable results. They believe that full economic security provided in this manner would be bad for the character and moral fiber of the nation.

People like to feel independent and self-reliant, and this feeling would certainly be largely destroyed under the expansionist approach to economic security. In fact, this approach could well move further and further into people's lives by being applicable also during the active working career. In actuality, people flourish and mature under competitive conditions, assuming that competition has some reasonable restraints and that a floor of protection is available as "insurance" if risks are taken and failure occurs. There is a considerable likelihood that complete guarantteed security destroys character by creating boredom and general lack of interest. Certainly, there seems to be some evidence of this today in our affluent society.

The expansionist philosophy of Social Security, if followed, would necessarily lead to the virtual elimination of private-sector activities in the economic security field. This, in turn, would mean substantially less individual and group savings, so that the development of private industry through the influx of additional funds would be handicapped. The only solution for private industrial development, then, would be to turn to governmental sources for these funds. The vicious circle would thus begin—more governmental control of our economic lives, perhaps even leading to more governmental ownership of the means of production. Such a result would undoubtedly not displease many expansionists!

The goal of the expansionists in the OASDI area is quite simple. They believe that benefits should be at a level close to take-home pay for virtually all workers (say 90-95%). This would involve first raising the maximum taxable earnings base now to about $18,000 per year and then doubling the benefit level in one way or another. The benefit level can be increased either directly by changing the benefit formula or indirectly by such means as increasing the number of drop-out years in the computation of average monthly wage for benefit-calculation purposes. The expansionists would also broaden the scope of the program—and thus its cost—in many ways, such as a liberalized definition of disability, a reduced disability waiting period, and lower retirement ages.

But, the problem of the expansionists is how to finance the greatly increased cost. Raising the earnings base is some help in this direction. Such action has a double "advantage" from the expansionist approach, since it both produces more funds to finance expansions and results in somewhat larger benefits for the higher-paid persons, who are apt to object to such changes expanding the program. The main source of financing expansions of the Social Security program, however, must come from general-revenue financing, or more properly, government subsidies, because the present direct payroll taxes are already scheduled to go to levels that are creating dissatisfaction among workers, especially the younger ones.

Government-subsidy financing has the attraction to the expansionists that it makes the cost burden involved less apparent, and thus less painful, to the citizenry. People clearly see payroll deductions and will object to too high tax rates and total taxes. Many persons may feel, however, that government subsidies come down from the heavens or, at least, from other people's pockets and not their own, and so they will not oppose increased financing in this manner, but rather will view with approval the additional benefits provided as a result of this financing procedure.

The expansionists sing several siren songs to those who by nature should oppose them. One such song to business is that the complete expansion of Social Security, resulting in the virtual elimination of private pension plans, will take one source of work and worry away from business so that it can better be about its own direct affairs. Another song is that government subsidies will enable employer

payroll taxes to be lower and thus result in lower costs of production. Similarly, the expansionists hope to answer the complaints of young workers about the high payroll taxes by introducing government subsidies. But one cannot get away from the hard, cold fact that large government subsidies to the Social Security system will involve general-revenues taxation whose burden must fall on the people of the country and on business in one way or another.

Yet another theme of the expansionists is that, in the past, private pension plans, private insurance, and savings have grown and flourished as the Social Security program developed and matured and that, therefore, the same thing will happen in the future if Social Security expands. Up to a certain point, it is true that the private-sector activities in the economic security field have flourished because there was the floor of Social Security on which to build. In the absence of a social insurance program, we would almost certainly have a means-test public assistance program to take care of needy people; under these circumstances, many people would not have any incentive to use private-sector economic security provisions, because anything that would be accomplished thereunder would merely be lost by being taken away from their assistance payments.

But the economic law of diminishing returns will certainly set in as the Social Security program is expanded, and the role of the private sector must be diminished after a certain point is reached. There is no precise manner for determining where that point is, but I believe that we are now not far from it. Perhaps, we may even already have passed it.

With this as a background, let us examine where the Social Security program has gone in the last few years, where it is likely to go in the immediate future, and what are the long-range prospects.

DEVELOPMENTS IN THE PAST TWO YEARS

It may come as a surprise to learn that OASDI has been expanded more in the last two years than at any time in its 35-year history. And this has been under an Administration which has frequently openly espoused the causes of less central government and decreased aggregate tax burden on individuals. Let me first demonstrate how this has occurred and then why it happened.

When the Nixon Administration took office in early 1969, it surveyed the Social Security program and found that a number of changes seemed desirable. There was then the particularly fortunate situation that a sizable actuarial surplus existed, due to favorable experience (largely, the result of rapidly increasing wage rates in the immediate past). Accordingly, the Administration recommended a 10% benefit increase (just sufficient to offset the rise in the cost of living which had occurred since the previous benefit rise) and certain other changes in the benefit provisions.

The financing for these changes could be accomplished from the existing actuarial surplus and from the effect of increasing the annual earnings base to $9,000 (just sufficient to keep it up to date with the changed level of earnings), without increasing the tax rates scheduled for the future. In fact, there was sufficient financing available so that part of the OASDI rates could be shifted to the Hospital Insurance program under Medicare to bolster its financing without raising the combined tax rates for both programs.

However, at the end of 1969, Congress (which was under the control of the Democrats) grabbed the ball and enacted a quick, simple 15% benefit increase, when it was found that this could be done without raising the tax rates or the earnings base.

In developing its legislative program for 1970, the Nixon Administration continued to recommend the same benefit changes as it had proposed in 1969, even though most of the money available to finance them had already been spent. This certainly was a case of short-sighted political thinking—attempting to get the credit for Social Security benefit changes and ignoring the long-range effects of the necessary additional financing. Under the circumstances, the fiscally prudent thing to do would have been to eliminate some of the proposed benefit changes. The situation was really analogous to a person going shopping with a certain amount of money; if more is spent in the first store than was intended, then less is spent in the subsequent stores.

When the Congress considered the Administration proposals for Social Security benefit changes in 1970, in the spirit of political competition it added to them. At the same time, Congress responsibly recognized the added costs and provided the financing therefor through higher scheduled tax rates in the long run. However, no legislation was enacted in 1970, because the House and the Senate passed

considerably different bills, and there was not sufficient time to reconcile the differences.

Then, in March 1971, while a wide variety of benefit changes was under consideration (including those still being proposed by the Nixon Administration, despite the necessary higher financing required), the Congress enacted another "quickie" benefit increase, this time 10% across the board. Changes in the cost of living justified a 5% increase at this time, and this could have been financed, on a long-range basis, with the funds available from raising the earnings base to $9,000 and from the actuarial surplus shown in the new cost estimates, as a result of using the current higher earnings levels. President Nixon had recommended a 6% increase, but nonetheless he willingly signed the bill and acclaimed it.

Thus, in the last two amendments, the benefit level was expanded about 10% over what it should have been if it merely had kept up to date with changes in the cost of living. This ratcheting has thus been a significant step toward the expansionist goal.

Numercial evidence of the expansion that has occurred in these amendments may be seen by considering the ratio of the primary benefit for a person with maxmium credited earnings to such earnings. For the period following 1954, this ratio had generally been about 31–33%. However, under the 1969 Amendments, it rose to 38.6%, and it increased to 39.4% under the amendments enacted early this year (and it would be 39.0% under H.R. 1, whose provisions will be discussed later).

Why then has all this expansion occurred, especially when an Administration was in office that has professed to be conservative or moderate in social and economic philosophy? One reason has been the unfortunate situation of the Executive Branch being controlled by one political party and the Legislative Branch being controlled by the other one. This has produced what is perhaps unhealthy political competition, with each party trying to outbid the other.

Then, too, I believe that the Nixon Administration has been poorly advised as to the long-range consequences of its actions and of those of its politcial opposition. Its political appointees unfortunately do not include any persons knowledgeable in the fields of employee benefits or insurance and tend to look at only the short-range consequences of their decisions. At the same time, for some strange reason, the Nixon Administration has not replaced the political appointees in the Social Security Administration, who are holdovers from the Kennedy-Johnson Administrations. These political appointees naturally hold the expansionist philosophy that was espoused by the former Administrations, since they supported it then, and they seek in many ways to sell it to the present Administration. Certainly, these expansionists cannot be expected to point out the dangers inherent in the course of action which the Nixon Administration has taken in the last two years in dealing with Congress, which is of the opposite political party. Instead, the SSA political appointees "impartially" help and encourage all factions by giving them so-called technical assistance to "improve" (i.e., expand) the Social Security Program.

CURRENT OASDI LEGISLATION

So, where do we go from here? The short-range picture looks very discouraging, both as to what has been enacted in the past two years and what is likely to be enacted this year. As this paper is being written in August 1971, the House of Representatives has passed a sweeping bill, H.R. 1, which significantly expands the Social Security program, as well as drastically revising the welfare or public assistance program. In fact, this expansion of Social Security may be occurring somewhat unnoticed because of the controversy over the welfare provisions of the bill and because of the widespread public debate over National Health Insurance.

H.R. 1 is now being considered by the Senate Finance Committee, which will hold extensive public hearings after the summer recess is over. It is uncertain when the Senate will act on this bill and then get together with the House to hammer out an acceptable compromise of the two versions of the bill. Considerable delay may be involved in this process because of the controversy over the Welfare provisions, but it is very likely that the Social Security provisions in whatever legislation is finally enacted will not differ too greatly from those in the House version.

The OASDI benefit changes in H.R. 1 involving increased long-range costs include the following major items:

(1) A 5% increase in benefits, effective for June 1972 (which is probably just about sufficient to keep the benefits up to date with changes in the cost of living).

(2) A special minimum-benefits provision (of up to $150 per month for those with long periods of coverage).

(3) An increase in the widow's benefit (to 100% of the primary benefit for those who first claim benefits at age 65 or over).

(4) Increased benefits for those who delay retirement beyond age 65 (a 1% increase for each year of deferment).

(5) Equalization of benefit computations for men and women (so that men have an age-62 computation point, just as women now do.)

(6) Additional drop-out years in the computation of average monthly wage for benefit purposes for those with long coverage (namely, one additional year for each full 15 years of covered employment).

(7) Election to receive actuarially-reduced benefits in one category (e.g., as an insured worker) would not require a simultaneous such election for benefits in other categories (e.g., wifes' or widow's benefits).

(8) Liberalization of the earnings test (sometimes referred to as the retirement test), by raising the annual exempt amount and by reducing benefits somewhat less for earnings in excess of such exempt amount.

(9) Computing benefits for certain married couples on the basis of their combined earnings record, if larger benefits result.

(10) Reduction in waiting period for disability benefits (by one month).

(11) A number of miscellaneous changes, such as continuing child's school attendance benefits beyond the 22nd birthday (to the end of the relevant semester).

The increase in cost for the foregoing benefit changes plus the liberalization of the Hospital Insurance program (discussed in the next section) are equivalent to the cost of an across-the-board benefit increase of about 20%. Thus, during the Nixon Administration, if H.R. 1 is enacted in the form that it has passed the House, we will have had benefit increases equivalent to 15% in 1969, 10% in 1971 and 20% in 1972, a cumulative compounded increase of 52%. This can be compared with the likely rise in the cost of living about 28% between January 1967 (when the last previous benefit increase was first effective) to June 1972 (when H.R. 1 would become fully effective). This is further clear evidence of the expansion that has, and likely will, take place at the Social Security program in the current Administration.

This is not to say that all those favoring the legislative changes made believe in the expansion of the program (and the concomitant diminution of the role of the privae sector). Rather, they have been pushed into this by the expansionists. Perhaps, one reason for this is that so little public attention has been paid to the basic Social Security program (OASDI) during the heated public debate on welfare and national health insurance. Thus, the expansionists have made an "end run" in OASDI.

H.R. 1 also includes provisions for automatic adjustment of benefit amounts (according to changes in the cost of living) and of the annual exempt amount in the earnings test and in the taxable earnings base (according to changes in the general earnings level). The automatic adjustments would not go into effect for any year if Congress took legislative action on these elements in (or for) the previous year. No such automatic adjustments would be possible to be effective before 1974. It is estimated that these provisions are self-financing and that no increase in the tax schedule would be needed therefor (unless experience were unfavorable—i.e., the cost of living rising at a rate almost as large as the increases in the general earnings levels).

A small part of the cost of the OASDI benefit changes would be met by increasing the taxable earnings base to $10,200, effective in 1971. This change is somewhat more than would be necessary if the base were increased only enough to reflect the changes in the general earnings level since the present $7,800 base was instituted in 1968. The remainder of the cost of the various OASDI benefit changes would be met by increasing the scheduled tax rates over the long-range future. Specifically, the present ultimate rate for OASDI is 10.3% for the employer and employee combined, beginning in 1976, and this would be increased by H.R. 1 to 12.2% beginning in 1977. Somewhat anomalously, the ultimate tax rate for self-employed persons would remain unchanged (at 7%), perhaps to placate this category, which sees more clearly the taxes imposed, because of direct payment rather than payroll deduction.

THE 10% CEILING

For a number of years, many people believed that a combined employer-employee tax rate of 10% for OASDI should be the highest rate ever scheduled. Senator Abraham Ribicoff of Connecticut, when he was Secretary of Health, Education, and Welfare in the early 1960's, several times stated before Congressional committees that a 10% rate was the absolute maximum that should ever be scheduled. Interestingly enough, when this 10% limit was breached by the amendments enacted early this year (since this was necessary to finance the 10% benefit increase, as against a 5.6% one, which could have been financed without going through the 10% ceiling), no mention of this was made in the halls of Congress or by the public press.

I do not believe that there is anything "sacred" about a specific 10% limit on the combined employer-employee tax rate for OASDI, but I do believe that going beyond this point should be done with great caution and only for reasons of urgent necessity. Most of the benefit changes in H.R. 1 are desirable or attractive in themselves, but in the aggregate there is a serious question of whether all of them are really worthwhile and should be made in view of the significantly increased cost of the program and the resulting higher ultimate tax rates required.

CURRENT MEDICARE LEGISLATION

H.R. 1 also contains some significant changes in the Medicare program. These will be discussed here only as they affect the overall tax rates for OASDI and the Hospital Insurance (HI) portion of Medicare combined.

Additional financing is needed for the existing HI program, because hospital costs have risen (and will likely continue to rise) so much more rapidly than was assumed in the actuarial cost estimates on which the present tax schedule is based. In addition, H.R. 1 involves new additional costs for the HI system as a result of including thereunder disabled beneficiaries who have been on the OASDI benefit rolls for at least two years.

Part of the necessary additional financing comes from the increase in the taxable earnings base, which naturally must be the same for HI as for OASDI. But most of the necessary financing comes from raising the tax rates. Thus, the ultimate combined employer-employee tax rate is increased from 1.8% (for 1987 and after) to 2.6% (for 1977 and after). The ultimate tax rate for self-employed persons would rise from 0.9% to 1.3%.

TOTAL TAX BURDEN FOR OASDI AND HI

Under H.R. 1, the combined employer-employee tax rate for OASDI and HI together would be 14.8%, beginning in 1977. This is a sharp increase (22%) over the ultimate rate of 12.1% (beginning in 1987) under present law. The corresponding ultimate rate for the self-employed under H.R. 1 would be 8.3%, as against 7.9% under present law, a relative increase of only 5%, thus shifting more of the benefit cost for this group over to the employer-employee group (so as to lessen objections to the high visible tax rates on the self-employed).

WHERE DOES THE SOCIAL SECURITY PROGRAM GO FROM HERE?

An ultimate combined employer-employee tax rate of almost 15% of taxable payroll would seem to restrict significantly the area for future growth and development—perhaps, even the maintenance—of the private pension, insurance, and savings sector. And this level of taxes is by no means the end of the ambitions and aims of the expansionists.

Congressman John W. Byrnes, ranking minority member of the House Ways and Means Committee, made the following significant statement about the payroll tax burden under the Social Security program during the debate on H.R. 1 (*Congressional Record*, June 22, 1971, page H5594):

"Let me again, as I have in the past, emphasize that the benefit increase and program improvements contained in the bill require increases in both the wage base and the tax rates. We simply must give as much attention to the burden we are imposing as to the benefits we are dispensing.

"The tax increase we have enacted in recent years and are recommending in this bill make payroll taxes a heavier burden for most taxpayers than the income tax. . . .

"I believe we have gone about as far as we can or ought to go in imposing payroll tax burdens. Future liberalization in the program must be weighed very, very carefully against increases in the tax burden that they will require. In view of the regressive nature of the payroll tax when considered apart from a wage-related benefit schedule future amendments must place a high premium on improving individual equity and strengthening the insurance character of the program. . . .

"We simply must remember that the income that a worker can currently devote to further contingencies is limited by his ability to meet the immediate needs of his family. If the cost of social security cuts too deeply into daily living requirements, people will begin to make unfavorable comparisons between current costs and distant benefits. If the time ever comes that current workers are unwilling to bear the cost of providing benefits to current retirees, the social security system will be in real danger and those who will stand to lose most will be the current beneficiaries."

These are indeed thoughtful words which deserve the careful attention of persons who are concerned about the future development of the Social Security program and its relationship with private-sector activities in the economic security field. In fact, one might well wonder whether H.R. 1 has not already gone too far in imposing payroll tax burdens.

The expansionists might well enthusiastically agree that payroll tax levels are too high or that they should not go higher in the future. They will then rush in with the salvation and solution of government subsidies so as to "take the burden away from payroll taxes and thus off of the workers and employers who pay them." Those in favor of a moderate level of Social Security benefits and of private-sector activities supplementing a governmental floor of protection should be fully aware of this trap.

What can be done about these potential dangers? I am convinced that, in order to maintain our pluralistic system of providing economic security for the vast bulk of the population, those who are convinced of the desirability—even necessity—of this approach must try hard to bring this viewpoint to the attention of the public. The moderates—whether they like it or not—must devote more time to the general situation and thus possibly less time to their own personal business. Or else, they will, in the long run, not have any personal business. In my view, the insurance industry (as well as many other interested parties) should actively and aggressively seek to educate the public as the dangers of the expansionist approach—even though they might be accused of only trying to look after their own interests, when in reality the best interests of the country would be enhanced by such action.

The CHAIRMAN. The next witness will be Richard Smith, supervisor, Prince Georges County Department of Social Services.

We are pleased to have you and we are interested in your efforts to prevent fraud in the handling of your program; and we congratulate you on exposing fraud where you come across it and we are pleased to have your statement.

STATEMENT OF RICHARD S. SMITH, WELFARE SUPERVISOR, PRINCE GEORGES COUNTY, MD., DEPARTMENT OF SOCIAL SCIENCES

Mr. SMITH. Thank you, Mr. Chairman. I hope these cases I present will have some bearing on the present bill. This gives somewhat of an idea of what can happen under the present system. I don't think this is a common occurrence, let me say first of all.

In mid-January 1971, I began to notice an odd coincidence: a large number of applications I was reviewing as supervisor listed twins. Since all our agency had as verification was the affidavit of the client, I became suspicious that clients might be adding fictitious children to the application to increase the amount of the grant.

We then pulled eight cases and wrote to them asking them to give us the place of birth for the children so we could verify their birth

and told them we would be forced to suspend their check if we did not receive this information by a certain specified date. Four of the letters were returned "no such street or street number;" three were returned "addresses unknown;" and one client failed to respond. All of these cases were subsequently closed.

After we found we had been defrauded in this fashion, we verified births of all twins on the affidavit application not clear and checked their addresses with the Park and Planning Commission. Between approximately January 19, 1971, and May 21, 1971, we rejected at least 14 applications because of suspected fraud; either the address did not exist, the children weren't born where they were supposed to be, or the children were not residing with the person applying for them.

Because of similarities in the situations presented, we suspected it was an organized effort to defraud us. The women generally came in with a handwritten note from their landlord saying they had kept them as long as they could without them paying rent so they were evicting them. This necessitated us seeing them immediately and giving them a check that day. They were all between the ages of 20 and 29 and generally had at least four children who usually were all preschool age. We think this was so we couldn't verify through the school their existence, residence, or who their guardian was.

On April 20, 1971, Mr. Weilheimer, one of my social workers, while interviewing a Corrine Williams ascertained she did not live where she said she lived nor were her children born where she stated. She then told us she had been sent in by a "Red Willie" with the information needed to receive assistance and was to split the money with him. On this date we then notified the other metropolitan counties of Maryland to be on the lookout for this pattern in their application and emergency unit.

Shortly thereafter, the Examinations and Compliance Department of the District of Columbia Department of Human Resources sent us a report on one of our clients named Harris who was receiving assistance in Maryland and in the District of Columbia. The worker handling the letter "H" noticed a large amount of returned mail with the last name "Harris"; later other workers noticed certain cases had a large amount of undeliverable mail.

The typical situation was that the check was deliverable but all other mail wasn't. Our public assistance checks are mailed out on a certain specified date every month.

The interim change units then started to request verification of address and occasionally birth when mail was returned "address unknown." We found approximately 24 such cases. Again, these cases conformed largely to the earlier pattern of young women with a large number of preschool children. As a result of requiring further verifications, these 24 cases were closed.

Previously we had assumed that those putting in fraudulent applications were just receiving one emergency check, but we now knew several had received more than one. We thought then we needed to review all of the applications in the files from December 1970 to the early part of May 1971. We did this, pulling any highly suspicious applications, and wrote letters asking the place of birth of the children so we could verify their birth.

Of the 14 cases I still have that we reviewed, one woman missed the birth dates of her children by over 4 years each over the phone, compared to the dates on her application; one asked for an appointment but didn't keep it; two letters were returned "address unknown"; three of the births didn't take place at the hospital listed; and in four cases there was no response to the letter. These cases were subsequently closed.

Baltimore City began an investigation of suspected fraud shortly after receiving our April 1971 memorandum and they found approximately six clients who had received assistance in both our county and Baltimore City concurrently. These individuals were later indicted in Baltimore City. One of the women indicted received assistance in Washington, D.C., received assistance under at least two names in our county, received one grant in Baltimore City while her husband received two grants in our county and one in Baltimore City. Although they did not receive all of these grants simultaneously they did receive at least four assistance grants at one time.

A review of the addresses used in the suspected fraud cases showed two specific addresses in our county were used in five separate cases each to receive assistance. Six addresses appeared more than once in the cases we suspected of fraud.

It is my opinion, however, after reading H.R. 1, that its provisions, if fully carried out, would make it nearly impossible to commit the type of organized fraud we experienced and would greatly reduce the most common types of fraud.

I also think, however, that there should be special provisions making it a felony to put in more than one application with intent to defraud by fraudulent information.

The CHAIRMAN. What do you think there is in H.R. 1 that would prevent the same type of fraud from occurring in the future that occurred in your office?

Mr. SMITH. Well, I think the biggest thing is it would be tied into the social security number. Currently, you can use legitimate information except for the address, you know, your own birth certificate and your children's birth certificate and receive assistance in every county in the State of Maryland and Washington, D.C., and some of the Virginia counties, and because of the fact that there is no central listing of this social security number you would have a good chance of not being found out.

Also, H.R. 1 calls for a verification. The State of Maryland, I think—50 percent of the States use an affidavit system.

Could I go a little further into this?

The CHAIRMAN. Yes.

Mr. SMITH. Currently the State of Maryland is trying to, through our unemployment compensation records, to ascertain who is working and what the amount of money they received from working is. This is good for the State of Maryland but it naturally does not give us the record from Washington, D.C., and because of the fact we are not tied into the Social Security Administration, we cannot ascertain if one is giving us the exact social security number.

The CHAIRMAN. All right. Are you aware of the fact that a person can have more than one social security number?

Mr. SMITH. Definitely. I think this can be—this system does not preclude fraud; H.R. 1 does not preclude fraud entirely. It makes it a great deal more difficult. You could still commit fraud but you would have to have in the case of family assistance fraudulent birth certificates, too.

The CHAIRMAN. Would you favor limiting each applicant to one social security number?

Mr. SMITH. I indeed do. If it were feasible I would like to see the social security number tied in with the basic data which are the birth records of the various States; but I don't know how fiscally feasible it is.

The CHAIRMAN. It seems to me the way we are getting the worst of it in this family program, has to do with fathers who have an obligation to support their family but who do not. Those fathers should first be sued for support. First we should try to get them to voluntarily agree that they are the father and then agree to support their children. If they don't do that, you ought to proceed legally to have them declared to be the father and then to get a court order requiring them to pay support to their children.

I was told by the welfare director of my State no later than last night that the HEW regulation requires them to put the family on welfare rolls under the AFDC program even though the father is able to support this family where the father is not married to the mother even though he is living in the home and merely says he is not paying anything to support his own children.

It would seem to me the answer there should be you first ought to require him to make a proper contribution to the support of that family and only then after he has made that contribution should Uncle Sam be required, and the State required, to pay something to support that family. Is that the present regulation as you understand it?

Mr. SMITH. Let me comment on the various parts. I am not sure how this would cut down on welfare per se. In the State of Maryland there has to be physical absence before we can assist an AFDC client. But we were mentioning before, I think, during the hearing, the difficulty in getting nonsupport. Let me just introduce, if I can, a circular letter dated January 12, 1972, from our State Department which says:

> On Monday, January 10, 1972, the United States District Court for the District of Maryland, in Magness et al. versus Davidson, declared the provisions of the Programs Manual of this Administration to be null and void under Maryland law insofar as they require an applicant for Aid for Families with Dependent Children to herself initiate either paternity or non-support proceedings against the father of the child for whom assistance is sought and, if she herself be a minor who is seeking assistance for herself, against her own parents. This is clearly a sound legal decision and we do not intend to appeal.
>
> Attached is an analysis of the applicable law.
>
> Moreover, we note that there is presently no rule requiring such an applicant to identify the father of the child. Accordingly, to the extent that the provisions of the Programs volumes require the identity of the father, such requirements are similarly invalid and unenforceable.

So in short, someone comes in and lies and does not want to tell us who the father of her children is, we have no recourse to that.

The CHAIRMAN. Is that the Department of Health, Education, and Welfare telling you that?

Mr. SMITH. No, that is the U.S. District Court for the District of Maryland telling us that. Insofar as those courts have undertaken to

construe this act of Congress as saying that a mother can get that money and live off the public, and put all her children on Uncle Sam's doorstep for us to support and require us to support them for a lifetime.

The CHAIRMAN. If I have any influence, we are going to strike down those court decisions because it is an outrage that people can have children and put them on Uncle Sam's doorstep without first doing what you have a right to expect of the parents. Does that make sense to you or not?

Mr. SMITH. I agree with you. I am not exactly sure on what this decision was based because I am not a lawyer. It may be based on Maryland law but the brief sent to us was that this was the Federal court rule in 50 States.

The CHAIRMAN. Further, I am told by the welfare director of my State that the HEW people, either by regulation or by practice have told our people, the State people, that they can't even go around and inquire of the neighbors of the eligibility of a person who is on welfare unless they first get the clearance from the welfare client who may be a cheater, for example—get that person's permission to go ask his neighbors about his circumstances; is that right or wrong?

Mr. SMITH. I am not sure about how it works in Louisiana, Senator. In Maryland we still have to get this—if they are unwilling to let us proceed we can suspend their check, however. But there are—we cannot investigate a client without their permission.

The CHAIRMAN. I understand that is a department regulation. Is it clear on the face of it, Tom? Now that is just like saying that if somebody is guilty of theft you cannot investigate the fact of the theft without the consent of the thief which, as a way of handling taxpayers' money, makes me think that the person handling it ought to be in jail along with the thief.

(An excerpt from the Federal Register, vol. 36, no. 40—Saturday, Feb. 27, 1971, follows:)

PART 206—APPLICATION, DETERMINATION OF ELIGIBILITY AND FURNISHING ASSISTANCE—PUBLIC ASSISTANCE PROGRAMS

4. Part 206 is added as follows:

§ *206.10 Application, determination of eligibility and furnishing of assistance.*

(a) *State plan requirements.* A State plan under title I, IV–A, X, XIV, XVI, or XIX of the Social Security Act must provide that:

* * * * * * *

(12) In determining initial and continuing eligibility:

(i) Applicants and recipients will be relied upon as the primary source of information in making the decision about their eligibility.

(ii) The agency will help applicants and recipients provide needed information, as necessary, or will obtain the information for them if, because of physical, mental, or other difficulties, they themselves are unable to provide it.

(iii) Verification of circumstances pertaining to eligibility will be limited to what is reasonably necessary to ensure the legality of expenditures under this program.

Under the requirements of this subparagraph:

(*a*) The agency takes no steps in the exploration of eligibility to which the applicant or recipient does not agree. It obtains specific consent for outside contacts, gives a clear explanation of what information is desired, why it is needed, and how it will be used;

(*b*) If other procedures are followed in an exceptional situation, they are consistent with subparagraph (10) of this paragraph, and the case record specifies what procedures were followed and why they were needed;

(*c*) When information available from the applicant or recipient is inconclusive and does not support a decision of eligibility, the agency explains to the individual what questions remain and how he can resolve or help to resolve them, what actions the agency can take to resolve them and the need for their resolution if eligibility is to be established or reconfirmed. If the individual is unwilling to have the agency seek verifying information, the agency, unable to determine that eligibility exists, denies or terminates assistance;

(*d*) If a simplified method is used in the determination and redetermination of eligibility, the requirements of § 205.20 of this chapter apply.

* * * * * * *

The CHAIRMAN. Now, wouldn't it seem more logical that wherever we have cause or suspected that a person is ineligible to be on the rolls we ought to have complete freedom to look into the facts of the case and if the person does not want to cooperate at a minimum they ought to be removed from the rolls?

Mr. SMITH. Yes. I think this regulation has to do with what was at one time some harassment of clients. I think collateral contacts, if judiciously taken, in the State of Maryland application they do state that they understand that we may dig—I wouldn't say dig—but delve deeper into the situation. However, we still have to get a verification.

There has been an appeal because there was harassment in one case which was valid where someone investigated a client he might state, "I think it is a question of judgment."

The CHAIRMAN. It would seem to me that if I had some doubt that a person lives at a certain location, and if I am having to support the person with my own personal money, and I doubt the person lives there, and doubt the person even lives in the State, I don't know why I shouldn't have the privilege to go there around 8:30 at night and just tap on the door and see if he lives in that house or if that person is known there.

Can you do it that way in Maryland?

Mr. SMITH. Well, our State, and I think only Baltimore City has any investigators whatsoever, essentially we have to operate on what we can find in the way of written evidence such as we know leases by landlords who is—in whose name is the lease of the apartment, et cetera.

The CHAIRMAN. Why is it that only Baltimore has any investigators whatsoever?

Mr. SMITH. I am not sure of this, Senator. We could certainly have used one at the time we had the problem of fraud in Prince Georges County. This is an ongoing problem and we had someone put in—connected with the same ring—put in an application as late as last Wednesday.

The CHAIRMAN. Finally, I am told this quality control procedure is not really calculated to catch fraud at all; it is not designed for that purpose, and if you detect fraud with the quality control thing it is just a happenstance; it is not because it was designed to undercover fraud at all; is that correct or not?

Mr. SMITH. Well, the quality control is designed to see what the fraud rate is in a State.

The CHAIRMAN. For what?

Mr. SMITH. It pulls a random sample, say, in the State of Maryland of 10 percent. It is not designed to, you know, investigate fraud cases. They take a random sample and those are the only cases they will delve into; they are, as I say, set up just to tell us what the fraud rate is, not to investigate cases of fraud.

The CHAIRMAN. Thank you very much.

Any questions?

Senator JORDAN. Mr. Smith, according to a press release that you supplied us here, you said that you were going to check social security numbers of recipients against computerized records. Did you do that?

Mr. SMITH. We have started to do this. It is a large undertaking and somewhat because of the way the Federal financing of State employees

are set up, we are understaffed. Baltimore City has done this. They found somewhat over 20 percent of the people on assistance are working and they have taken measures to try to clarify this.

In our county, we are trying to negotiate presently now to be able to reciprocate with Washington, D.C., their records, since our county does adjoin Washington, and I would say probably half the people of our county work in Washington, D.C., but we do plan to check everyone's social security number against the wage record for unemployment compensation in Baltimore.

Senator JORDAN. Have you gone far enough to know what percentage of the cases involve fraud or misrepresentation?

Mr. SMITH. We, as I say—the place where they have done this most extensively is in Baltimore City. It is very hard to find out much information about this. The Governor of the State of Maryland, Hon. Marvin Mandel, and our secretary had a falling out over exactly what the figures are, and I would presume they are somewhat classified information; they have not fallen my way.

Senator JORDAN. Thank you.

Senator ANDERSON. Can you say what the falling out was? What was it?

The CHAIRMAN. What the falling out was?

Mr. SMITH. Well, the Governor said they could reduce the budget $10 million by taking all the people who were earning money or otherwise receiving overpayments or straight-out defrauding the system. Mrs. Davidson said, I think, the figure was $5 million.

The CHAIRMAN. Well, let me ask you this: Do you think it would be desirable that every State have a fraud unit that would at least make a spot check to see to what degree frauds existed within that program?

Mr. SMITH. I think it would be good if you could have one capable fraud unit. I think though the thing which we find—we are finding, I think, more overpayments with the social security numbers than we found in any other method. I think the records we really need so far as locating absent parents, as far as finding what people's incomes are, are the records the Federal Government has.

The CHAIRMAN. Here is the thing that concerns me about all this: You just testified here that in Maryland, outside the city of Baltimore, there is no investigator at all in the program to investigate fraud and I see you nodding that that is correct.

Now, I can tell you about that program in my State. In a rural area where I live, among those who appear to be on welfare, most of them shouldn't be there at all. Most of them have employment opportunities available, and those men were working up until they managed to get their families on welfare. Since that time they have quit working—I will concede that—so they may have some need for it since they quit their jobs, but prior to the time they quit their jobs the families were not eligible for welfare.

Now, it would seem to me that at a minimum we ought to investigate on a spot-check basis to see whether there appears to be widespread fraud in this program and if there is, then we ought to investigate it closely enough to do something about it. Otherwise, I don't see how we can give the taxpayers a fair run for their money.

What would be the answer to this situation where the mother has adequate support available to her, from a father who is earning enough? Lawyers tell me a paternity is the easiest kind of lawsuit to win; simply sue the father of the children and have him declared to be the father in order to pay support when he is making plenty enough money to where he could make a contribution.

Mr. SMITH. There are problems in this, too, Senator. Our State's attorney will not take a nonsupport action into court if the father is paying as little as $1 a month. He claims this is no longer criminal nonsupport.

Senator ANDERSON. Who authorized that?

Mr. SMITH. He is an elected official. The people who elected him, I guess, authorized that. Yes, we have a problem.

Senator ANDERSON. Don't you think he has the responsibility?

Mr. SMITH. We have disagreed with his decision for a long time but we have no power to control our State's attorney.

Senator ANDERSON. Have you asked for it?

Mr. SMITH. That would entail actually restructuring of the county system of government in the State of Maryland.

Senator ANDERSON. Then you are not in favor of administering the law?

Mr. SMITH. We are in favor of it, definitely.

Senator ANDERSON. What have you done, then?

Mr. SMITH. Well, we are doing the best we can, after being bombarded by HEW, various circuit courts, et cetera. We tried to follow up on nonsupport actions.

Senator ANDERSON. How many cases are there on relief?

Mr. SMITH. How many public assistance cases in the city of Baltimore? I would say about 66,000; it contains the majority of caseload in the State but I am not talking about Baltimore City which is an entirely different system from any other county in the State of Maryland. It is a special case. Even their welfare department is under the Baltimore City government so they have somewhat closer communications with the Baltimore City courts and their corporate counsels there.

Senator ANDERSON. You indicated here, in your second paragraph: "We then pulled eight cases."

Mr. SMITH. Yes.

Senator ANDERSON. How large a sample was that?

Mr. SMITH. Well, what we did is, we pulled the cases which had been done in the last 14 days. There were 14 cases, eight of which had twins. These were the ones we were initially suspicious of.

Senator ANDERSON. What was the whole load?

Mr. SMITH. What?

Senator ANDERSON. What was the whole load? You pulled eight of them. How many were there?

Mr. SMITH. It would be hard to say, Senator. I would say at that time——

Senator ANDERSON. You must have some kind of a guess. Was it 50, 100, 1,000, or 2,000?

Mr. SMITH. In that time 200 cases would be processed or 200 applications.

The CHAIRMAN. You have told us here that in your county you don't have any fraud investigator available to you at all.

Do you?

Mr. SMITH. No, essentially not. We requested from the States that we have at least two people to follow up on some highly suspicious cases. The State said, and I think quite truthfully, that the department as a whole did not have enough personnel.

The CHAIRMAN. And you say that you uncovered this considerable amount of fraud going on, just by what would show on the face of the record itself or at least would make you suspicious?

Mr. SMITH. Yes, anything; we just pulled records which we thought showed the pattern of young women who had for their age quite a few children and we also pulled the ones where we had had at least an address which was close to one where fraud had been perpetrated before.

The CHAIRMAN. Yes.

Senator FANNIN. I am very pleased with what you have done. I understand from your testimony you are quite frustrated as to what can be done and is not being done. Would it assist you financially if you had legislation throughout the country to have social security cards and it would be fraud to have more than one social security card?

Mr. SMITH. I think under the current law it is illegal to have more than one.

Senator FANNIN. Well, have you done anything about it? We have had testimony they had been issued. We do have in many States—I know in my State it is illegal to have more than one driver's license and we watch that and we have a central registry and certainly with the system we have nationally on social security, I mean for the record and all, wouldn't it be of assistance if we had—where you had assurance if you had a social security card that person would not have another one or it would be held fraudulent?

Mr. SMITH. Yes; I think with that provision you could say you could eliminate just about any type of fraud other than the man who is paying nonsupport under the table to his wife.

Senator FANNIN. Well, we have other problems in this regard. I think it brings out how essential it would be if we had a single social security card and, of course, they are also issued to aliens.

I don't know whether you have a problem in your State so far as aliens are concerned but I have been informed in my State that HEW has attempted to block the cooperation between the State welfare department and the U.S. Immigration Department in screening illegal alien cases where they are suspected of receiving welfare and being in this country illegally. Do you have that to contend with?

Mr. SMITH. We have, I would say, practically no aliens in Prince George's County receiving assistance. We have some Cuban refugees who are a separate category of assistance. I think any alien problem we would have would be in Baltimore city because of the port there.

Senator FANNIN. But you are not aware of that problem?

Mr. SMITH. I am not.

Senator FANNIN. Thank you.

Senator ANDERSON. I'd like to find out how many cases there are examined. If they can't find fraud at all, it is like saying the rest of

the people are just stealing the money so we ought to report the situation and try to find out what this is all about.

The CHAIRMAN. I agree with that.

Senator ANDERSON. Eight cases just are not enough as a sample.

(An attachment to the previous witness' testimony follows:)

[From the Washington Post, December 12, 1971]

WELFARE CHEATING RING UNCOVERED

(By Jim Mann)

One day last winter, Richard Smith, a quiet, unassuming welfare supervisor in Prince George's County, noticed something peculiar as he looked through the pile of papers on his desk.

That day there had been three different applications to the county's department of social services for "emergency" welfare assistance submitted by women whose children included twins.

Knowing that twins are relatively rare, Smith grew suspicious and began to investigate.

The result, four months later, was the discovery that an organized ring has been cheating the county out of about $40,000 in welfare and food stamp benefits.

The investigators learned that women applying for welfare exchanged wigs among themselves in order to change their appearance, and often gave nonexistent addresses when they applied for welfare help.

At one point, Prince George's warned three neighboring Maryland counties to beware of one "Red Willis" and his brown Cadillac, said to be roving the area with a number of women who were schooled to apply for welfare.

Welfare officials across the state exchanged notes and photographs of people they suspected were submitting fake welfare applications.

Federal investigators from the Department of Agriculture quietly attempted to take pictures of people applying for food stamps.

And some measures taken in an effort to halt the fraud were met by sophisticated countermoves on the part of the welfare recipients.

"Most of our clients are still honest," Smith said in a recent interview. "But for someone who is criminally inclined and wants to pick up $200, it (welfare fraud) is cheaper than bank robbery; it's easier to get away with, and it involves a lesser charge if you're caught."

Smith and Prince George's County are far from alone in their problems. Officials in many other jurisdictions across the country, including the District of Columbia and Baltimore, have had their own cases of food stamp fraud, sometimes with greater losses than Prince George's.

But the Prince George's episode illustrates the dilemma facing welfare officials generally as they attempt to guard against fraud while at the same time taking care of people who legitimately need help.

At the root of the fraud in Prince George's County is the so-called "declaration" system of applying for welfare and food stamp benefits—especially as this system relates to "emergency" or immediate assistance.

(Food stamps are coupons sold for a price below their face value, to recipients who later use them like cash to buy food at a grocery store or supermarket.)

Basically, the declaration system means that a local welfare agency accepts a request for welfare benefits and distributes money or other aid without any prior investigation to determine if the applicant's claims are true.

The rationale is to avoid the invasions of privacy and atmosphere of suspicion that, civil libertarians have argued, have often pervaded welfare programs. There are no home visits, requests for birth certificates, or other checks.

SAVES HIGH COSTS

Supporters of the declaration system also argue that it saves the high costs of policing welfare programs and investigating every single application.

About half of the states operate under a declaration system for the largest and most common welfare program, known as aid for families with dependent children (AFDC). Those states include Maryland and the District of Columbia, but not Virginia, in which some but not all counties operate under a declaration system for AFDC payments.

Ordinarily, even under the declaration system, there is a delay between the time a person fills out a welfare application and the time he or she receives the benefits.

But it is possible in many places, including the District of Columbia, Maryland and parts of Virginia, to receive "emergency" aid—to fill out an application and then receive cash or food stamps on the same day.

The aim of emergency assistance is to provide immediate help for those who need it—people who have been evicted, or disabled, or who have no money to feed their children.

In Prince George's, the emergency aid was at the heart of the fraud scheme uncovered by Smith.

Alerted by the recurrence of twins, Smith decided to check the recent emergency applications in the county. He discovered that over an eight-day period, the department had received 12 different applications from people who brought notes from their landlords saying they had been evicted.

Seven of the 12 cases involved women with twins.

Smith and other officials then sent out letters to these 12 people at the addresses listed on their applications. All the letters came back stamped "addressee unknown."

Smith wrote a memo to his superiors on Feb. 11 stating his conviction that there was "an organized kind of fraud, the twins being added so that there are a large number of children who are preschool age (so we cannot call schools and easily verify existence)." In general, the more children an applicant has, the more welfare money she receives.

CAREFUL CHECK MADE

For the next several months, welfare workers were under instructions to check carefully all persons who applied for emergency aid.

Several times, when women did apply for emergency benefits, and welfare workers explained that the names and birth dates of their children would have to be verified through hospital records, the women walked out of the office.

(Smith says that the welfare office will not detain or arrest an individual until it is absolutely certain it can prove fraud.)

The workers noticed, Smith recalls, that the women applying for emergency welfare—the ones who walked out of the office when questioned—were "so much better dressed than anyone else, including the workers. They went first class."

But the scheme continued, because the emergency applicants changed their tactics. So that they wouldn't be recognized, Smith says, the women wore different wigs, which they exchanged among themselves.

After a while, their stories were not always the same either. Sometimes they had twins and sometimes they didn't. Sometimes, they said they needed emergency help because they were evicted; sometimes they said they needed help because they or their husbands were disabled.

Usually the welfare office would discover it had been defrauded only after the emergency help had been given.

For example, one applicant brought a detailed statement of physical disability, complete with blood pressure, pulse rate and an illness that was described in technical medical terms. Much later it turned out that the disability was similar—and the blood pressure and pulse rate were identical—to those on at least one other disability statement submitted under a different name.

In addition, the welfare office began to discover that it was being cheated out of other payments besides those initial emergency payments.

Ordinarily, so long as a woman applying for emergency aid also qualifies financially for regular monthly AFDC (welfare) checks, the county routinely begins mailing those checks the month after it gives emergency payment.

NONEXISTENT ADDRESSES

Smith said that sometimes, because the applications for emergency aid gave addresses that did not exist, the AFDC checks for the following months would be returned by the post office.

But sometimes, Smith says, those women gave real addresses and managed to keep and cash subsequent checks as well as the emergency check. Welfare officials later discovered that these addresses were sometimes used several times under several different names.

"We lost so much money to one address on Southern Avenue that we could really have improved the neighborhood," Smith says.

On a few occasions, too, the women would not apply for emergency assistance at all, but would apply for regular public assistance at the outset.

"As we would get more sophisticated, so would they," Smith says. "We underestimated them completely."

In mid-April, county officials got what they thought was a break. A woman applied for emergency assistance, and while she waited in the office, the welfare worker, checking carefully, discovered that she had given a phony address.

This time—in contrast with similar cases in the past—the woman did not get up and walk out. Instead, she calmly told welfare officials a lengthy story about how she had come to apply for welfare.

According to welfare officials, the woman said she had been picked up in the District of Columbia by a man named Red Willie who drove a brown Cadillac and taught women how to apply for welfare.

The woman also said that "Red Willie" claimed to be in league with welfare department staff members, according to welfare department officials.

How much if any of what the woman said was true, or whether there actually was a "Red Willie," has never been determined.

COLLUSION DENIED

Smith dismisses the idea that any welfare official was involved in the fraud scheme, and federal investigators, who have since conducted investigations in Prince George's, say there is absolutely no evidence of any collusion by officials.

Smith says he assumes some women were, in fact, told that a supervisor was cooperating by someone who later took a portion of the welfare checks "for the supervisor" and kept it himself.

In any case a few days later after the Red Willie incident the Prince George's department of social services sent out an official letter to its counterparts in Montgomery, Anne Arundel and Baltimore counties and Baltimore city, warning them that Red Willie and his brown Cadallic might strike at their offices, too.

Such contact with welfare and food stamp officials in other counties was beginning to produce results. District of Columbia officials provided Prince George's with a fully report, including names and photographs, of people suspected of welfare and food stamp fraud in the District. Baltimore City also reported it was having troubles striking similar to those in Prince George's

FEDERAL PROBE PUSHED

In addition, federal food stamp investigators, under the direction of Department of Agriculture Inspector General Nathaniel Kossack, noticed apparent irregularities in Washington-area food stamp programs and began their own investigation, in Prince George's County and other jurisdictions.

At one point, Smith says, Prince George's officials attempted to call a person suspected participating in the fraud scheme into their office, so that federal officials could take pictures of that person receiving food stamps. It never happened, because the suspect would not come into the office, Smith says.

It was apparently not the only time during their Maryland investigation that federal investigators tried to take pictures of food stamp recipients.

Beulah Carter, director of social services for Caroline County on Maryland's Eastern Shore, says that pictures were taken in her county of a food stamp recipient suspected of fraud.

The federal investigators arranged to have local police photograph the recipent through a telescopic lens at a prearranged signal as the woman was leaving the county courthouse, Mrs. Carter says. The picture was taken, but Mrs. Carter says the suspect turned out to be a legitimate food stamp recipient.

Federal officials have refused to comment on the reported picture-taking. Kossack said he does not disquss his department's investigative techniques.

Meanwhile, in early May, the Prince George's department of social services began to examine exery single public assistance case it had processed since the previous September—about 2,000 in all.

That study has turned up at least 45 different cases of fraud between September, 1970, and June, 1971. Those 45 cases cost a total of "between $20,000 and $45,000—maybe more," Smith says, in welfare benefits. (Of those welfare costs, 50 percent are paid by the federal government.)

Those losses generally were in the form of AFDC checks of $200 to $800 per month, Smith says, but the study uncovered one woman apparently participating in the fraud who was receiving a check of $700 per month.

Those dollar estimates in welfare benefits. Most of the people obtaining welfare assistance also obtained food stamps at the same time, Smith says. He estimated that the food stamp losses amounted to about 45 per cent of the welfare losses—roughly $10,000 to $20,000.

ADDITIONAL LOSSES

It is possible there were additional losses besides. Smith says that those people who were discovered to be using fake names and addresses also obtained medicaid cards, enabling them to get medical care at public expense. But he says that his department does not know whether these cards were used.

In June, Prince George's officials began contacting and questioning most people who had received emergency assistance or who were otherwise suspected of being involved in the fraud scheme.

"The heat was really on," Smith says. Within weeks, applications with fake names and fake addresses stopped coming in.

No criminal charges have been filed in connection with the fraud in Prince George's.

Smith says the scattered instances of fraud "are continuing" in Prince George's, but not on the scale that occurred earlier this year.

In an effort to further cut down on the possibility of fraud, Smith said, Prince George's County will begin within a week or two to check all Social Security numbers of welfare recipients against computerized records.

But this screening will not affect the emergency aid program. The Social Security numbers will not be checked until after a person is given emergency assistance or emergency food stamps, Smith said, unless for some reason an official becomes suspicious of an emergency application.

As Smith admitted to a reporter; "If you wanted to come in here tomorrow, dress shabbily, say your name was Ralph Royster-Doyster, and show us you're out of work, you could get public assistance for 30 days."

The CHAIRMAN. The next witness will be Mr. Mike Burk, legislatice counsel for the National League of Senior Citizens.

STATEMENT OF MIKE BURK, LEGISLATIVE ADVOCATE, NATIONAL LEAGUE OF SENIOR CITIZENS, LOS ANGELES, CALIF.

Mr. BURK. Mr. Chairman and gentlemen, I know the time is late and if for any reason you want to adjourn, I will be glad to come back Monday.

The CHAIRMAN. I think it would be better to hear the witnesses because we will have more witnesses Monday, Mr. Burk.

Mr. BURK. I think you all have a copy of my preliminary statement here and I will not try to read that again. I just want to make it clear that I do not intend to try to examine the merits of the welfare portion of H.R. 1, that I am confining myself solely to the social security and to the old age assistance aspects of it, and to this end, I want to point out, first, that we were very concerned originally that the elderly, the blind and the disabled were included in H.R. 1.

We have always felt that they should have received legislative attention on the merits of their own case without being thrown willy-nilly into a welfare mess; and we feel that still.

Nevertheless, Mr. Gurney and others and I tried last summer and last fall to get an amendment to H.R. 1 offered in the Senate which would take this portion of the bill apart and we got nowhere with it.

However, such a bill has been introduced on the House side. It is H.R. 12200 which has been offered by Congressman Stratton of New York to consider the welfare sections and medicare sections of H.R. 1

separately; and in case this becomes desirable, I offer this information to you. And, incidentally, Congressman Stratton has 21 cosponsors to his bill.

So, to go on from there, I would like to offer some observations on these private pension plans which have been alluded to, if not directly here, at least indirectly, by Mr. Pillsbury and Mr. Myers and others.

They have said, and have said quite correctly, that the original purpose of social security was to provide a floor, a kind of an income base, from which people could work; and this is indeed true. But in the opinion of our organization, this is not the way it should be. Let me state quite frankly that I am for, and our organization is for, enlarging the social security system to bring all of the retired elderly, plus the blind and the disabled, into the social security system, then to provide an adequate living level of income, utilizing in the end what general funds are necessary in order to bring the income level up to the point that it should be.

There are many ways of doing this. Not all of the funds would have to come from the general revenue source; but let's not go into this for a moment. Let me just give you some indication here of how badly the private pension system has worked in the past.

The U.S. Department of Labor and the Internal Revenue Service have made a study of the some 84,000 plans—private pension plans—that are now in force and let me just give you briefly some of the results they found:

The Government researchers estimate that upward of 10 million of the 25 million wage and salary earners under the plans could lose the full benefits the plans call for, or a large part of them because of the high rate of discontinuance of private pension plans. Plans are discontinued because of the bankruptcies of companies, concerns going out of business, and mergers, the report says.

Between 1954 and the end of 1965, 4,243 pension plans were abruptly ended for one reason or another, and the workers who thought they were fully protected by them were left holding the bag.

This study found that only a small fraction of 1 percent of the plans now in force are insured against such loss.

Now, to go on just for a moment here, the study cites the classic example of a private industry plan that failed to produce for its beneficiaries what it had promised on paper, which was the closing of the Studebaker Corp's plant in 1964.

About 10,600 employees at the Studebaker plant supposedly were fully covered by a pension program negotiated by the United Auto Workers Union in 1950. In the 14 years of the plan's existence, the company paid about $25 million into the fund, but when the fund was liquidated it was discovered that there was not enough money in it to satisfy the equities of all who had been enrolled in it.

About 3,600 beneficiaries already retired were given priority in the fund and were granted full benefits for their lives. But close to 4,000 people with 10 years or more of service who were between the ages of 40 and 59 were paid a lump sum of 15 percent of the amount their years or service legally entitled them to, while the 2,900 workers below the age of 40, regardless of their length of service, received nothing.

This is not an isolated instance. Let me go back even further in history. Perhaps many of you here remember that the very first pension

plan in these United States that paid to its recipients $100 a month was John L. Lewis' hard coal miners. You remember way back when John L. Lewis was able to negotiate a pension plan that provided $100?

This was financed by contributions from the operators of the hard coal industry but as the hard coal stores were depleted the pension was first cut in half from $100 to $50; it was cut again to $30 and eventually was discontinued entirely because there is no more hard coal industry; there is no more ownership or operators contributing to it.

So there is no private pension plan nor any fund, whether it is a union plan or whatever, that is secure; and what our organization has always tried to work toward is a secure and adequate income and retirement plan for all people. We do not believe, and figures bear us out on this, that the private pension plan approach to this problem is the right answer.

Speaking as a sociologist I will offer my opinion here that the only way in which a secure and adequate pension plan can be enacted in this country is through the Government; and since we already have the social security system, I feel that this is the logical place to bring all of our retired, elderly people and the logical means by which to provide them the income they need during their retirement years.

Granted this is not what social security provides now, it is not what social security was intended to provide; but what I offer here is the observation that it should be made to provide this, and since we have a bill here to do it right now, let's do it with H.R. 1.

But let me offer as an aside on the social security system a couple of thoughts.

I heard yesterday in testimony here the observation offered that there should be no increase in social security this year partly because of the so-called substantial increases that have been made recently in social security.

Well, we have heard here a lot of statistics, and most of them relate to actuarial percentages and percentages of tax and so on; but let's try to bring this into context. Let's try to reduce these abstractions to figures.

Let me offer, to begin with, this observation: That in the 10 years between 1960 and 1970, the social security benefits were raised by 65 percent. Now, nobody will argue that this is not a substantial raise; it is. Any 65 percent raise is substantial; but let's look then at the end result of this substantial raise. After this 65 percent raise, what was the average monthly benefit? $118. So, when you talk about substantial raises, unless you know the actual dollars and cents that the end result brings, these figures are meaningless.

So let's try to bring into them a little bit of meaning here.

The Ontario Calif. "Daily Report" is the paper from which I clipped this next offering, but the person I am quoting here is a syndicated columnist, Sylvia Porter, who is an economist, and she has given us some real fascinating figures. Let me just quote them to you:

We have now under social security an average monthly social security benefit for a couple of a little over $200 a month. Now, the minimum benefit, according to the Bureau of Labor Statistics, which an elderly couple must have in order to live above the poverty level is $3,000 per year. This is the figure which Mr. Ribicoff has offered in his amend-

ment and all I have to say is that it isn't enough but I will come to that in a minute.

But just what will this so-called retired couple's budget provide? Here is the answer from Sylvia Porter, the syndicated economist:

> This retired couple's social security budget will buy a new topcoat for the husband every 20 years; it will provide 2¾ pounds of meat, poultry and fish each week per person, a half quart of milk per day, less than one egg per day, 67 cents' worth of snacks per month, two bottles of beer and half a bottle of soft drink a week, one new sheet a year for the couple, one new pair of pillowcases every 3 years, a new blanket or quilt every 7 years, $1 a month for telephone calls, another dollar a month for postage, replacement of the family car once every 4 years with another car that is already 6 years old, one new girdle and one new bra for the woman every other year and a new purse every 5 years.
>
> Not included in this budget are any funds for cigarettes, whiskey, wine, phonograph records, theater, out-of-city bus rides, dry cleaning, household help, life insurance and a host of other things that are, if not necessities, at least the amenities to which these people are entitled.

She goes on to say the typical elderly individual or couple does not eat out today, does not buy new cars, does not buy new clothes, many do not even seek the medical services to which they are entitled under medicare.

She acknowledges, as we all do, that social security was never meant to cover the full financial needs of the retiree, but in actuality millions today are forced to depend almost solely on social security benefits because disability prevents them from working; because of job discrimination; because their employers have provided no pensions; and because their earnings were too low to permit them to save during their working lifetime.

As a result, one in four elderly live in poverty and poverty is in fact increasing among the elderly.

The CHAIRMAN. Your time has expired. In fact, it expired when that bell rang, sir, and I would suggest you put your other suggestions in the record so that we will have them available for all of those on the committee and also for the Senate.

This budget that you are referring to is that what?

Mr. BURK. That is what the social security retired average couple now receives, $2,616 a year.

The CHAIRMAN. I certainly hope we can make a major increase on that; I will certainly vote for that.

Mr. BURK. I can cite instances from here to you and back again 50 times over of cases that I have personally investigated where people are living on as little as $7 per month for food allowance—old people.

The CHAIRMAN. Any questions?

Senator ANDERSON. I am worried a little about the savings that always seem to become involved. Have you ever started a pension plan?

Mr. BURK. Beg pardon?

Senator ANDERSON. Have you ever started a pension plan?

Mr. BURK. Do you mean has our organization started a pension plan or our employees?

Senator ANDERSON. No. Your experience and mine are not the same about this pension plan program. I had some employees and I established a pension plan for them. They are all covered by it and they are 25 years in it and they are not worried about it. Do you think this point you made to us is worrisome?

Mr. BURK. I think private pension plans in general are vulnerable. They are all vulnerable; without exception, they are all vulnerable. I do not think they are the right approach at all.

Senator ANDERSON. Well, for instance, General Motors?

Mr. BURK. General Motors is included right with the rest of them. General Motors could go into bankruptcy tomorrow and with it would go their pension plan.

Senator ANDERSON. I would just say I do believe that you could retire under these programs.

Mr. BURK. Well, there is no question many people are retiring on pension programs now. This is not to say they are all necessarily going to fail. I only point out they are not the answer for all people and this is what we should be seeking.

There are isolated instances where they are fine but they are not the correct approach to solving the problem.

The CHAIRMAN. What do you think should be the level for the aged in this welfare bill? I see you object to the $130 as not enough. What do you think it ought to be?

Mr. BURK. Our organization has already had a bill or is in the process of having a bill introduced to bring the White House Conference on Aging recommendations into force here.

The White House Conference on Aging recommended that the Bureau of Labor Statistics' intermediate level of income be adopted as the proper pension amount for the old people, and we are incorporating this into a bill which is being introduced for us by David Pryor.

The CHAIRMAN. What would that figure be?

Mr. BURK. That figure works out for 1970 to be $4,500 a year for a couple, with 75 percent of that or $3,375 for a single person.

We also have had in the past another approach to this problem in a bill we have had introduced many times—and it still is in, incidentally—which is H.R. 57, introduced for us by Congressman Burton which is to establish the amount of the pension as the equivalent of earnings under the minimum wage law; currently this would provide $277 a month for a single person. So the two plans are not terribly far apart.

Senator FANNIN. Do you have any idea what this would cost per year, if we brought the program into effect that you recommend?

Mr. BURK. Yes; and I will furnish you with this information and also with some thoughts on how I think—how we think that this can be financed without going too deeply into General Treasury funds; for the sake of brevity I will give you this as a written statement.

Senator FANNIN. Fine.

Mr. BURK. All right.

Senator FANNIN. Fine; thank you.

The CHAIRMAN. Thank you very much, sir. We appreciate your statement.

Mr. BURK. Thank you.

(Additional testimony received from Mr. Burk and a letter received by the committee follow:)

Let me tell you of a case which was investigated last summer. This documents the case of an elderly woman who is a paralytic invalid. She has no teeth. She can only get about with the help of crutches and a walker which she had to buy out of her welfare check. She has a bone deteriorating disease that necessitates a plate in her hip. She had recently broken a wrist just trying to open a jar.

Additionally, she has a bleeding ulcer and an eye disease. For drugs alone she has to pay out, from her welfare check, $20 every month. With a total income of $141 a month, she had the grand sum of $11.55 left after her drugs, rent, utilities and other fixed expenses were paid. From this $11.55 she must eat, buy clothing, pay for transportation to the doctor, and pay for her other needs. If you say now that this can't be done, you are right. She lives in her underwear, which she made herself, saving the one dress she owns for visits to her doctor. For food she pays $1.00 for food stamps and tries to live on this for a month. Without the charity of her neighbors she would have starved to death long ago. And now, let me ask the next question that must surely come to everyone's mind—is Congress not willing to prevent such things from happening?

During the course of testimony offered by the witnesses who preceded me today and yesterday, I have heard it said several times that there should be no enlargement of Social Security, no Social Security raises, no automatic increases to compensate for cost of living increases, and even, if I read the tenor of the testimony correctly, no Social Security System at all—that it should be abolished in favor of private plans which the insurance companies could then sell. While I can understand a representative of these Insurance companies offering such a callous bid for whatever profits may accrue from handling private pension plans which would deny the retired elderly the only secure and dignified pension system now available to them. I also hope that the members of this committee and of Congress will not assist in any such rape of the elderly.

Let's examine the situation a little further. I have also heard here much testimony to the effect that investigations into welfare repeatedly uncover cases of recipients receiving grants to which they were not entitled. What these witnesses failed to tell this committee is that such investigations also have shown that many people who were eligible for welfare benefits were receiving none. That, in fact, the number of eligible persons who are not receiving benefits far outnumber those so-called welfare "cheaters." The conclusion is obvious that such investigations are self-defeating if carried to their logical conclusion and that welfare rolls will not be reduced by such means.

Since I have said that I will confine my testimony to the situation of the elderly, the blind, and the disabled, I offer this side-long look at welfare to make another point—that welfare rolls can be reduced by removing the elderly from them. Welfare rolls are now heavily weighted with the aged poor, and by bringing such people into an adequate Social Security shelter we would get them off welfare. The total cost of bringing these aged poor up out of poverty would not be a wholly new and added burden to the economy—in many cases it would simply mean a transfer from one governmental agency to another—and again, our organizations insists that there should be a sharp distinction made between old age assistance grants of whatever nature, and the charity of "welfare". Such a transfer of our aged poor to Social Security as their full means of assistance would make such a distinction in fact.

Another favorable aspect of doing this lies in the savings made possible by elminating the cost of the large-scale duplication and overlapping of Federal, State, County and even City governmental agencies that now bring assistance to the elderly at a cost that approaches the value of the benefits these elderly receive. We now have the ridiculous situation of some county agencies reporting more employes than recipients of their services.

There is yet another reason for removing the aged poor from the tender mercies of local agencies, and that is that only the Federal Social Security System can restore to them the dignity and self respect that local agencies too often deny them. As an example, let me offer the seven page inventory form that Butte County, California, requires, under threat of discontinuance of their old age assistance grant, the elderly recipients of OAA in that county to fill out and return—within ten days. This inventory list starts out with vehicles and boats and goes through cash on hand, insurance policies, jewelry, tools, miscellaneous personal property and household goods—even requiring an itemized list of silverware, pots and pans, dishes and other things, with their value!

It would seem unnecessarily redundant to observe again that our elderly, our blind, our disabled, should not be made vulnerable to those in political power who use their power to harass. And if California is not sufficient example of such misuse of power by a hostile local administration, I can mention others.

At this point I would like to advance a refutation of a commonly made criticism of Social Security which has been offered here in this hearing, again.

This argument says that if a worker would, instead of paying into Social Security, invest his money privately, he would be better off ultimately. This is simply not true. First, I do not think anyone believes that in the easy-credit, indebtedness, easy-spending way of life our culture has made to seem desirable to the working-age members of our society, that the equivalent of their social security deductions would be either saved or invested in any long-range plan for retirement. Just as important, the facts simply do not support the premise that Social Security is a poor investment in itself.

The arithmetical computations usually offered to support the bad-investment theory commonly include the employer's contribution—which would not be made if Social Security were to be abolished. Additionally, the figures usually offered assume that the benefits in effect at the time these computations are made will be those still in effect at the time of some future retirement and will also then remain static throughout the period of retirement. This is obviously not the real case, for benefits, even if still inadequate, have gone up many times over the years and will continue to do so.

These computed theoretical cases invariably cite as their example a young person just coming into the system, with perhaps fifty years of contributions ahead of him, which is hardly a typical example. Nor do these arguments ever mention that literally thousands of people who contribute hundreds of thousands of dollars never get a dime back. These uncollected contributions, plus the interest received on the present billions of surplus in the System, in themselves constitute a source of funds for increasing benefits.

Equally important, too, is the fact that these criticisms deal exclusively with the retirement benefits of the system, ignoring the fact that the Social Security System gives other coverage as well, offering survivor's benefits, disability benefits, lump-sum death benefits and hospital and medical care in addition to pensions.

The purpose of Social Security was and is to prevent our elderly from retiring into destitution. Let's allow this purpose to be fulfilled by bringing all our retired into the Social Security System, along with the blind and the disabled, and providing a benefit structure adequate to meeting living costs today and in the future. Let us, using the vehicle at hand, H.R. 1, establish at last a real meaning for retirement as a time of fulfillment. Let us make reality of the White House Conference on Aging recommendations.

Let us, as a minimum of action by Congress, raise Social Security benefits by 15%, establish automatic cost-of-living increases, and make sure that no recipient of Old Age Assistance anywhere shall have his benefits cut by any provision in H.R. 1. Additionally, we should eliminate the premiums from Medicare, eliminate deductibles from Medicare, enlarge Medicare to include drugs, and extend Medicare to the disabled. Only by this minimum of action shall Congress discharge its obligation to the elderly, the blind, and the disabled of our nation.

NATIONAL LEAGUE OF SENIOR CITIZENS,
Los Angeles, Calif., January 19, 1972.

Mr. TOM VAIL,
Chief Counsel, Senate Finance Committee,
New Senate Office Building, Washington, D.C.

DEAR SIR: The National League of Senior Citizens, a non-profit service organization for the elderly, blind and disabled, has for 30 years worked in behalf of a Federal pension system. We hold that such a pension is not the public charity of "welfare", but is earned income that continues into retirement. Since neither the Social Security System as it presently operates, nor any other pension system available to all Americans has provided the secure and adequate retirement income to which our elderly are entitled, we have advocated bringing all retired persons into the Social Security System, and establishing a livable level of income.

H.R. 1. accomplishes at least a part of these things, and to this extent our organization supports that part of H.R. 1. that operates here. We do not propose to argue the merits of the whole bill, but are confining ourselves to that part of it which is in our field. Our chief concern at this point is the establishment by H.R. 1. of a $130 flat grant to single persons and $195 for couples, initially, with permission for the states to discontinue all state contributions in this field. This would mean that the new $130 grant would then become the total income of those retired persons having no other source of funds. We object to this on

two grounds. First, the amount of $130 is in itself totally inadequate. Second, many states, through the present system of shared State-Federal funds, are already paying more than $130, and since all States are now protesting that they cannot continue their present level of contributions, state supplemented income will nowhere be available, which means that in all those states presently paying more than $130 the already in-poverty recipient of Old Age Assistance would suffer a cut.

We urge strongly that this Committee amend H.R. 1. to set the new standard of payments to the elderly, blind and disabled at the intermediate income level of the Bureau of Labor Statistics for a couple, with 75% of this amount for a single person, in accord with the recommendation of the White House Conference on Aging. Should this not be done, then we hold that the only acceptable minimum of action by this Committee be the provision of funds in those necessary cases to the end that no person in any state shall receive less than his current grant at the time the new law becomes operable.

Thank you.

MIKE BURK, *Legislative Advocate.*

The CHAIRMAN. I suppose I ought to introduce the next witness. I am reminded of—somewhat of a story my father used to tell.

My father used to tell a story about a fellow who was at one time in the State penitentiary and after he got out he went into an area where he wasn't known and established himself as a preacher. One day he looked out there among the brethren and he saw a former cellmate who had served with him at the same time in the penitentiary, and he said, "Brethren, I wish to read from my text," and he said, "It says right here, "if thou knowest me when thou seest me, speak not for I will see thee later. [Laughter.]

The next witness is a gentleman whom I knew back during my days in the amphibious force, and if some of my veteran stories were somewhat exaggerated, he would be in position to correct me; and I would just urge that he hold that information unto himself until we have a chance to clear it.

I am pleased to present to the committee Mr. Burton C. Holmes, who is speaking for the National Association of Life Underwriters.

Mr. Holmes, we are pleased to have you here and I suppose probably the less said about our days of flattening out the big waves in the Mediterranean the better off we will both be.

STATEMENT OF BURTON C. HOLMES, CLU, VICE CHAIRMAN, NATIONAL ASSOCIATION OF LIFE UNDERWRITERS' COMMITTEE ON FEDERAL LAW AND LEGISLATION; ACCOMPANIED BY MICHAEL KERLEY, STAFF COUNSEL, NALU

Mr. HOLMES. Thank you, Mr. Chairman.

I am vice chairman of the Committee on Federal Law and Legislation for the National Association of Life Underwriters, and accompanying me here today is Michael Kerley, staff counsel for our association.

I appreciate the opportunity to present testimony before this committee on H.R. 1. Certainly H.R. 1 is one of the most important pieces of legislation which this committee will consider.

Rather than read my entire prepared statement, Mr. Chairman, at this time I would ask permission that it be inserted in its entirety for the record.

The CHAIRMAN. We will print it all.

Mr. HOLMES. Thank you.

The CHAIRMAN. You can touch the main points you want to bring to our attention.

Mr. HOLMES. In September 1970, NALU testified before this committee on H.R. 17550. That bill, while it did not become law, serves as the basis for the present bill before the committee.

Since September 1970, important events have occurred which lead us to believe that the committee should take a further look at some of the OASDI provisions in H.R. 1.

The President's new economic policies, aided substantially by the tax amendments of 1971, have attempted to stem the tide of inflation and spur the economy to real expansion. Provisions in H.R. 1 can seriously affect both.

H.R. 1 seems to us to be simply too expansive in its current form and should be pared, eliminating what is not absolutely necessary and retaining only those provisions which will allow social security to maintain the floor-of-protection role which has been alluded to before today.

Let me summarize at this point our position on the major provisions of H.R. 1:

First, we urge the committee to reject the proposal to increase general social security benefits by 5 percent effective in June 1972.

Benefit increases which became effective in January 1970, and 1971 have far surpassed increases necessary to maintain social security cash benefits on a par with the cost of living. We believe that future increases should be made only as required by the increased cost of living.

Second, our association supports the provision in H.R. 1 to make cash benefits automatically responsive to increases in the cost of living in the future.

Third, we urge the committee to maintain the earnings base at $9,000 for 1972 and 1973 and allow the automatic provisions in H.R. 1 to adjust the earnings base as future national wage patterns and benefit increases dictate.

Fourth, we agree that the earnings test should be increased to $2,000 and that the dollar-for-dollar reduction in benefits should be eliminated, leaving only a $1 reduction in benefits for each $2 of earnings in excess of $2,000.

Fifth, we urge the committee to disapprove the provision which will allow men to retire at age 62 without an actuarial reduction in benefits.

Sixth, we strongly oppose an OASDI employer-employee withholding tax rate which would reach 12.2 percent in 1977 if H.R. 1 becomes law. Instead, we urge the committee to retain as closely as possible the present scheduled 10.3 percent ultimate tax rate to become effective in 1976.

And, finally, Mr. Chairman, we urge the committee to support the House-passed provision which will eliminate FICA taxes on wages paid by an employer to the survivor or estate of a former employee after the calendar year in which the employee died.

We urge the committee to expand this exclusion to eliminate the FICA tax on wages paid to an employee in any calendar year all of which is included in the period of disability. This latter provision is not included in the House-passed bill.

Let me elaborate further on the latter two points:

Title I, section 128 of H.R. 1 would amend section 209 of the Social Security Act and section 3121A of the Internal Revenue Code of 1954 to provide that income received by a survivor or the estate of a former employee after the calendar year in which an employee died be excluded from the payment of FICA taxes. In approving this section of H.R. 1, the Committee on Ways and Means stated:

> Under present law, social security taxes must be paid on wages paid to an employee's estate or survivor after the year the employee dies even though the wages cannot be used to determine eligibility for or the amount of social security benefits. These provisions have worked a hardship, particularly in the case of deceased life insurance salesmen whose renewal commissions have been taxed for many years after their death without increasing the social security benefits of their survivors. Accordingly, the bill would exclude from the definition of wages amounts earned by a worker in covered employment which are paid after the year in which he died.

It should be noted that while life insurance agents seem to be the largest, single classification of workers touched by this bill, many other workers could be affected.

For example, a worker who dies very near the end of a given year may earn wages that because of deferral payroll system would not be paid to his estate until the following year.

Under the present law, the earnings received after the yearend would be subject to FICA taxes but would not figure into the computation for benefits.

NALU recommends that the committee affirm this section of the bill and also eliminate another injustice of long standing.

Just as wages received by an employee's survivor or estate after the year of his death is taxable for social security purposes, and excluded for benefit computation purposes, so, too, is similar income received after disability. Income received in years during all of which the individual is disabled and receiving social security benefits is under the present law disallowed for benefit computation purposes even though the FICA tax continues to be paid thereon.

Once again, life insurance agents represent a significant classification of workers affected by this provision, although certainly many others are also affected.

NALU urges the committee to rectify the unfairness with respect to income received after disability by amending title I, section 128 of H.R. 1.

We have previously submitted language to the professional staff of the committee which we believe will accomplish the desired results.

This ends my oral presentation at this time and I want to thank you for the opportunity to appear before you today.

The CHAIRMAN. Thank you very much, Mr. Holmes. You have made some good suggestions here and while you were presenting them I have been consulting with our staff to be assured that those suggestions will be considered by the committee when we are in executive session.

Mr. HOLMES. Thank you very much.

The CHAIRMAN. We appreciate your testimony.

Any questions?

Thank you very much for a good statement.

(The previous witness' prepared statement follows. Hearing continues on page 914.)

STATEMENT OF THE NATIONAL ASSOCIATION OF LIFE UNDERWRITERS, PRESENTED BY BURTON C. HOLMES, CLU VICE CHAIRMAN, NALU COMMITTEE ON FEDERAL LAW AND LEGISLATION

INTRODUCTORY REMARKS

I am Burton C. Holmes, CLU, of Columbus, Ohio, and I am appearing before your Committee today as the Vice Chairman of the Committee on Federal Law & Legislation of The National Association of Life Underwriters. NALU is a trade association composed of over 950 state and local life underwriter associations representing a membership in excess of 100,000 life insurance agents, general agents and managers residing and doing business in virtually every locality of the United States.

We appreciate this opportunity to present our views with respect to certain of the proposed revisions in the Social Security system.

Prior to making specific comments on the recommendations contained in H.R. 1, I should like to summarize our basic position with regard to the OASDI program, its objectives and purposes.

NALU'S BASIC PHILOSOPHY REGARDING SOCIAL SECURITY

We believe that the Old-Age, Survivors, and Disability Insurance program was designed to provide what is commonly referred to as a "basic floor of protection" against economic want and need, financed by earmarked taxes imposed upon employers, employees and self-employed individuals and, to a small extent, by interest earnings on the Social Security trust funds. It was intended that upon this basic floor, each covered person, by individual and employer initiative, would plan and build additional economic security for himself and his family by means of private savings, investments, insurance, pension programs and the like.

As thus originally conceived and designed, the Social Security program is socially and economically desirable; but to assure its continued existence, it is essential that the program be soundly maintained. *Overexpansion* of the program *must* be *avoided*, since such overexpansion would contravene what we believe to be the basic philosophy behind the program, substantially increase the tremendous financial burden already facing present and future Social Security taxpayers, and pose a threat to the safety and continued existence of the program itself.

Since the last appearance by our Association before this Committee, events of great importance to the American public have transpired which, in our opinion, should be reflected in the course that the Finance Committee sets for OASDI. The President's initial Wage-Price Freeze, subsequent Phase II thaw, and the tax amendments of 1971, the latter measure passed with substantial contributions from the Senate Finance Committee, will have a profound effect on the effort to curtail inflation, a malady which has seriously imperiled the OASDI program, and the effort to spur the economy into real expansion.

It is our belief that the Committee should reexamine the current OASDI proposals in H.R. 1 in light of the above goals. H.R. 1 seems to us to be simply too expensive in its current form and should be pared, eliminating what is not absolutely necessary and retaining only those provisions which will allow Social Security to maintain its "floor of protection" role.

SUMMARY OF PRINCIPAL POINTS

In September 1970, NALU submitted testimony before this Committee on H.R. 17550, the Social Security Amendments of 1970. That bill, while it did not become law, forms the basis for the current proposals for Social Security amendments.

There have been significant modifications and additions to the provisions which were originally considered as H.R. 17550. Although our testimony today resembles that which we offered on H.R. 17550 to a large degree, we believe the changes made from it in H.R. 1 require comment, and those provisions which are the same deserve reiteration.

The following is a *summary* of the principal points in the Association's testimony on H.R. 1:

1. Reject the proposal to increase general Social Security benefits by 5%, effective June 1972. Benefit increases effective January 1970 and 1971 surpassed by a substantial margin the increase necesary to maintain Social Security cash benefits on a par with the cost of living. Any future increases should reflect only cost of living requirements;

2. Enact provisions which make cash benefits automatically responsive to the cost of living in the future;

3. Maintain the earnings base at $9,000, subject to automatic adjustment in accordance with provisions established by H.R. 1;

4. Increase the annual amount a beneficiary can earn without affecting benefit levels to $2,000; approve $1 reduction in benefits for each $2 of earnings in excess of $2,000;

5. Disapprove the provision which would increase benefits for men retiring at age 62;

6. Oppose the provision which would permit widows and widowers a benefit equal to 100% of the primary insurance amount if the benefit is applied for at age 65 or over;

7. Oppose an OASDI employer-employee withholding tax rate which is scheduled to reach 12.2% in 1977, as contrasted with an ultimate rate of 10.8% under current law; and

8. Support the provision which would eliminate FICA taxes on wages paid by an employer to the survivor or estate of a former employee after the calendar year in which such employee died. The Association recommends that this exclusion be expanded to eliminate the tax on wages paid to an employee in any calendar year all of which is included in a period of disability.

AUTOMATIC ADJUSTMENTS OF BENEFITS

Administration witnesses have described the "purchasing power guarantee" section of the bill as the most significant reform effort in the current legislative proposals. We concur in that characterization of that aspect of the measure. It represents a marked departure from past methods of keeping Social Security benefits up to date. While it appears to be far-reaching, we think it is an idea that has great merit.

One need only consult the recent history of Social Security benefits to gain an appreciation for the "cost of living" idea. Hearings on Social Security, both by this Committee and the House Ways and Means Committee, have been held approximately every two years during the past ten years. The dominant theme of the hearings usually revolves around an increase in Social Security benefits necessitated by the erosion of the value of the dollar by inflation. If a means could be found to make Social Security benefits automatically responsive to the cost of living, it seems to our Association such a feature would be highly desirable. Fortunately, H.R. 1 contains such a provision.

As contemplated by the bill, Social Security benefits would be increased, automatically, whenever the Consumer Price Index was 3% or more above the Consumer Price Index for the last "cost of living computation quarter." Thus, if the cost of living rose, benefits would be increased. If the cost of living remained stable, benefits would remain at their then current level. NALU believes that the automatic adjustment of benefits provision of H.R. 1 would allow a rapid, precise realignment between any significant increase in the cost of living and cash benefits under Social Security. Therefore, NALU endorses the automatic cost of living provision and would urge that the Congress enact it.

In one further comment on this aspect of the bill, I would like to draw the Committee's attention to a point about which it is probably well aware, and that is, that the bil contains no provision for *reducing* benefits if the cost of living goes down. On the off chance that such a downturn should occur, we think that a provision should be added to the bill to make a corresponding change in the benefit amounts.

AUTOMATIC ADJUSTMENT IN THE EARNINGS BASE

If the concept of automatic benefit increases is valid, and we think it is, then it follows that an automatic method of keeping up to date the maximum earnings base on which benefits are calculated is also valid. Under H.R. 1, the earnings would be automatically increased in proportion to the increase in the level of average covered wages, provided an automatic increase in benefits became effective in the same year.

Given the proper starting earnings base, a mechanism for the automatic adjustment of the earnings base to reflect relative changes in the total earned income of covered workers has valid appeal. (The $10,200 wage base scheduled to take effect in 1972 is *not* the proper starting point, in our opinion. I will comment further on this point under a subsequent heading.) The workers of the United

States can depend upon Social Security benefits keeping pace with the economy and, at the same time, be assured that the financing of those benefits will be handled in a responsible manner. For its part, management will be able to look upon the Social Security program with confidence, knowing at all times what percentage of average earned income of workers reaching retirement will be replaced by Social Security payments, allowing close correlation of private pension and retirement programs with Social Security to provide a greater measure of retirement security to the working public. And finally, the average working individual will know with certainty just how much economic security he must provide for himself if he is to enjoy the full measure of his retirement years.

One more comment on this section of the bill seems appropriate before turning to another topic. Apparently, this section of the bill lacks a means to reflect a decrease in wages. Just as we have suggested under the automatic benefit adjustment section, we would urge the committee to add a decrease feature to this provision of the bill.

INCREASE IN EARNINGS BASE TO $10,200 IN 1972

The bill before the Committee proposes to increase the Social Security earnings base to $10,200 from $9,000 effective in 1972. NALU opposes this proposal to increase the earnings base either for 1972 or 1973 and urges the Committee to retain the present earnings base and allow an automatic adjustment to occur pursuant to the automatic provision in the bill when, and if, an adjustment is required.

The earnings base has increased in absolute dollar amounts over the years, but it is an historical fact that the earnings base has remained nearly constant since 1951 if expressed in terms of a percent of total annual earnings in covered work subject to Social Security contributions. Unfortunately, the proposal presently before the Committee seeks to break the percentage relationship that history and the Congress has found to be highly successful by raising the starting earnings base to $10,200 beginning in 1972.

NALU recommends that the current earnings base of $9,000 be maintained in 1972 and be adjusted upwards, if necessary thereafter, as the automatic adjustment machinery in the bill requires. In 1969, then Chief Actuary of the Social Security Administration, Robert J Myers, estimated that by 1972 a $9,000 earnings base would cover 80.8% of projected total annual earnings in covered work subject to contribution, in other words, be right in line with historical precedent and Congressional intent. We urge the Committee to retain the current base unless more current earnings data dictates otherwise.

5 PERCENT BENEFIT INCREASE

It is a well known fact that among the individuals most affected by the loss of buying power of the dollar resulting from inflation are those maintaining a household by means of a fixed income. There is little that I can add to the public knowledge about inflation. Suffice it to say that a means should be found to alleviate the problem. In the case of Social Security beneficiaries, the preferable way would be to halt inflation. Our hope is that the new economic policies devised by the Administration and fostered by the Congress will stem the tide of inflation.

The Congress has enacted benefit increases twice in two years (15% effective January 1970 and 10% effective January 1971) which have paced Social Security benefits well beyond the Cost of Living Index. In fact, data currently available reveals that since 1950 the cost of living has risen 59.1% while Social Security benefits have been raised 101.8%.

Philosophically, NALU maintains that the Social Security program was designed to accomplish the specific goal of providing a basic income for people who are no longer able to earn income for themselves. We believe that the program has, by and large, accomplished that goal. In our opinion, the only requirement that needs to be met on a continuing basis is to retain the relative position of benefits to the economy as a whole. A 5% increase in benefits next June will further outstrip the Consumer Price Index; NALU recommends that the 5% benefits increase be deleted from the bill and that the automatic mechanism contained in the bill dictate future benefits in accordance with changes in the cost of living.

LIBERALIZATION OF RETIREMENT TEST

NALU supports the provision contemplated by H.R. 1 to increase the amount of earnings that an individual may have without affecting his Social Security benefits and keep the exempt amount up to date automatically. Under the bill, the annual earnings exemption would be increased to $2,000 from $1,680, allowing an individual beneficiary to earn up to $2,000 per year without affecting his benefits. Earnings above $2,000 would result in a deduction of $1 for every $2 earned. NALU agrees with the principle of reducing Social Security costs wherever possible, and for that reason, we believe that the Retirement Test is needed. However, we believe that reasonable allowances should be made for personal initiative in supplementing retirement income. We support the bill out of a realization that this aspect of the Social Security system should keep pace with the economy just as the benefit structure does in order to stimulate personal initiative rather than stifle it.

COMBINED EMPLOYER-EMPLOYEE TAX RATE

H.R. 1 proposes that the OASDI combined employer-employee tax rate be raised to a total of 12.2% in 1977 and thereafter, from 10.8%. An increase of the magnitude contemplated by H.R. 1 completely ignores the historical reluctance of this Committee to expand the OASDI tax burden beyond 10%.

The current rate, while it is scheduled to reach 10.8% after 1975, still maintains the tacit agreement of Congress that the rate should not exceed 10%. The major reason for this understanding would seem to be that the higher the Social Security taxes, the greater the tax load on the working public and fewer dollars the public will have to place into private means of developing economic security. As another factor the committee no doubt took into consideration the economic growth of our economy which demands that sufficient investment capital be readily available. Such capital is normally derived from funds put to work through private pension plans, savings, and life insurance, to mention just a few. It seems reasonable to assume that to the extent Congress increases Social Security taxes, a concomitant decrease in the amount of dollars the public has to place into private security programs will result, further depleting the capital investment market.

NALU wou'd urge, therefore, that the combined OASDI tax rate be maintained as close to 10% as possible. This action may require that certain proposed benefit additions or liberalizations will have to be deleted or postponed. Be that as it may, NALU believes that the Congress must be mindful of the needs of taxpaying Americans and the requirements of our investment economy.

AGE 62 COMPUTATION POINT FOR MEN

In addition to objecting to a lowering of the retirement benefit calculation point for men on fiscal grounds, NALU disagrees with the philosophical thrust, as well. The bill provides that the ending point of the period that is used to determine insured status for men and the ending point of the period that is used to determine the number of years over which a man's average monthly earnings must be calculated will be the beginning of the year in which he reaches 62, instead of age 65 as under present law, allowing "early" retirement for men with larger benefits than is provided under present law.

The rationale behind this proposed change in computation point is that women have been given the age 62 computation point, and therefore, to be fair, men should be afforded the same treatment. We believe that this is the type of gradual overexpansion of the program which most seriously threatens the stabi ity of the program. We cautioned in the past that there was no reason why, outside of disability, early retirement is beneficial. And we urged in the past that if such treatment were extended to women, it would serve as a precedent, encouraging like treatment for men. The Committee now has before it that proposal and we believe it is unnecessary and undesirable. In view of the increased life expectancy and useful economic life of the average American, we believe that to the extent that any further liberalization in benefits for early retirement would operate to induce covered workers to choose, or be forced into, early retirement, such a result wou'd tend to be detrimental both to the best social and economic interests of the workers themselves and to the economic growth of the nation.

Therefore, we respectfully urge that the section of the bill providing an age-62 computation point for men not be adopted.

ONE-HUNDRED PERCENT BENEFITS FOR WIDOWS OR WIDOWERS

Like the provision for an age-62 computation point for men, NALU objects to this section of the bill on fiscal grounds and for that reason alone would suggest that it not be adopted. But further, it has been shown that, under certain fairly common circumstances, the terms of this proposal would permit a widow (or widower) to receive a higher benefit than would have been received by the worker if the widow had died first. Clearly, this result is manifestly unfair and should not be tolerated. Therefore, this section should be deleted.

PAYMENTS BY AN EMPLOYER TO THE SURVIVOR OR ESTATE OF A FORMER EMPLOYEE

Title I, Section 128 of H.R. 1 would amend Section 200 of the Social Security Act and Section 3121A of the Internal Revenue Code of 1954 to provide that income received by a survivor or the estate of a former employee after the calendar year in which an employee died be excluded from the payment of FICA taxes. In approving this section of H.R. 1, the Committee on Ways and Means stated:

"Under present law, social security taxes must be paid on wages paid to an employee's estate or survivor after the year the employee dies even though the wages cannot be used to determine eligibility for or the amount of social security benefits. These provisions have worked a hardship, particularly in the case of deceased life insurance salesmen whose renewal commissions have been taxed for many years after their death without increasing the social security benefits of their survivors. Accordingly . . . [the] bill would exclude from the definition of wages amounts earned by a worker in covered employment which are paid after the year in which he died."

It should be noted that while life insurance agents seem to be the largest, single classification of workers touched by the bill, many other workers could be affected. For instance, a worker who dies very near the end of a given year may earn wages that, because of a deferred payroll system, would not be paid to his estate until the following year. Under present law, the earnings received after the year end would be subject to FICA taxes but would not figure into the computation for benefits.

NALU recommends that the Committee affirm this section of the bill and also eliminate another related injustice of long standing.

PAYMENTS BY AN EMPLOYER TO A DISABLED EMPLOYEE

Just as wages received by an employee's survivors or estate after the year of his death are taxable for Social Security purposes, and excluded for benefit computation purposes, so too is similar income received after disability. Income received in years during all of which the individual is disabled and receiving Social Security benefits is, under present law, disallowed for benefit computation purposes even though FICA taxes continue to be paid thereon. Once again, life insurance agents represent a significant classification of workers affected by this provision, although certainly many others are also affected.

NALU urges the Committee to rectify the anomaly with respect to income received after disability by amending Title I, Section 128 of H.R. 1. We have previously submitted language to the professional staff of the Committee which we think will accomplish the desired result (see Appendix A).

INDEPENDENT REVIEW AND STUDY OF THE SOCIAL SECURITY SYSTEM

In order to define the future role of Social Security and unearth improvements which may help to round out the program NALU wishes to renew its request to the Finance Committee that a high caliber, independent study committee be established to make a comprehensive review of the goals, priorities and costs of the Social Security program. We believe that such a committee should be made up of experts from all sectors of the economic spectrum, both private and public, actually representing the varying segments of the public. We are aware of the existence of advisory councils that purport to do this but, frankly, we do not agree that the councils actually meet our definitional requirements.

We would hope that appropriate analysis of the role of private retirement benefits would be included as part of any such study. The role of the private sector and its present and future impact on retirement programs should be thoroughly studied prior to an expansion of the public role beyond reasonable

boundaries. We hope, therefore, that the Congress will consider the very relationship between private and public benefits and that it will refuse to accept the views of those who would expand Social Security to such unreasonable limits as to impede the growth of private pension plans and other retirement programs, or even largely destroy them. We further contend that a thorough examination of the Social Security program would serve to properly focus the attention of all citizens on the objectives and purposes of the system and, in so doing, remove inequities.

APPENDIX A

NALU urges that Section 128 be amended to read as follows. (Words in italic have been added by NALU.)

PAYMENTS BY EMPLOYER TO SURVIVOR OR ESTATE OF FORMER EMPLOYEE OR TO DISABLED WORKER

Section 128(a) Section 209 of the Social Security Act is amended by striking out "or" at the end of subsection (1), by striking out the period at the end of subsection (m) and inserting in lieu thereof "; or", and by inserting after subsection (m) the following new subsection:

"(n) Any payment made by an employer to a survivor or the estate of a former employee after the calendar year in which such employee died *or to an employee in any calendar year all of which is included in a period of disability.*"

(b) Section 3121 (a) of the Internal Revenue Code of 1954 (relating to definition of wages) is amended by striking out "or" at the end of paragraph (12), by striking out the period at the end of paragraph (13) and inserting in lieu thereof "; or", and by inserting after paragraph (13) the following new paragraph:

"(14) any payment made by an employer to a survivor or the estate of a former employee after the calendar year in which such employee died *or to an employee in any calendar year all of which is included in a period of disability.*"

(c) The amendments made by this section shall apply in the case of any payment made after December 1971.

The CHAIRMAN. The next witness will be Mr. James A. Gavin, legislative director of the National Federation of Independent Business.

STATEMENT OF JAMES A. GAVIN, LEGISLATIVE DIRECTOR, NATIONAL FEDERATION OF INDEPENDENT BUSINESS; ACCOMPANIED BY THOMAS RAE, WASHINGTON, D.C., STAFF

Mr. GAVIN. Mr. Chairman and distinguished members of the committee, I am James A. Gavin, legislative director of the National Federation of Independent Business. Accompanying me today is Mr. Thomas Rae, of our Washington staff.

In behalf of our 298,000 member firms in the United States, I wish to thank you for this opportunity to testify before you here today on certain aspects of the bill, H.R. 1.

By way of background information, the federation was founded in 1943 and is today the largest of its kind in the world, representing every segment of small business. Small business in America now accounts for 95 percent of all businesses, employs 60 percent of the Nation's private, nonagricultural work force and accounts for more than 37 percent of the gross national product.

In order to be sure that the federation accurately represents our member firms, we periodically poll them by mandate ballot on many important issues pending before the Congress. It is the results of our polls on portions of H.R. 1 that I shall present to this distinguished committee.

Mr. Chairman, I have a prepared text which I would like to summarize for the committee in the interest of consuming as little time as necessary. However, I would like to request that the full text be entered in the record in its entirety following my remarks.

Historically, when the small businessmen as well as a large number of other Americans think of reform, they think of reform that will bring financial savings. Unfortunately, a careful study of this bill, along with statistics provided by HEW, reveals that taxes and expenditures will have no alternative but to soar.

This is the case with the social security provisions, especially that section providing for automatic cost-of-living increases in benefits, and in taxes. We have taken two mandate ballots on this question and on both our members have been opposed by overwhelming margins.

Small businessmen have been pushed to the brink as far as taxes are concerned and it is questionable just how much additional taxation they can stand without being forced to cut back on employees, to raise prices, or perhaps even go out of business.

It is also our observation that to include automatic social security increases would be an open admission that present economic controls will fail in the fight against inflation. Such an inclusion, in our opinion, would be institutionalizing inflation.

The federation must respectfully oppose these automatic social security increases. We believe that it would be in the best interests of the Nation for Congress to periodically review the country's economic situation to determine when and if additional benefits are justified.

Our members are in favor of those portions of title I which would allow senior citizens to earn more money without losing their social security benefits. We believe that people who desire to work should not be denied benefits for which they have worked and paid in their younger years.

Also, we are pleased to see that a minimum has been established providing aid to the aged, blind, and disabled. Our federation members are keenly aware of and sensitive to the needs existing among these people. However, we favor retention of administration of these benefits on the local and State levels.

As far as family assistance is concerned, we note that under current law $14.5 billion is the estimated potential Federal and State expenditures for fiscal year 1973. However, H.R. 1, if enacted as proposed, would jump these expenditures by an estimated $4 billion with the administrative cost alone topping $1.1 billion.

Even these exorbitant figures may well be too conservative. We notice, for example, that HEW deducts $400 million from the $1.1 billion administrative cost. It does this because it figures the State and local governments' administrative costs will be reduced by this amount to zero level. This is difficult to comprehend. Even after 1973 the States which currently have general assistance or special need programs will still have to pay for their administration.

But, even assuming the correctness of all of the new estimates, eligible welfare recipients will increase by 10.5 million to a staggering total of 25.5 million Americans, representing almost 12 percent of the total population or about one in every eight citizens.

NFIB members have solidly voiced their disapproval of many of these proposals now incorporated in this bill, They have opted against

Federal takeover of aid to dependent children by more than 2-to-1 margins. Instead of having the Federal Government move into this area, they overwhelmingly favor the approach proposed in Senator Curtis' bill, S. 2037, which would amend the Social Security Act to provide for revenue-sharing grants to the States to assist them in meeting the costs incurred in operating public assistance programs. Our members have voted 84 percent in favor of Senator Curtis' approach. Thirteen percent opposed and 3 percent were undecided.

Unfortunately, through bureaucratic interference and so-called regulation or guidelines, the States have been superseded or overruled in the administration of their own welfare programs. Under these regulations, the States have been told they must conform or face loss of Federal assistance, not only for welfare payments but also for other programs of assistance as well.

Certainly establishing one national criteria or standard for welfare recipients has its many problems; but at best such a Federal standard would undoubtedly create an even larger bureaucracy to enforce it. Our members have voiced, on numerous occasions, their approval of the continuance of State programs on the State level. They wish to see our State control of these programs retained on the State plane. The approach, as contained in Senator Curtis' bill, we believe, would do this.

Dr. Hilary M. Leyendecker, who was widely noted for his contributions in New York relating to public welfare and social work, stated that a large social welfare organization would be ineffective because of its inflexibility. Our members, too, believe that such a program is best administered by those closest to the people they serve, in other words, by the State and local governments.

Regarding a minimum basic annual income for those families who cannot adequately support themselves, NFIB members, in a recent survey, voted 56 percent for, 35 percent against, with 9 percent undecided. This is a qualified vote with the stipulations that welfare parents register for and accept employment or job training when offered. We interpret the vote as a recognition of the problem of family assistance but with a realization that able-bodied recipients take constructive steps to become active wage earners, themselves contributing to their own financial well-being and security of their family. Here, again, we urge that such a program be administered under State control.

The federation supports the principle that a man who fathers children has an obligation to support those children. We therefore applaud those sections of the bill which provide for better means of forcing deserting parents and parents of illegitimate children to live up to their responsibilities. We would, in fact, favor strong measures in this area along the lines suggested by the honorable chairman of this committee in his bill, S. 3019.

Our concern is that without strong enforcement of parental child support, the objective of any family assistance program to maintain the patriarchal family unit may be seriously undermined. Senator Long has previously pointed out that there remains an economic incentive for desertion without these provisions.

Let me emphasize that we do not view such provisions as special penalties against the poor. We favor these because it is only right and

just for a low-income father to meet the financial needs of his family to the best of his ability, the same that is required of all fathers in society.

Former presidential adviser Patrick Moynihan has said:

> * * * a working-class or middle-class American who chooses to leave his family is normally required first to go through elaborate legal proceedings and thereafter to devote much of his income to supporting them. The fathers of AFDC families, however, simply disappear.

Therefore, with qualifications, NFIB member firms support the concept of a minimum basic annual income for those families unable to adequately support themselves. Without the requirements and qualifications I have previously mentioned, federation members would, however, be unalterably opposed to any basic annual income.

This concludes my testimony and I thank you for the opportunity of being here.

The CHAIRMAN. I know you are testifying for what your members told you in your correspondence with them, aren't you? That is basically what you are testifying to?

Mr. GAVIN. Yes, sir.

The CHAIRMAN. But, I think you could give me your judgment on this point: It would seem to me that we have come to the point in this Nation where I think that we can—I know the overwhelming majority of the American people favor this, and I think we ought to—the time is coming when we ought to simply say we are going to guarantee every able-bodied person in this country the opportunity to work for a minimal amount of income. I think this country by an overwhelming majority would agree to this in any poll. In other words, the Gallup poll has indicated that and I think any poll, if you ask people, "Do you favor guaranteeing every citizen an opportunity to work, every citizen who can, every employable person, an opportunity to work for a living," they would say "Yes, we favor that." And I think we ought to do that.

But for any given amount of money, if you say, "All right, now, a person has to have at least $200 for a family of four," I find nothing against my conscience in voting to say, "All right, we will provide him an opportunity to earn it and we will use him the best way we can. If we can't do better, the Government will provide something—marginal work though it may be."

But this thing of paying somebody a guaranteed wage for not working can only lead to demand for more and more money for doing nothing, and dissatisfaction and constant complaint that it is not enough, that people can't get by on that standard. I have no doubt that in the long run the only way we will ever get out of that trap would be to reverse and try to go in the other direction and usually that kind of thing takes a long, long time.

How do you feel about trying to guarantee everybody an opportunity to work for a living?

Mr. GAVIN. Well, I agree with you completely there because that is one of the problems of the small businessman, finding suitable employees. He is disadvantaged in that he doesn't have the—he can't offer the same employee benefits as his larger competitor—no pension plans and so forth—so he really aims pretty much at that segment of the market.

So if you give those people excuses for not working, I don't know where the small businessman would ever get help.

The CHAIRMAN. OK.

Any further questions?

Senator CURTIS. I want to thank you for your statement. I particularly appreciate what you said about the concept of the bill that I introduced, S. 2037. It is based upon the Federal Government continuing to pay a share of the cost in the neighborhood of what they are paying now, but having the administration of welfare in the hands of State and local governments. There will be no Federal regulations; States would decide who should be on welfare, under what conditions, for what amount, who should work and how. Was it that sort of a concept that you feel your members had in mind when they supported it in the manner that they did?

Mr. GAVIN. Yes, I do, Senator.

Senator CURTIS. Do you believe that if welfare administration is given to the States and they, in turn, can share that responsibility with the local governments, that the real needy will be taken care of?

Mr. GAVIN. I think they would, yes, Senator.

Senator CURTIS. As a matter of fact, I think some of them will fare better.

Mr. GAVIN. Better; that's right.

Senator CURTIS. Because they wouldn't be tied up in bureaucratic redtape and more of the human aspects and the real need can be taken into account that can't be foreseen in promulgating printed regulations on the Federal level that must be applied in 50 States?

Mr. GAVIN. I agree completely.

Senator CURTIS. Do you believe that if the local people, the States and the local governments, could actually have a voice in writing the regulations and running the program, that that would be an important step in eliminating those cases where there are abuses, where ineligible people are on or where people could get along without welfare?

Mr. GAVIN. I agree completely. I think that if the people on the local and State levels are just following regulations that have been promulgated to them from the Federal authorities, they would take far less pride, I think, in executing: I think they would take that same attitude: "Ah, what's the difference? The Federal Government is picking up the paycheck on this"; whereas, if they had the strong voice that we feel they deserve, I think they would have far more pride and I think that it would be—they would have far more incentive to make it work so far as the policing of it, and so forth.

Senator CURTIS. I mentioned the other day that if there were a review made or a compilation made of the efforts to curb abuses and eliminate individuals from the rolls who shouldn't be on there, we would find that practically all of that effort has been put forth by State and local governments. They have run into disappointment in dealing with the Federal Government?

Mr. GAVIN. That's right.

Senator CURTIS. But one of the problems of H.R. 1 is that it is a totally federalized system; that is the essence of it—the Federal Government running it in toto. We will have lost what support there is then for dealing with abuses and unworthy cases, would we not, if we go to a Federal system?

Mr. GAVIN. I agree. I think the gentleman who testified earlier, the prosecutor—I don't recall his name——

The CHAIRMAN. Weems.

Mr. GAVIN (continuing). Yes; you can see the enthusiasm that man had and I think it would all disappear real quickly if it were turned over to him completely instead of the Federal level as proposed in H.R. 1.

Senator CURTIS. I won't take any more time.

The CHAIRMAN. Senator Hansen?

Senator HANSEN. I do have one question, Mr. Chairman.

I notice you quote Patrick Moynihan. He also observed before this committee one time that the result of a raise in the minimum wage that might be legally paid in the United States would have the effect of rendering unemployable those persons with fewest merchantable skills. In other words, he was saying that, as I interpreted his remarks, that if you by legislature require that not less than a certain amount be paid, the effect is that some people, marginal producers, are going to be deprived of the opportunity for a job because if their contribution now just barely returns a little measure of profit, slight though it may be to an employer, and by raising the minimum wage, you wipe that out, then that unfortunate person is out of a job; and he mentioned this because he said that it is important for a lot of people on welfare, a lot of people presently unemployed to have the experience that comes from first having held a job and though it may not be satisfactory in terms that would generally be acceptable so society, it is important that this person go to work and that if he can acquire more skills, if he can understand how holding a steady job goes, that most people will respond to the stimulus that is present in the marketplace and will work into a better job.

Now, I don't know that he said all of this at that particular moment but I think it is not taking him out of context too much to make the observations I have.

I say that because it occurs to me that in some of the testimony we have heard here today there are those who think only in terms of trying to see that everyone in this country has an annual income of not less than a certain amount; and it was said by several different persons here in this room earlier in the day that hopefully that basic guaranteed income could shortly be raised to the point where it would be not less than the poverty level.

Now, whether our friend would agree that as more people receive direct Federal support from the Government and make no contribution, the pressures, the inflationary pressures which push all prices up would indeed cause an escalation in the poverty level or not, I don't know, but my feeling would be that this is inevitable, that the more people who are paid out of the earnings of some and who make no contribution in any way to the Government just hasten the advent of ever higher prices.

My question is, do you believe that there would be a very salutary effect that would come from, as the chairman has phrased his question, letting the Government see to it that what we do offer, what the Government does offer to all people is the opportunity to work?

May I say, in anticipation of the response, this further observation: Would it not be helpful if in order to keep the escalation of

prices down or to minimize its escalation, and in order to be certain that more foods and services, which are the real measure of earning power, be made available to all people in greater measure, that everyone should work? Do you not believe that if all of the people in this country presently unemployed who are drawing welfare could be making some contribution that indeed life might be better for everyone, and there might be a lesser accelerated inflation than would otherwise be the case?

Mr. GAVIN. Right; I agree with you completely, and I think they would probably feel a lot better themselves if they were able to perform the task instead of, you know, having to rely upon a handout like that. It is very demeaning to an individual as you can well imagine.

Senator HANSEN. One further question:

In your judgment, could an imaginative government, and that is a word we all use, imagination—do you think there are enough things to do presently that the Government could undertake as an employer of last resort. First, we should make absolutely certain that private enterprise, private business, is given every opportunity to employ people. But when that effort has been made and all of the jobs that can be hunted out and found and rounded up have been completed, then do you think there are enough things that need to be done in this country today that there is any question as to the ability of Government to see that everyone can be provided with some sort of activity or job that would be worthwhile and make some kind of a contribution?

Mr. GAVIN. Yes; I do. I think on the ecological programs alone we could probably put those 5 million unemployed tomorrow.

Senator HANSEN. Thank you very much. I compliment you for a fine statement.

Mr. GAVIN. Thank you.

Senator FANNIN. Mr. Chairman, could I ask just one question?

In your federation of independent businesses, are they mostly in the retail businesses? I was wondering if you have small manufacturing businesses?

Mr. GAVIN. Actually, we are a complete cross section of the entire business community. If you go by the classification statistics of Small Business Administration, our membership parallels that almost completely. We have 43-percent retailing, 9-percent wholesaling, 8-percent manufacturing.

Senator FANNIN. What percent manufacturing?

Mr. GAVIN. About 8 percent.

Senator FANNIN. Are they—you say they are vitally affected by the large corporations; of course, that would be retail and wholesale both. But how about in manufacturing, have you had problems so far as the import business is concerned, so far as manufacturing is concerned at all?

Mr. GAVIN. No, but we had a very interesting inquiry yesterday, which is a little off the subject, perhaps, but the problem they are having is that they—we received a letter from a man who was a machine manufacturer and he said he was always able to keep up with his foreign competitor but he said all of a sudden he went over to pick up this order and they said, "No, I am sorry; we are going to buy from an outfit in Japan." He said, "Well, the price is the same." He said, "Well,

the price is the same, fine;" but they said, "they will ship it to us and we have 6 months before we have to even make the first payment;" and then I think they gave him something like 5 years or something to pay the balance, you know, and it is just where do you turn on a situation like that.

Senator FANNIN. That is what I am wondering; how much has that been a factor in the manufacturing business that you are referring to as to your members. It is just starting to be a factor; is that it?

Mr. GAVIN. Yes; we are just starting to get more rumblings on it.

Senator FANNIN. Thank you very much.

The CHAIRMAN. Thank you very much, Mr. Gavin.

Mr. GAVIN. Thank you very much.

(Mr. Gavin's prepared statement follows:)

STATEMENT OF JAMES A. GAVIN, LEGISLATIVE DIRECTOR, NATIONAL FEDERATION OF INDEPENDENT BUSINESS

Mr. Chairman and distinguished members of the committee. I am James A. Gavin, legislative director of the National Federation of Independent Business. In behalf of our 298,000 member firms throughout the country, I wish to thank you for this opportunity to testify on certain aspects of H.R. 1.

The federation, founded in 1943, is the largest of its kind in the world. Our member firms represent every segment of the small business sector in the United States—retailing, wholesaling, manufacturing, service trades and contract construction. Small business in America today accounts for 60 percent of the nation's total non-government, non-agricultural work force. In fact, 95 percent of all businesses in this country are small businesses, accounting for more than 37 percent of the gross national product.

During each year we periodically poll our members by mandate ballot on many important issues pending before the Congress. The federation does this in order to make certain that we accurately represent the views of our members, for the results of these polls determine our position on all issues—including those I shall present before you here today regarding H.R. 1.

SOCIAL SECURITY

For many years the independent businessman has contributed his lawful part in the social security program without fanfare and with little grumbling. But, with the ever-expanding tax base, it is questionable just how much more he will be able to stand. Something will have to give. He will be forced to either cut back on his employees, hike his prices to the maximum allowable under present economic controls—which could result in his becoming non-competitive with larger chain firms, or he may have to close his doors. Simply put, small business is buckling under with heavy taxes. The situation is a real one—and a serious one.

Section 102 of title I provides for automatic cost of living increases in benefits, and in taxes. We have taken two mandate ballots on this question and federation members have opposed such increases on both occasions. N.F.I.B. members opted 34 per cent for, 62 per cent against, with 4 per cent undecided on the first ballot, and voted 29 per cent for, 65 per cent against, with 6 per cent no opinion in the most recent balloting. Therefore, we must respectfully urge that this portion be deleted from the bill.

To include it at this time would be an open admission that the economic controls by which the President and many members of the Congress hope to see runaway inflation curtailed will not work. This section, in effect, is institutionalizing inflation and admitting that these controls will ultimately fail.

Would it not be in the best interests of the Nation to rely on the Congress to periodically review the country's economic situation to see if and when additional benefits are warranted?

Our members are in favor of those portions of title I which would allow senior citizens to earn more money without losing social security benefits. Our most recent mandate ballot results were more than 2 to 1 for these proposals—71 per cent for, 26 per cent against and 3 per cent undecided. We feel that people who desire to work should not be denied the right to collect benefits for which they have worked and paid in their younger years.

AID TO AGED, BLIND, AND DISABLED

We are pleased to see that a minimum has been established assuring aid to the aged, blind and disabled, and we believe that it is important that this portion be retained in H.R. 1. Our federation members are keenly aware of and sensitive to the needs existing in this area. A recent survey of the N.F.I.B. membership indicated that 87 per cent favored such assistance, while only 6 per cent opposed and 7 per cent were undecided. However, we favor retention of administration of these benefits on the local and State levels.

FAMILY ASSISTANCE

Under current law, $14.5 billion is the potential Federal and State expenditure for fiscal year 1973. H.R. 1, if enacted, would jump the projected total cost by almost $4 billion to a staggering total of $18.4 billion. The administration cost of the reform program alone would top $1.1 billion.

Even these exorbitant figures may well be too conservative. We notice, for example, that HEW deducts $400 million from the $1.1 billion administrative cost of the program because the State and local governments' administrative costs will be reduced by this amount to zero level.

It is difficult to see how the State and local administrative costs would cease to exist in fiscal year 1973, admittedly a transitory period. Even after 1973, the States which currently have "general assistance" or "special need" programs will still have to pay for their administration.

One cannot help but question—in light of this obvious over-optimism—if a $700 million overall increase here is a realistic estimate for the Federal cost during the first year of transition and tremendous expansion.

But even assuming the correctness of all of the HEW estimates, eligible welfare recipients will increase by 10.5 million to a total of 25.5 million persons—representing nearly 12 per cent of the total population, or about one in every eight Americans.

A look at seven different States from various geographical regions in the nation helps present a fairly accurate overall picture of the extent H.R. 1 would have in adding to the welfare rolls. For example, Arkansas' welfare rolls will increase to 20.7 per cent of the State population; California will have more than 2.4 million on welfare—or 10.6 per cent; Georgia will reach almost a million, or about 20 per cent; New York will increase by over 500,000 to top 2 million on its welfare rolls; Missouri will increase by 225,000 to 11.5 per cent; Massachusetts will climb to over half a million on welfare at 0 per cent; and Wisconsin's rolls will more than double to 312,000 persons.

Hence, by adding to the welfare rolls so many more eligibles, we question the term "reform". The resultant tax increase will hit the small businessman very hard.

Our federation members, in mandate ballots, have solidly voiced their disapproval of many of those proposals now incorporated in H.R. 1 regarding welfare, they have opted against federal takeover of aid to dependent children by 66 per cent against, 26 per cent for, and 8 per cent undecided. As far as creation of a federal public works programs is concerned, they have opted it by a vote of 69 per cent against, 26 per cent for, and 5 per cent no opinion.

Instead of having the Federal Government move into this area, they overwhelmingly favor the approach proposed in Senator Curtis' bill—S. 2037—which would amend the Social Security Act to provide for revenue sharing grants to the States to assist them in meeting the costs incurred in operating public assistance programs.

Our members opted 84 per cent in favor of Senator Curtis' approach, 13 per cent opposed and 3 per cent undecided.

Unfortunately, through bureaucratic interference and so-called guidelines or regulations, the States have been superceded or over ruled in the administration of their own welfare programs. They have been robbed, so to speak, of the authority and power to effectively determine the kind of programs which best fit the needs of their people. Under these regulations, the States must conform, or they are threatened with loss of Federal assistance—not only for welfare payments, but for other programs of assistance as well.

The director of the Department of Public Social Services of Los Angeles (Calif.) county, in a statement regarding welfare, recently said:

> ". . . The growing trend of the Federal Government to impose requirements and yardstick standards on local welfare operations has tended to all but immobilize the . . . welfare system in Los Angeles county."

Certainly, establishing one national criteria—or standard—for welfare recipients has its problems. There are the differences in cost of living in various regions and States; and there are rural and urban differences. A Federal welfare standard might result in serious social problems in poorer areas where welfare recipients would compose a larger proportion of the population and would receive payments which were very near the earnings of low wage earners in the community. Then there is the problem of equalizing standards of eligibility. At best, such a Federal standard would create an even larger bureaucracy to enforce it.

Our members have, on numerous occasions, voiced their approval of the continuance of State programs on the State level. They wish to see State control retained. The approach as contained in Senator Curtis' bill, we believe, would do this.

Dr. Hilary M. Leyendecker, who was noted for his work in New York State relating to public welfare and social work, said in his book, "Problems and Policy in Public Assistance":

> "The attempt to anticipate alternative courses of action on the part of worker or supervisor, the issuing of detailed instructions covering contingencies, and the requirement that higher level supervisory authority be secured . . . are self-defeating. Large agencies that resort to highly centralized operations create as many problems as they attempt to solve, since the top-level staff which formulates detailed policy and controls for workers and unit supervisors is far too removed from actual operations to formulate them realistically."

A large welfare organization, according to Dr. Leyendecker, would be ineffective because of its inflexibility. Our members, too, believe that such a program is best administered by those closest to the people—in other words by the State and local governments.

While the bill establishes so-called local committees to report on certain aspects of the welfare program at "local levels", it provides that a minimum of only *one* be established in each State, which could prove to be inadequate in reporting. But, to establish any such committees could only further contribute to an ever-escalating bureaucracy and continued erosion of States rights.

GUARANTEED INCOME

As far as a minimum basic annual income for those families who cannot adequately support themselves is concerned, N.F.I.B. members in a recent survey, opted 56 per cent for, 35 per cent against, with 9 per cent having no opinion. This is a qualified vote with the stipulations that welfare parents register for and accept employment, or job training when offered. We interpret the vote as a recognition of the problem of family assistance, but with a realization that able-bodied recipients take constructive steps to become active wage earners, themselves contributing to their own financial well being and the security of their family.

Here again, the N.F.I.B. urges that such a program be administered under State control.

The federation supports the principle that a man who fathers children has an obligation to support those children. Therefore, we applaud the sections of H.R. 1 which provide for better means for forcing deserting parents and parents of illegitimate children to live up to their responsibilities. Sections 525 and 527 of this bill will—hopefully—increase the incentive for States to secure support payments from deserting spouses to their families. And we applaud the proposed sections 2175 and 2176 of the social security amendment. The sections would establish the liability to the government of parents who irresponsibly desert their families and leave the support of their children to the government; and would make it a misdemeanor for interstate flight from parental responsibility.

We would, in fact, favor stronger measures in this area along the lines suggested by the honorable chairman of this committee in S. 3019. Our concern is that without strong enforcement of parental child support, the objective of any family assistance program to maintain the patriarchal family unit, may be undermined. As Senator Long pointed out in his Senate speech of December 14, 1971, entitled "The Welfare Mess", there is still an economic incentive for desertion without these provisions.

Let me emphasize that we do not view such provisions as special penalties against the poor. We favor such provisions because it is right and just for a low-

income father to meet the financial needs of his family to the best of his ability—the same that is required of all fathers in society.

Former Presidential Advisor Patrick Moynihan has said:

> ". . . A working class or middle class American who chooses to leave his family is normally required first to go through elaborate legal proceedings, and thereafter to devote much of his income to supporting them. The fathers of AFDC families, however, simply disappear."

Therefore, the Federation, with qualifications, supports the concept of a minimum basic annual income for those families unable to adequately support themselves. Without those stipulations and qualifications as mentioned earlier, N.F.I.B. members would be overwhelmingly opposed to any basic annual income. (A 1968 mandate ballot posed the question of a guaranteed annual income without qualifications, and the result showed 90 percent were opposed).

This concludes my testimony before you today. On behalf of our member firms, I wish to thank you once again for this opportunity to present our views. Should you have any questions, I shall be happy to attempt to answer them.

The CHAIRMAN. The next witness will be Mr. Harry C. Schnibbe—did I pronounce that right, Mr. Schnibbe?—executive director of the National Association of State Mental Health Program Directors.

STATEMENT OF JONATHAN LEOPOLD, M.D., COMMISSIONER, DEPARTMENT OF MENTAL HEALTH, MONTPELIER, VT.; AND KENNETH GAVER, M.D., COMMISSIONER, DEPARTMENT OF MENTAL HYGIENE AND CORRECTIONS, COLUMBUS, OHIO, ACCOMPANIED BY HARRY C. SCHNIBBE, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF STATE MENTAL HEALTH PROGRAM DIRECTORS, WASHINGTON, D.C.

Mr. SCHNIBBE. Senator Long, actually the witnesses for our Association of State Mental Health Program Directors are Dr. Leopold, who is the commissioner of Vermont and Dr. Gaver who is the commissioner in Ohio.

Dr. LEOPOLD. Mr. Chairman and members of the committee, I am commissioner of mental health in Vermont, and I appear before you representing the directors of the State mental health programs serving the mentally ill and the mentally retarded in 54 States and territories. These State mental health program directors administer more than 1,100 mental hospitals, training schools for the retarded, community mental health centers, clinics, after-care facilities and psychiatric training and research institutions. Two million persons with mental disorders receive care in our facilities each year. We employ more than 300,000 persons in these programs and our annual operating and capital budgets exceed $3 billion.

We direct the largest publicly administered and financed health-care system in the free world and this system in the various States is the only comprehensive health service program which exists. It is also the only total-demand health service program which exists.

We meet the needs of these mentally disordered persons in a variety of services ranging from 24-hour care in our State mental hospitals and mental retardation institutions, through skilled nursing care and intermediate care, to day hospital and night hospital programs and out patient care. In addition, these programs provide preventive services through consultation and education to a far larger population than those receiving direct services.

I am going to be brief about my remarks, Mr. Chairman.

We have submitted written testimony but I would like to first give the committee a brief progress report on the results of the Long amendment of the medicare-medicaid legislation passed in 1965 by the Congress.

On pages 4, 5, and 6 of my prepared statement I have some tables from our experience. Now, these tables are indexes rather than numbers of patients with the base number for year 1965 being 100.

When the chief of research and statistics in my department in Vermont prepared these figures on the current basis through December 31, he did not believe them because the progress had been so marked.

I bring these figures to you because this table and the figures on the following pages are representative of what is going on in most of our State hospitals throughout this country as a result of the initiatives taken by your committee in preparing medicare and medicaid legislation. We have, in fact, transformed these hospitals from the human warehouses that your committee and many, many other people were aware of, into active treatment centers.

The CHAIRMAN. Now, would you mind going through those charts for us and just showing us what has happened here, because these figures actually don't mean as much to me as they do to you. Would you point out the significance of this?

Dr. LEOPOLD. I would be very pleased, Mr. Chairman.

PERCENT CHANGE INDEXES FOR AGED POPULATION (65 YEARS PLUS)—VERMONT STATE HOSPITAL, FISCAL YEARS, 1965-72

[Fiscal year 1965 = base year = 100]

	1965	1966	1967	1968	1969	1970	1971	1972
Resident patients start of year	100	92	88	86	74	74	66	58
Total additions during year	100	99	82	84	116	105	109	(1)
Total episodes of care during year	100	94	87	88	84	81	76	(1)
Total live releases	100	96	78	94	112	138	159	(1)
Live releases per 1,000 episodes of care	100	103	90	108	135	170	210	(1)
Total additions per 1,000 episodes of care	100	106	94	107	138	129	143	(1)
Total deaths	100	105	84	117	99	90	87	(1)
Total deaths per 1,000 episodes of care	100	112	97	133	117	111	114	(1)

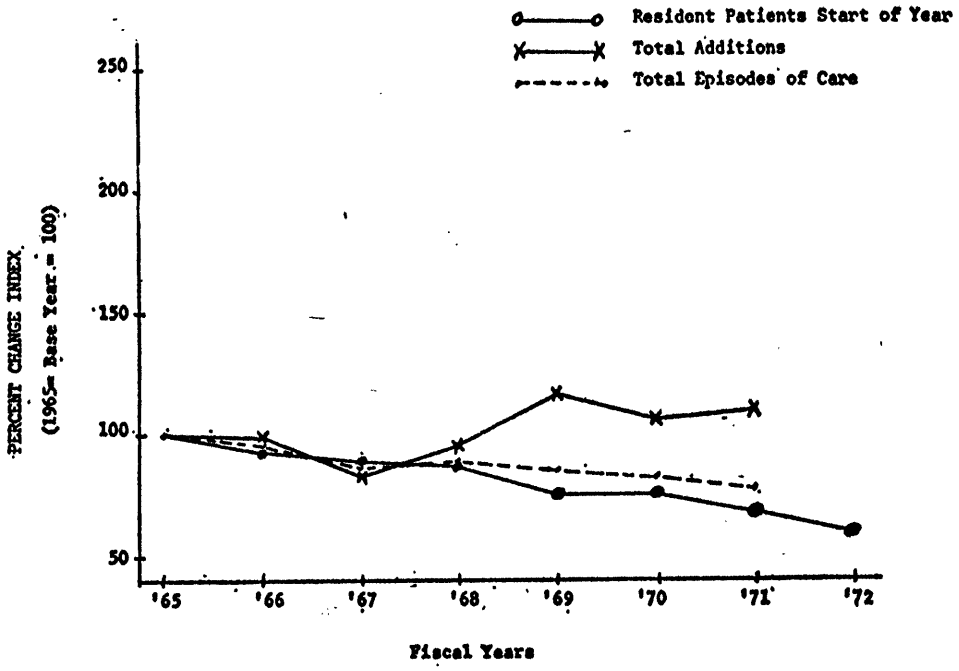


Figure #1

Total aged resident patients at the Vermont State Hospital and total episodes of care (residents & additions during year) have decreased steadily during 1965-1972.

Total additions (admissions & returns from trial visits) during this same period have increased slightly.

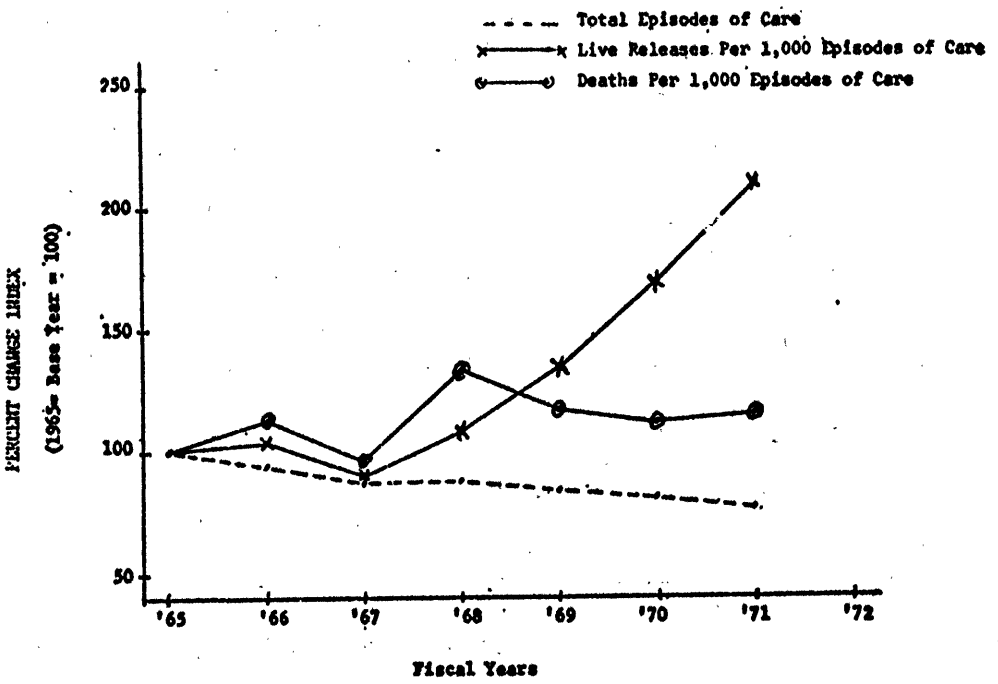


Figure #2

Live releases among the aged population to the community have created a total reduction in episodes of care at the Vermont State Hospital during 1965-1972.

NATIONAL ASSOCIATION OF STATE MENTAL HEALTH PROGRAM DIRECTORS

Dr. LEOPOLD. One hundred is the base figure for the year 1965, the year before medicare and medical implementation took place. That represents 100 percent of the patients that were in the hospital during that fiscal year.

In subsequent years, there was a decreasing number of such patients admitted and cared for in the hospital each year. Those are the first two lines of that chart.

The third line shows the total number of episodes of care. An episode of care is one admission for one person. If that particular individual returns it is a second episode of care for that same individual. That also has decreased.

If you will look in the fourth line, the total number of live releases, persons who were admitted to the hospital and have left the hospital alive, it was a slight decrease noticeably during 1967 when we had some severe influenza epidemics nationwide affecting this group terribly.

The number of live releases has risen consistently until it is now 60 percent above the base year. Then there are—the total number of additions per 1,000 episodes of care—now, that is a rate of the amount of care provided rather than an absolute number and essentially what that means is that although in line 2 the number of additions and in line 1 the number of total patients was decreasing, the total number of additions in relation to the episodes of care was rapidly increasing.

I think that as you look at each of these indices, you can see the success of this program. Similar information can be submitted to this committee from every State in the country.

We bring this to your attention because this program has been an immense success. The goals of the program as stated in the legislation are, in fact, being achieved.

The CHAIRMAN. What impresses me more than anything I notice here in this chart which would indicate that the number of live releases from the hospitals, that is per 1,000 admissions, has increased 100 percent, from 100 up to 200.

Dr. LEOPOLD. Yes, sir.

The CHAIRMAN. It seems to me though, that is a very significant thing.

Dr. LEOPOLD. We feel that it is also. These patients have been discharged into nursing homes, into intermediate-care facilities, into boarding homes, foster homes, family care, and many of them to return to live with their own families; and we think it is a very impressive record as a result of this legislation.

Mr. SCHNIBBE. Senator, that is true across the country and I think if you will remember the year before last, Dr. Gaver, who was then the commissioner in Oregon—I think you began to predict along those lines for the State of Oregon; didn't you?

Dr. GAVER. The States of Oregon and Missouri, showing 40-percent declines of the aged mental hospital population in as little as 3-year periods of time.

Mr. SCHNIBBE. So that has been very successful. You hear a lot of criticism of the medicaid program but we are now talking about the Long amendment on the mentally ill and it has been good and that should be; you should know that.

The CHAIRMAN. Thank you.

Dr. LEOPOLD. As a result of your concern, as well as our own continuing concern for this population for whom we are responsible, we therefore recommend in relation to the provisions of H.R. 1 a major program expansion rather than the limitations on medicaid contained in H.R. 1. We request your committee to give serious consideration to an expansion of medicaid coverage for the mentally ill so that persons under the age of 65 who are "medically indigent" or "categorically related" would be eligible to have the cost of their care and treatment in mental hospitals covered by the Title XIX: Medical Assistance program.

This revenue-sharing proposal would define goals, provide expanded benefits to eligible recipients and be subject to the improved utilization review, medical audit, program audit, and cost controls which I have previously discussed.

That material is contained in this testimony.

Our proposal would include the same requirements for persons under 65 as those presently required in section 1902(a)(20)(21) for persons over the age of 65, and we have just presented the material to you relating to the success of this program for the over 65 population.

In previous appearances before your committee we have recommended specific methods for increasing the effectiveness of utilization review and medical audit, and Dr. Gaver presented that testimony a year and a half ago.

We believe that such a proposal for expansion of the program would be appropriate for the Federal Government to take because of the failure of the private sector insurance planners to deal with this problem. This failure is cited and documented in a HEW publication that was just recently released.

This lack of activity toward meeting a longstanding and well-recognized deficiency demands action by the Congress. The principle of equity requires that the benefits presently provided to mentally ill persons over 65 be made available to persons of all ages and the discriminatory provisions against public institutions in the present title XIX be removed so that publicly administered facilities as well as private mental hospitals can receive payment for treating eligible recipients on the same basis that general hospitals receive such benefits.

We are also aware of your concern as well as the concern of the administration about runaway costs of medical care services. We wish to draw your attention to the fact that the program controls on publicly administered State mental health programs and the institutions which are a part thereof are far greater than the cost controls applied to community general hospitals; and these, we believe, account for the major differences in health care costs, the runaway costs mentioned above, as well as the fact that we are producing good results in cost-control programs.

These cost controls exist through the scrutiny exercised by the State legislatures when they annually or biennially review our mental health program budgets.

The benefits to the individual recipients of such a program expansion would be great, including more active and vigorous treatment, an earlier return to the community, the family and employment with an ensuing beneficial effect to the individual, to the employer and to the economy.

We are prepared to provide your committee with specific and hard data about the number of persons to be covered under this proposal and actual costs based on current expenditures. We will provide this information on five States representing a wide variety of population and programs.

From this information your committee can extrapolate firm cost figures on a nationwide program. We are prepared to provide this immediately.

The balance of my testimony, Senator, is devoted to the specific provisions of H.R. 1 which we frankly decry as they discriminate further against the mentally ill in our publicly administered institutions.

The CHAIRMAN. Let me ask you this: If it is suggested, as it will be today, what you are urging would cost too much money, more than the Federal Government can afford right now, would you be prepared to support an amendment to cover the mentally ill under medicaid who receive active care and treatment in an accredited medical institution, if it were coupled with a maintenance-of-effort provision to assure improved care, rather than to substitute Federal for State dollars?

Dr. LEOPOLD. Senator, we think the maintenance-of-effort provision is an absolute essential because that could happen. Federal dollars could be substituted for State dollars. The maintenance-of-effort pro-

vision in the Long amendment program for the over 65 is what has prevented that and what has allowed us to have this success.

Now, we certainly feel that active treatment should be defined and should be a requirement.

The CHAIRMAN. Well, in these cases where you are not going to be able to restore the person, where the person is unfortunately going to be a custodial case from that point forward, there is some doubt as to whether we are going to get many results with that money. We could care for them better but we might not be able to restore them. But in those cases where we believe there is a good chance of restoring that person to at least where they can return home and live with their relatives, it seems to me as though we ought to try to do it insofar as we can.

Dr. LEOPOLD. I think restoration is one aspect of active treatment. Stabilization of a patient's condition is an equally important aspect of active treatment and must be considered because a patient who may not be restored to well-being in a total way, his condition and the deterioration resulting from it can be stabilized and that patient can then, through an active treatment and rehabilitation program, develop adaptive mechanisms so that he won't have to stay in the hospital and we would strongly push for that in an active treatment definition.

The CHAIRMAN. Let me ask you this:

During the past 30 years has the number of mentally ill increased or decreased as a percentage of population that you would regard as mentally ill?

Dr. LEOPOLD. The number has increased. The bed utilization in our State institutions which care for these people has decreased markedly.

The CHAIRMAN. Now, is the increase in number because of the increasing complexities of our society? Is it because people are living longer or for some other reason?

Dr. LEOPOLD. Well, we think that there are many reasons among which the mobility of society, breaking of family ties, are certainly important. The increasing stresses which you mentioned are very important. There may be other causes about which we do not fully know.

Mr. SCHNIBBE. Also, Senator, there is another. Dr. Leopold, as often as you develop a new facility, a community mental health center or a clinic or some kind of a treatment program, it is filled almost immediately; it operates at capacity rapidly, indicating that the sick people are there and previously probably have not been treated and now they are being treated.

The CHAIRMAN. In other words, by using tranquilizers and new drugs you are able to move people out of hospital beds and to restore them to the homes and that sort of thing?

Mr. SCHNIBBE. I think it should be clear, and Dr. Leopold said the resident population of the hospitals is going down, but it should number of people treated is going up at a radical rate like that, while be absolutely clear the admissions are going way up; so the total the bed type patient is going down, so it is an ambulatory care program and that is what we are asking you to consider, you know, to enrich this program. Let's not cut any of this down.

The CHAIRMAN. Well, my impression when I first came here was that the majority of people who were being sent to State mental institutions and I can only judge by the ones in my State—I am not familiar with the others—but that the majority of the people being sent there just were not getting any treatment. Now they might be getting a little something but most of them were not geting much more than custodial treatment.

What percentage of the mentally ill who are admitted to hospitals would you guess could be restored to a productive life, where they could actually find employment and get by in this society if you had available to you the resources, all the resources that you could ask to try to do this job?

Dr. GAVER. Mr. Chairman, may I respond to that?

The CHAIRMAN. Yes.

Dr. GAVER. Generally, we think in terms of about two-thirds.

The CHAIRMAN. About two-thirds?

Dr. GAVER. That is providing they do have the resources for active treatment and a continued rehabilitative and partially supportive program. Many people can return to self-productivity with minimal continuing support of a counseling nature or resocialization, rehabiliative activity, medication and the like.

I might give you, for example——

The CHAIRMAN. How many now in fact do you think are getting that treatment to be restored? In other words, you think that about two-thirds could be returned to productive life, I believe you said?

Dr. GAVER. Yes.

The CHAIRMAN. How many are being returned?

Dr. GAVER. Somewhat less than that. I don't know that I would know a figure. Do you, John?

Dr. LEOPOLD. No. I would reply in a slightly different way. I would say that of all persons first admitted to our mental hospital the average length of stay is 39 days. That is for the first admissions; some of those persons, of course, are readmitted but we have many patients with organic physical diseases who have the same kinds of experience, and we don't discriminate against them.

The key, again, is active treatment. There would be a wide variation from State to State depending in part on the community resources which can provide supportive care to a patient once he has left the hospital. So it might be from, say, 55 percent in some States to—or some communities—to over 80 percent in others, and we would like to approach the 70- or 80-percent level than stay at the 55.

The CHAIRMAN. All right.

Dr. GAVER. Those are guestimates, Senator.

The CHAIRMAN. All right.

Dr. GAVER. Senator, may I make an additional comment which I think is worthy of the committee's recognition?

The CHAIRMAN. Go ahead.

Dr. GAVER. Talking about a recommendation that through the mechanism medicaid, an additional significant cost we picked up which is now borne by State tax sources, the impact of mental health programs in State tax revenue expenditures is really perhaps larger than you may guess at first.

Of the State program areas in which State tax dollars are spent, mental health is third in size, ranking only behind education and welfare. As a rule of thumb, one out of every 10 or 11 State tax revenue dollars is expended for the mental health, mental retardation complex. For example, in the State of Ohio, in the current biennium constitutes 8.6 percent of the entire State expenditure, so it is a significant area and if improvements are to be made, the possibility of this constituting, in effect, a form of revenue sharing, would allow continuing improvement to proceed without the sole physical responsibility having to be borne by hard-pressed State budgets.

I want to add one other thing that we have not touched upon and that I would hope that before we terminate our testimony here we may make one additional comment about intermediate care facilities because I think they may, in effect, tie into what we are also talking about here at this time.

We are very pleased that H.R. 10604 provides the distinct part of public institutions for the retarded can be qualified as intermediate-care facilities providing they meet cost controls and utilization controls and provide active treatment.

I think our principal concern at this time is the possibility that parts, distinct parts of public hospitals of the mentally diseased might also be qualified as intermediate-care facilities, at least for the aged mentally ill.

The language of section 254 of H.R. 1 still leaves me with some confusion and we would like a clarification as to whether it is intended that public hospitals for mental diseases might be certified, at least in distinct parts, as in immediate-care facilities for the aged mentally ill.

We would hope that clarification could be clearly stated and we would very much favor it because we would see this as a lower cost alternative which could be utilized if the person did not need the active treatment of the acute mental hospital. It would be an alternative which would be very satisfactory and is not entirely satisfactory yet in the private realm.

The CHAIRMAN. That was intended.

Dr. GAVER. Thank you, sir.

Mr. SCHNIBBE. That is the intention of the committee, Mr. Chairman, of the Senate?

The CHAIRMAN. Yes.

Mr. SCHNIBBE. I want to add here, I am glad to hear you say this, because there is some confusion between us and HEW on this issue and I hope that in your report you can say this; I think this should be said clearly by the committee.

The General Counsel for HEW—we have met with him on this and there is a little concern about it and I think it would be very helpful if you would say this in the committee report.

The CHAIRMAN. That was a committee amendment originally and that is what we had in mind. We will clarify it—add more words and say it twice if need be in the committee report.

Mr. SCHNIBBE. Very good. Thank you.

Dr. GAVER. One other comment upon the proposal we are making:

We know you are deeply concerned against all forms of catastrophic illness and mental illness can constitute one form of catastrophic ill-

ness. The States today do require payment from people for care where they can pay. By and large we do not make charges against those people who are in low-income areas but we support them with State tax dollars. This would be a form of sharing in the costs of care of particularly one element of catastrophic illness and I think you would recognize this. We have discussed this at a prior time with you.

The CHAIRMAN. Right.

Mr. SCHNIBBE. Mr. Chairman, one other thing, too. I think that you should know that most of the State mental health commissioners, and I think this includes Dr. Addison, your own commissioner down in Louisiana, look upon the proposals that these two doctors have made to you today, that this program be expanded in a sort of, in a sense, a revenue-sharing substitute or a device to provide more dollars for care of the mentally ill, all the mentally ill, the indigents, and they look upon this as in effect part of a national health insurance program, so in any national health insurance scheme that is going to be developed by the Congress and in the coming years, this year or next year, whenever it is, this sort of thing that Drs. Leopold and Gaver are talking about, about picking up, sharing some heavy—some of the heavy expenses for care of the mentally ill has in a sense got to be a part of a national health insurance program and that is the sort of thing this committee can do in providing this kind of financial help through the medicaid system, picking up more costs for the care of the mentally ill, not only revenue sharing but also national health insurance.

The CHAIRMAN. That's right. Well, that is one way of revenue sharing for us to pick up the costs of this categorical aid program and we will certainly—I am sure that the committee is going to be willing to go further in that direction. I personally would want to go just as far with your program as I can persuade the committee to go; you can be sure of that.

We thank you very much, gentlemen, for your testimony.

The committee now stands in recess until 10 o'clock Monday morning.

Dr. LEOPOLD. Thank you very much for the opportunity.

The CHAIRMAN. We are very pleased to have you.

(Prepared statements of the previous witnesses follow. Hearing continues on p. 943.)

TESTIMONY OF JONATHAN P. A. LEOPOLD, M.D., COMMISSIONER OF MENTAL HEALTH STATE OF VERMONT, REPRESENTING THE NATIONAL ASSOCIATION OF STATE MENTAL HEALTH PROGRAM DIRECTORS, AND THE STATE OF VERMONT

Mr. Chairman and Members of the Committee: I am Dr. Jonathan P. A. Leopold, Commissioner of Mental Health for the State of Vermont. I appear before this Committee representing the Directors of State Programs for the mentally ill and the mentally retarded in 54 states and territories. These State Mental Health Program Directors administer more than 1100 mental hospitals, training schools for the retarded, community mental health centers, clinics, after-care facilities and psychiatric training and research institutions. Two million persons with mental disorders receive care in our facilities each year. We employ more than 300,000 persons in these programs and our annual operating and capital budgets exceed three billion dollars. We direct the largest publicly administered and financed health care system in the free world and this system in the various states is the only comprehensive health service program in existence. We meet the needs of these mentally disordered persons through a variety of services ranging from 24-hour care in our state mental hospitals and mental retardation institutions, through skilled nursing care and intermediate care to day hospital and night hospital programs and out-patient care. In

addition, these programs provide preventive services through consultation and education to a far larger population than those receiving direct services.

My testimony will be directed at understanding these programs for the care of the mentally disabled, especially as they have developed since the passage of PL 89-97 with emphasis on the care provided by these state mental health programs for the mentally ill aged in our population.

The studies of the Joint Commission on Mental Illness established by the Congress in 1956 were published in a report titled "Action for Mental Health; Final Report of the Joint Commission on Mental Illness and Health" and reported to the Congress in 1961. This report as well as subsequent findings by your Committee and your continuing interest led to enactment of the Medicare-Medicaid legislation including the "Long Amendment" directed at improving the care of mentally ill aged persons in our society. State hospitals have been characterized as "human warehouses"; the provisions of Section 1902(a) (20), (21) are a comprehensive and systematic attack program on the care of the mentally ill aged in the United States:

(20) if the State plan includes medical assistance in behalf of individuals 65 years of age or older who are patients in institutions for mental diseases—

(A) provide for having in effect such agreements or other arrangements with State authorities concerned with mental diseases, and, where appropriate, with such institutions, as may be necessary for carrying out the State plan, including arrangements for joint planning and for development of alternate methods of care, arrangements providing assurance of immediate readmittance to institutions were needed for individuals under alternate plans of care, and arrangements providing for access to patients and facilities, for furnishing information, and for making reports;

(B) provide for an individual plan for each such patient to assure that the institutional care provided to him is in his best interest, including, to that end, assurances that there will be initial and periodic review of his medical and other needs, that he will be given appropriate medical treatment within the institution, and that there will be a periodical determination of his need for continued treatment in the institution;

(C) provide for the development of alternate plans of care, making maximum utilization of available resources, for recipients 65 years of age or older who would otherwise need care in such institutions, including appropriate medical treatment and other aid or assistance; for services referred to in section 3(a)(4)(A) (i) and (ii) or section 1603(a)(4)(A) (i) and (ii) which are appropriate for such recipients and for such patients; and for methods of administration necessary to assure that the responsibilities of the State agency under the State plan with respect to such recipients and such patients will be effectively carried out; and

(D) provide methods of determining the reasonable cost of institutional care for such patients;

(21) if the State plan includes medical assistance in behalf of individuals 65 years of age or older who are patients in public institutions for mental diseases, show that the State is making satisfactory progress toward developing and implementing a comprehensive mental health program, including provision for utilization of community mental health centers, nursing homes, and other alternatives to care in public institutions for mental diseases;

These provisions require coordination between the State Welfare agencies and the State Mental Health agencies. They provide for individual planning and periodic review of the plan and program for each patient. They provide for alternative care and they provide for reasonable reimbursement of the costs of such care and treatment. In addition, and of at least equal importance is the requirement that the State make "satisfactory progress toward developing and implementing a comprehensive mental health program".

I have included here a brief progress report on the care of the aged mentally ill in Vermont.[1]

Reports showing similar progress have been or can be prepared from the other states participating in the "Long Amendment" program, thus it can be demonstrated that this section of the Medicare, Medicaid law together with other activities by the Congress have in fact transformed our state mental hospitals from "human warehouses" providing custodial care into active treatment centers with achievable goals of treating elderly patients and then placing them in suitable alternative care. These goals are in fact being achieved!

[1] See table and charts at p. 925ff.

As a result of your well-known concern for mentally disordered persons and the aforementioned success of the "Long Amendment" programs, as well as our own continuing concern for mentally disordered persons for whom we, as state mental health program directors, are responsible, we therefore recommend a major program expansion rather than the limitations on Medicaid contained in H.R. 1. We request your Committee to give serious consideration to an expansion of Medicaid coverage for the mentally ill so that persons under the age of 65 who are "medically indigent" or "categorically related" would be eligible to have the cost of their care and treatment in mental hospitals covered by the Title XIX Medical Assistance Program. This revenue sharing proposal would define goals, provide expanded benefits to eligible recipients and be subject to the improved utilization review, medical audit, program audit and cost control which I have previously discussed. Our proposal would include the same requirements for persons under 65 as those presently required in Section 1902. (a) (20) (21) for persons over the age of 65. In previous appearances before your Committee we have recommended specific methods for increasing the effectiveness of utilization review and medical audit. This testimony was provided to your Committee on September 15, 1970 by my colleague, Dr. Kenneth Gaver now Commissioner of Mental Health for Ohio. I have appended to my testimony a copy of his previous recommendation for utilization controls. (See Appendix A).

We believe this is an appropriate action for the federal government to take because of the failure of the private sector insurance planners to deal with this problem. This failure is cited and documented in a publication of the Department of Health, Education, and Welfare.[2] This lack of activity toward meeting a long standing and well recognized deficiency demands action by the Congress. The principle of equity requires that the benefits presently provided to mentally ill persons over 65 be made available to persons of all ages and the discriminatory provisions against public institutions in the present Title XIX be removed so that publicly administered facilities as well as private mental hospitals can receive payment for treating eligible recipients on the same basis that general hospitals receive such benefits.

We are also aware of concern, in the Congress, as well as the Administration about the runaway costs of Medical Care Services. We wish to draw your attention to the fact that the program controls on publicly administered state mental health programs and the institutions which are a part thereof are far greater than the cost controls applied to community general hospitals. These cost controls exist through the scrutiny exercised by the state legislatures when they annually or biennially review our mental health program budgets. As such, all our expenditures are more closely examined through this process. An accountability, unknown in the private sector, is imposed upon us. For these reasons we feel that an expansion of this program on an equitable basis would not be unreasonable at this time and that the existing inequities should be removed.

The benefits to individual recipients will be great, including more active and vigorous treatment, an earlier return to the community, the family, and employment with an ensuing beneficial effect to the individual, to the employer and to the economy. We are prepared to provide your Committee with specific and hard data about the number of persons to be covered under this proposal and actual costs based on current expenditures. We will provide this information on five states representing a wide variety of population and programs. From this information your Committee can extrapolate firm cost figures on a nationwide program. If the Committee wishes, we can provide this information to you very soon.

I wish now to turn to some specific conclusions of the provisions of H.R. 1 in its present form. First, there is a proposed reduction in the length and amount of benefits for the mentally ill aged and the imposition of a lifetime benefit limit similar to that in Medicare. In the recent past, several nationally recognized groups have decried these discriminations and recommend their removal.

"The President's Task Force on the Aging recently recommended '. . . that the 190-day lifetime limit under Medicare for inpatient treatment in a psychiatric hospital be removed, since the limitation on inpatient care in a psychi-

[2] "Financing Mental Health Care Under Medicare and Medicaid". U.S. Department of Health, Education & Welfare. Social Security Administration, Office of Research and Statistics. Research Report No. 37. Page 10.

atric hospital . . . for those older persons who experience acute or recurring emotional disturbance is neither humane nor realistic. Nor is it medically sound if it results in the premature transfer of the older persons after 190 days of treatment into a custodial care situation. It is also inequitable when compared with Medicare provisions for care of chronic or acute organic illness'." (The Report of the President's Task Force on the Aging, op. cit. p. 33.)

In addition, the President's Task Force on the Mentally Handicapped stated, "after due consideration of the limitations on benefits for the mentally ill and mentally retarded under Medicare and Medicaid, recommended 'that all provisions discriminating against the mentally disabled be removed from Medicare and Medicaid laws, regulations, and administration; further, that the government develop and promote legislative and administrative measures to enhance the capacity of the service system'." ("Action Against Mental Disability" . . . p. 48, U.S. Government Printing Office: 1970. Washington, D.C. 20402.)

The health insurance providers Advisory Council of the Social Security Administration has also said that such a recommendation "is not an appropriate means of safeguarding the program against payment for what is, in effect, custodial care." The Council also recommended that "the 190-day lifetime limit on inpatient psychiatric hospital benefits be removed if a review of past experience shows that such removal would significantly increase health benefits to Medicare beneficiaries, in relation to the costs involved." (Health Insurance Benefits Advisory Council Annual Report on Medicare: Covering the Period July 1, 1966–December 31, 1967. U.S. Department of Health, Education, and Welfare, Social Security Administration, Bureau of Health Insurance, July 1969, p. 24.)

If the Congress feels that a reduction in benefits is necessary in order to achieve more reasonable costs then such a reduction of benefits for the mentally ill should be on an equal basis with reductions in benefits for other medical assistance recipients with other diseases. We therefore request that if a benefit reduction and limitation must be enacted that it be enacted on a phase-in basis to take effect within five years, placing benefits to mentally ill persons on an equal basis with benefits to persons with other illnesses.

There are, however, alternatives to further improve care and still keep costs within reasonable limits. These are improved requirements for periodic review, utilization review and alternative care. These requirements must be extended to nursing homes and intermediate care facilities as well as hospital care. Greater utilization should be made of community living situations for dependent disabled persons such as boarding homes, foster homes and family care. They must be developed with reasonable professional support systems which will insure their effective operation while meeting the needs of people being served. I refer to consultative services to mental health and other health professionals that insure adequate medical care as well as prevention and alleviation of social and medical disability and dependence which, when it occurs, necessitates re-admission to a treatment facility. There are numerous examples of such programs with demonstrated effectiveness in various parts of the country. Such programs must receive additional encouragement and support from the federal government.

We wish to express concern about the narrow concept regarding disability and rehabilitation contained in Section 2015. There are many rehabilitation services available in each of the states which are not part of the State rehabilitation plan and if disability review is limited to functions included in the State rehabilitation plan, we are fearful of a narrowing of the concept of disability and the service utilized to alleviate disability.

We continue to be concerned about licensing and standard setting provisions contained in Section 239. Section 239 provides for "establishing and maintaining standards for public and private institutions in which recipients of medical assistance under the plan may receive care or services". From our experience with the (public) health authorities which in many states do not understand mental health/mental retardation programs, goals and methods, their standards, which may be appropriate to general hospitals, are frequently inappropriate for the institutions which we administer. Cases of such misunderstanding in our states as well as by the medicare fiscal intermediary are well documented and on record with your Committee. We therefore recommend that such standards be developed by the state health authority in cooperation and consultation with the mental health authority.

We wish to thank you, Mr. Chairman, and the Committee for this opportunity to discuss our problems and opportunities and wish to assure you of our continuing desire to cooperate with you and aid you by providing information based on our experience.

APPENDIX A

Need for Adequate Utilization Controls.—To assure that the Federal Social Security programs are applied most prudently, it is necessary to maintain certain control functions. These relate to quality of service rendered, extent of utilization of the service, and cost of the service.

Treatment Versus Custodial Care.—The State Mental Health Directors fully subscribe to the concept of providing treatment instead of custodial care. They concur in proper certification of patients, proper utilization review, provision of alternative methods of care, and medical audit by an outside team.

It should be recognized, however, that not all treatment is successful, especially in a short time. The aged mentally ill are by nature nearly always long-term, difficult cases. They require disproportionately large amounts of medical-surgical care, long-term medication, often extensive resocialization, and careful preplacement planning. The care thus provided is by nature long-term and over an extended period of time. It may also be expensive. This does not make it "custodial" by definition.

Custodial, on the other hand, implies lack of medical, nursing, and rehabilitative services. Modern state mental hospital services are not custodial but, rather, are treatment-oriented to the limit of the resources available.

Need for Effective Controls.—State Mental Health Directors concur, as noted above, in the proper imposition of appropriate controls, including:

1. Certification and recertification.
2. Individual treatment plans.
3. Utilization review.
4. Joint preplacement planning.
5. Utilization of alternate patterns of care.
6. Independent outside medical audit.

The national Association of State Mental Health Program Directors has endorsed the need for all these mechanisms. They are rational measures to prevent overutilization and improper utilization.

State Mental Health Directors would not object to review procedures by outside peer groups. This might be somewhat impractical because of the organizational relationships peculiar to the mental hospital. The mental hospital physician is a member of a structured treatment team. This is a qualitatively different role from the position of the private practitioner who is, in a sense, in the position of serving as broker for the patient by calling in different paramedical skills on a prescription basis.

The State Mental Health Directors would like to emphasize the need, not only for independent medical audit on an individual case basis, but also for what is referred to as program audit. We find great value in having an independent professional team review the total program of care for the aged mentally ill. Such an audit allows identification of weaknesses of program and problems of integration. It leads to strengthening and improvement of the program. It serves a different function from individual case audit. We commend it to the Committee for inclusion as a quality control mechanism.

TESTIMONY OF KENNETH D. GAVER, M.D., DIRECTOR-DESIGNEE, DEPARTMENT OF MENTAL HYGIENE AND CORRECTION, STATE OF OHIO, REPRESENTING THE NATIONAL ASSOCIATION OF STATE MENTAL HEALTH PROGRAM DIRECTORS AND THE STATE OF OHIO

Mr. Chairman and Members of the Committee: I am Dr. Kenneth D. Gaver, Director of the Ohio Department of Mental Hygiene and Correction. I am here today representing the National Association of State Health Program Directors in which organization I hold the office of Treasurer. I also represent the 10,651,000 people of Ohio, the sixth largest of these United States. It is my privilege to again appear before this Committee and to compliment the Committee, and especially Senator Long, for the many progressive achievements in the Mental Health field which have resulted from changes over the years in the Social Security Act, especially those in Titles XVII and XIX of that Act.

THE NATIONAL ASSOCIATION OF STATE MENTAL HEALTH PROGRAM DIRECTORS

The National Association of State Mental Health Program Directors represents the Commissioners or Directors of those agencies which conduct the Mental Health programs of the 50 states, the District of Columbia, and 3 territories. In addition to hospital and community programs for the Mentally Ill about 20 of the members are also responsible for the state hospital and community programs in Mental Retardation. Many have responsibility for the care and treatment of drug addicts and drug abusers. Many also have the responsibility to provide care, treatment and rehabilitation to America's 6 million alcoholics. NASMHPD members have direct responsibility for 255 state-owned and operated public mental hospitals. Other publicly owned hospitals (e.g. county) bring the total of hospitals with which they are administratively concerned to about 314. Those hospitals had a combined population of 308,204 patients in 1971. Total admissions were 414,926 in 1971. In addition, members provide care to 189,394 (1968) Mentally Retarded as well. They fund and direct massive community mental health programs and are in partnership with the Federal Government and local community agencies in the community mental health centers program.

State Mental Health programs are the largest health care providers in their states. They differ from private health care systems in that they are cost controllable, they operate within strict budget limitations and the employees have no profit incentive.

The impact of Mental Health programs in state tax revenue expenditures is enormous. Of all the state program areas in which state tax dollars are spent, Mental Health is third in size, ranking only behind education and welfare. As a rule of thumb, one out of every 10 or 11 state tax revenue dollars is expended for Mental Health.

In Ohio, of a total 1971–73 General Revenue Fund budget of $4.3 billion, $371.2 million, or 8.6 percent, is allocated to the Mental Health-Mental Retardation program.

State Mental Health programs are big business. In Ohio the Department of Mental Hygiene and Correction, even excluding the Corrections program, is the largest employer in all of State government with 13,500 full-time classified employees and nearly 1,000 part-time contractual employees. The new 1971–73 budget will add 1,600 full-time employees to the Department's rolls for Mental Health services.

FROM FAILURE TO SUCCESS

In past decades Mental Hospitals constituted America's infamous snake pits with hundreds of thousands of patients living in poverty and receiving little or no treatment. That is no longer true. While many advances remain to be made, State Mental Health programs have moved toward systematic health delivery systems emphasizing community Mental Health programs. Yet today, and for years to come, public mental hospitals will play a major role in providing residential treatment. Our problem is to continue the conversion of public mental hospitals from their old singular asylum role to a new role based on the best and highest use of the mental hospital within an integrated and coordinated system of care.

The past few years have shown massive change in the public mental hospitals. In 1961 the population of these hospitals was 526,116. In 1971 the population was 308,024, a drop of 218,092 persons, or 41.5 percent, in a span of 10 years. Population reduction continues at an estimated rate of 4 percent per year.

The number of aged persons in public mental hospitals has dropped from 160,776 in 1959 to 111,420 in 1969, a drop of 30.7 percent. This drop has been the result of many factors not the least of which has been the Long Amendment to the Social Security Amendments of 1965.

In spite of massive populatic reduction the number of persons being served has increased markedly due to expanded out-patient and community services and to steadily increasing admission (and discharge) rates to and from the public mental hospitals. Admissions per year have increased 6.5 percent since 1961. The public mental hospitals furthermore are often the only mental health resource available to the poor or to the seriously mentally handicapped.

NASMHPD AGREES WITH NEED FOR QUALITY AND UTILIZATION CONTROLS

The Social Security Amendments of 1965 brought about a major advance in health care utilization through imposition of quality controls and utilization

controls. The NASMHPD fully subscribe to the principles in those controls, including the following:

(1) Certification and re-certification
(2) Individual treatment plans
(3) Utilization review
(4) Joint pre-placement planning
(5) Utilization of alternate patterns of care
(6) Independent outside medical audit

The State Mental Health Program Directors accept the principles of Peer Review as proposed in H.R. 1.

The State Mental Health Program Directors also emphasize the value of "Program Audit," i.e., the review of overall program to identify and strengthen program weaknesses.

GENERAL RECOMMENDATIONS OF NASMHPD REGARDING H.R. 1

(1) *The provisions of H.R. 1 should be amended to extend the Title IX Medicaid benefits in public mental hospitals to all age ranges.*

(*a*) Present law limits services to those over age 65, some 20–30 percent of the resident population.

(*b*) The poor and the severely handicapped use public mental hospitals to a greater extent than other segments of the population. This is due both to economic necessity and to the fact that public hospitals are one of the few resources serving the severely handicapped.

(*c*) Present law constitutes de facto discrimination against the poor and the severely handicapped because of their patterns of utilization of mental health care services.

(*d*) Mental Health programs are a major cost to State General Revenue expenditures. Extension of Medicaid to public mental hospitals would extend "cost-sharing" between Federal and State governments by allowing the necessary program improvements without the sole fiscal responsibility having to be borne by hard-pressed state budgets. This would, in effect, constitute a form of "revenue sharing" while it would retain Congressional control over program expenditure areas, quality of program and cost projections.

States differ in socio-economic characteristics of their population. They differ in whether or not State Welfare Medicaid provisions cover only the categorically related or both categorically related and medically indigent. States differ as to income criteria for eligibility.

NASMHPD has attempted to obtain information as to the mental hospital population at risk in such a program. This information will be provided to the Committee in the near future in written form.

Based upon the presently available data one can project that as a minimum about 160,200 resident patients, or 52%, of the public mental hospital population in the United States would be eligible (not certified) for services under extension of Medicaid to all ages in these hospitals. The number might be as high as 231,000 since experienced mental health staff persons are of the opinion that same 75 or 80 in each 100 patients in public mental hospitals may be eligible.

NASMHPD strongly recommends the great social and economic advantages of such a progressive amendment to the Social Security Act.

(*2*) *Modify the reduction in amount and time of payments for care in public mental hospitals and in skilled nursing homes.*

(*a*) H.R. 1 proposes to amend Sec. 231 of the Social Security Act to reduce payments by ⅓ after 90 days and to eliminate reimbursement after one year in hospitals for mental diseases.

(*b*) NASMHPD recognizes the rationale for such a proposal over time as an incentive to develop alternative methods of care, especially out-patient care.

(*c*) NASMHPD however emphasizes that the present provisions have been successful in reducing the populations of the aged in mental hospitals and in providing the use of alternatives.

(*d*) Immediate implementation of this provision would virtually terminate medical assistance to the aged mentally ill within one year for the following reasons:

(1) The present length of stay of newly admitted aged persons is relatively brief. They are admitted, treated and usually placed. In an Oregon study of 1965 only 8% of such patients remained in hospitals at the end of one year.

(2) The long-term severely handicapped aged still need services. However, at the end of one year eligibility for such services would be eliminated. Their continued residence in hospitals would then probably be promoted. Hospital population reduction would be slowed.

(*e*) NASMHPD believes that limitations on amount and time of payment should not discriminate against the mentally ill, but should apply equally to any disease or disability group. If limitations must be imposed, then hopefully they could be phased in over a period of time. The Committee may wish to consider authorizing the Intermediate Care Facility in public mental hospitals as an alternative means of providing care after expiration of benefits in the higher cost acute mental hospital setting. Use of the Skilled Nursing Home and Intermediate Care Facility may be a way to provide longer term care at reduced rates. This will be mentioned again later in the testimony.

(*3*) *Extend authorization for reimbursement to be made in Intermediate Care Facilities which are distinct parts of Hospitals for Mental Diseases.*

(*a*) H.R. 10604 provided that distinct parts of public institutions for the Mentally Retarded could qualify as Intermediate Care Facilities provided that each recipient was appropriately certified and that the institution provided the appropriate medical or rehabilitative program. NASMHPD expresses its agreement with and commendation for this progressive amendment.

(*b*) The wording of the new Sec. 3(a)(16) in H.R. 10604 appears to prohibit the certification of a distinct part of a public mental hospital as an ICF. This may be in conflict with the intent of Sec. 254 of H.R. 1, although the wording is obscure and obfuscated.

(*c*) The extension to the mental hospital of the possibility of certification as an ICF could serve as a way to provide coverage for long-term aged mentally ill as an alternative to care in the regular mental hospital.

(1) The long-term aged mentally ill would have had one year of eligibility in the regular mental hospital.

(2) ICF care would be appropriate for many.

(3) The costs of care in an ICF will generally be lower than in a regular mental hospital.

(*d*) The repeal of Sec. 1121 of the Social Security Act is an advance in that it moves care in an ICF from Title XI to Title XIX, thus broadening coverage to include the medically indigent as well as the categorically related. This is in keeping with the thrust of other provisions relating to the mentally ill.

RELATED RECOMMENDATIONS—H.R. 1

(*1*) *Eliminate the discrimination against resident of public ICF in institution for Mentally Retarded as related to "active treatment."*

(*a*) H.R. 1 proposed and H.R. 10604 requires that a resident of an ICF in a public institution for the Mentally Retarded must be receiving "active treatment." No such requirement is made upon the private ICF. This is clearly discriminatory.

(*b*) NASMHPD does not oppose the requirement for "active treatment." The requirement is realistic. But it is also realistic in the private ICF.

(*c*) NASMHPD urges the inclusion of the requirement of a program of "active treatment" in the requirements of both public and private ICF's.

(2) *The need for acceptable definitions of "Active Treatment."*—H.R. 10604 refers to the patient being in a program of "active treatment." NASMHPD believes that "active treatment" must be defined and suggests the following elements be included in the definition:

(a) based on diagnosis

(b) under medical supervision

(c) comprised of a planned program of activities of a broad range (including, e.g., medication, counseling, guidance and social, rehabilitative, training and educational activities),

(d) aimed at increasing the persons adaptive capacity *or*

(e) prevention of the patients' conditions becoming worse

NASMHPD believes strongly that treatment aimed or preventing regression or the worsening of the patients condition must be included as a goal of treatment.

Some sample definitions are included, as follows:

(*a*) Active treatment of children—

"Active treatment is based upon a substantiated diagnosis. It consists of the planned application of medical, nursing, psychologic, social, educational, rehabilitative and other services which are designed to achieve individual treatment objectives. Such objectives should be directed toward the decrease of dependency and disability and the increase in the patient's capacity to live independently. Active treatment should include the assignment of various component parts of treatment responsibility, a method of monitoring them, and of assessing the outcome."

(*b*) Active treatment of retarded in an Intermediate Care Facility—

"Daily participation, in accordance with an individual treatment plan, in activities, experiences or therapys which are part of a professionally developed and supervised program of health, social or rehabilitative services offered by or procured by the institution for its residents.

"An individual *treatment plan* means a written plan developed for the individual by an appropriate interdisciplinary professional team setting forth a goal-oriented combination or developmental sequence of activities, experiences or therapys designed to assist the individual to attain or maintain the optimal physical, intellectual, social or vocational functioning of which he is presently or potentially capable."

(3) *Include participation of State Mental Health Authorities with the Single Licensing Authority.*

H.R. 1, Sec. 239, provides for a single state agency to establish standards and license facilities. In many instances State Mental Health Authorities already have limited statutory authority for licensing selected facilities within their states. We believe that state licensing agencies should be required to consult with and include State Mental Health Authorities when such licensing or standard setting involves Mental Health programs.

(4) *Rehabilitation Services for Blind and Disabled Individuals.*

Sec. 2015 (a) of H.R. 1 requires that blind and disabled persons be referred not less often than quarterly to the state agency administering the state plan for vocational rehabilitation services to determine appropriateness of services under Title XX of H.R. 1. Furthermore, under 2015 (b) it is required that the person so referred "shall accept such rehabilitation services . . ."

NASMHPD questions the mandatory nature of this provision. Further, as to the referral service itself, would not a broader definition of the referral agency provide for wider utilization of a variety of referral agencies which can provide evaluation?

(5) *Include Medicare Coverage of the Disabled.*

NASMHPD supports and encourages the inclusion under the provisions of Medicare of Social Security disability beneficiaries. The disabled include some persons whose disability is the result of mental impairment. Extension of the benefits of Title XVIII (Medicare) will greatly improve the access to and benefits from medical care on their part.

CONCLUSION

Mental Illness and Mental Retardation are no respectors of person, economic status, social class, race, etc. 10% of the population is mentally ill, another 3+% is mentally retarded. Organized, cost-controllable health care systems should be utilized to the best and highest use, not abandoned. Public facilities and programs still are the mainstay for the poor and for the seriously handicapped.

Improvements depend on additional revenues. State revenue sources are constricted. Federal participation is needed. Mental health, as a large consumer of State tax dollars, is a logical way in which to enter the field of "revenue sharing" while maintaining program and cost controls.

(Whereupon, at 5:20 p.m., the hearing was adjourned, to reconvene at 10 a.m., Monday, January 24, 1972.)

SOCIAL SECURITY AMENDMENTS OF 1971

MONDAY, JANUARY 24, 1972

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to recess, at 10 a.m. in room 2221, New Senate Office Building, Senator Russell B. Long (chairman) presiding.

Present: Senators Long, Anderson, Ribicoff, Byrd, Jr., of Virginia, Nelson, Bennett, Curtis, Jordon of Idaho, Fannin, and Hansen.

The CHAIRMAN. This hearing will come to order. Senator Bennett and other Senators will be along as the hearing progresses.

We are pleased to have as witnesses today the first of several Governors whom we will be pleased to hear, and we welcome their suggestions. The first will be the Governor of Massachusetts, the Honorable Francis Sargent.

Governor Sargent, we are very happy to have you here with us today.

STATEMENT OF HON. FRANCIS SARGENT, GOVERNOR OF THE COMMONWEALTH OF MASSACHUSETTS, ACCOMPANIED BY LEONARD HAUSMAN AND EDWARD MOSCOVITCH, ECONOMISTS

Governor SARGENT. Mr. Chairman, thank you very much for the opportunity to appear before your committee.

I have two distinguished economists from our State with me, Dr. Moscovitch and Dr. Hausman who, in case you get into very complicated questions regarding economics that I am unable to answer, I am very pleased to have with me, Mr. Chairman.

Senator RIBICOFF. Mr. Chairman, I wonder if I can make a brief comment.

First, I want to take this opportunity of welcoming two New England Governors, both friends of mine, one a Republican and one a Democrat, for whom I have the greatest admiration.

I do want to point out, in formulating my own series of amendments, I have worked very closely with Governor Sargent and his staff. The welfare amendments that I have presented and which will be the basis of what I think are necessary, had a great input from Governor Sargent.

I also want to say, Mr. Chairman, that today I am introducing an additional amendment to H.R. 1, to provide emergency relief to the States. The States are in deep trouble. In fiscal 1971, the welfare budgets in 29 States ran into the red. The States have been required to cut back their welfare payments, and the proposal that I am intro-

ducing has been introduced in the House by the chairman of the Ways and Means Committee, Wilbur Mills, and Congressman George Collins, of Illinois. This amendment would provide fiscal relief to the States by limiting State expenditures for fiscal years 1972 and 1973 to the level of expenditures incurred in fiscal year 1971. The Federal Government would assume all additional costs.

This proposal would afford $900 million of immediate tax relief to State and local taxpayers; and for 1972, $1.1 billion of fiscal relief for the States. Thank you, Mr. Chairman.

The CHAIRMAN. Fine. Governor Sargent, would you proceed. We will be pleased to hear your statement now.

Governor SARGENT. Mr. Chairman, I have a brief statement, and I have an expanded statement that has been delivered to you, Mr. Chairman, and the members of your committee; and I might now make my brief statement.

I come here today, Mr. Chairman, in two capacities: As chief executive of the Commonwealth of Massachusetts and, second, as a Governor expressing the point of view of 14 other Governors, the National League of Cities, the U.S. Conference of Mayors, and others concerned with welfare reform.

I can begin my testimony with a simple fact: The current system of public welfare has failed and failed miserably, in my opinion. Surely there is little controversy over this fact, but we must go another step. We must say that public welfare, as we know it in this country, must end; and we must say that short of a national effort, there can be no real welfare reform.

All the experiences and all the experiments of recent years have made that abundantly clear. We cannot reform welfare State by State. We cannot Band-Aid the present system and make it work. Altered slightly or funded more generously, it still won't work. It has not served us well in the 1960's, and it most certainly will fail us in the 1970's. We must abandon the concept of a State-by-State administered and heavily financed welfare program. In its place, we need reform that provides for a uniform, national, federally administered and financed program.

As Governors and mayors, we do not say this because we haven't tried or are not now trying to make this present system work. We have tried; we will continue to try. For example, let me describe our experience in Massachusetts.

I have struggled with the welfare system since I succeeded to the governorship in 1969, the same year the State took over the administration of welfare from cities and towns of our State. We sought to control it, to manage it, to improve it where it could be improved, to change it where change could succeed.

We were fortunate in finding a new and able young Commissioner of Public Welfare. We eliminated the so-called special needs program that permitted those with the loudest voices to get the greatest benefits. In its place we initiated the flat grant system that treats all welfare families of the same size in the same way, guaranteeing fairness and providing a model that was used to develop similar programs in other States. We tightened eligibility requirements to guarantee welfare help goes to those in need, not to those who could take care of themselves, but simply chose not to do so.

We initiated eligibility investigations that resulted in the removal of 20,000 cases from assistance rolls.

The list of attempts to make the system work is very long. We initiated a program whereby employable recipients are now required to register and pick up their checks at employment offices and secure work if available. And I have just quadrupled the size of a fraud squad to crack down on abuse and have started a financial managemnt control system, a modern, computerized system for the entire department's operation.

In short, I have done what I think I could do with what at its very best is a flawed and faulty and broken-down system.

Many other Governors have tried very hard as well. Some States faced with the welfare crisis have understandably, but unfortunately, cut back on their assistance to those genuinely in need; and others in desperation have even sought to legislate unconstitutional residency requirements that if imitated by all States, would have created a new class of people in this country—welfare refugees, American vagabonds—sentenced to spend their lives wandering around their country guilty of the crime of poverty or of illness or of old age.

Given the financial crisis, certainly one way is road of the cutback, of denial, of punishment for the poor for being poor, punishment of the sick for being sick, punishment of the old for growing old.

Is this the America we know, that we want it to become? But this is what it will become if we fail to establish a federally administered and financed national public assistance program. We can no longer administer and finance public welfare on a varied State-by-State basis as now exists, especially now that a new responsibility confronts State government, a new challenge and a new financial burden—I am talking about the financing of public education already mandated by the action of three separate courts around the Nation—and especially now when States must act to relieve the homeowner and rent payer overburdened by an exorbitant real estate tax.

Am I advocating that States "cop out" because they have bungled the job? No; we are saying that States cannot do the job that is needed, for many sound reasons. Let me list but three, for they are persuasive in their own right:

1. Today the American society is a mobile one. An individual, rich or poor, may be in New York on one day and then seek a new job or a new way of life in California on the next. We must recognize this fact. If an individual is on welfare in Massachusetts, where payments may be more liberal than, for instance, in Mississippi; where an opportunity for employment awaits him in Mississippi, for example, the individual may decide to forgo that opportunity for fear that if he loses that job, he will be left with a lesser welfare payment.

Present geographical discrepancies among States encourage people to follow the welfare market instead of the job market and encourage families to be locked into dependency.

2. In addition to the fact that we have a mobile society, there is also an important economic reason for a uniform national program to replace the existing State-by-State administered ones. When the economy is sluggish and more and more working people become unemployed or are temporarily unable to make ends meet, it is precisely then that

States are least able to be of help. This is an unhappy paradox. Just when more funds are needed, less revenue is available. The States, unlike the Federal Government, cannot deficit finance, cannot borrow on the future to pull them through difficult economic periods. The funding of public assistance must be directly tied to the more flexible system of financing that a national program can provide.

3. We have mentioned the plight of the working poor, those that labor each day and barely make both ends meet. Yet under the current system, we find cases where an individual may receive more aid on welfare than he or she can obtain by working. The current system is geared primarily to assist those who do not work. It does not provide sufficient incentives that would always assure more advantages for people to work than to go on welfare. We must have a national public assistance program equally geared to aid the working poor as well as those who cannot work.

In summary, if we wanted to penalize those who work, we could not find a better way than the present system to penalize them. It provides little or no aid to the working poor, it guarantees that resources are inadequate to finance those temporarily unemployed in recessions, and thus it encourages individuals to follow the welfare market instead of the job market.

What I have described about welfare is not only true in Massachusetts, it is true across the Nation. According to latest HEW statistics, the problem is everywhere and getting worse. Welfare rolls are up; departments of public welfare are unable to cope with the enormous administrative tasks of operating the systems, and their attempts to institute programs to move recipients from the welfare rolls to the payrolls have met with very little success.

As an example, the program that I mentioned that we enacted in Massachusetts requiring potential employables pick up their checks at employment offices has actually landed jobs for only 2 percent of the recipients—only 2 percent of the recipients. A similar program is in effect in New York, and it did little better, securing employment for only 3 percent.

So let us face the hard truth. The current system cannot succeed. No matter how hard we work to manage the system, no matter how diligently we struggle to control and administer and regulate the operation, the fact is that we are spending in my State nearly $500 million and nationally $10 billion on a system that perpetuates failure, penalizes those who work and promotes dependency and poverty.

So we must end public welfare assistance as we know it, not just in Massachusetts but across America. We must create in its place a uniform, federally financed and administered national assistance program.

The essence of the plan is now before you in H.R. 1. It is an excellent beginning; it charts the new directions we must follow. I support it in principle but it does not go far enough. To meet our needs, my proposals and those of Senator Ribicoff, formally submitted by the Senator as amendments to H.R. 1, would take the additional needed steps.

I am submitting to your committee, Mr. Chairman, written testimony containing much greater detail concerning these proposals, but I would like to highlight them at this time.

First, we propose a national level of assistance of $3,000 for a family of four, to rise in 3 years to the poverty level. This higher level provides increased fiscal relief to the high payment welfare States, while in low payment welfare States it provides increased purchasing power to the poor, increased sales revenue to local businesses and increased sales taxes for hard-pressed State treasuries.

Second, we propose greater work incentives: A benefit reduction rate of 60 percent and tax forgiveness to the working poor. I might point out that under H.R. 1 a family of four whose breadwinner earns $4,000 per year loses out of every dollar he earns 67 cents in welfare payment benefits, 5 cents in social security tax, 14 cents in income tax and in many States the last 14 cents to pay for medicaid. This is a disincentive, not an incentive to work; and let me emphasize one point: $5 billion of what we propose would go directly to the working poor individuals who work but who require some additional supplement to get by.

Third, we propose greater fiscal relief: $2.5 billion in fiscal relief immediately to States that face a fiscal crisis. In addition, our proposal would provide long term development and relief to States with more limited fiscal capacity—in the South, for instance.

Fourth and last, we propose a tighter administrative program. There are tasks practically impossible to administer on a State-by-State basis—keeping track of recipient earnings and keeping track of recipients who might apply for benefits in more than one State or apply for benefits in more than one State while working in another. We propose a system that can monitor and control these practices.

We propose a plan that by 1976 would provide one system, one national uniform administration for public welfare, benefited by public employees better paid and better trained under a proven national civil service system.

I will end by stating my belief that I shared with the citizens of Massachusetts when I first announced my efforts to bring about welfare reform:

> I believe that in this proud land, this rich nation, we have promises to keep, to ourselves and to all who share this nation with us, promises of a good life and a decent life, promises of mutual respect, promises of a society in which each man and woman may live in dignity.

Mr. Chairman, I believe America can keep these promises. I urge your favorable consideration of these recommendations.

I appreciate very much the opportunity to make this statement, Mr. Chairman.

The CHAIRMAN. Thank you very much, Governor Sargent.

Senator Anderson?

Senator ANDERSON. I don't have any questions. I just want to remark that Governor Sargent was connected with an agency with which I was very much involved. He did a fine job and I trust him very much.

Governor SARGENT. Thank you very much.

The CHAIRMAN. Thank you.

Senator CURTIS. Governor, I didn't get in on the first part of your statement; I was at another committee meeting, but I did get in on your recommendations.

Do you have an estimate as to how much this would increase the Federal cost over Federal welfare costs to the Federal Government?

Governor SARGENT. At the present time it is my understanding, including medicaid in the country, it is somewhere around $15 billion. H.R. 1, that is, the Nixon proposal—Nixon-Mills proposal—would add about $4 billion to the present $15 billion.

My proposal would be approximately $6 billion over and above H.R. 1.

Senator CURTIS. So you are recommending a welfare program that would cost $10 billion a year more than the present program?

Governor SARGENT. More than the present one; that is correct; yes, sir.

Senator CURTIS. Now, this committee not only has jurisdiction of social security, but we also have a responsibility in reference to the tax program.

How would you suggest we raise the $10 billion?

Governor SARGENT. Well, let me just say that I recognize that I am talking about very substantial additional funding but in my view, and maybe I am wrong, but in my view the most serious cancer that we have in this country is the fact that we have a welfare system that doesn't work. We have a system where today we have rather than 1 million families who are dependent upon public assistance as we had a few years ago, today we have got 3 million families and these are families where the husband has left the family; and what we are doing is, we are now supporting more and more people who are on welfare, who are unemployed and what I think we should be doing is redirecting this program so that we can be helping those who are just at the edge, who are trying to continue to have a job.

Now, you can well say, well, is it worth all that kind of money? My feeling is we can't afford not to do something different because we are headed in the wrong direction. We are going to have more and more millions of families on welfare if we continue this way.

Senator CURTIS. I haven't said a word about that. I merely ask you what your recommendation is to this committee for raising the $10 billion?

Governor SARGENT. Well, I don't want to suggest a tax program because that is not particularly in my line and, incidentally, I might say that in order to try to meet all of the demand at the State level I have proposed and fought for and we have gotten through an increase in the income tax at the State level, a sales tax at the State level, a gasoline tax, a cigarette tax, and increased corporate taxes and so on; but I feel that the national income tax is the most flexible tax in this country. It is growing as the Nation's economy grows and I feel personally that there should be a reordering of priorities so that we don't continue to have a welfare system that is encouraging families to split up, encouraging people not to go to work.

Now, what specifically should be the piece of machinery to produce this additional money is not probably appropriate for me to comment upon other than to say that I believe that a reordering of priorities would make sense.

Senator CURTIS. Well, would you recommend that this $10 billion be raised by increasing taxes or by deficit financing?

Governor SARGENT. I am not certain which——

Senator CURTIS. You have asked this committee to spend $10 billion over existing expenditures and I think you should take the respon-

sibility of advising us when you recommend that whether we raise this by taxation or increasing the deficit.

Governor SARGENT. At the present time we have—we are following the route of deficit spending and I imagine most persons, regardless of party, would prefer that we weren't, but we are. That is one route.

The other route is an increase in the income tax.

Senator CURTIS. Yes; I know the two routes and that is what I asked you, which one you are recommending to this committee.

Governor SARGENT. I really am not prepared to recommend. I just maintain that it would be possible perhaps to obtain these additional funds by cutting back in other areas or by following either the income tax increase route or by deficit spending; and I think it is more appropriate for a Governor to say these are the needs, these are the things that we see, and I believe it is—I would be stepping beyond my bounds if I were to say here is the type of tax program that I think we should have.

Senator CURTIS. No; no. I didn't ask you what type of tax program. I asked you whether your recommendation—you have recommended to us that we increase expenditures by $10 billion and I am not asking you to spell out what kind of tax—it is very complicated—but merely whether or not you are recommending we do this through increased taxes or increased deficit financing.

Governor SARGENT. Well, as far as I am concerned, I presume I would say increased deficits.

Senator CURTIS. Increased deficits?

Governor SARGENT. I think so.

Senator CURTIS. Now, does the State of Massachusetts provide AFDC benefits to a family where the breadwinner is unemployed?

Governor SARGENT. Do we at the present time?

Senator CURTIS. Yes.

Governor SARGENT. We say to any family that has a husband who can work that he must now go to the employment office to pick up his check and see if we can get him a job; and we have been able to get jobs for 2 percent of those who were eligible. Of course, most of the people seeking AFDC benefits don't have any means of taking a job.

Senator CURTIS. I will illustrate my question a little better.

Initially, the scope of the AFDC program was quite narrow; it was narrower than it is now; there was aid to dependent children in case the father was dead or absent and then we later made it possible that the States could make an AFDC payment to a family if the husband was unemployed. About half of the States have availed themselves of that program or maybe a little more. Has Massachusetts?

Governor SARGENT. Yes; we do have such a program. One of our problems, of course, is the lack of jobs at the present time. We are——

Senator CURTIS. But you do pay the benefit if they are unemployed, just the same as if—to the family—if they were deceased or absent from home?

Governor SARGENT. Len, would you want to answer that?

Mr. HAUSMAN. Yes. We have about 2,000 families in which the father is unemployed and is receiving AFDC U.S. benefits.

Senator CURTIS. Yes.

Now, before that was done, the claim that the welfare program was causing a splitup in families had considerable validity because if the husband were dead the wife and children could get benefits or if he was absent from home. So that was an inducement for him to leave home, in some instances.

A number of years ago Congress responded by making it possible to pay the benefit if he was unemployed, so there is no reason for a man who wants to otherwise stay with his family to desert them in order to get welfare.

You say that Massachusetts participates in that program. What hard figures do you have to support your contention that the welfare program in Massachusetts is causing family splitups?

Governor SARGENT. I don't have the figures in front of me but I am sure they can be provided. But I think it is clearly evident across this country that families are splitting up, that we have families, for instance, rather than 1 million families as we had a few years ago, we have 3 million families who are now dependent on public assistance, where the father is no longer in the household. It would appear to me very evident that this is happening and if we have figures I would be very happy to forward them to the committee.

(The following was received for the record:)

In many states, a father working full-time and earning $3,200 per year (this reflects the legal minimum wage of $1.60 per hour) has a smaller income than a mother on welfare with a similar-size family. This comparison in and of itself causes understandable resentment on the part of these working fathers, and is not mitigated in any way by the existence of an unemployed father program.

In such a state, the father has a strong incentive to leave his wife (or appear to leave her) in order to make her eligible for welfare benefits. If the state has an unemployed father program, he can make his family eligible for welfare by quiting work. Of course, a father who quits his job will most likely be ruled ineligible for UF benefits. Indeed, the UF guidelines are quite restrictive—only 155,000 of the close to 3 million families on AFDC are UF families. The surest way of obtaining the higher payments under welfare for our father, then, is to desert his wife.

The only way to eliminate this disastrous discrepancy between the treatment of families headed by a working man and those where the father has deserted is to include the working poor in our income maintenance system. Under the Ribicoff-Sargent proposals, a father with earnings of $3,200 would receive a federal income supplement of $1,512 ($1,729 if wages are counted net of social security). This would give him a total income of $4,712—far more than women on welfare would receive.

Senator CURTIS. You think this program that you have offered would end family splitups?

Governor SARGENT. I really do, Senator.

Senator CURTIS. I think when you supply your answers to whether or not you have any hard figures in Massachusetts that the welfare program is causing family splitups—when you go into it you will find that some of the States with the highest welfare benefits are the States that are leading in dissolution of families and marriages.

Governor SARGENT. This is why I say that we have been placing too much of our emphasis on the fact—on those families where they are unemployed, where they are on welfare. What I am saying is, what we should do is place much more emphasis on work incentives, more emphasis on the low-income working family who can't seem to be able to meet their payments. They don't get many of the subsidies that are available today to the welfare family.

Senator CURTIS. Yes; I understand. This is a plan to put the working poor on welfare and I think there are better methods of providing ways to upgrade their income and their earning capacity.

I won't take any more time. That is all.

The CHAIRMAN. Senator Ribicoff?

Senator RIBICOFF. Thank you.

Governor Sargent, what is the unemployment rate in Massachusetts today?

Governor SARGENT. The unemployment rate is close to 7 percent in Massachusetts.

Senator RIBICOFF. And that would be how many people actually out of work in Massachusetts?

Mr. HAUSMAN. I would say about 300,000 or 400,000.

Governor SARGENT. In the vicinity of 300,000 to 400,000.

Senator RIBICOFF. And that would include people of high skills, experience, years of work effectiveness; is that right?

Governor SARGENT. That is correct. In our State at the present time we have some unskilled unemployed; we also have a very large percentage of highly skilled people, engineers, technicians, who are out of work.

Senator RIBICOFF. So, therefore, when it comes to apply for a job that is available, the overwhelming number of employers would turn to this skilled labor pool rather than to the average person who is on welfare and, generally—am I correct?—they are low skilled, inexperienced, of limited education and that is why you find it difficult to place more than 2 percent of those who have registered?

Governor SARGENT. Exactly.

Senator RIBICOFF. Now, let me ask you, from your experience as an alert and aware Governor, if it was not a question of funds, how many people could you put to work in Massachusetts in legitimate, constructive, public service jobs? I don't mean leaf-raking jobs but legitimate public service jobs—how many jobs could you fill in Massachusetts if you had the money to spend?

Governor SARGENT. Well, obviously there are any number of different areas in which there could be positions created, laboring positions, at the Federal or State level, in connection with forestry employment, highway work, and a whole variety of things.

Senator RIBICOFF. Could you create jobs in hospitals?

Governor SARGENT. In hospitals, yes.

Senator RIBICOFF. In schools, in colleges?

Governor SARGENT. Yes, I believe we could.

Senator RIBICOFF. In cleaning up the city? In keeping the streets clean?

Governor SARGENT. I think in the whole environmental field there could be a great many projects that would be very important to undertake that could take unemployed people and could use them wisely.

Senator RIBICOFF. Now, Senator Curtis raises a point which, there is no question, is going to be one of the most controversial parts of this debate that will reach the floor of the Senate after it comes through the Finance Committee, when we face a $40 billion deficit, and my guess is next fiscal year we will have a $50 billion deficit.

Of course, President Nixon now says he is a Keynesian; he came in, basically, as a non-Keynesian; now he is a Keynesian, so this country is in for a period of deficit spending; so it goes against the ethics of

both Democrats or Republicans to see a country with a $40 billion deficit.

There are 168 programs on the Federal roster for which we spent $31 billion. Many of them are matching grants. I suppose you and every Governor and mayor have had presented to you a program of matching grants and you rush in and put in your 10 or 20 or 40 percent and think you are getting something and you may not be getting anything.

As you look at those poverty programs that are supposed to eliminate poverty in your opinion, are those 168 programs successful?

Governor SARGENT. By no means are they because again the figures are increasing and increasing and increasing and persons who are eligible, and I think we are headed in the wrong direction; and, therefore, I would like to see much more emphasis on keeping people at work than trying to pay them when the families have split up or are out of work.

Senator RIBICOFF. I mean these——

Governor SARGENT. And all of these programs——

Senator RIBICOFF. In these poverty programs, how many people in Massachusetts—do you or your staff think have been taken out of poverty as a result of these 168 Federal programs?

Governor SARGENT. I think very few, and again I would like to compile what figures we can to accurately answer your question. But the discouraging part for the Governor or for my State is that there is this multiplicity of grants that are available. We try to provide the matching funds and we do. Then it takes a long, long period of time to set the program into operation and then there may be cutbacks in Federal funding and we are sort of left out in left field.

My feeling is that this proposal that you have been working on, Senator, would virtually change that; it would make a flat program that would be administered nationally and it would be equal in every State; it wouldn't have all these separate types of grants but instead we would have every person on an arrangement similar to social security and I think we would be very much better off.

Senator RIBICOFF. What is your guess, from your experience, on the relative success of programs for taking people out of poverty? People are poor because they don't have money; isn't that true, when all is said and done? If it was a question of taking the bottom or the least priority of that $31 billion and 168 programs, and taking that $5 billion and allocating it for programs for the working poor to bring them up to poverty, do you think the society, the individual, would be better off?

Governor SARGENT. I think we would be so much better off. Then I think we would be placing our funds where they could really start to pick the country up rather than to lower these families into a continuing arrangement of being on welfare forever.

Senator RIBICOFF. Considering the budget deficits we have got, and apparently are going to have for years to come, what justification is there in your mind for spending an additional $5 billion on the family assistance program; that is, for the working poor? Where do you see the justification for it?

Governor SARGENT. Well, my feeling is that if we don't do this we are going to have this sickness that is pervading America—increase and increase; we are going to have more and more families at a higher

rate going on welfare—more and more families that have a working father and the working father is going to say:

This family down the street is doing almost as well as I am and they are on welfare. The father is not there so why do I continue to try to have a job, a rotten job, that doesn't pay me very well; better that we go on welfare.

And this is just accelerating all over the place.

My feeling is if we can make it so that man wants to work so he can keep a sufficient amount, to keep working rather than to be able to only earn a very small amount and then have to make certain payments, then I think we would be better off if he could continue working. And I think this is the main thrust of your proposal, Mr. Senator.

Senator RIBICOFF. Now, the males able to work—from all the figures that I have been able to ascertain—number 126,000 able-bodied males who could work and who are now on welfare. Would that about be the proportion in Massachusetts, too? Do your figures indicate how many able-bodied males there are on welfare in Massachusetts?

Mr. HAUSMAN. I think that the extent of employability is to a great extent a function of the State of the economy. There are more people—right now we are only placing about 2 or 3 percent of our registered welfare recipients in jobs but if the unemployment rate of Massachusetts were to be lowered as a consequence of rising demand in the economy as a whole, I think we probably could place a somewhat larger proportion.

But I think the situation in Massachusetts is kind of typical of what is going on in the country and if roughly 126,000 nationwide is a portion of the 2 or 3 million AFDC families right now having eligible persons, we have roughly the same situation.

Senator RIBICOFF. I am just curious. When these people came to your offices and registered for work? What were your findings among these people—their abilities, their experience, age groups? Have you any profile on that? I think it would be helpful for the purposes of the record to indicate what these people look like, what they were like.

Mr. HAUSMAN. We do have some; we have gone over to a system which monitors these people more closely and we do have computer printouts in the last week or so on exactly the type of people who are getting jobs and are not getting jobs.

I looked at one printout just last Friday afternoon.

Of people age 55 and over, and overwhelmingly these people, after they were sent over to the employment service by the welfare department—we set up a very rigid set of rules which constrained the welfare department to send over most people—and when they got to the employment service, the employment service found that most of these people, especially in the higher age categories, were incapable of holding any type of job at this level of demand or even a higher level of demand.

Among those who were considered to be employable, very, very few were able to find jobs; but I think that given our new system of monitoring people, we could turn out fairly good statistics to give us a profile on all of the people who are going over to the employment service.

Senator RIBICOFF. I think it would be very helpful before we are through with these hearings to get from you, since not many States have been doing what you have been doing. I think the Talmadge bill,

which was passed here the end of last session, requires that and I just think it would be helpful to the committee if you could give us your experience of what happens with the people who register and what they are like.

Governor SARGENT. Senator, we would be very happy to do that. I might point out that our State just started this new requirement about a month or so ago. New York State started, I guess, maybe 6 months or so ago and I will be very glad to get what data we have in Massachusetts and if it would be appropriate, I would be very glad to ask Governor Rockefeller to do the same thing.*

Senator RIBICOFF. What I am curious about are the people who are on your unemployment list who have run out of unemployment compensation. How many of those have turned to welfare?

Mr. HAUSMAN. Basically, because of extended benefits on unemployment compensation, there have not been large numbers but there have been some. I don't have the numbers at my fingertips; we could produce those, too, but we have been making an increased number eligible both for general assistance and AFDC purposes. I don't have those numbers.

Senator RIBICOFF. What do you find the relative costs to be to a State between what a man receives in unemployment compensation and what he receives as a welfare payment?

Mr. HAUSMAN. Well, basically the costs are greater. We also make the families that go on welfare eligible for medicaid and that means an average of about $500 or $600 per family, so I think we are put in a position where the costs are greater.

Senator RIBICOFF. In other words, the welfare costs are higher than unemployment compensation. Because this committee certainly also has the responsibility of unemployment compensation, we are going to have to wrestle with that, too, so you do find from your experience that a family receiving welfare does so at a larger overall cost than unemployment compensation?

Mr. HAUSMAN. Yes.

Senator RIBICOFF. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Jordan?

Senator JORDAN. Thank you, Mr. Chairman.

Governor, you made a very clear statement of your position here in most respects. There are one or two points I would like clarification on.

You say the present geographical discrepancies among the States encourage people to follow the welfare market instead of the job market and I know that is true. To what extent has that increased your welfare load in the State of Massachusetts? In other words, where does Massachusetts stand relative to the national average and what inmigration have you felt by reason of your high level of payments as against the normal load that you would have if you were averaging?

Governor SARGENT. When we started looking into this, Senator, we thought that the percentage of visitors to our State who become residents of our State was much larger than it turned out to be. I don't have specific figures. We have a certain percentage of our population in some of our larger cities that come from Puerto Rico, for example, many of whom end up on welfare rolls. We have some from other sec-

* The committee subsequently received additional material from Governor Sargent. This material appears beginning at p. 1010.

tions of the country. I will try to get the figures but they are not as dramatic as I originally thought they were going to be. I thought that the migration from one part of the country to another part of the country was more pronounced than it is.

But one of the problems that we have I find is that we may have a person in our State, a family in our State who are collecting AFDC and we have no way of knowing whether they may have—this guy may have a job in Rhode Island or in one of the nearby States.

Senator JORDAN. We recognize that. I am speaking only now of the movement of people following the best welfare offer. Many people speak about it but I wonder if it is possible to get hard figures to back up that movement?

Governor SARGENT. I will attempt from our welfare department to get some accurate figures for your committee, Mr. Chairman. I don't have them at my fingertips.

Senator JORDAN. Governor, what sources of revenue does the Federal Government have that the State of Massachusetts does not have?

Governor SARGENT. Well, of course, basically it is the graduated income tax that is the principal source of revenue for the Federal Government. We have a variety of other taxes including local income tax but not a graduated.

Senator JORDAN. You don't have a State income tax?

Governor SARGENT. We have a State income tax but it is not a graduated income tax.

Senator JORDAN. Are you prohibited by your constitution from making it progressive?

Governor SARGENT. Yes, we are.

Senator JORDAN. What is the thinking behind that?

Governor SARGENT. It has been this way ever since the Founding Fathers established the State. At the present time there is a strong movement toward having a graduated income tax. I expect that it will occur but it will take successive sessions of the legislature to do this, plus a vote of the people, and in the past there has been a very pronounced resentment across the State against doing this. I think our tax program is or State is more—I certainly hear about it every day—burdensome than in some other States because we do have an income tax plus a sales tax, plus a variety of other things.

Senator JORDAN. You have all the regressive taxes without the progressivity of a graduated income tax?

Governor SARGENT. Right.

Senator JORDAN. Wouldn't you think it would be helpful to recommend to the legislature an amendment to the constitution to permit a progressive income tax?

Governor SARGENT. There are steps in that direction at the present time but again that is going to take a number of years and I think the number of States which have such a tax could be counted on the fingers of one or two hands.

Senator JORDAN. I know a number of them do. Your State is like all other States, I presume; it is not allowed by its constitution to operate deficit financing?

Governor SARGENT. That is correct; no, we are not.

Senator JORDAN. That, then, gets to be about the only difference between the tax resources of the States and the Federal Government.

The major difference between the fiscal policy of the States and the Federal Government is, and you say very candidly here, the States unlike the Federal Government cannot deficit finance, cannot borrow on the future to pull them through difficult economic periods. So you are recommending here to us this morning that because of that situation in the States, that prohibition against deficit financing, that the Federal Government should deficit finance in order to assume the full responsibility for the welfare load?

Governor SARGENT. Well, I maintain that, yes, the Federal Government does have the flexibility, does have the tax program that grows as the economy grows; but I think, personally, that this is more—the advantages of this program are more important than merely the question of financing.

Even if we could finance an ever-increasing program in our State, even if we did adopt a graduated income tax, to do it on a piece-by-piece basis across this country where we have a migrating population, where we no longer have a situation where a person who is on welfare is able to go to his own welfare office and he knows the people in the welfare office, the people in the welfare office know him, and it is on a very small basis. Today we have this huge Nation with people moving all over the place and no longer can you do it on a 1-to-1 basis as you used to do in the old days.

Senator JORDAN. If the Federal Government took over totally the welfare load of the Nation, would the States then insist on general revenue sharing?

Governor SARGENT. As you perhaps know, the National Governors Conference has endorsed both programs—the full funding of welfare and a revenue-sharing program.

May I point out one thing? We are not just trying to get off the hook; we are not just trying to get away from the responsibility that we face but I maintain that within the next couple of years every single State is going to be having to pick up the full education or very nearly the full education load. If we do this, I don't see how any other State, my State or any other, can carry the full load of welfare and the full load of education.

Senator JORDAN. Would you recommend that the general revenue sharing also be financed out of Federal deficits?

Governor SARGENT. Out of the Federal system; yes.

Senator JORDAN. By deficit?

Governor SARGENT. Either deficit or some other tax program.

Senator JORDAN. In your statement, Governor, you say, "We propose greater work incentives, a benefit reduction rate of 60 percent and tax forgiveness."

What do you mean by "tax forgiveness?" Would that recipient not be required to pay social security taxes?

Governor SARGENT. Up to a certain level, that is correct; that is what we propose.

Senator JORDAN. Wouldn't pay any income taxes?

Governor SARGENT They would——

Senator JORDAN. State income taxes?

Governor SARGENT. They would have the advantage of forgiveness on certain of their taxes so that they would be more encouraged to continue that job.

Senator JORDAN. Under that formula with a $720 disregard and a 60-percent rate, a family of four would go to $5,720 income and tax forgiveness; is that what you are talking about in your figures?

Governor SARGENT. I don't know that that is the precise figure.

Senator JORDAN. Well, it is 60 percent of $5,000 plus 720.

Governor SARGENT. Yes.

Senator JORDAN. So a family of four could be on welfare up to earnings of $5,720 without paying any taxes?

Governor SARGENT. Partially.

Mr. HAUSMAN. It is true that they would be eligible for benefits up to and slightly above $5,720.

Senator JORDAN. Yes.

Mr. HAUSMAN. But we have to understand when they get to $5,700 or $5,600 they would be receiving at $5,600 maybe $30 or $40 in benefits, slightly more than that, so to say they would be still on welfare, I think, is just giving part of the picture. They would be getting small supplementary payments at earnings levels like $5,600 of $5,700.

Senator JORDAN. Yes; but now here is a man living next door with a family of four with an income of $5,720, not on welfare. He is going to pay $286 in social security; he is going to pay 5 percent; isn't he?

Mr. HAUSMAN. No; Mr. Moscovitch can give you the details on it, all of it. No, we are going to have a perfectly equitable system so that people at exactly the same income levels get exactly the same amount of welfare benefits and get exactly the same amount of social security and income tax forgiveness. At slightly higher levels, they will get slightly less benefits but there won't be a situation as we have today where there will be great disparities in benefits for only small differences in earnings.

Senator JORDAN. Well, if you don't have a notch at that level, wherever you phase out——

Mr. HAUSMAN. Right.

Senator JORDAN (continuing). If you don't have a notch there you have got to extend it way beyond $5,720 to phase it into the regular tax system?

Mr. HAUSMAN. That is correct, and we are doing that.

Senator JORDAN. How much beyond $5,720 do you have to phase it in with the regular tax system with a family of four dependents?

Mr. MOSCOVITCH. When your committee raised the minimum standard exemption of deductions to $4,300, it greatly—to $1,300 and the exemption $750, you greatly reduced the amount of tax that a family at the $5,720 level would pay.

Senator JORDAN. But they still start paying taxes?

Mr. MOSCOVITCH. At $4,300.

Senator JORDAN. $3,700?

Mr. MOSCOVITCH. $4,300 with the amendments you just passed.

Senator JORDAN. Yes.

Mr. MOSCOVITCH. So I think it is only about $600 or $700 above the $5,720 where the family is completely, you know, is unchained from the present system.

Senator JORDAN. I won't take more time but will you supply for the record that point above $5,720 where your family on welfare would phase into the regular tax system?

Mr. MOSCOVITCH. Excuse me. At any level above that they would begin paying taxes.

Senator JORDAN. Of course, but the man who makes $5,720 who is not on welfare is paying substantial taxes so you have got a notch there.

Mr. MOSCOVITCH. Well, he would be eligible to apply for a modest income tax forgiveness. At any income level, everyone at that level would be treated the same and anyone at the level just above $5,720 would be allowed to apply for a modest forgiveness.

Senator JORDAN. Then you should——

Mr. MOSCOVITCH. Phasing it in at a level of about $600 above where there would be no change.

Senator JORDAN. Then you should change your statement from 60 percent and tax forgiveness. That implies tax forgiveness.

Mr. HAUSMAN. Well, the thing is, in that statement we can't lay out all the details. The exact point at which there would be no tax forgiveness would be somewhere in the range of $6,200 to $6,300 for a family of four.

Senator JORDAN. $6,200 or $6,300?

Mr. HAUSMAN. That is correct; those families, for example, at $6,200 might be getting something like $10 or $15 of tax relief per year and in the cost estimates which the Government has presented, our program costing $6.5 billion more than the administration's program, all of these tax forgivenesses have been taken into account; so in the Governor's statement we have not given the exact break-even line, but we have given—we have included that in the cost estimates which we presented.

Senator JORDAN. Will you provide it, when you calculate it, will you provide it accurately for the committee?

Mr. HAUSMAN. Yes; if you want the exact cost breakdown of the $6.5 billion, how much is for income tax forgiveness, we can give you that.

Senator JORDAN. Right, the exact point.

Mr. HAUSMAN. Where the phasing out occurs?

Senator JORDAN. Where equity is established, between the man who gets no welfare and the person who is totally on welfare.

Mr. HAUSMAN. Right.

I think that our program effectiveness reduces notches and compared to the current system is a vast improvement.

Senator JORDAN. You do have to have a phaseout——

Mr. HAUSMAN. Yes, and we do.

Senator JORDAN. Substantially above $5,720 for a family of four.

Mr. HAUSMAN. A few hundred above; that is correct.

Governor SARGENT. Senator, we would be very glad to provide that additional information. The way I see it, there finally has to be a breakoff point. I think this is essential.

Senator JORDAN. That is right.

Governor SARGENT. What you want to know is the breakoff point?

Senator JORDAN. That is right. Thank you.

(The following was received for the record:)

The Ribicoff-Sargent proposals provide an income tax forgiveness for those receiving federal income-maintenance grants. For purposes of calculating his grant, a recipient may exclude from income 40% of any wages earned plus 100% of any Federal income tax payments. The top section of the accompanying table illustrates the effect of this provision by comparing Ribicoff-Sargent payments with and without the tax forgiveness feature.

As the table demonstrates, the tax forgiveness feature increases the break-even level to $6,171. At income levels below $5,720, the feature increases a

family's grant by the full amount of any tax paid. Above this amount, the effect of the grant is to require a net tax payment equal to 60% of the difference between family income and $5,720. Thus, at $5,820, a family receives a grant of $158 and pays taxes of $218—a net tax payment of $60. (With an income of $5,820 and the $720 exclusion, the family's income for purposes of the bill is 60% of $5,100—$3,060—less the $218 in taxes. This leaves income of $2,842, which is $158 below the $3,000 basic income floor. Thus, the family's payment is $158).

The Ribicoff-Sargent proposals also include a provision to consider wages net of social security contributions in calculating income maintenance benefits. Payments under such a provision—with and without the income tax forgiveness outlined above—are illustrated in the second half of the accompanying table. The break-even level with both provisions in effect is $6,657.

The purpose of these two proposals is to strengthen the work incentives under the program. This can be seen by comparing earnings and payments of a family at $4,000 with those for a family at $5,000. This increase in earnings results in an increase in federal income taxes of $98 and an increase in social security contributions of $54. With neither tax forgiveness in effect, the family's grant falls by $600. In all, the $1,000 in earnings is offset by $752 in benefit reduction or increased taxes, leaving the family with only $248 in increased purchasing power. With both tax forgiveness features, however, the family is left with $378 out of the $1,000 in increased earnings. This is a substantial difference which cannot be ignored in a program designed to promote work incentives.

These calculations all assume a family of four filing a joint return and applying for the $1,300 minimum standard deduction; the 5.4% Social Security tax rate for 1973 is taken from the House report on H.R. 1.

RIBICOFF-SARGENT PAYMENT AND BREAKEVEN LEVELS WITH SOCIAL SECURITY AND FEDERAL INCOME TAX FORGIVENESS (NO SOCIAL SECURITY FORGIVENESS)

		Ribicoff-Sargent grant	
	Federal income tax	Without tax forgiveness	With tax forgiveness
Earnings:			
$4,000	0	$1,032	$1,032
$4,500	$28	732	760
$5,000	98	432	530
$5,500	170	132	302
$5,720	203	0	203
$5,820	218	0	158
$6,000	245	0	77
$6,171	271	0	0

60-PERCENT SOCIAL SECURITY FORGIVENESS

	Earnings net of social security contributions		Ribicoff-Sargent grant	
		Federal income tax	Without tax forgiveness	With tax forgiveness
Earnings:				
$4,000	$3,784	0	$1,162	$1,162
$4,500	4,257	$28	878	906
$5,000	4,730	98	594	692
$5,500	5,203	170	310	480
$6,000	5,676	245	26	271
$6,047	5,720	252	0	252
$6,500	6,149	322	0	65
$6,657	6,298	347	0	0

The CHAIRMAN. Senator Byrd?

Senator BYRD. I yield my time, Mr. Chairman.

The CHAIRMAN. Senator Fannin?

Senator FANNIN. Thank you, Mr. Chairman.

On page 1 of your statement, you talk about struggling with the welfare system and the success that you have had and I think it is

commendable that you have moved early in your administration—I understand—and that you have initiated eligibility investigations that resulted in the removal of 20,000 cases from assistance roles. I think that type of endeavor has paid off and I am just wondering, some of the States are trying to improve their programs such as you have done but HEW regulations prohibit many procedures that are attempted.

I know in my State of Arizona we have an Arizona regulation cutting off welfare payments to anyone out of the State more than 90 days and still this was ruled not in compliance by HEW.

Do you have any similar requirement of cutoff?

Governor SARGENT. We are attempting in our State to cut back on eligibility and to do a number of things but I wouldn't by any stretch of the imagination say we have a foolproof system because we don't. We are constantly having wrestling matches with HEW about funds and funding and estimates and so on and so forth; and you just again say that this is another argument, I think, for having a national system; that is the same in Arizona as it is in Massachusetts. Yes, we do have that type of problem.

Senator FANNIN. Governor, I would agree if that is a good system, but I think if we judge the expenses of many of the States, and perhaps your State is included—I am not totally familiar—they are doing much better than we are doing at the Federal level and that is why I have this great concern.

Expenditures are growing faster, you say, than the income grows? That certainly is true at the Federal level; the expenditure is growing far faster, otherwise we would not have tremendous deficits. This is true in the field of welfare as well as in many other fields.

But you spoke of the people who are going in and out of your State. Do you have any idea of the percentage of your welfare recipients that are transient?

Governor SARGENT. No. This was a question asked by another member of the committee and we are going to get that information and forward it to you.

Senator FANNIN. I see. Fine.

One item, I think, of consideration is whether moving away from the State level, the local level, we can administer a program to a greater advantage, especially when you make a statement about the people knowing the individuals involved. I don't know what your percentage will be as to who are transients but I imagine it is quite small in the overall and I feel personally that we can do a very much better service to the recipients if we do keep the administration at the local level. I say that from experience as a Governor and also from what I have observed. Of course, you have observed it from the standpoint of the Governor and I wish you would have had the experience we have had here at the Federal level to judge it by. HEW now requires establishing an advisory committee for State welfare departments. Do you have that in your State—an advisory committee?

Governor SARGENT. Yes, we do.

Senator FANNIN. Well, some argue that people involved should have more to say as to how the welfare programs are administered. Well, I have not agreed with that program and especially when in some States they have been able to place some pressure to the extent that they have been able to adhere to certain programs that I don't think are bene-

ficial in the overall. They have brought this pressure because of the welfare rights organizations and groups that insist that they should administer the program.

Now, what will happen if it comes to the Federal level? Do you think they will have more control or less control?

Governor SARGENT. My feeling is that if it can be modeled in a sense after the social security system, that, I think, has a fine reputation in this country, where everyone is treated with dignity. We would be much better off and I think perhaps I can best answer it by saying this: Back a generation ago, when all of the welfare was handled at the local level and it was in our State up until a couple of years ago, it was a relatively simple matter because the guy in townhall would know the recipient and would know that he had had a job but had lost the job and he knew all about him.

But today, where we have again this moving population, where we have huge cities, we made the decision in Massachusetts back a few years ago, before I was Governor, that the State should take over all of the city and town welfare offices; and we jumped into the program before it was well planned and it has been chaos ever since. We have been trying to sort it out, straighten it out and improve it.

Now, people can say, "Well, all right, if the Federal Government takes it all over you are even going to compound further that difficulty." But the trouble is there is no way that I can see of turning history back because we have these huge masses of population in our cities and in our growing suburbs that you can't do it on a 1-to-1 basis; therefore, I think if you can have a system similar to social security where there is a record kept of a man's job and what he earns and so on, on a national level, it would in itself, I think, improve the whole situation.

Senator FANNIN. Well, Governor, I hope you are right. I have the opposite viewpoint because I feel that the Federal Government has created many of your problems at both the local and State level, especially at the State level. I have observed that over the years. I trust if we do go to a Federal system it will not work out as anticipated because if we look at the past history, I think it would be chaotic.

You speak of what can happen. I would just look at some of the programs where we have been able to work with the State, the unemployment compensation and different programs that work out quite well where they are State administered. I just can't imagine that we can have a better system than a Federal-State system in handling these problems.

Now, you seem to think differently, but I think much of it is because of the tremendous pressure that you have upon you in furnishing the funds for your State system and the problems that accumulate; and I certainly understand they do. But I hope you will look at it from the standpoint that the Federal Government is perhaps not in as good a position as the States in many instances. In fact, we go in debt to finance these programs whereas the State at least has been able to—by compulsion have no deficit financing and I am afraid if we adopt the same philosophy that we have in past programs that this could be catastrophic. I hope that I am wrong, but I just feel very keenly about holding the administration of these programs at the State level.

Governor SARGENT. I can't—well, I can't quite agree with you, Senator. My feeling is that it isn't just "a dollar and cents" problem for the State. Sure it is a dollars and cents problem; we are having a desperate time trying to—half of my budget now, close to half of my budget is for welfare and that is serious. But if we are going to also have the full educational burden, that is serious.

But I think personally where we again have this burgeoning population of America, burgeoning population in the cities and towns and the suburbs, and we have persons who work in one State and live in another State and so on, I don't see how we can do it other than nationally, personally.

That is my view.

Senator FANNIN. Yes. Well, Governor, I hope you will look at it from the standpoint of what is happening to the dollar and what we are doing to our Nation's economic position, and our position in the world trade, our competitive position throughout the world. When we add all these expenditures together it creates quite a serious problem for us to carry that and also be competitive with the other nations of the world. When we can't provide jobs for our people, and is certainly something that is coming about because of our tremendous overhead that we have, that to add on to our already higher wages and other costs of government that add to the competitive position, it creates, really, a serious problem for us. I think this enters into our overall problem on welfare, how are we going to provide jobs for these people.

You have companies that are moving out of Massachusetts, going across the water, because they cannot compete by manufacturing in this country. This is just as serious as the welfare problems we are talking about because it all works together.

Don't you think this is part of the consideration?

Governor SARGENT. Well, of course, it is part of it. Of course it is a very serious situation that this country is facing today with its economy and the rest of the world.

Senator FANNIN. Well, thank you.

Governor SARGENT. Thank you.

Senator FANNIN. I sympathize in your activity in this regard.

Governor SARGENT. Thank you.

The CHAIRMAN. Senator Hansen?

Senator HANSEN. Thank you, Mr. Chairman.

Governor, I want to thank you very much for your testimony. I think that of the many persons who will be appearing before this committee, the opinions of none are more important than those of you who represent State government.

I might note parenthetically there are six members of this committee who have served in the capacity you now occupy and we share your anxiety over what to do.

You testified that between 2 and 3 percent of those welfare recipients who were required to go to an employment office to pick up their checks were placed in jobs. I think you said 2 percent in Massachusetts and 3 percent in New York.

I think you pointed out also that many people on welfare, in your opinion, were not employable.

Did I understand you correctly to have said that?

Governor SARGENT. Oh, yes. That vast majority of the persons, particularly on AFDC, for example, either they are children or they are ill or infirm in one fashion or another; they are mothers with children and they have no way of working. But the ones that were employable we were only able to provide jobs for 2 percent.

Senator HANSEN. I understand you further to recommend or to be in favor of a standardization and federalization of welfare, and I think, with specific reference to your colloquy with Senator Fannin, you said that it was your opinion that the welfare payments ought to be the same in Arizona as they are in Massachusetts; is this right?

Governor SARGENT. That is my view; yes, sir, Senator.

Senator HANSEN. Then assuming that most people on welfare are not employable, that requiring them to go to an employment office to pick up their checks has not been very successful in your words, and assuming the standardization, federalization of welfare, if you were a welfare recipient and had little hope of escaping the chains of welfare, as some people characterize them, would it be your intention to continue living in Massachusetts or in a northern State where living costs are higher, where heating costs are greater and where generally it may not be as pleasant living as it would be in Arizona or California, Florida?

Governor SARGENT. Well, without intending to get into any comparison of which is the best part of the country to live in, I might be prejudiced——

Senator HANSEN. Let's compare Wyoming then instead of Massachusetts with Arizona and put the burden on my back. Where would you live?

Governor SARGENT. Well, I would live in Massachusetts.

[Laughter.]

Senator HANSEN. I mean if you were given a choice, Governor. I appreciate——

Governor SARGENT. I love to vacation in your State and I have, and I enjoyed camping in your State, but I prefer to live in Massachusetts but that is, I suppose, what America is all about; we want to live where we want to live.

I would like to emphasize that the main thrust of our proposal, Senator Ribicoff's proposal, is directed toward the working poor rather than merely the welfare families, keeping the persons who are working and getting more persons working.

Senator HANSEN. If I could, I appreciate your observations on that point and I am not addressing my question to that specific part of your testimony, but rather to those on welfare who by definition are largely unemployable, who have little expectation in the foreseeable future to find a job. If they are just trying to stretch their welfare dollar as widely as possible in order to live as well as they possibly can, and assuming that it may be less costly, say, to live in Arizona the year round than it would to live in Alaska or Wyoming or Montana or Minnesota, would not your proposal to federalize and standardize welfare result in establishing an incentive that would move people southward where it is cheaper to live, where it is an easier life?

Governor SARGENT. I presume that could occur and I presume——

Senator HANSEN. Don't you think it would occur?

Governor SARGENT. I presume that it could occur and I presume also that it would be possible to take into consideration some formula relating to the cost of living in Arizona versus New England.

Senator HANSEN. But I thought you wanted to standardize it? I thought you wanted to make it the same in Massachusetts as in Arizona?

Governor SARGENT. Yes, but I think you can still have an adjustable level in relation to the cost of living within that standard national program.

Senator HANSEN. Well then, what you propose actually is to standardize it if the conditions are not equal; is that right?

Governor SARGENT. I think that would be possible to do.

Senator HANSEN. All right.

You spoke about—I think you recommended that you favored a $3,000 national assistance level for a familly of four to rise in 3 years to the poverty level?

Governor SARGENT. Yes.

Senator HANSEN. Do you expect the poverty level in the United States, given the imbalance in budgeting, given the inflationary forces that we know are extant today, to remain static?

Governor SARGENT. I suppose it won't. I would hope that it would go down but it certainly won't go down while the economy—while we have inflation still continuing to climb.

Senator HANSEN. On what basis do you think that it would go down or do you hope it might go down?

Governor SARGENT. I don't think it will.

Senator HANSEN. I misunderstood you.

Governor SARGENT. I don't think it will but I would hope it would.

Senator HANSEN. Yes. Well, I would hope so, too, but I guess the world is built on hopes. I don't think there has been fruition commensurate with hope, though.

You recommended a tighter administrative program, pointing out that presently a person may be registered on the rolls in one State and conceivably could go into another State and become unemployed and continue to draw welfare payments in the second State, and it would be possible to even get on two welfare rolls.

Do you think this is possible?

Governor SARGENT. I think this is possible and very, very difficult for any State to determine that at the present time. It is difficult to determine whether a person in my State may be collecting in another State or may be working in another State.

Senator HANSEN. Yes.

Then how would you identify the, say, 2 million "John Smiths" whom we have in the United States that technically could be on welfare?

Governor SARGENT. We were able to do it for social security; I believe we could do it for this system.

Senator HANSEN. Would you recommend, then, welfare recipients be assigned a social security number?

Governor SARGENT. I think that type of arrangement would make sense.

Senator HANSEN. I think so, too. I have no further questions, Mr. Chairman.

Thank you very much, Governor.

Governor SARGENT. Thank you very much.

The CHAIRMAN. Senator Nelson?

Senator NELSON. Just to pursue that question initiated by Senator Hansen, the bill provides for $2,400 for a family of four, all across the country. That means, of course, that some States paying less than $2,400 would be relieved 100 percent of their payment costs whereas some 28 or so States that pay more than that will, in effect, have to continue to pay benefits at least at the level they are at now. So that raises a question of equity among the States.

The argument is made that this is a minimum benefit and it ought to be standardized nationwide.

Do you think those States that are already paying something less than $2,400 ought to be reqiured to meet some standard of maintenance of effort and not be relieved 100 percent? Do you have a view on that or does the Governors' conference have a view on that?

Governor SARGENT. Senator Nelson, I think I can answer it in this fashion: What we are proposing here would relieve those States that—give fiscal relief to those States that are already paying a substantial amount. For instance, in my State over $3,000 now we are paying a payment to a family of four. To those States not paying $3,000, that are not paying or whatever it is, the $2,400, there would be relief to the families in those instances and those funds the families would receive, those additional funds would therefore go into their economy, in their State, and I think that they should be called upon to provide some sort of assistance. But I am maintaining that you get the fiscal relief of the States that are already paying a lot, you get assistance to the family in the States that are not paying much, if anything, and the main thrust, of course, would be on this matter of work incentive. I don't know whether that answers your question.

Senator NELSON. Well, the argument might be acceptable that you paid the same uniform amount in all States as long as you are at some minimum level, like $2,400, although I think there are inequities in that among the States. But, in fact, once the program is adopted there will be increases in the amounts that will be paid.

Now, when you move from paying $2,400 for a family of four to paying $4,000 to a family of four, it becomes quite a different matter because of the cost-of-living factor.

In New York City or Boston or Chicago, with rents being what they are, there would be a considerable disparity. One family living at a relatively decent benefit standard may be hungry in New York City because of the cost of transportation, the cost of rent—the cost of everything is higher. So once we pass this bill we will be facing this question 2, 3, 4 years from now: Are you going to build in a cost-of-living factor in the additional funds that are put into the welfare program?

Governor SARGENT. Senator, I personally would favor a cost-of-living ratio in this formula in some fashion. The proposal, as I understand it, our proposal, does not have that in it. I personally would not object to it. It might be more feasible; it might be more possible, I think, for the Senate and the House to adopt a measure that did have that in it, but it does not at the present time.

Senator NELSON. Obviously, the cost of living is lower in some areas than it is in other parts of the country. This is a question that this committee and the Governors Conference must start addressing themselves to. I am assuming some version of this bill will pass, but I think it would be a bad mistake for us to be suddenly confronted 2 or 3 years from now with a substantial increase in benefits and no plans for tailoring the formula for payment in accord with the cost of living in various sections of the country.

Governor SARGENT. I personally agree with you. I can't speak for the other 49 Governors.

Senator NELSON. Let me ask you just one more question:

There is a requirement in the bill that AFDC mothers with no children five and under, be required to accept employment as a condition of receiving welfare payments to feed the children. And 3 years from now AFDC mothers with children above three would be required to accept work, assuming there are childcare facilities to take care of their children. Do you think (1) it is a practical proposal? and (2) is it an equitable proposal?

Governor SARGENT. I would hope that care for children could be provided with the option for the mother. I don't think we should say that every single mother in this country must work and I don't—I can't imagine that anyone would say that even if there were opportunities for care for the children during the daytime.

Senator NELSON. Unless I misinterpreted the bill, that is what the bill does say.

Governor SARGENT. It is not required, as I understand it.

Senator NELSON. I will stand corrected on that. Doesn't the bill say if the child care is available the mother may be required to accept employment before she qualifies?

Mr. HAUSMAN. Senator Nelson, the amendments that have been introduced by Senator Ribicoff——

Senator NELSON. I am not talking about the amendments; I am talking about H.R. 1.

Mr. HAUSMAN. You are correct; the administration's bill requires exactly what you say.

Senator NELSON. Pardon?

Mr. HAUSMAN. The administration's bill requires exactly what you say. On the grounds that we think it would be ultimately more costly to the Federal Government to require mothers of very young children to go to work and provide day care for them and also on the grounds it might impose a hardship on them, Senator Ribicoff and Governor Sargent both have said the work requirement should be limited to mothers with children over six and that does not change so that in 2 or 3 years from now, as in the administration's bill, the work registration requirement in the Ribicoff amendment remains the same as it is on the date of implementation.

Senator NELSON. Does the Ribicoff amendments state that the welfare mother, if she has no children 5 and under, must accept employment if child care is available?

Mr. HAUSMAN. No, it does not. No; only mothers with children 6 and over, and even there——

Senator NELSON. That is what I said. I say she does not have children 5 and under.

Mr. HAUSMAN. Yes; that is correct. If she does not have children 5 and under.

Senator NELSON. And if she does have them at 6, 7, 8, this amendment does require that she work?

Mr. HAUSMAN. Yes; that is correct.

Senator NELSON. Well, let me ask you this: So a mother has children 6, 8, 10, 12. This is a very difficult age to look after children because they are very mobile. A job is available for Mrs. Jones to go to work for somebody across town in a suburb at the minimum wage to clean the other lady's house. Now, Mrs. Jones has a house to clean herself; she has four kids to take care of, four kids to wash, four kids to look after.

Do you mean to tell me you would allow some administrator to say, "You get those kids supervised; we will provide some supervision and you go over there and clean house for Mrs. Hennapin," or something—do you support that?

Mr. HAUSMAN. Senator, I think I can speak for the Governor——

Senator NELSON. Well, the Governor is right there.

Governor SARGENT. I will listen then. [Laughter.]

Mr. HAUSMAN. Well, I think this was included with great misgivings and I think it was included because of what we estimated the political realities would be. I think that supplementing the bill would be regulations which would have priorities and I think that mothers with children near 6, slightly over 6, or many children, as in the situation which you have described, would be very low down on the priority list.

I think those of us who helped the Governor put the bill together put that in just to kind of face up to realities. I think we had grave misgivings as you do about that.

Senator NELSON. Well, of course, it is preposterous; it won't work. If she has got four children——

Mr. HAUSMAN. That is correct.

Senator NELSON (continuing). It is going to cost much more to take care of those kids than that mother can make. Then you are going to tell that mother, after putting in a full day's work, to come on home and feed the kids, clean the house, do the sewing, and be a mother. That is sheer nonsense.

Mr. HAUSMAN. In two words, I agree. That is all.

Senator NELSON. Thank you.

Senator RIBICOFF. I think, if the Senator will yield, I have some figures that are interesting.

There are some 7 million children on welfare; there are about 600,000 places for day care today. The number of jobs available for women are minimal, to say the least. So as a practical matter we are really almost academic, but there are circumstances where they could work.

I think that we discussed last time with the chairman about establishing day care centers in association with industry. I believe that some of it has been done in Massachusetts in the Fall River area, where a manufacturer near his place of business supplied day care facilities

with lunches and good care and educational facilities for the children; and then the mother would take, when she want to work, would drop the children off at the day care center; when she went home she would pick up her children with her. So you have got a very practical problem and not just a theoretical one.

Senator NELSON. Well, I think Senator Ribicoff is absolutely correct. The interesting part about it, however, is, first, there are lots of mothers who would like to work. They would just love an opportunity to work, so they ought to be afforded the opportunity.

No. 2, household work, at menial wages, is not a reform of the system if we require a mother just to go someplace else to do household work she should do in her own home. Factory work is quite another matter. There are good jobs in the factories. Tragically, the administration vetoed the OEO extension bill which had the child care in it, which we spent months and months on, which the Secretary of HEW never once objected to; he objected initially to the formula payment and we corrected it. Then the President vetoes it on principle and attacks it on principle. This is the tragedy. The President says he wants child care centers; we gave it to him and he attacked it as communal living. What kind of nonsense is that?

Governor SARGENT. I think I had better be quiet. Thank you.

The CHAIRMAN. Thank you, Governor.

Senator CURTIS. Mr. Chairman, the Department of HEW has submitted some tables with respect to the amendments submitted by a distinguished member of this committee, the distinguished Senator from Connecticut, Senator Ribicoff.

It is quite an illuminating table. It shows, for instance, the number of eligibles under that proposal in 1973, would be 40.5 million as compared to some 15 million now; gradually it increases to the year 1977, when there would be 72.8 million people eligible for welfare.

The chart on the costs is likewise quite interesting.

The 1973 cost in billions of dollars is $16.1.

Senator BENNETT. That is the Federal cost?

Senator CURTIS. Yes; that is the Federal cost.

The CHAIRMAN. Is that additional cost or overall?

Senator CURTIS. Additional costs, not in addition to H.R. 1, to the present law, and that would increase to $40.7 billion.

I notice here that in my State of Nebraska there are 3.8 percent of the people under welfare, on welfare; it would make eligible 14.9 percent of the people. I ask these entire tables be printed in the record.

The CHAIRMAN. Without objection.*

*See also tables requested by Senator Ribicoff at p. 975ff.

NUMBER OF WELFARE RECIPIENTS UNDER CURRENT LAW AND NUMBER OF PERSONS ELIGIBLE FOR BENEFITS UNDER RIBICOFF AMENDMENT 559, BY STATE, FISCAL YEAR 1973

[In thousands]

State	Number of recipients under current law			Number of persons eligible for Federal benefits under Ribicoff		
	Total	Adult categories	Family category	Total	Adult categories	Family category
Alabama	408.2	149.0	259.2	1,207.7	174.8	1,032.9
Alaska	16.4	2.9	13.5	39.7	5.8	33.9
Arizona	97.7	24.3	73.4	155.3	55.0	100.3
Arkansas	149.0	75.6	73.4	663.1	114.5	548.6
California	2,335.6	599.7	1,735.9	3,847.9	608.7	3,239.2
Colorado	146.2	46.7	99.5	323.9	47.6	276.3
Connecticut	141.5	17.1	124.4	307.1	53.1	254.0
Delaware	36.1	5.0	31.1	84.9	10.4	74.5
District of Columbia	101.7	15.0	86.7	225.0	24.9	200.1
Florida	449.9	91.6	358.3	1,391.0	228.4	1,162.6
Georgia	485.1	140.8	344.3	1,451.9	231.0	1,220.9
Hawaii	43.8	4.7	39.1	111.5	13.4	98.1
Idaho	30.6	6.3	24.3	94.7	11.4	83.3
Illinois	639.5	90.9	548.6	1,760.3	226.9	1,533.4
Indiana	168.1	27.7	140.4	695.1	88.3	606.8
Iowa	116.2	26.9	89.3	414.8	45.6	369.2
Kansas	104.0	18.4	85.6	366.5	70.4	296.1
Kentucky	259.8	89.5	170.3	933.1	162.3	770.8
Louisiana	473.3	149.8	323.5	1,210.0	212.1	997.9
Maine	91.9	17.9	74.0	210.8	38.0	172.8
Maryland	217.5	28.3	189.2	577.8	71.7	506.1
Massachusetts	417.5	82.1	335.4	818.3	145.2	673.1
Michigan	517.5	72.5	445.0	1,415.8	217.3	1,198.5
Minnesota	159.5	33.0	126.5	553.3	93.6	459.7
Mississippi	269.4	111.7	157.7	942.0	174.7	767.3
Missouri	332.3	124.9	207.4	932.7	187.3	745.4
Montana	26.0	6.1	19.9	102.7	11.5	91.2
Nebraska	57.5	13.9	43.6	224.9	26.6	198.3
Nevada	23.1	3.7	19.4	56.2	14.0	42.2
New Hampshire	30.9	6.0	24.9	79.6	13.6	66.0
New Jersey	517.6	37.0	480.6	880.1	160.3	719.3
New Mexico	100.1	19.9	80.2	235.6	26.6	209.0
New York	1,550.0	201.7	1,348.3	3,072.8	499.1	2,573.7
North Carolina	248.2	77.0	171.2	1,318.6	186.2	1,132.4
North Dakota	20.4	6.3	14.1	110.5	12.3	98.2
Ohio	532.7	97.3	426.4	1,452.3	230.0	1,222.3
Oklahoma	218.6	106.7	111.9	589.0	108.1	480.9
Oregon	138.1	20.9	117.2	296.2	55.2	241.0
Pennsylvania	880.2	116.0	764.2	2,021.0	337.0	1,684.0
Rhode Island	68.2	7.7	60.5	150.8	27.9	122.9
South Carolina	142.3	34.8	107.5	783.0	94.4	688.6
South Dakota	32.4	6.7	25.7	139.0	13.9	125.1
Tennessee	358.1	98.1	260.0	1,167.0	222.0	945.5
Texas	771.6	287.0	484.6	2,569.0	373.0	2,196.0
Utah	57.6	9.4	48.2	146.0	25.5	120.5
Vermont	25.1	7.1	18.0	82.0	14.9	67.2
Virginia	185.4	26.6	158.8	952.9	120.1	832.8
Washington	217.2	40.7	176.5	437.4	57.5	379.9
West Virginia	128.1	25.2	102.9	499.9	69.4	430.5
Wisconsin	138.2	27.5	110.7	506.9	93.7	413.2
Wyoming	13.7	2.8	10.9	43.4	5.4	38.0
Guam	2.8	.5	2.3	5.3	.9	4.4
Puerto Rico	339.1	45.9	293.2	1,638.1	76.9	1,561.2
Virgin Islands	2.6	.5	2.1	6.0	.9	5.1
Total	15,025.1	3,385.3	11,639.8	40,300.5	6,189.2	34,111.7

PROPORTION OF POPULATION RECEIVING WELFARE UNDER CURRENT LAW AND PROPORTION OF POPULATION ELIGIBLE FOR BENEFITS UNDER RIBICOFF AMENDMENT, BY STATE, FISCAL YEAR 1973

[In thousands]

State	Civilian resident population, 1973	Federally aided welfare recipients, current law, fiscal year 1973		Persons eligible for welfare benefits under Ribicoff, fiscal year 1973	
		Number	Percent	Number	Percent
Alabama	3,449.5	408.2	11.8	1,207.7	35.0
Alaska	353.7	16.4	4.6	39.7	11.2
Arizona	2,151.3	97.7	4.5	155.3	7.2
Arkansas	1,958.6	149.0	7.6	663.1	33.9
California	23,052.0	2,335.6	10.1	3,847.9	16.7
Colorado	2,529.9	146.2	5.8	323.9	12.8
Connecticut	3,353.4	141.5	4.2	307.1	9.2
Delaware	621.9	36.1	5.8	84.9	13.7
District of Columbia	734.3	101.7	13.8	225.0	30.6
Florida	8,195.3	449.9	5.0	1,391.0	17.0
Georgia	4,914.6	485.1	9.9	1,451.9	29.5
Hawaii	840.7	43.8	5.2	111.5	13.3
Idaho	720.8	30.6	4.2	94.7	13.1
Illinois	11,643.9	639.5	5.5	1,760.3	15.1
Indiana	5,503.8	168.1	3.1	695.1	12.6
Iowa	2,813.0	116.2	4.1	414.8	14.7
Kansas	2,252.8	104.0	4.6	366.5	16.3
Kentucky	3,247.4	259.8	8.0	933.1	28.7
Louisiana	3,792.5	473.3	12.5	1,210.0	31.9
Maine	982.7	91.9	9.4	210.8	21.5
Maryland	4,520.4	217.5	4.8	577.8	12.8
Massachusetts	5,990.7	417.5	7.0	818.3	13.7
Michigan	9,504.7	517.5	5.4	1,415.8	14.9
Minnesota	4,034.5	159.5	4.0	553.3	13.7
Mississippi	2,145.4	269.4	12.6	942.0	43.9
Missouri	4,851.4	332.3	6.8	932.7	19.2
Montana	687.3	26.0	3.8	102.7	14.9
Nebraska	1,508.4	57.5	3.8	224.9	14.9
Nevada	692.1	23.1	3.3	56.2	8.1
New Hampshire	815.5	30.9	3.8	79.6	9.8
New Jersey	7,900.4	517.6	6.6	880.1	11.1
New Mexico	1,032.5	100.1	9.7	235.6	22.8
New York	18,929.5	1,550.0	8.0	3,072.8	16.2
North Carolina	5,273.2	248.2	4.7	1,318.6	25.0
North Dakota	597.6	20.4	3.4	110.5	18.5
Ohio	11,160.3	523.7	4.7	1,452.3	13.0
Oklahoma	2,623.0	218.6	8.3	589.0	22.4
Oregon	2,282.2	138.1	6.1	296.2	13.0
Pennsylvania	11,918.3	880.2	7.4	2,021.0	17.0
Rhode Island	968.5	68.2	7.0	150.8	15.6
South Carolina	2,624.8	142.3	5.4	783.0	29.8
South Dakota	641.1	32.4	5.1	139.0	21.7
Tennessee	4,038.0	358.1	8.9	1,167.0	28.9
Texas	12,098.1	771.6	6.4	2,569.0	21.2
Utah	1,179.9	57.6	4.9	146.0	12.4
Vermont	474.3	25.1	5.3	82.1	17.3
Virginia	4,988.7	185.4	3.7	952.9	19.1
Washington	3,748.0	217.2	5.8	437.4	11.7
West Virginia	1,600.6	128.1	8.0	499.9	31.2
Wisconsin	4,678.6	138.2	3.0	506.9	10.8
Wyoming	327.5	13.7	4.2	43.4	13.3
Guam	104.0	2.8	2.7	5.3	5.1
Puerto Rico	2,953.7	339.1	11.5	1,638.1	55.5
Virgin Islands	100.9	2.6	2.6	6.0	5.9
Total	220,106.1	15,025.1	6.8	40,300.5	18.3

PROJECTED RECIPIENTS UNDER CURRENT LAW, PERSONS ELIGIBLE FOR FEDERAL PAYMENTS UNDER RIBICOFF AMENDMENT NO. 559, AND PERSONS ELIGIBLE FOR STATE SUPPLEMENTARY PAYMENTS ONLY, 1973–1977

[In millions]

	Recipients				
	1973	1974	1975	1976	1977
Current law:					
Families	11.6	12.6	13.6	14.7	15.8
Adults	3.4	3.4	3.5	3.5	3.6
Total	15.0	16.0	17.1	18.2	19.4
Ribicoff-Federal:					
WP	20.1	26.2	31.2	40.5	51.8
AFDC	12.6	12.9	12.9	13.1	13.2
Adult	6.2	6.6	7.1	7.2	7.2
Total	38.9	45.7	51.2	60.8	72.2
Ribicoff-State supplement:					
AFDC	.7	.3	.2	----	----
Adult	.9	.7	.5	.5	.5
Total	1.6	1.0	.7	.5	.5
Ribicoff-total:					
Families	33.4	39.4	44.3	53.6	65.0
Adults	7.1	7.3	7.5	7.6	7.8
Total	40.5	46.7	51.8	61.2	72.8

PROJECTED POTENTIAL MAINTENANCE PAYMENTS UNDER RIBICOFF AMENDMENT AND UNDER CURRENT LAW, FISCAL YEARS 1973–77

[In billions]

Federal	1973	1974	1975	1976	1977
Families	11.3	16.2	19.7	27.0	36.2
Adults	4.1	4.6	5.4	5.4	5.4
Food stamp	0	0	0	0	0
Hold harmless	.7	.5	.2	.1	.1
Total	16.1	21.3	25.3	32.5	41.7
Non-Federal:					
Families	1.0	.5	.2	----	----
Adults	1.5	1.2	.9	.9	.9
Hold harmless	—.7	—.5	—.2	—.1	—.1
Total	1.8	1.2	.9	.9	.8
Under current law:					
AFDC	3.9	4.1	4.4	4.6	4.9
Adults	2.2	2.2	2.3	2.3	2.4
Food stamps	2.4	2.5	2.6	2.7	2.8
Total	8.5	8.8	9.3	9.6	10.1
Non-Federal:					
AFDC	3.3	3.5	3.7	3.9	4.1
Adults	1.4	1.5	1.5	1.5	1.6
Total	4.7	5.0	5.2	5.4	5.7

Senator RIBICOFF. I have no objections. I don't know of any tables. Evidently it might have been handed to you this morning.

Senator CURTIS. Not to me, it is to the committee.

Senator BYRD. What report is that?

Senator RIBICOFF. I don't think I asked for it but if they have got some figures I am delighted to see them because HEW was certainly very slow to give anybody figures on anything and those of us who have had experience around this table realize it.

But I am glad they have some figures. I don't know what they are about, but I am glad they are there, whatever they are.

The CHAIRMAN. This is the estimate.

Senator CURTIS. I would certainly like to be fair to my colleagues, if you wanted to look at them first.

Senator RIBICOFF. Not at all.

Senator CURTIS. Then I have a request for some other figures from the Department.

Mr. Chairman, in the last 10 days or 2 weeks there was an announcement made that there was a change in the food stamp program; it was enlarged. I would like to have this committee request of HEW if that makes any difference in their proposal under H.R. 1? Is it still their intention to do away with the food stamps and use a cash benefit instead and, if so, will the enlarged food stamp program that was announced in the last 10 days change the figures and, if so, would they give us the figures?

(The following was subsequently received by the committee:)

THE UNDER SECRETARY OF HEALTH, EDUCATION, AND WELFARE,
Washington, D.C., February 9, 1972.

Mr. TOM VAIL,
Chief Counsel, Committee on Finance,
U.S. Senate,
Washington, D.C.

DEAR MR. VAIL: This is in response to your request for information regarding a reported change in the food stamp program and its possible effect on the cost estimates for H.R. 1. Senator Curtis asked if it is still this Department's position that the food stamp program be eliminated, and if so, what the current cost of such action would be.

Neither this Department nor the Administration has suggested the total elimination of food stamps. What we have proposed, and what is incuded in H.R. 1, (Sec. 502) is elimination of food stamp eligibility for persons eligible for cash payments under titles XX or XXI of H.R. 1. Since there will be persons not eligible for title XX or XXI benefits, i.e., assistance to the aged, blind and disabled, or assistance to families, but who will nevertheless meet eligibility requirements for food stamps, there would be a "residual" food stamp program even after H.R. 1 goes into effect. Most of those eligible for food stamps at that time would be unmarried adults and childless couples.

With respect to cost estimates, the changes recently announced in food stamp regulations do not change the cost estimates prepared for the House Committee on Ways and Means and published in that Committee's report on H.R. 1. Those estimates were based, of course, on the food stamp program regulations in effect at that time, May 1971. In July, 1971, the Department of Agriculture issued revised food stamp regulations (copy enclosed) which would, when implemented, have had the effect of reducing the eligibility of certain food stamp recipients, principally those at the higher end of the allowable income range, in order to increase benefits to the neediest participants. However, after lengthy discussions between several concerned States and the Agriculture Department, that Department issued new food stamp regulations (published in the Federal Register January 26, copy enclosed (which will ensure that no eligible participants in the food stamp program will lose benefits as a result of the regulations issued in July. Thus our cost estimates are not affected by these changes in regulations since eligibility and program costs remain generally where they were last spring when we made our initial estimates.

Sincerely yours,

JOHN G. VENEMAN, *Under Secretary.*

---

*Reprints from the Federal Register of:
August 6, 1971 (36 F.R. 14463 and 14488);
December 29, 1971 (36 F.R. 25145–6); and
January 26, 1972 (37 F.R. 1180) received were made a part of the official files of the committee.

REVISED RULES TO RETAIN FOOD STAMP BENEFITS ANNOUNCED

WASHINGTON, Jan. 24.—The U.S. Department of Agriculture today announced that changes in food stamp regulations to implement actions ordered January 16 by Secretary of Agriculture Earl L. Butz have been filed with the Federal Register for publication Wednesday, January 26.

The changes will be effective upon publication.

THE FOOD STAMP PROGRAM—MONTHLY COUPON ALLOTMENTS AND PURCHASE REQUIREMENTS (EFFECTIVE JAN. 26, 1972), 48 STATES AND DISTRICT OF COLUMBIA

For a household of (persons)	1	2	3	4	5	6	7	8
The monthly coupon allotment is	$32	$60	$88	$108	$128	$148	$164	$180
	And the monthly purchase requirement is—							
Monthly net income:								
$0 to $19.99	0	0	0	0	0	0	0	0
$20 to $29.99	$1	$1	0	0	0	0	0	0
$30 to $39.99	4	4	$4	$4	$5	$5	$5	$5
$40 to $49.99	6	7	7	7	8	8	8	8
$50 to $59.99	8	10	10	10	11	11	12	12
$60 to $69.99	10	12	13	13	14	14	15	16
$70 to $79.99	12	15	16	16	17	17	18	19
$80 to $89.99	14	18	19	19	20	21	21	22
$90 to $99.99	16	21	21	22	23	24	25	26
$100 to $109.99	18	23	24	25	26	27	28	29
$110 to $119.99	20	26	27	28	29	31	32	33
$120 to $129.99	22	29	30	31	33	34	35	36
$130 to $139.99	22	31	33	34	36	37	38	39
$140 to $149.99	22	34	36	37	39	40	41	42
$150 to $169.99	22	36	40	41	42	43	44	45
$170 to $189.99	22	40	46	47	48	49	50	51
$190 to $209.99		40	52	53	54	55	56	57
$210 to $229.99		40	58	59	60	61	62	63
$230 to $249.99			64	65	66	67	68	69
$250 to $269.99			70	71	72	73	74	75
$270 to $289.99			70	74	78	79	80	81
$290 to $309.99			70	78	84	85	86	87
$310 to $329.99				82	86	91	92	93
$330 to $359.99				82	90	96	98	99
$360 to $389.99				84	94	100	106	106
$390 to $419.99					98	104	110	110
$420 to $449.99					100	108	114	114
$450 to $479.99						112	118	118
$480 to $509.99						116	122	122
$510 to $539.99							126	126
$540 to $569.99							128	130
$570 to $599.99								134
$600 to $629.99								138
$630 to $659.99								140

NEWS FROM THE U.S. DEPARTMENT OF AGRICULTURE

SECRETARY BUTZ TAKES ACTION TO GUARD AGAINST LOSS OF FOOD STAMP BENEFITS

WASHINGTON, Jan. 16.—Secretary of Agriculture Earl L. Butz announced today that he has ordered actions to ensure that no eligible participants in the food stamp program will lose benefits as a result of new regulations that are now being implemented by the States.

The Secretary said he had taken this action after consulting with Governors of several States now in the process of implementing the new regulations.

"The Governors asked me to review the impact of the new regulations on the people in their States," Secretary Butz said. "I have determined that the changes being ordered today are necessary to prevent any hardship to food stamp participants."

These new regulations are necessary to implement basic reforms in the food stamp program, supported by the Administration and enacted by the Congress in January 1971. These reforms bring the food stamp program into closer conformity with the Administration's overall income strategy and increase benefits to the neediest participants by:

—establishing uniform national eligibility standards,

—ensuring an allotment for every family sufficient to purchase a nutritionally adequate diet at a cost no more than 30 percent of recipient's income and free to those with the least income,

—requiring employable recipients to register for work.

"I have ordered the Food and Nutrition Service—the agency which administers the food stamp program—to modify the regulations so that the benefits available to each household are as high or higher than they were under the old regulations," the Secretary said.

The Secretary stressed that modifications to the income standards will allow all households who meet other eligibility requirements to continue their participation in the program.

Secretary Butz said that he will continue to make available to any State that desires it, technical assistance to minimize any difficulty related to implementing the new regulations.

"These changes will be effective in all States," the Secretary said. "Our goal remains the same—to have a national program with equitable benefits in every State.

"While benefits paid are expected to increase as a result of these modifications to the regulations, the funds already appropriated by the Congress should be sufficient to cover total program costs in fiscal year 1972," Secretary Butz concluded.

Senator RIBICOFF. May I add, Mr. Chairman, first, my staff just showed it to me; I didn't ask for these figures. They are all right but what is ironical, they have the number of welfare recipients under current law and number of persons eligible under my proposals but they fail to state the number under H.R. 1. Now, certainly the administration itself has added fantastically to the number of people on welfare far under H.R. 1, which are some 14 million over current law.

Senator CURTIS. They were more than doubled.

Senator RIBICOFF. I don't know what they are trying to prove. I am not running away from any figures but if HEW is trying to prove something, the least they could have done for the committee is put three categories in, the number of people eligible under the present law, number eligible under H.R. 1, and the number of people eligible under my amendments; that is the least they could have done.

Senator CURTIS. I am willing to modify my request and ask HEW to prepare such a table all in one document.

Senator RIBICOFF. They should have it for our record.

Senator CURTIS. And to have it go into the record.

The CHAIRMAN. I will instruct the staff to prepare such a request and ask that it be sent down there. I will be glad to sign it.

(The Department subsequently submitted the following:)*

---

*See also tables submitted for the record at p. 969ff.

TABLE 1.—*Number of welfare recipients under current law, and number of persons eligible for benefits under H.R. 1 and Ribicoff amendment No. 559 by State, fiscal year 1973*

[In thousands]

State	Number of recipients under current law			Number of persons eligible for Federal benefits under H.R. 1			Number of persons eligible for Federal benefits under Ribicoff Amendment No. 559		
	Total	Adult categories	Family category	Total	Adult categories	Family category	Total	Adult categories	Family category
Alabama	408.2	149.0	259.2	761.9	174.8	587.1	1,207.7	174.8	1,032.9
Alaska	16.4	2.9	13.5	25.3	5.8	19.5	39.7	5.8	33.9
Arizona	97.7	24.3	73.4	163.2	55.0	108.2	155.3	55.0	100.3
Arkansas	149.0	75.6	73.4	404.5	114.5	290.0	663.1	114.5	548.6
California	2,335.6	599.7	1,735.9	2,444.4	608.7	1,835.7	3,847.9	608.7	3,239.2
Colorado	146.2	46.7	99.5	190.6	47.6	143.0	323.9	47.6	276.3
Connecticut	141.5	17.1	124.4	200.2	53.1	147.1	307.1	53.1	254.0
Delaware	36.1	5.0	31.1	58.5	10.4	48.1	84.9	10.4	74.5
District of Columbia	101.7	15.0	86.7	144.9	24.9	120.0	225.0	24.9	200.1
Florida	449.9	91.6	358.3	917.6	228.4	689.2	1,391.0	228.4	1,162.6
Georgia	485.1	140.8	344.3	961.0	231.0	730.0	1,451.9	231.0	1,220.9
Hawaii	43.8	4.7	39.1	63.0	13.4	49.6	111.5	13.4	98.1
Idaho	30.6	6.3	24.3	52.4	11.4	41.0	94.7	11.4	83.3
Illinois	639.5	90.9	548.6	959.4	226.9	732.5	1,760.3	226.9	1,533.4
Indiana	168.1	27.7	140.4	355.4	88.3	267.1	695.1	88.3	606.8
Iowa	116.2	26.9	89.3	241.7	45.6	196.1	414.8	45.6	369.2
Kansas	104.0	18.4	85.6	234.1	70.4	163.7	366.5	70.4	296.1
Kentucky	259.8	89.5	170.3	621.0	162.3	458.7	933.1	162.3	770.8
Louisiana	473.3	149.8	323.5	823.7	212.1	611.6	1,210.0	212.1	997.9
Maine	91.9	17.9	74.0	131.0	38.0	93.0	210.8	38.0	172.8
Maryland	217.5	28.3	189.2	388.5	71.7	316.8	577.8	71.7	506.1
Massachusetts	417.5	82.1	335.4	536.3	145.2	391.1	818.3	145.2	673.1
Michigan	517.5	72.5	445.0	841.7	217.3	624.4	1,415.8	217.3	1,198.5
Minnesota	159.5	33.0	126.5	346.1	93.6	252.5	553.3	93.6	459.7
Mississippi	269.4	111.7	157.7	626.3	174.7	451.6	942.0	174.7	767.3
Missouri	332.3	124.9	207.4	555.5	187.3	368.2	932.7	187.3	745.4
Montana	26.0	6.1	19.9	51.8	11.5	40.3	102.7	11.5	91.2
Nebraska	57.5	13.9	43.6	124.3	26.6	97.7	224.9	26.6	198.3
Nevada	23.1	3.7	19.4	37.8	14.0	23.8	56.2	14.0	42.2

TABLE 1.—*Number of welfare recipients under current law, and number of persons eligible for benefits under H.R. 1 and Ribicoff amendment No. 599 by State, fiscal year 1973—Continued*

[In thousands]

State	Number of recipients under current law			Number of persons eligible for Federal benefits under H.R. 1			Number of persons eligible for Federal benefits under Ribicoff Amendment No. 599		
	Total	Adult categories	Family category	Total	Adult categories	Family category	Total	Adult categories	Family category
New Hampshire	30.9	6.0	24.9	49.1	13.6	35.5	79.6	13.6	66.0
New Jersey	517.6	37.0	480.6	603.3	160.3	443.0	880.1	160.3	719.8
New Mexico	100.1	19.9	80.2	144.1	23.6	117.6	235.6	23.6	209.0
New York	1,550.0	201.7	1,348.3	2,037.2	499.1	1,533.1	3,072.8	499.1	2,573.7
North Carolina	248.2	77.0	171.2	821.6	133.2	635.4	1,318.6	183.2	1,132.4
North Dakota	20.4	6.3	14.1	58.4	12.3	45.1	110.5	12.3	98.2
Ohio	523.7	97.3	423.4	923.7	230.0	693.7	1,452.3	230.0	1,222.3
Oklahoma	218.6	106.7	111.9	400.7	108.1	292.6	589.0	108.1	480.9
Oregon	138.1	20.9	117.2	203.5	55.2	148.3	296.2	55.2	241.0
Pennsylvania	880.2	116.0	764.2	1,267.5	337.0	930.5	2,021.0	337.0	1,684.0
Rhode Island	68.2	7.7	60.5	103.4	27.9	75.5	150.8	27.9	122.9
South Carolina	142.3	34.8	107.5	466.8	94.4	372.4	783.0	94.4	688.6
South Dakota	32.4	6.7	25.7	76.8	13.9	62.9	139.0	13.9	125.1
Tennessee	358.1	98.1	260.0	830.4	222.0	608.4	1,167.0	222.0	945.5
Texas	771.6	287.0	484.6	1,571.3	373.0	1,198.3	2,569.0	373.0	2,196.0
Utah	57.6	9.4	48.2	95.3	25.5	69.8	146.0	25.5	120.5
Vermont	25.1	7.1	18.0	44.8	14.9	29.9	82.1	14.9	67.2
Virginia	185.4	26.6	158.8	566.5	120.1	446.4	952.9	120.1	832.8
Washington	217.2	40.7	176.5	276.8	57.5	219.3	437.4	57.5	379.9
West Virginia	128.1	25.2	102.9	326.8	69.4	257.4	499.9	69.4	430.5
Wisconsin	138.2	27.5	110.7	311.7	93.7	218.0	506.9	93.7	413.2
Wyoming	13.7	2.8	10.9	23.3	5.4	17.9	43.4	5.4	38.0
Guam	2.8	.5	2.3	3.5	.9	2.6	5.3	.9	4.4
Puerto Rico	339.1	45.9	293.2	995.8	76.9	918.9	1,638.1	76.9	1,561.2
Virgin Islands	2.6	.5	2.1	3.9	.9	3.0	6.0	.9	5.1
Total	15,025.1	3,385.3	11,639.8	25,503.3	6,189.2	19,314.1	40,300.5	6,189.2	34,111.7

TABLE 2.—*Proportion of population receiving welfare under current law and proportion of population eligible for benefits under H.R. 1 and Ribicoff amendment No. 559, by State, fiscal year 1973*

[Persons in thousands]

State	Civilian resident population, 1973	Federally aided welfare recipients, current law, fiscal year 1973		Persons eligible for welfare benefits under H.R. 1, fiscal year 1973		Persons eligible for welfare benefits under Ribicoff amendment No. 559, fiscal year 1973	
		Number	Percent	Number	Percent	Number	Percent
Alabama	3,449.5	408.2	11.8	761.9	22.1	1,207.7	35.0
Alaska	353.7	16.4	4.6	25.3	7.1	39.7	11.2
Arizona	2,151.3	97.7	4.5	163.2	7.6	155.3	7.2
Arkansas	1.958.6	149.0	7.6	404.5	20.7	663.1	33.9
California	23,052.0	2,335.6	10.1	2,444.4	10.6	3,847.9	16.7
Colorado	2,529.9	146.2	5.8	190.6	7.5	323.9	12.8
Connecticut	3,353.4	141.5	4.2	200.2	6.0	307.1	9.2
Delaware	621.9	36.1	5.8	58.5	9.4	84.9	13.7
District of Columbia	734.3	101.7	13.8	144.9	19.7	225.0	30.6
Florida	8,195.3	449.9	5.0	917.6	11.2	1,391.0	17.0
Georgia	4,914.6	485.1	9.9	961.0	19.6	1,451.9	29.5
Hawaii	840.7	43.8	5.2	63.0	7.5	111.5	13.3
Idaho	720.8	30.6	4.2	52.4	7.3	94.7	13.1
Illinois	11,643.9	639.5	5.5	959.4	8.2	1,760.3	15.1
Indiana	5,503.8	168.1	3.1	355.4	6.5	695.1	12.6
Iowa	2,813.0	116.2	4.1	241.7	8.6	414.8	14.7
Kansas	2,252.8	104.0	4.6	234.1	10.4	366.5	16.3
Kentucky	3,247.4	259.8	8.0	621.0	19.1	933.1	28.7
Louisiana	3,792.5	473.3	12.5	823.7	21.7	1,210.0	31.9
Maine	982.7	91.9	9.4	131.0	13.3	210.8	21.5
Maryland	4,520.4	217.5	4.8	388.5	8.6	577.8	12.8
Massachusetts	5,990.7	417.5	7.0	536.3	9.0	818.3	13.7
Michigan	9,504.7	517.5	5.4	841.7	8.9	1,415.8	14.9
Minnesota	4,034.5	159.5	4.0	346.1	8.6	553.3	13.7
Mississippi	2,145.4	269.4	12.6	626.3	29.2	942.0	43.9
Missouri	4,851.4	332.3	6.8	555.5	11.5	932.7	19.2
Montana	687.3	26.0	3.8	51.8	7.5	102.7	14.9
Nebraska	1,508.4	57.5	3.8	124.3	8.2	224.9	14.9
Nevada	692.1	23.1	3.3	37.8	5.5	56.2	8.1

TABLE 2.—*Proportion of population receiving welfare under current law and proportion of population eligible for benefits under H.R. 1 and Ribicoff amendment No. 559, by State, fiscal year 1973*—Continued

[Persons in thousands]

State	Civilian resident population, 1973	Federally aided welfare recipients, current law, fiscal year 1973		Persons eligible for welfare benefits under H.R. 1, fiscal year 1973		Persons eligible for welfare benefits under Ribicoff amendment No. 559, fiscal year 1973	
		Number	Percent	Number	Percent	Number	Percent
New Hampshire	815.5	30.9	3.8	49.1	6.0	79.6	9.8
New Jersey	7,900.4	517.6	6.6	603.3	7.6	880.1	11.1
New Mexico	1,032.5	100.1	9.7	144.1	14.0	235.6	22.8
New York	18,929.5	1,550.0	8.0	2,067.2	10.9	3,072.8	16.2
North Carolina	5,273.2	248.2	4.7	821.6	15.6	1,318.6	25.0
North Dakota	597.6	20.4	3.4	58.4	9.8	110.5	18.5
Ohio	11,160.3	523.7	4.7	928.7	8.3	1,452.3	13.0
Oklahoma	2,623.0	218.6	8.3	400.7	15.3	589.0	22.4
Oregon	2,282.2	138.1	6.1	203.5	9.0	296.2	13.0
Pennsylvania	11,918.3	880.2	7.4	1,267.5	10.6	2,021.0	17.0
Rhode Island	968.5	68.2	7.0	103.4	10.7	150.8	15.6
South Carolina	2,624.8	142.3	5.4	466.8	17.8	783.0	29.8
South Dakota	641.1	32.4	5.1	76.8	12.0	139.0	21.7
Tennessee	4,038.0	358.1	8.9	830.4	20.6	1,167.0	28.9
Texas	12,098.1	771.6	6.4	1,571.3	13.0	2,569.0	21.2
Utah	1,179.9	57.6	4.9	95.3	8.1	146.0	12.4
Vermont	474.3	25.1	5.3	44.8	9.4	82.1	17.3
Virginia	4,988.7	185.4	3.7	566.5	11.4	952.9	19.1
Washington	3,748.0	217.2	5.8	276.8	7.4	437.4	11.7
West Virginia	1,600.6	128.1	8.0	326.8	20.4	499.9	31.2
Wisconsin	4,678.6	138.2	3.0	311.7	6.7	506.9	10.8
Wyoming	327.5	13.7	4.2	23.3	7.1	43.4	13.3
Guam	104.0	2.8	2.7	3.5	3.4	5.3	5.1
Puerto Rico	2,953.7	339.1	11.5	995.8	33.7	1,638.1	55.5
Virgin Islands	100.9	2.6	2.6	3.9	3.9	6.0	5.9
Total	220,106.1	15,025.1	6.8	25,503.3	11.6	40,300.5	18.3

ASSUMPTIONS USED IN FIVE-YEAR PROJECTIONS

H.R. 1

The 5-year projections of maintenance payments costs under H.R. 1 as reported by the Ways and Means Committee result from separate projections of payments to families, payments to the aged, blind and disabled, and administrative costs.

The assumptions used and their rationale are discussed in the following paragraphs.

Administrative costs.—It was assumed that all States would turn administration of maintenance payments over to the Federal agency and would incur no administrative costs under the proposal. Administrative costs under current law were projected by assuming that the present State share of maintenance payments administrative costs would grow at the same rate as the expected growth rate for wage and salary income (6.3 percent per year).

Payments to aged, blind, and disabled.—The following annual growth rates were used in the projections:

[In percent]

	Current law	Proposal
Cases:		
Aged	2.0	
Blind and disabled	5.0	2
Payments: Aged, blind, and disabled	2.5	2

It was assumed that benefit levels would not change except as required by the proposal. For the proposed program, and for the current law aged program, it has been assumed that income increases will offset population growth. For the current law disabled program, it has been assumed that growth in both cases and payments will occur over the 5-year period as the program continues to mature.

Current law growth rates have been applied to estimated 1972 caseloads in developing projections. Projections of cases and payments under the proposal have been developed from census survey estimates of the entire universe of eligibles at each of the proposal's three stages.

Payments to families.—Projections of State payments to families under current and proposed law were based on the following annual growth rates for female-headed families:

[In percent]

	Current law	Proposal
Cases	8	3
Payments:		
Total	6	1
Federal	6	0

Benefit levels were assumed to remain constant over time for both the current and proposed programs.

The different growth rates for cases under current versus proposed law result from the following considerations. It was assumed that current law AFDC cases would grow at a rate which would use up 90 percent of the estimated potential caseload by 1977. The caseload growth rate for the proposal assumes that all eligible families have been included from an analysis of census surveys and that future growth will be limited to general population growth. The primary differences between AFDC and the proposed family program which lead to these different growth assumptions are:

(1) replacing a monthly with an annual accounting period;

(2) replacing poor quality control with an efficient, automated national system;

(3) changes in earnings disregards;

(4) replacing minimal efforts at training and job creation with a much larger and more effective program.

Payments are assumed to increase more slowly than cases as a result of expected increases in income.

The projections of families headed by working males, and the payments for which they would be eligible under H.R. 1, were developed on the basis of projected census data on all eligibles. This group of recipients would decline over time since wage increases would more than offset population growth.

RIBICOFF AMENDMENT NO. 559

These tables are based on the same assumptions, with a few exceptions which are inherent in the Ribicoff amendment. The differences in assumption are:

(1) food stamps are assumed to be cashed out entirely under the Ribicoff amendment to H.R. 1;

(2) the tables take into consideration different benefit levels, eligibility requirements, hold harmless, deductions, and tax rate under the Ribicoff amendment.

(Prepared by the Department of Health, Education, and Welfare.)

TABLE 3.—*Projected recipients under current law, persons eligible for Federal payments under H.R. 1, and persons eligible for State supplementary payments only, fiscal years 1973–77*

[In millions]

	Fiscal year				
	1973	1974	1975	1976	1977
Recipients under current law:					
Persons in families with dependent children	11.6	12.6	13.6	14.7	15.8
Aged, blind, and disabled	3.4	3.4	3.5	3.5	3.6
Total recipients under current law	15.0	16.0	17.1	18.2	19.4
Persons eligible for Federal benefits under H.R. 1:					
Persons in families:					
Not now covered under present programs	9.1	8.1	7.2	6.4	5.7
Covered under present programs	10.3	10.6	10.9	11.2	11.5
Aged, blind, and disabled	6.2	6.6	7.1	7.2	7.2
Total eligibles under H.R. 1	25.6	25.3	25.2	24.8	24.4
Persons eligible for State supplementary payments only:					
Persons in families with dependent children	1.2	1.2	1.2	1.3	1.3
Aged, blind, and disabled	.9	.7	.5	.5	.5
Total, State supplementation	2.1	1.9	1.7	1.8	1.8
Total persons eligible under H.R. 1:					
Persons in families with dependent children	20.6	19.9	19.3	18.9	18.5
Aged, blind, and disabled	7.1	7.3	7.5	7.6	7.8
Grand total, H.R. 1	27.7	27.2	26.8	26.5	26.3

TABLE 3.—*Projected recipients under current law, persons eligible for Federal payments under H.R. 1, and persons eligible for State supplementary payments only, fiscal years 1973–77*—Continued

[In millions]

	Fiscal year				
	1973	1974	1975	1976	1977
Persons eligible for Federal benefits under Ribicoff amendment No. 559:					
Not now covered under present programs	21.5	26.2	31.2	40.5	51.8
Covered under present programs	12.6	12.9	12.9	13.1	13.2
Aged, blind, and disabled	6.2	6.6	7.1	7.2	7.2
Total eligibles under Ribicoff amendment No. 559	40.3	45.7	51.2	60.8	72.2
Ribicoff-State supplement only:					
Persons in families with dependent children	.7	.3	.2		
Aged, blind, and disabled	.9	.7	.5	.5	.5
Total, State supplementation	1.6	1.0	.7	.5	.5
Total persons eligible under Ribicoff amendment No. 559:					
Persons in families with dependent children	33.4	39.4	44.3	53.6	65.0
Aged, blind, and disabled	7.1	7.3	7.5	7.6	7.8
Grand total, Ribicoff amendment No. 559	40.5	46.7	51.8	61.2	72.8

TABLE 4.—*Potential fiscal year 1973 costs of assistance provisions*

Under H.R. 1

[In billions of dollars]

	Federal			State and local [1]			Net cost to all governments
	Current law	H.R. 1	Net cost	Current law	H.R. 1	Net cost	
Payments to families	3.9	[2] 5.8	1.9	3.3	3.1	−0.2	1.7
Less savings from public service jobs		−.3	−.3				−.3
Subtotal	3.9	5.5	1.6	3.3	3.1	−.2	1.4
Payments to adult categories	2.2	4.1	1.9	1.4	1.5	.1	2.0
Cost of cash assistance	6.1	9.6	3.5	4.7	4.6	−.1	3.4
Federal cost of "hold harmless" provision		1.1	1.1		−1.1	−1.1	
Food programs	2.4	1.0	−1.4				−1.4
Cost of maintenance payments	8.5	11.7	3.2	4.7	3.5	−1.2	[3] 2.0
Child care	.3	.8	.5				.5
Training	.2	.5	.3				.3
Public service jobs		.8	.8				.8
Supportive services		.1	.1				.1
Administration	.4	1.1	.7	.4		−.4	.3
Cost of related and support activities	.9	3.3	2.4	.4		−.4	2.0
Total cost of program	9.4	15.0	5.6	5.1	3.5	−1.6	4.0
Impact on other programs [4]		−.1	−.1				−.1
Grand total	9.4	14.9	5.5	5.1	3.5	−1.6	3.9

TABLE 4.—*Potential fiscal year 1973 costs of assistance provisions*—Continued

Under Ribicoff Amendment 559

	Federal			State and local [1]			Net cost to all governments
	Current law	H.R. 1	Net cost	Current law	H.R. 1	Net cost	
Payments to families	3.9	[5] 11.3	7.4	3.3	1.0	−2.3	5.1
Less savings from public service jobs		−.5	−.5				−.5
Subtotal	3.9	10.8	6.9	3.3	1.0	−2.3	4.6
Payments to adult categories	2.2	4.1	1.9	1.4	1.5	.1	2.0
Cost of cash assistance	6.1	14.9	8.8	4.7	2.5	−2.2	6.6
Federal cost of 30 percent matching and "holdharmless" provision		.7	.7		−.7	−.7	
Food programs	2.4	[6] 0	−2.4				−2.4
Cost of maintenance payments	8.5	15.6	7.1	4.7	1.8	−2.9	[3] 4.2
Child care	.3	1.5	1.2				1.2
Training	.2	1.0	.8				.8
Public service jobs		1.2	1.2				1.2
Supportive services		.1	.1				.1
Administration	.4	1.1	.7	.4		−.4	.3
Equal employment compliance		.01	.01				.01
Cost of related and support activities	.9	4.91	4.01	.4		−.4	3.61
Total cost of program	9.4	20.51	11.11	5.1	1.8	−3.3	7.81
Impact on other programs		−.1	−.1				−.1
Grand total	9.4	20.4	11.01	5.1	1.8	−3.3	7.71

[1] Assumes that the States, through supplemental programs, maintain benefit levels including the value of food stamp bonuses.
[2] Includes only 6 months of payments to families in which both parents are present, neither is incapacitated, and the father is employed. The effective date for this provision is Jan. 1, 1973.
[3] Net benefit increases to recipients.
[4] The assistance programs for Cuban refugees and for American Indians.
[5] Assumes full year effect for working poor.
[6] Assumes food stamp program is completely cashed out.

TABLE 5.—*Projected potential maintenance payments under H.R. 1, nder current law, and Ribicoff amendment No. 559, fiscal years 1973–77*

[In billions of dollars]

	Fiscal year				
	1973	1974	1975	1976	1977
Under current law: [1]					
Federal share of AFDC	$3.9	$4.1	$4.4	$4.6	$4.9
Federal share of aid to aged, blind, and disabled	2.2	2.2	2.3	2.3	2.4
Food stamps	2.4	2.5	2.6	2.7	2.8
Total, current Federal payments	8.5	8.8	9.3	9.6	10.1
Non-Federal share of AFDC	3.3	3.5	3.7	3.9	4.1
Non-Federal share of aid to aged, blind, and disabled	1.4	1.5	1.5	1.5	1.6
Total, current non-Federal payments	4.7	5.0	5.2	5.4	5.7
Under H.R. 1: [2]					
Federal payments to families	5.5	6.0	5.9	5.7	5.6
Federal payments to aged, blind, and disabled	4.1	4.6	5.4	5.4	5.4
Food stamps	1.0	.8	.8	.8	.9
Federal hold harmless payments to States	1.1	1.0	.8	.8	.9
Total, proposed Federal payments	11.7	12.4	12.9	12.7	12.8
Non-Federal payments to families	3.1	3.2	3.2	3.3	3.4
Non-Federal payments to aged, blind, and disabled	1.5	1.2	.9	.9	.9
Hold harmless payments received from Federal Government	−1.1	−1.0	−.8	−.8	−.9
Total, proposed non-Federal payments	3.5	3.4	3.3	3.4	3.4

TABLE 5.—*Projected potential maintenance payments under H.R. 1, under current law, and Ribicoff amendment No. 559, fiscal years 1973–77*—Continued

[In billions of dollars]

	Fiscal year				
	1973	1974	1975	1976	1977
Under Ribicoff amendment No. 559:					
Federal payments to families	11.3	16.2	19.7	27.0	36.2
Federal payments to aged, blind, and disabled	4.1	4.6	5.4	5.4	5.4
Food stamps	0	0	0	0	0
Federal hold harmless payments to States	.7	.5	.2	.1	.1
Total, proposed Federal payments	16.1	21.3	25.3	32.5	34.7
Non-Federal payments to families	1.0	.5	.2		
Non-Federal payments to aged, blind, and disabled	1.5	1.2	.9	.9	.9
Hold harmless payments received from Federal Government	—.7	—.5	—.2	—.1	—.1
Total, proposed non-Federal payments	1.8	1.2	.9	.8	.8

[1] Projected benefit payments to actual recipients.
[2] Projected benefit payments if all eligibles participate.

(The Department subsequently submitted the following additional material:)

Distribution of payments and coverage in 1977 under amendment No. 559 to H.R. 1

[Payments in millions of dollars, coverage in thousands of families]

Total family income before allowance	Totals		Unrelated individuals		Families with no children		Families with children		Families with 6 or more children	
	Coverage	Payments	Coverage	Payments	Coverage	Payments	Coverage	Payments	Coverage	Payments
Under $500	819.5	2.7	316.5	0.8	89.6	0.1	313.4	1.5	13.9	0.1
$500 to $999	581.4	1.6	268.6	.6	66.1	.2	146.6	.7	10.1	.1
$1,000 to $1,499	759.6	2.1	333.1	.7	71.0	.2	255.4	1.2	22.7	.2
$1,500 to $1,999	732.4	2.2	345.7	.6	94.8	.2	292.0	1.3	9.4	.1
$2,000 to $2,499	794.7	2.4	300.7	.4	113.8	.2	380.2	1.7	16.0	.1
$2,500 to $2,999	696.1	2.0	222.7	.3	126.2	.2	347.3	1.4	26.9	.2
$3,000 to $3,499	715.4	2.0	196.3	.2	139.6	.2	379.5	1.5	24.5	.2
$3,500 to $3,999	674.3	1.9	171.3	.2	96.5	.1	406.5	1.5	37.7	.2
$4,000 to $4,499	631.3	1.9	128.0	.1	131.3	.2	372.1	1.5	48.8	.4
$4,500 to $4,999	636.6	1.7	141.7	.1	98.3	.1	386.6	1.4	53.5	.4
$5,000 to $5,999	1,632.8	3.0	466.5	.2	323.6	.3	842.7	2.4	56.7	.3
$6,000 to $6,999	1,479.0	2.5	184.1	.02	333.5	.2	961.4	2.2	64.6	.3
$7,000 to $7,999	1,150.9	2.1	----------	----------	213.1	.1	937.8	1.9	64.3	.3
$8,000 to $8,999	1,106.3	1.8	----------	----------	56.9	.04	1,049.4	1.7	53.1	.2
$9,000 to $9,999	873.4	1.6	----------	----------	18.9	.01	854.5	1.4	66.2	.2
$10,000 to $11,999	1,536.8	2.0	----------	----------	37.3	.03	1,499.6	1.9	110.8	.3
$12,000 to $14,999	1,328.2	1.5	----------	----------	18.1	.02	1,310.0	1.4	164.5	.3
$15,000 to $24,999	688.6	.8	----------	----------	22.3	.02	666.4	.7	117.1	.1
Over $25,000	54.4	.2	----------	----------	5.7	.01	48.8	.1	5.6	.01
Total	16,881.0	36.2	3,075.0	4.22	2,057.0	2.43	11,450.0	27.4	967.0	4.01

DISCUSSION OF "POVERTY LINE"

The "poverty line" is actually not a *line* but is a set of lines which vary by such factors as total family size, family structure, e.g. number of adults, children, family composition, e.g. sex and age of family head, number of elderly, and the location of the family, e.g. region, farm/nonfarm. The entire poverty structure changes in the price level.

For convenience of discussion, a single number is generally used to represent the poverty lines. The early 1960's saw the emergence of the famous $3,000; the current poverty number is $3,944. By 1977, it is estimated to be $5,150.

For the purposes of calculating the cost and caseload in 1977 of Senator Ribicoff's proposed revision of H.R. 1 the $5,150 is relevant only to a four person (two adults, two children) urban family. While for a three adult, one child urban family the poverty "line" is $5,333, and for a ten person (three adults, seven children) farm family the number is $8,310.

The "breakeven income" level of a welfare reform plan depends upon the size of three factors: the basic benefit, the earnings disregard, and the benefit reduction (tax) rate. Senator Ribicoff's bill contains a $720 earnings disregard and a 60% benefit reduction rate on earned income. The bill defines the basic benefit for 1977, as 100% of the poverty line which means there is a complex structure of breakeven incomes, paralleling poverty structure. For the "standard" four person intact urban family whose poverty line is $5,150 their breakeven income is $9,322. This breakeven income was calculated on such assumptions as no unearned income, no child care expenses, irregular, and student earnings and without the income tax forgiveness provision.

Senator RIBICOFF. I not only point out that my amendments certainly are different, we take care of single persons and we also take care under my proposal married people without children, which is a large categor of unfortunates in this country that the administration has neglected and skipped. I don't mind going to the committee and the floor to make my points and argue for them, but the least HEW could do would be to be honest with their figures.

The CHAIRMAN. I would like to ask Governor Sargent—Senator Ribicoff could probably give a better answer—are you aware that this amendment would make 72 million people eligible to go on the welfare rolls?

Senator RIBICOFF. I wouldn't think so; it comes as a surprise to me.

Governor SARGENT. Mr. Chairman, I haven't even seen the table to which the Senator referred and I really couldn't comment on it at the moment.

The CHAIRMAN. Well, Governor, if you really thought you were going to have one-third of the population of the entire Nation on welfare, would you be advocating going quite that strongly for your proposition?

Governor SARGENT. No; I mean, again I would like to make one point that apparently I have not made clear and that is, the main thrust of the proposal that we have presented to you is in relation to work incentives. Now, if by work incentives that means increasing the number of persons on welfare, that is one way of talking about it. My feeling is that we have got to have people continuing to want to work.

Mr. MOSCOVITCH. Sir, may I just add a word?

I have not seen those figures either and I don't know how high the figures would be. Most of the people added to the rolls that Senator Ribicoff and the Governor had supported would be people who would be getting $500 or $1,000 in addition to their earnings; they would not be dependent on welfare and wouldn't be dependent on it. It would be a modest supplement to their earnings, something to assure they would be better off working and keep their family together than leave their family and have their family completely on welfare which is the option they have now.

Senator RIBICOFF. I think for the record, my staff informs me that in July, the figures when my amendments were put in, HEW's figures to my staff were 30 million; now they say 10 million. I don't know who is in charge of statistics in HEW today but it seems inconceivable that between July and January it would jump from 30 million to 40 million. I think this is one of the troubles this committee has had constantly with all its programs and all its statistics. We act on one set of statistics and find when we get down to it that we are faced with another set of statistics. I think this has been a continuous problem in this committee.

Senator BENNETT. May I ask the Senator a question?

Have you modified your amendments since July?

Senator RIBICOFF. There were some modifications but my staff says they were not based on this.

Senator BENNETT. They may not have been based on it but produced this effect.

Senator RIBICOFF. We will check it through my staff.

The CHAIRMAN. Well, sometimes some of these things happen inadvertently. I recall when Senator Prouty had his amendment out there, I referred to it as the Prouty shoot-the-moon amendment. He wanted to take aged people not drawing any other pensions from the Government, and make them eligible for pensions from this government. I think I said the costs ran upward of $1 trillion and he had failed to require that they be American citizens. He would have made Nikita Krushchev and Mao Tse-tung and everybody around the world eligible for his pension. So sometimes it is inadvertent that one includes something he didn't have in mind doing.

Thank you very much.

Senator NELSON. Mr. Chairman, I would just like to comment on this point. The point of the matter is that most of the working poor will be earning 60 percent, 75 percent, 90 percent, 95 percent of their income, so they are ending up with some benefit which we call welfare; so everybody says they are on welfare when the fact is they are earning a substantial percentage of the cost of living.

Now, I think we ought to be using these terms correctly. We don't say when some rich man makes an investment and a capital gain occurs and then we tax him at 50 percent so he doesn't pay more than 25 percent tax level—we don't say that we have given him a welfare payment.

So if you relieve somebody at a certain level for not paying social security taxes that becomes a welfare payment, but we don't call tax benefits welfare because it is a nice profit-making system.

Now we had 112 people in this country in 1970 making $200,000 or more without paying any tax; are they on welfare? I think they are as much on welfare as the fellow who is earning most of his income and we are helping him with a benefit one way or another of 5 percent. So we get hung up here with semantics.

We talk about 75 million people on welfare; then we ought to throw in all the beneficiaries of the tax system who are getting benefits back from all the poor people who are paying their taxes.

The CHAIRMAN. Senator, it is all a question of the point of view as to who is hung up.

Senator NELSON. That is what I was saying.

The CHAIRMAN. It would seem to me if you pursue your argument to its logical conclusion, if we vote to put a tax on gamblers, which doesn't apply to anybody except gamblers, then everybody except the gamblers are therefore on the welfare, and that just doesn't necessarily add up at all to me. We can tax anybody we want to tax. That is one thing I discovered being on this committee; we have the power to tax anybody, whether it is right or wrong, but we had better be careful about it if we hope to stay in office.

Thank you very much, Governor.

Governor SARGENT. Thank you, Mr. Chairman.

(Prepared statements of Governor Sargent and Mr. Moscovitch follow. A subsequent letter with attachments of Governor Sargent to the Committee appears following the prepared statements. Hearing continues on p. 1027.)

ADDITIONAL TESTIMONY BY GOV. FRANCIS SARGENT

Because the present welfare system is a failure, everyone agrees that reform is needed. To understand what kind of reform is needed, however, we must have an understanding of why the present system is failing. Although the system has many defects—a crushing financial burden on the states, inadequate standards of living for many recipients—its fundamental defect is that it offers assistance to families which break-up, but denies help to a man with a low-wage job who chooses to keep working and to keep his family together.

This discrimination against working, in-tact families has played a significant role in the break-up of millions of American families. Only seven years ago, there were one million families on AFDC—all but a handful headed by a woman. Today, the number of such families is approaching 3 million. In the 12 years since 1959, the percentage of poor people living in female-headed families has risen from 26 percent to 44 percent.

Not only does our present system contribute to the break-up of families, it causes bitter—and justified—resentment on the part of those who have low incomes but work to keep their families together. A man with a $2.00 an hour job earns $4,000 a year—and receives no help from the government in paying to support his family. Yet the woman around the corner, whose husband left her, may be getting $4,000 a year in welfare—plus medicaid.

By making it financially attractive for men to desert their families, the present system encourages welfare dependency and penalizes millions of low-income families who choose to make it on their own.

We must replace this system with one which assures that a man is always better off if he works than if he doesn't work. In the welfare reform proposal I originally presented to the Governor's Conference last September, this was done by guaranteeing a $3,000 annual payment to a family of four whose head met a work test, and then reducing this payment by 50 cents for every dollar of earnings. Under H.R. 1, the benefit-reduction rate—the ratio between the decrease in benefits and the increase in earnings—is 67 percent.

A second fundamental flaw in the present welfare system is the huge discrepancy in state welfare payment levels. In some states, payments are so low that children are suffering from hunger and from malnutrition, and often can't go to school for lack of a pair of shoes. On the other hand, states which have provided a more generous level of support have, over the years, attracted thousands of poor families, many of whom are now on welfare. These states are suffering the staggering financial burden of caring not only for their own poor, but for the poor of low-welfare states as well.

Because H.R. 1 extends assistance to the working poor, and because it sets a national floor for welfare payments, it addresses both of the main flaws of the present system. It is a useful step in the right direction, and I support it. However, it can be improved in three important ways: it offers inadequate work incentives, its payment levels are too low, and it does not provide sufficient fiscal relief.

Under H.R. 1, a family head can earn $720 per year with no reduction in federal income payments. As his earnings rise above this, his federal payments are reduced by 67 cents for every dollar he earns. Since he must also pay Social Security taxes of 5 cents, a worker in effect "keeps" only 28 cents of every extra dollar in earnings. What with car fare, lunch money, and the time involved, many workers may simply not find it worthwhile to work for 28 cents on the dollar, and may choose to limit themselves to $720 in annual earnings. By requiring people to work, but not making it financially attractive, H.R. 1 invites administrative chaos.

The effect of the H.R. 1 benefit-reduction formula is illustrated in the first of the three charts attached to this testimony. The chart shows that a family head with earnings of $1,000 will receive a $2,213 federal benefit payment under H.R. 1. Since he will also pay $54 in Social Security taxes, his total cash income will be $3,159. If he increases his annual earnings to $2,000, his federal payment will drop to $1,547 and his social security taxes will rise to $108, leaving him with cash income of $3,439. Thus, as the table shows, a $1,000 increase in earnings leads to a $666 reduction in federal benefit payments, and a $54 increase in social security taxes, leaving the worker with a net increase in income of $280 out of his $1,000 of increased earnings.

The amendment Senator Ribicoff and I have prepared contains a benefit-reduction rate of 60%, as opposed to the 67% figure in H.R. 1. In addition, our proposal applies this 60% benefit-reduction to wages net of social security taxes. As the table illustrates, our bill would enable a worker to increase his total income by $379 for every $1,000 of earnings—a substantial improvement over the $280 under H.R. 1.

In my original presentation to the Governors' Conference last fall, I suggested a straight benefit-reduction rate of 50%. As the table suggests, such a program allows a worker to keep $446 out of each $1,000 of increased earnings. Although I am fully committed to the Ribicoff-Sargent proposal at this time, I would hope that any welfare reform which is adopted would evolve toward a more generous work incentive.

Because the cost estimates normally used in comparing alternative reform proposals assume that these proposals will not affect work effort, the programs with a high benefit-reduction rate appear to be less expensive than programs with low benefit-reduction rates. But high benefit-reduction rates will surely encourage people to reduce their hours of work, and thereby increase their federal income

payments. In this way, such high rates will encourage rather than discourage welfare dependency, and will be more expensive in the long run.

The problem of work incentives is even more serious than the discussion so far suggests. Given the changes in medicaid proposed in H.R. 1, those with large medical expenses would be expected to use 33¢ of every dollar of earnings to cover those expenses—so that for each dollar of earnings, 67¢ would go to benefit reduction, 33¢ to medicaid deductible payments, and 5¢ to Social Security taxes. Thus, as my table on work incentives illustrates, a family actually becomes worse off as it increases its earnings. Similarly, state and federal income taxes, public housing rents, day-care payments, and now housing assistance payments are income-conditioned benefits which would combine with the 67% benefit-reduction rate of H.R. 1 to destroy all incentives to work. These problems are alleviated by the lower benefit-reduction rate in the Ribicoff-Sargent bill, and by the fact that our proposal provides federal income-tax forgiveness for those who receive federal income payments.

Although H.R. 1 provides a $2,400 national welfare payment floor, this is probably inadequate in light of the cost of living in most of the country. The $3,000 figure included in the Ribicoff proposals is a more realistic one. This higher payment provides increased fiscal relief to the high-welfare states; in low-welfare states, it provided increased purchasing power to the poor, increased sales revenues to local businesses, and increased sales tax collections for hard-pressed state treasuries.

The final difficulty with H.R. 1 is that it does not provide sufficient fiscal relief for the states. To be sure, it makes a very important contribution by protecting states from future cost increases. But we need a reduction of our staggering welfare burden. States such as mine are trying to live up to our responsibilities in the areas of education, prison reform, environmental protection, and property tax relief. But we are unable to do so because we have been forced to bear welfare costs for what is essentially a national, not a state problem.

My second table contains a state-by-state illustration of the potential fiscal relief offered by the Ribicoff-Sargent approach. The table shows that the states as a whole would spend $6.1 billion of their own money on welfare in fiscal 1973 in the absence of reform. Under H.R. 1, they would spend $4.5 billion. With the $3,000 payment level envisioned in our proposal, total cost of supplementary payments necessary to keep those presently eligible for welfare at current support levels would be $2.9 billion—$1.4 billion for families and $1.5 billion for adults. If the federal government bore 30% of such expenses, the burden on the states would be $2.1 billion—$2.4 billion less than under H.R. 1. We would hope that at the earliest possible date, the Federal government would assume 50% of the costs of state supplements. This would provide an additional $.6 billion in relief to the states.

As the table suggests, slightly over half of the state supplementary payments necessary under the Ribicoff-Sargent proposals are for payments to adults. Thus, it is vitally important that the 30% or 50% federal participation in these payments apply to adults as well as to families.

A glance at the figures for individual states given in the table shows that our proposal would relieve 16 states of any welfare burdens. The figures also show substantial reduction in expenditures for other states. Thus, California would spend $600 million less under our plan than under H.R. 1, Illinois would have additional savings of $158 million, and New York would receive $426 million of additional fiscal relief.

There has been considerable discussion as to what level of government might best administer a welfare system. In our mobile society, there are two tasks which are practically impossible for the states—keeping track of recipients' earnings, and keeping track of recipients who might apply for benefits in more than one state, or apply for benefits in one state and work in another. As benefits are extended to the working poor, keeping track of recipients earnings becomes more important than ever. Because the Federal government, with its social security and income tax data, can perform these tasks, it can administer a reformed welfare system more fairly and more effeciently than the states could hope to do.

Let me close with a word on how much the Ribicoff-Sargent plan will cost. A detailed break-down of the costs of this plan, as well as my original Governors' Conference proposal, appears in the third table. The table shows that the Ribicoff-Sargent plan will cost $18.8 billion—$6.5 billion more than H.R. 1, and $10 billion more than the present system. (These figures refer only to income payments, not to training programs, job creation, or social services).

When federal payments are increased to $3,000 from $2,400, the money goes to one of three destinations. In low-welfare states, the increased payments raise the income levels of those now on assistance—some of the poorest people in the country. In high-payment states, the increased federal payments reduce the need for state supplementation, and thus provide increased fiscal relief for state treasuries. And in all states, the increased Federal payment level means higher payments to the working poor—people not now receiving any Federal assistance.

Our plan would cost $6.5 billion more than H.R. 1. Of this, $2.4 billion goes to provide higher payments to those now on welfare in states with low payment levels, and $3.4 billion goes to provide higher payments to those now on welfare in states with low payment levels, and $3.4 billion goes to provide increased income for the working poor. Thus, our bill is mainly to help the working poor and to provide fiscal relief for the states.

Work Incentives Under
Alternative Welfare Reform Plans

	Earnings	Federal Payment	Social Security Taxes	Cash Income
H.R. 1: (No Medical Bills)	$ 0	$2,400	$ 0	$2,400
	1,000	2,213	54	3,159
	2,000	1,547	108	3,439
	4,000	213	216	3,997
Difference between $1,000 and $2,000 of earnings:	1,000	-666	+54	280
Ribicoff-Sargent:	$ 0	$3,000	$ 0	$3,000
	1,000	2,864	54	3,810
	2,000	2,297	108	4,189
	4,000	1,162	216	4,946
Difference between $1,000 and $2,000 of earnings:	1,000	-567	+54	379
Sargent:	$ 0	$3,000	$ 0	$3,000
	1,000	2,500	54	3,446
	2,000	2,000	108	3,892
	4,000	1,000	216	4,784
Difference between $1,000 and $2,000 of earnings:	1,000	-500	+54	446

H.R. 1 -	Earnings	Federal Payment	Security Taxes	Medicaid Deductible*	Cash Income
Family Illness:	$ 0	$2,400	$ 0	$ 0	$3,000
	1,000	2,213	54	93	3,066
	2,000	1,547	108	427	3,012
	4,000	213	216	1,093	2,904
Difference between $1,000 and $2,000 of earnings:	1,000	-666	+54	334	-54

* The income level at which the medicaid deductible takes effect varies by state.

FISCAL RELIEF UNDER THE RIBICOFF–SARGENT PLAN–
STATE SPENDING UNDER ALTERNATIVE WELFARE PLANS

STATE	Present Welfare System	House Bill	Ribicoff–Sargent Plan			Total State Expenditure When Federal Share of State Supplements is:	
			Families	Adults	Total	30%	50%
	all figures are in millions of dollars						
TOTAL, U.S.	$6,148	$4,501	$1,412	$1,519	$2,925	$2,048	$1,469
Alabama	43	10	0	10	10	7	5
Alaska	13	10	6	16	22	15	11
Arizona	33	12	0	0	0	0	0
Arkansas	20	*	0	0	0	0	0
California	1,284	1,049	89	495	584	409	292
Colorado	55	41	8	12	20	14	10
Connecticut	93	71	40	36	76	53	38
Delaware	31	29	0	1	0	0	0
D.C.	47	34	7	9	16	11	8
Florida	195	25	0	0	0	0	0
Georgia	61	9	0	0	0	0	0
Hawaii	30	23	6	1	7	5	4
Idaho	8	6	2	4	6	4	3
Illinois	385	323	109	127	236	165	118
Indiana	35	27	0	6	6	4	3
Iowa	54	27	9	0	9	6	5
Kansas	48	34	9	0	9	6	5
Kentucky	36	24	0	0	0	0	0
Louisiana	77	11	0	4	4	3	2
Maine	21	17	0	0	0	0	0
Maryland	81	39	0	0	0	0	0
Massachusetts	284	239	91	114	205	143	102
Michigan	294	253	63	84	147	103	74
Minnesota	88	73	30	31	61	43	30
Mississippi	24	*	0	0	0	0	0
Missouri	77	65	0	37	37	26	19
Montana	7	4	1	0	1	1	1
Nebraska	15	12	0	11	11	7	5
Nevada	4	3	0	6	6	4	3
New Hampshire	16	13	7	13	20	14	10
New Jersey	256	206	175	66	241	168	120
New Mexico	17	9	0	0	0	0	0
New York	1,098	909	453	237	690	483	345
North Carolina	44	12	0	0	0	0	0
North Dakota	6	5	2	4	6	4	3
Ohio	198	134	3	6	9	6	4
Oklahoma	56	17	0	3	3	2	2
Oregon	44	28	7	0	0	5	4
Pennsylvania	469	418	204	97	301	210	150
Rhode Island	37	30	9	9	18	13	9
South Carolina	26	13	0	0	0	0	0
South Dakota	8	6	6	6	12	8	6
Tennessee	44	10	0	0	0	0	0
Texas	108	51	0	0	0	0	0
Utah	13	9	1	0	1	1	1
Vermont	8	7	8	8	13	9	7
Virginia	53	43	21	35	56	39	28
Washington	93	82	44	33	77	54	39
West Virginia	21	3	0	0	0	0	0
Wisconsin	71	38	4	0	4	3	2
Wyoming	4	3	1	*	1	1	1

COST OF ALTERNATIVE PLANS

	Ribicoff-Sargent	Sargent
Allowance	$3,000	$3,000
Benefit Reduction Rate	60%	50%
$720. Exclusion	yes	no
Payments to Families	11.3	10.8
Savings - Job Creation	-.3	-.3
Payments to Adults	4.1	4.1
Social Security Exemption	.5	--
Tax Forgiveness	1.0	1.0
Payments to the Childless	1.3	1.3
Federal Payments to the States	.9	1.5
Total Federal Cost	18.8	18.4
Less H.R. 1 Costs	12.3	12.3
Increase over H.R.1	6.5	6.1
H.R. 1 State Spending	4.5	4.5
State Spending	2.1	1.5
Savings to States over H.R. 1	2.4	3.0

Increasing State Fiscal Relief Through Welfare Reform

(By Edward Moscovitch, Economist, Federal Reserve Bank of Boston, July, 1971)[1]

INTRODUCTION: A PROPOSAL TO IMPROVE THE WELFARE REFORM BILL

Our present welfare system is a failure, satisfying neither the taxpayers who support it, the government officials who administer it, nor the recipients who benefit from it. The welfare reform bill passed by the House of Representatives and endorsed by the President goes a long way toward improving that system. Its $2,400 minimum payment—more than twice that in seven Southern states—will help many of the poorest people in America. For the first time, hundreds of thousands of poor families headed by a man working full-time at low wages will receive Federal payments to supplement his earnings. Thus, the bill ends the current system in which the family of such a man might be better off if he were to make them eligible for welfare by quitting his job or by disappearing. The bill would reduce the administrative burden on the states and increase the fairness and efficiency of the system by having a uniform, nation-wide Federal administration both of Federal income supplement payments and of any supplementation to those payments provided by the states.

While the House bill would limit any increase in current welfare expenditures by the states, it would provide no reduction from current expenditure levels for over half the states, including those industrialized states now suffering from enormous welfare expenditures. Hard-pressed state and local governments, and hard-pressed property tax payers, who had hoped for relief from welfare reform, will be disappointed.

The failure of the bill to provide fiscal relief comes about because the $2,400 basic Federal payment is much less than the support level already provided in many states. To prevent a reduction in the income of those now on welfare, these states would have to supplement any Federal payment. Given the share of welfare expenditures now borne by the Federal government, the costs of these supplements would not be less than the industrialized states are now spending on welfare.

The Congress can strengthen the welfare reform bill substantially by adopting the modification proposed here—raising the basic allowance from $2,400 to $3,000, and reducing the benefit reduction rate from 67% to 50%. By raising the basic allowance, Congress would greatly increase the fiscal relief to the states, greatly reduce the need for state supplementation, simplify the administration of the program, and increase the cash income of the poor. By reducing the benefit reduction rate, Congress can strengthen the work incentive and avoid the risk that an inadequate work incentive might undermine the whole income supplement program.

The income supplement payments included in the House bill would cost $3.8 billion if fully implemented in fiscal year 1973. Together, the changes proposed here would raise the costs of the present bill by $6.4 billion. Of this, $3.8 billion would go to increased fiscal relief for the states, and $2.6 billion to increased payments to the poor.

HOW THE HOUSE BILL IMPROVES PRESENT WELFARE

The House Bill establishes a basic Federal income guarantee for all families with children. For a family of four, with no earnings, this income floor will be $2,400. This represents a higher payment level than that currently provided by more than half the states. Because the bill also provides that those eligible for the new Federal income payments will receive Food Stamps, the increase in benefits, if any, for recipients now receiving food stamps will be somewhat smaller. Nonetheless, in five states, all in the South, the $2,400 payment exceeds the combined value of Food Stamps and present welfare payments, and fewer than half the welfare recipients nationally, (fewer than 40% in the South) are now receiving Food Stamp benefits. Thus, some of the very poorest people in the country will receive substantially higher incomes as a result of this bill. Welfare recipients in Mississippi will receive four times as much as they now do; in six other Southern states now paying less than $1,200 per year, recipients will

[1] The opinions expressed in this article are those of the author and do not necessarily reflect the views of the Federal Reserve Bank of Boston.

have their incomes more than doubled. By increasing payment levels in the poorest states, and by extending assistance to men with low earnings, the House bill assures that no family will ever lack the resources to feed its children. In this way, the bill has the potential to virtually abolish hunger in America.

By reducing the discrepancy between payment levels in the North and the South, the bill would reduce the incentive to migrate to the states with more generous welfare levels, and alleviate the fears of taxpayers in the industrialized states who feel that generous support levels in their states are attracting additional recipients.

The new Federal payments will be administered directly by the United States government. The uniform national determination of eligibility and the proposed simplification of eligibility determination should make the system fairer and more acceptable to its beneficiaries. Federal administration of these new payments will remove control of welfare funds from a bureaucracy which, in parts of the South has on occasion used the leverage given it by these funds for political intimidation of recipients.

The House bill goes a long way toward relieving the states of the administrative burdens of welfare by providing that the Federal agency which administers the Federal payment system will also administer any state supplements. In this way, recipients will receive a single check, and need deal with only one agency. And the states will be relieved of the responsibility to determine eligibility, to avoid fraud, and to account for funds—in short, they will be relieved of many of the problems which have made welfare such a headache for them.

The soaring costs of welfare have cut into the ability of the states and cities to provide badly needed educational and local services, and have pushed up regressive property and sales taxes to intolerable levels. To protect the states against further increases in their welfare expenditure, tse Ways and Means Committee bill provides that if state supplements cost more than a state spent in 1971, the Federal government will make up the difference. The industrialized states, however, cannot look forward to significant reductions in the staggering amounts they now spend on welfare. The $3,000, 50% plan presented here will substantially increase the amount of fiscal relief for these states.

In over half the states, families headed by men are ineligible for AFDC welfare payments, so that men cannot obtain assistance for their families unless they desert them. Even the states which do make such assistance available have rather strict eligibility requirements which have limited the number of men who actually receive assistance.

It is not uncommon, then, for a man to find that the only way he can get assistance for his family is to disappear, or to appear to do so. This is one of the most widely criticized features of our present welfare system. The federal payments to families in the House bill will be available to all families with incomes low enough to qualify, whether those families are headed by men or women. Thus, it will not be necessary to break up a family to obtain assistance, and the present discrimination against low income families headed by men will be eliminated from the Federal payments. Although such discrimination will continue under the state supplement programs, it would be reduced substantially by the 3,000, 50% plan proposed here.

In states which do make federally assisted welfare payments available to families headed by a man, the man must be unemployed to qualify for benefits. If the state offers generous benefits, and if his job doesn't pay well, the man may find himself better off if he is on welfare than if he works. Similarly, in all states, a man with a very low paying job may find his family better off if he deserts them and allows them to collect welfare.

This situation can only be corrected if the present prohibition against giving assistance to families headed by an employed man is ended. Such a change is one of the central features of the House bill. By making employed men with low earnings eligible for assistance, and allowing them to supplement their earnings with assistance payments, the House bill can be said to end the present welfare system, in which payments are mainly a substitute for earnings, and to have created a new program of income supplements. To emphasize this difference, these payments will hereafter be referred to as income supplement payments, not welfare payments.

Because this change is so important, it might be useful to review briefly how the so-called work incentive feature of the new bill allows the working poor to supplement their incomes, and how it assures that a man is never worse off as a result of an increase in his earnings.

WORK INCENTIVES AND BENEFIT REDUCTION RATES

Under a program of income supplements, a basic payment level, or basic allowance, is established for those with no earnings. This level is $2,400 per year for a family of four under the House bill. If the family head gets a job, this payment is reduced by some percentage of his earnings. But this reduction in benefits is always less than the increase in earnings, so the family head is always better off if he works than if he doesn't work. The relationship between the decrease in benefits and the increase in earnings is called either the benefit-reduction rate, or the offsetting tax rate.

Under the House bill, there is no benefit-reduction applied to the first $720 per year in earnings. For every $3 in earnings above this level, benefits are reduced by $2. A family with earnings of $720, then, has a disposable income of $2,400 plus $720, or $3,120. If earnings rise by $300, to $1,020, benefits fall by $200, to $2,200. Disposable income rises by $100, to $3,220. As a result of a $300 increase in earnings, the family is $100 better off. With a benefit reduction rate of 67%, the family in effect "keeps" one third of its earnings. The government, in effect, "takes" two thirds of the family's earnings.

A common misconception arises in discussion of an income supplement program. "With the working poor eligible for benefits," people say, "many men who now work at low wages will be better off on welfare—particularly if the basic payment level is set very high." An example will show that this is not the case. If a man finds work at wages as low as $1.20 an hour, his annual earnings will be $2,400 if he works full time. This is 1,680 above the $720 exclusion in the House bill, so his benefit would be reduced by ⅔ of $1680, or $1120. If the basic allowance were $2,400, this would leave a net benefit payment of $1280. This combines with his earnings of $2,400 to produce a disposable income of $3,680.

If the basic payment level were $3,600, and the benefit-reduction rates were unchanged, his basic payment would still be reduced by $1120, leaving in this case a net payment of $2,480, and a disposable income of $4,880. As long as the benefit reduction rate is less than 100%, a man always has a higher disposable income as a result of his work. A decision to quit work will always mean a lower cash income. Whether a man's disposable income is *enough* higher as a result of work to induce him to take a job is a question we will return to shortly.

The operation of the work incentive allows a family with low earnings to receive a supplement payment. As earnings rise, however, a point is eventually reached at which the family is no longer eligible to receive supplement payments. This is the break-even level. Under the committee bill, this level is $4,320. Every family with earnings below the break-even level is eligible for benefit payments; families above are not. As the break-even level rises, the number of families eligible also rises, as does program cost.

Because all families under the break-even level receive benefits, and because the break-even level is always somewhat above the basic allowance, income supplement programs will necessarily include far more people than do present welfare programs. Left unchanged, current programs would include some 16 million beneficiaries in January 1973; the income supplement plan now before the Congress would include 26 million people. Because there are millions of people now living in families with incomes in the $4,000 to $6,000 range, the $3,000, 50% plan, with its $6,000 break-even level, would include 42 million people. In order to increase the payments going to those with no earnings, then, it is necessary to greatly increase the number of people eligible for benefits.

ARE CURRENTLY PROPOSED WORK INCENTIVES ADEQUATE?

The benefit reduction rate included in the House bill is 67%. Earnings of program beneficiaries are also subject to a Social Security tax of 5%. In all, then, the earnings of program beneficiaries face an effective tax rate of 72% on income in excess of $720 per year. Workers will 'keep" only 28¢ out of every dollar earned. A man with a job paying $2 an hour will, in effect, be working for 56¢ an hour. To be sure, the worker will have a higher disposable income than if he does not work, but 56¢ an hour may not be enough to induce him to seek steady employment.

Current welfare regulations allow women on welfare (but not men) to keep one third of their earnings—the same benefit reduction rate contained in the House bill. This high offsetting tax has been criticized as not offering current

recipients enough incentive to work—indeed, improvement of work incentives is one of the main arguments advanced in favor of welfare reform. Instead of reducing this high rate, however, the House bill proposes to apply it not only to mothers of small children (many of whom are not expected to work in any case), but to fully employed men as well.

To be sure, there is a work requirement included in the bill; if a man refuses work offered him, his benefits will be reduced by $800. To satisfy the work requirement and take advantage of the $720 exclusion, then, a man will be tempted to find part-time work paying just about $720 per year and requiring only a few hours a week. Such work may not in fact satisfy this requirement, but enforcing the requirement will require a huge investigative staff. To avoid the high offsetting tax rates, employers and employees might be tempted to devise ways of giving payment in kind. Indeed, employees and employers have shown considerable ingenuity in the past in devising ways to avoid the high marginal tax rates included in the personal income tax system.

By requiring recipients to work, but making work financially unattractive, the House bill risks administrative chaos. And since the cost estimates on which the plan is based assume no reduction in work effort, any such reduction which did occur would send costs soaring above original estimates. Such soaring costs and administrative chaos might discredit the whole nation of an income supplement program. This would be unfortunate, for these results are not inherent in the idea of income supplements, but come rather from too high an offsetting tax rate. If the benefit reduction rate were reduced, these risks would be substantially lessened. And acceptance of the system would be increased as workers found that they could retain a meaningful share of their earnings. For these reasons, a decrease in the benefit reduction rate to 50% is central to the amendment offered later in the paper.

EVIDENCE ON WORK INCENTIVES

There is little direct evidence available upon which to evaluate the likelihood of substantial reductions in work effort, and the evidence available is mixed. The New Jersey negative income tax experiment has been set up to test the work responses of recipients facing benefit-reduction rates ranging from 30% to 70%. Although the experiment is too young to draw firm conclusions, preliminary results have apparently convinced Administration officials that people will continue to work even when faced with a 70% benefit reduction rate.

Under the Social Security program, retired persons under 72 years of age may earn up to $1680 per year with no reduction in benefits. Benefits are reduced by $1 for every $2 of earnings above $1680 but below $2880; above $2880 benefits are reduced $1 for every $1 earned. Thus, the program offers some experience with offsetting tax rates of 50% and 100%. In many ways, of course, Social Security recipients are different than potential beneficiaries of an income supplement program—they have pensions and savings to draw on, and they are unlikely to have children to support. Indeed, over half of them choose not to work at all. For all these differences, however, the responses of those who do choose to work to 50% and 100% benefit reduction rates are worth noting.

Over half the Social Security recipients who do work have earnings low enough that they have no reduction in benefits, and a substantial clustering occurs just below the level where the 50% reduction rate becomes effective. In 1966, when the income level at which 50% benefit reduction began was raised, the cluster moved up with it.[3] And recipients over 72, who may earn as much as they wish without reduction of benefits, show no clustering at the 50% income level. Thus, it seems clear that Social Security recipients can regulate income, and do so to avoid 50% effective tax rates.

The argument underlying income supplement programs is that people will work even when faced with rates of 50% or more. If this is so, we would expect to find another cluster of social security recipients at about $2880—the income level at which 100% taxation becomes effective. Interestingly enough, no such cluster occurs. Thus, those whose earnings exceed $1680 presumably work either because they enjoy work, regardless of the benefit reduction rate, or because their earnings are so high that they far exceed any benefits available under Social Security.

---

[3] "The Effects of the 1966 Retirement Test Changes on the Earnings of Workers Aged 65–72"; by Kenneth Sender; Research & Statistics Note; 1970 Note No. 1; Social Security Administration.

If younger people are at all like Social Security recipients, then, we should be a bit uneasy about imposing a benefit reduction rate even of 50%, let alone one as high as 72%.

Defenders of high benefit reduction rates often point to the high marginal tax rates in the personal income tax system, and note that doctors, lawyers, and corporate vice-presidents continue to work even when their income is taxed at 70%. But these are men with challenging and interesting jobs. Whether a man at a car wash, who has no chance of promotion and has little opportunity for learning at his job, will continue to work with a 70% benefit reduction rate is quite another matter.

WORK INCENTIVES AND PERSONAL INCOME TAXES

When the tax reform bill of 1969 becomes fully effective in 1973, a family of four will pay no personal income taxes on the first $4,000 of its annual income. It will pay a tax of 14% or more on income above $4,000. If an income supplement program with an offsetting tax rate of 67% were passed, a family eligible for supplements which increased its earnings from $4,000 to $4,100 would have its benefit reduced by $67. In addition it would have to pay personal income taxes of $14 and Social Security taxes of $5 on that extra $100. Thus, it would "keep" only $14, and face a staggering effective tax rate of 86%. The House bill makes no provision for dealing with this problem. In states where no supplement is offered, the break-even level is $4320, and there will be no serious problem. But in some states, the break-even level for women receiving supplements will be over $6,000, and lack of an income tax forgiveness will mean very high effective tax rates on income between $4,000 and the break-even level. Provision for an income tax forgiveness is included in the $3,000, 50% plan offered here, which has a break-even level well above $4,000 not only for families receiving state supplements, but for all families.

THE STATE SUPPLEMENT TANGLE

Half of the states now pay welfare families $2,400 a year or more, and in all but five states, some families receive a combined income from Food Stamps and welfare which exceeds $2,400. If the House bill is enacted, many families now on welfare will face a substantial reduction in income unless some provision is made to supplement their basic federal payment. In discussion of this problem, it has commonly been assumed that the states involved would choose to make such supplements and that they would absorb some or all of the expense involved. There is, however, no legal requirement that they do so. Such supplementation would preserve many of the inequities of the present welfare system, and would impose a considerable financial and decision-making burden on the states. An increase in the basic Federal payment level, therefore, would not only mean substantial fiscal relief to the states involved, but also would greatly simplify the fairness and administrative simplicity of any new system. To see why this is so, it is worth exploring in some detail how state supplementation would be carried out under the proposal now before the Congress, and how much such supplementation would cost the states.

HOW STATE SUPPLEMENTS WOULD BE ADMINISTERED

To allow recipients to deal with only one agency and to simplify the administrative burden facing the states, the House bill provides that the Federal Government will administer state supplements if the states meet certain conditions. Except for the so-called "hold harmless" provision, discussed below, the Federal government will not pay any of the payment costs of this supplementation, although it will absorb administrative expenses. Thus, all the state needs to do is establish a payment level (at or below the present level plus the value of Food Stamps) and make quarterly payments to the Federal government.

The Federal government will, however, administer state supplements only to those in categories eligible for Federal payments—families with children, the aged, and the disabled. Since many of the people now on state General Assistance rolls are childless, this means that the states must continue not only to finance General Assistance, but to administer it as well. For this reason, extension of the income supplement system to all persons with low incomes, included in the $3,000, 50% plan presented later, would greatly simplify the administrative burden of the states, allowing them essentially to close down their welfare departments.

COSTS OF SUPPLEMENTATION

The costs to the state of supplementing each family, and its savings (if any) as against current expenditure levels, depend on the support the state currently receives from the Federal government, and the basic allowance provided under a new income supplement program. For states with high welfare payment levels, the Federal government pays half the costs. Thus, a state now paying $3,800 to an AFDC family must pay $1,900 from its own funds. Under the House bill, the Federal government will provide a basic allowance of $2,400, but provide no financial support for state supplements. The state would then have to pay $1,400, realizing a savings of $500. With a $3,000 federal basic allowance, the state would need to pay only $800, increasing its savings as against current levels to $1,000.

A state now paying $2,000, on the other hand, would be able to eliminate all state expenditure if a $2,400 federal program were established. Such a state would receive no direct fiscal benefit from an increase in the basic allowance to $3,000, although its poor people would receive substantially more disposable income, and its sales tax receipts would rise accordingly.

These examples show that with the relatively low $2,400 basic allowance, the states which benefit most in relation to current expenditure levels are those with the lowest support levels. They also show that full fiscal relief for the states now suffering the most from high welfare expenditures—and these are the same states facing the most serious urban problems of inadequate local services and staggering local property taxes—requires high basic Federal payment levels.

Under the House bill, recipients of Federal income supplement payments will be ineligibe for Food Stamps. The states can include the value of these food stamps in their supplementation. If they do this, however, they will find their savings practically eliminated. A family now receiving $3,800 on welfare might also be receiving food stamps worth $200 more than what it pays for them. The state pays $1,900 toward the welfare check; the Federal government pays $1,900, plus the full $200 cost of food stamps. As we have seen, it would cost the state $1,400 to keep the family's income at $3,800; it would cost the state $1,600 to bring the family's income up to the $4,000 needed to make it as well off as it was before. Because of the phasing out of food stamps, and because states will have to extend supplements to many female-headed families not now on welfare (the reasons for this are explained below), many states would, but for the "hold harmless" protection, actually have to pay more per family under the new system than under the present system.

Until now, discussion has focused on the new income supplement program for children with families. Under the House bill, the aged and disabled wou'd also be eligible for a federalized system of income supplements. The basic Federal monthly payment levels proposed ($130 for single people and $195 for couples in the first year) are less than many states are now paying, however, so state supplementation would be required here. As with the program for families the amount of the state savings depends on the Federal support level. The bill proposes to have the Federal government administer these supplements in the same way it administers supplements to families.

FISCAL RELIEF UNDER THE HOUSE BILL

In calendar year 1971, the states are spending some $5 billion on income maintenance programs (plus $3 billion on medicaid). If no changes are made, increased growth in the welfare rolls will push total expenditure up to about $6.1 billion by fiscal 1978, when any welfare reform would become effective.[8] How much reduction in this expenditure can be expected as a result of the passage of the House bill in its present form? Roughly half the states would spend less per family under the new system than under the present system; the fiscal 1978 savings to these states amount to $.8 billion. This $.8 billion represents the savings per family times the number of families eligible for supplementation in 1978; the states will not spend $.8 billion less in fiscal 1978

[8] The $5 billion estimate for calendar 1971 is based on figures in the Federal budget for Fiscal 1972; the $6.1 billion figure for 1978 is taken directly from the House Ways and Means Committee report from H.R. 1. Both figures include General Assistance. Given the growth in welfare expenditures in recent years, it is not unlikely that the Ways and Means figures are too low.

than they do in calendar 1971, because the normal growth in the welfare rolls will erode some of their savings.

The other half of the states—those with higher present payment levels—will realize no per-family savings. For these states, supplementation to present levels (including the value of Food Stamps) would actually cost $.7 billion more than they would spend under the present system. To protect these states, the House bill includes the "hold harmless" protection.

Under the bill, the federal government guarantees that, subject to certain conditions, no state need spend more on income maintenance to families, the aged, and the disabled than it did in calendar year 1971. If the cost of a state's supplement program exceeds this level, the Federal government will make up the difference. This "hold harmless" protection will only apply to supplements given to family types eligible for federally assisted welfare in the state in January 1971. This provision means that in states which did not have an Unemployed Father program, "hold harmless" protection will not apply to any supplements given to families headed by men. And, as we shall see later, it provides a tremendous work disincentive for male-headed families even in the 28 states which did provide such aid.

These "hold harmless" payments will be $1.1 billion in Fiscal 1973. They overcome the $.7 billion increase in costs necessitated in half the states by the new law, and provide these states an extra $.4 billion to cover costs of increased caseloads between 1971 and 1973. In addition, the Federal takeover of program administration will save the states $.4 million. In all, the states will spend some $4.5 billion in fiscal 1973—$1.6 billion less than they would in the absence of reform. This compares with 1971 state spending of $5 billion. Thus, although the states are protected against increases in welfare expenditure (no small matter given how fast such expenses have risen in recent years), few states can look forward to any reductions in current expenditure levels. What savings there are will be limited to states with the lowest welfare payment levels.

Even if the 28% work incentive is successful in increasing the earnings and work effort of the poor, the states which will have to provide supplements are unlikely to receive any fiscal benefit. To see why this is so, consider the benefit-reduction rate applied against the state supplements. Since the Federal government leaves only 28¢ of each additional dollar of earnings, any reduction in state supplements as earnings increase, would practically eliminate all incentive to work. If New York decided that a mother with three children would be entitled to a $1,600 supplement, for instance, such a woman with no earnings would then have a $4,000 income—a $2,400 federal payment plus her state supplement. If she took a job and earned $2,000, her federal payment would fall to $1,547. Her New York supplement would remain at $1,600, leaving her with a disposable income of $5,147. Thus, from $2,000 of earnings, she "keeps" $1,147. If New York were to apply a benefit reduction rate of 15% to its benefits, then her New York payment would fall to $1,300, leaving her with a disposable income of $4,847. She now "keeps" only $847 of her $2,000 in earnings. And every time her earnings rise an additional $100, her Federal supplement would drop $67, her New York supplement drop $15, and her social security tax increase $5, leaving her with just $18.

For this reason, the House bill provides that the states may not apply a benefit reduction rate to their supplements until a recipient's earnings reach the Federal break-even level, ($4,320 for a family of four). When the woman in our example has earnings of $4,320, then, she will still receive $1,600 a year from New York. It would hardly be desirable to eliminate this altogether when income rose to $4,321, so New York would choose to eliminate the supplement gradually as income increased, applying some benefit reduction rate to earnings in excess of $4,320. If this benefit reduction rate were 67%, the state supplement would fall to $1,200 when the woman's earnings reached $4,920, and would fall to zero when earnings reached $6,720. This would be the state break-even level. (Since the woman would be paying federal income taxes of about 15% on these earnings, as well as social security taxes, her effective marginal tax rate would be 87%—67+15+5. To avoid this, the state might want to set a lower benefit reduction rate, even though it meant a still higher state break-even level.)

Suppose that a woman on welfare finds a job paying $3,000. Since current law provides a benefit reduction rate for such a woman essentially the same as the one envisioned under the House bill, her welfare payment would be reduced

by $1,520 (⅔ of the excess over $720), leaving her with a welfare payment of $2,480. New York's share of this would be $1,240, and the Federal share $1,240. Under the new bill, this woman would still receive $2,480, but now the Federal share would be $480 ($2,400 less the $1,520) and New York would have to pay $1,600—the same supplement as if she hadn't worked at all, and almost $400 more than it would pay for such a woman under present law.

Thus, New York and similar states cannot expect any reduction in the costs of state supplements until large numbers of women on welfare find jobs paying over $4,320—an unlikely event.

The fact that New York must pay more for such a woman than it now does helps explain why half the states would pay more in state supplements under the new bill (but for the "hold harmless" provision) than they now pay. Another reason is that the House bill contains a clause providing that if a state supplements the income of any family headed by a woman, it must provide all families in that category with supplements, if their income is low enough to qualify. Presumably, then, New York must pay supplements to all families headed by a woman with income below the $6,720 break-even level. (It would hardly be fair to pay supplements to women with incomes of $5,000 who had once received federal assistance, but not to those whose incomes had never dipped below the federal break-even level.)

INEQUITIES AND DISINCENTIVES OF STATE SUPPLEMENTS

Because state supplements go to some, but not to others, the state supplements retain many of the inequities and disincentives of the present system. As indicated above, all women with incomes below the state break-even level will receive state supplements in those states which choose to provide supplements. In states without an Unemployed Father Program, however, no male-headed families will receive supplements. In these states, a father with a wife and two children and no earnings will receive $2,400; a family of four headed by a woman might receive a state supplement of $1,400 or more, bringing its income up to $3,800. Nor will this discrepancy be limited to families with no income. This same $1,400 discrepancy will apply to families with earnings anywhere up to $4,320—the federal break-even level—and a woman working side by side with a man on an assembly line paying $2.50 an hour might receive a state supplement of $1,000 per year, while the man received none.

The situation in states not having Unemployed Fathers programs is not much better. For the definition of an Unemployed Father is a man working 100 hours or less a month. As soon as a man's hours of work exceed this level, he is considered employed, and no longer eligible for Unemployed Father benefits. And under the provision limiting the "hold harmless" protection to families now eligible for welfare benefits, the states are unlikely to provide the man with supplements when his hours worked exceed this level. This seriously undermines the work incentive.

Consider the following example: Suppose Massachusetts established $1,200 as the standardized state supplement level for a family of five. Then a man with a wife and three children will receive a federal payment of $2,800 (the federal payment is adjusted for family size) and a state supplement of $1,200. If he is unemployed and finds no work, his disposable income is $4,000. As soon as the employment service finds him a full-time job, his basic payment level drops to $2,800. In order for his work to pay, it must overcome that initial $1,200 reduction in benefits. And this is very difficult to achieve with effective marginal tax rates of 72%. If his job pays the minimum wage of $1.60 an hour ($3,200 per year), his federal benefit payment will fall to $1,147, giving him a disposable income of $4,347—only $347 more than if he hadn't been offered work. This amount is unlikely to cover commuting expenses and work clothes. Under the circumstances, it would hardly be surprising for a man to hope that no work can be found.

When the man in our example was offered work, he might seriously consider rejecting it. The penalty for such refusal would be an $800 reduction in his federal benefit payment. The state and federal government now treat his family as if he were not there, and make payments directly to his wife. She would get a $2,000 federal payment. The state supplement for a woman with three children might be $1,000, giving the family a $3,000 benefit payment if the man doesn't work at all. When work is offered to him our man must choose between $2,800

from the Federal government (plus one-third of earnings) on the one hand, and $2,000 from the Federal government and $1,000 from the state on the other hand. In this sense, the state supplement just negates the Federal penalty for not working.

The state could get around this morass by giving supplements to all male-headed families, but this would be quite costly, and there would be no federal "hold harmless" protection.

A technical difficulty with respect to male-headed families threatens a serious administrative burden. Under current law, a man must meet stringent tests of labor force attachment to be eligible for assistance under the Unemployed Father program. Since "hold harmless" protection is limited to people in a category eligible for assistance in January 1971, the Federal government might have to continue to administer the 1971 labor force attachment test to unemployed men. This would perpetuate one of the bureaucratic tangles the bill was intended to avoid.

AN ALTERNATIVE PROPOSAL—THE $3,000, 50 PERCENT PLAN

Congress can improve the House welfare reform bill by amending it to:

1. Reduce the offsetting tax from 67% to 50%.
2. Raise the basic allowance from $2,400 to $3,000.
3. Provide 50% Federal financing for state supplements.
4. Make coverage universal.
5. Allow the elderly to retain some of their Social Security benefits.
6. Modify the work Incentive.
7. Provide an income tax forgiveness for program beneficiaries.

Taken together, these changes comprise what is called here the $3,000, 50% plan. The first three elements in the package, if adopted, would, for all practical purposes, end the state supplement tangle. An explanation of how this comes about is included in the discussion of these seven points below.

The House bill will increase Federal income maintenance expenditures by $3.8 billion and increase expenditure on administration, day care and job training by $3.3 billion. Adoption of this package of amendments would increase Federal income payments by $10.2 billion over present law—an increase of $6.4 billion over the House bill. (These costs are summarized in Table 1.)

THE $3,000, 50 PERCENT PLAN AND FISCAL RELIEF FOR THE STATES

In the absence of reform, the states will spend $6.1 billion on welfare in fiscal 1978. Under the House bill, they would spend $4.5 billion, and under the $3,000, 50% plan, they would spend only $.7 billion. (State by state expenditures under present law, the House bill, and the $3,000, 50% plan are shown in Table 2).

The decision explicitly before the Congress is whether to amend the House bill along the lines recommended here. Such amendment would raise costs by $6.4 billion. Over half of this increase—$3.8 billion—would go to increased fiscal relief for the states, while $2.6 billion would go to increased payments for the poor.

Congress is under considerable pressure to provide fiscal relief for hard-pressed state and local governments. Adoption of the amendment presented above provides a way of giving fiscal relief which will, at the same time, simplify the administration of the income supplement program, reduce the inequities associated with state supplementation, reduce the administrative burdens faced by the states, improve the work incentive, and increase the benefit payments going to the poor.

Programs to provide fiscal relief to the states by having the federal government take over the costs of welfare, such as the one presented here, have been criticized on the grounds that half the fiscal relief goes to a handful of states. If the total benefits to each state—both fiscal relief to the state government and increased income to the state poor—are counted, however, the distribution is much more equitable, as Table 3 makes clear. On a per-capita basis, the greatest total benefits go to low income Southern states, and high welfare industrialized states; total benefits are about the same for California as for Mississippi. The Southern states, which receive relatively little fiscal relief from the $3,000, 50% plan, will enjoy a great increase in personal income, with benefits for local merchants, and state and local tax revenues.

Indeed, the alternative suggested here offers an attractive distribution formula: in states which have done well by their poor (and are suffering from the greatest financial burdens), most of the new money will go for fiscal relief; in states which have had low benefit payment levels, most of the new money will go to increasing the incomes of the poor.

ENDING THE STATE SUPPLEMENT TANGLE

In all but three of the states, present welfare levels for either adult or AFDC welfare recipients combine with Food Stamps to produce payment levels in excess of the payments provided in the House bill. The Ways and Means Committee expects that these 47 states will supplement federal payments to assure that payment levels in each state remain at the present level plus the value of stamps. Although there is no compulsion for the states to do this, the House bill provides that states cannot reduce payment levels without an act of the state legislature. If states do maintain payment levels, millions of welfare recipients not now receiving food stamps will experience an increase in their payments, because the House bill requires that all recipients in a given category receive the same supplement—a supplement which includes the value of Food Stamps.

Under the House bill, then, all but three states will presumably provide some supplementation, with most of the money coming from the industrialized states with high payment levels. Because the federal payments do not extend to low income childless individuals, even these three states will continue to bear some General Assistance expense.

Increasing the Federal basic allowance to $3,000 and extending eligibility to childless persons will substantially reduce the number of states which have to provide supplements—23 states will be relieved completely of the financial burden of welfare. In states which continue to finance supplement payments, the cost will be no higher than 25% of that required under the House bill (see Table 2).

In those states which do need supplementation, the size of the supplements, and thus the inequities associated with them, will be reduced. Thus, a discrepancy of $1,200 between families headed by women and those headed by men under current proposals will be cut to $600 by the $3,000, 50% plan.

Still, the state supplements will remain. They can, however, be structured to practically eliminate administrative burdens and political decisions for the states. To reduce the cost to the states, the plan envisions that the Federal government will pay half the cost of any supplements, provided that the supplementation is designed to bring a family up to a level no higher than what a family is presently receiving on welfare plus Food Stamps for those now on welfare, and no higher than $3,600 for those not now on welfare. Total supplements will cost about $1.4 billion; the states will pay $.7 billion. This compares to $5 billion they are now spending on welfare, and $6.1 billion they would spend in fiscal 1978 in the absence of reform. The provision in the House bill authorizing Federal administration of supplements only if the support level did not exceed present levels would not be changed. This limitation on the size of the state supplements should eliminate any serious debate within the states over payment levels.

As explained earlier, the definition of Unemployed Fathers as those working less than 100 hours a month provides a serious work disincentive. Although the Federal payments envisioned in the House bill will not be cut off when a man takes a fulltime job, men in the 23 Unemployed Father states who receive state supplements will lose these supplements completely when they accept work. Of course, the state could eliminate this problem by simply making all families headed by men ineligible for supplements, but with a $2,400 support level, and with families headed by women getting $3,600 or more in some states, the resulting discrepancy would be far too great.

If the federal payment level were raised to $3,000, however, the inequity resulting from declaring all families with both parents present ineligible for supplements would be far less. Under the $3,000, 50% plan, then, it is recommended that supplements be restricted to families with only one parent present. (Those few male-headed families now receiving payments above $3,000 could continue to receive them, but new families coming eligible would not).

This procedure restores the work incentive. But it does not offer an incentive to break up a family. This is so because the reduction in family size reduces the basic federal payment in a way which just counter-balances the extra state supplement. For instance, a father with a wife and two children would be eligible for a basic Federal payment of $3,000. If he left, his family would be eligible for a $2,500 Federal payment. Based on present support levels, the Massachusetts supplement to a woman with two children would be $500, so the family would still have a $3,000 support level.

One of the difficulties with supplementing a basic program with a 67% benefit-reduction rate is that the supplements themselves cannot be reduced until the family is above the Federal break-even level. With a 50% reduction rate, however, this is not the case. The state supplement could have a benefit reduction rate designed so that the supplement and the basic Federal payment had the same

break-even level. Thus, a state with a $600 supplement would have a 10% benefit reduction rate. As a woman's earnings increased, she would face an overall benefit reduction rate of 60%.

This procedure has several advantages. While the inequity between male and female-headed families which will result from the House bill applies in full to all families earning under $4,320, and in part to all families under the state break-even level, the inequity in this plan applies in full only to families with no earnings. In a state with a $1,200 supplement for families with no earnings the inequity for families with earning of $4,320 is $1,200 under the House bill but only $168 under this plan.

Because the state supplement falls as earnings increase, this offers the states some hope that their burden will fall if the work incentive is successful. The plan now in Congress, on the other hand, would keep the states in the business of financing welfare indefinitely.

WORK INCENTIVES AND COST ESTIMATES

All of the cost estimates presented here—those for the $3,500, 50% plan, and those prepared by the Administration for its program—assume that work effort and earnings will be unimpaired by effective tax rates of 50, 55, or even 72%. If earnings are reduced, all of these estimates will prove to be too low. The higher the offsetting tax, the more likely it is that people will reduce work effort, and the more likely it is, therefore, that costs will exceed estimates. Thus, the difference in cost between this plan and the House bill may prove to be smaller than these estimates suggest.

WORK INCENTIVES AND INCOME TAX FORGIVENESS

Since the Federal Income Tax is applicable to earnings above $4,000, and since this plan has a break-even level of $6,000, it is necessary to have an income tax forgiveness feature to avoid excessively high effective tax rates. The cost of such a forgiveness—$1.7 billion is included in the estimates presented here. The income tax on a family with earnings at the $6,000 break-even level will be about $300. It would be unfair to say that a family earning $5,990 and therefore receiving a slight benefit would pay no income tax, and a family earning $6,010, and therefore not receiving benefits, would pay a tax of $300. To avoid this "notch" effect, in which a family is made worse off by increasing its income over a certain range, the $3,000, 50% plan would allow families to choose between paying their present income tax, and a tax equal to 50% of the difference between actual income and the break-even level. Families earning less than $6,850 would find this alternative tax more attractive. $6,850, then, may be called the "tax break-even level". All families earning less than this would receive some benefit from this plan.

ADDITIONAL IMPROVEMENTS IN WELFARE REFORM

Universal Coverage.—Under the proposal now in Congress, no benefits are provided to single people or to childless couples, unless they are aged or disabled. A married couple with one child is eligible for a basic benefit of $2,000; a childless couple is ineligible. This offers a $2,000 bonus for a first baby—a provision which would largely nullify the extensive financial support for family planning included in the bill.

At present, a large share of the people supported on State General Assistance are single people or childless couples. Since these people will be ineligible for Federal assistance under the House plan, the states will have to bear both the financial and administrative burdens of assisting them. Because the $3,000, 50% plan includes these people, they are eligible both for federal payments and for federal administration of any state supplements.

Treatment of Social Security.—Under the House bill, and Social Security income received by the elderly will be subject to a 100% benefit reduction rate. This has the effect of eroding the contributory nature of the Social Security program. Under the bill, the minimum Social Security payment for a single, aged individual is $74 a month; the minimum Federal income supplement for such an individual will be $130 per month. A person who had worked a bit and entitled himself to $74 per month would receive a $56 per month supplement; the person who was ineligible for Social Security would receive an income supplement check of $130. Both would have the same disposable income. Thus, there would be no distinction between those who had contributed and those who had not.

Under the $3,000, 50% plan, Social Security benefits would be treated like earned income, and would be subject to a 50% offsetting tax. In this way, the new payments would supplement Social Security benefits, and those who had built up Social Security eligibility would be better off than those who had not.

Most of those who are disable receive direct Social Security benefits; those who do not, receive disability assistance under welfare. The proposal here envisions that all the disabled would receive a federal payment from the Social Security Administration (the payment for those not eligible for Social Security would not come from the Social Security trust fund, but from general revenues); these benefits would be treated in the same way as benefits to the elderly, and would be supplemented by the income supplements.

Most of those now receiving Old Age Assistance payments also receive Social Security payments; under the $3,000, 50% plan, their incomes would be higher than under the House bill both because of the higher basic allowance, and because of the lower benefit-reduction rate applied to Social Security benefits. With this substantially increased Federal payment, state supplementation would be unnecessary in all but a handful of cases.

Work Requirements.—The proposals of the Ways and Means Committee provide that all men receiving benefits, and all mothers who have no husband and who have children under 6 (under 8 after July 1974) must register for work or training. Subject to a $800 reduction in benefits, they must accept any job offered them as long as that job pays the prevailing wage in their community for that kind of work, or $1.20 an hour, whichever is greater. If there is available work which better suits their training (or the skills they can achieve after training), they can refuse a less skilled job; if more skilled work is not available, they must take whatever is available.

Because the penalty is only $800, rather than a complete elimination of benefits, a man will not have an incentive to desert his family, as under present law.

The work requirement has aroused considerable anger amongst the poor, who fear that it could be used to force them into menial jobs offering low wages and poor working conditions. Among the black poor, it may be an unhappy reminder of slavery days.

Among taxpayer groups, however, the work requirement is viewed as essential to protect their earnings against the ruinous taxes which would occur if large numbers of people chose to do no work and live on their federal income payment. Given the changing mores of parts of our society, some of the children of the middle class might indeed choose not to work if income supplement benefits were available with no work requirement.

The work requirement is particularly important when the benefit reduction rate is high. With a lower benefit reduction rate, as included in the $3,000, 50% plan, more people will find it in their interest to work.

An income supplement program with a work requirement is better than no income supplement program at all. It would be preferable, however, to hold the work requirement in abeyance. If too many people choose not to work, it could always be re-instated. If there is a work requirement, it should follow current unemployment compensation practice, in which people lose benefits only if they refuse work in a field in which they have previously been employed. In this way, factory operatives would not be forced to take jobs as handymen; secretaries would not be forced to work as maids.

Even if a work requirement is imposed on men heading families in which both parents are present, a strong case can be made for suspending such a requirement in the case of families with only one parent present—mainly those headed by women. For these families, the work requirement will in any case be operative only if there are enough day care centers. If all the new day care facilities made available by the House bill are filled as a result of voluntary decisions to work on the part of eligible mothers, the same result will be accomplished as if a work requirement had been imposed, and with a good deal less bitterness and resentment.

FINANCING THE $3,000, 50% PLAN

The $3,000, 50% plan would cost $6.4 billion more than the House bill. Where can such funds be obtained? If every American family were eligible for cash payments of $3,000 in addition to any food the family raised itself and in addition to the imputed rent on a home it owned, there would be little justification for additional payments to support low income farmers with current farm price support programs, which are nominally designed for low income farmers, costing

in excess of $4 billion per year, a large potential source of funds for improved welfare reform is available.

The President has budgeted $6 billion for revenue sharing. The plan for fiscal relief to cities now being discussed in Congress would cost $3.5 billion. The $2.5 billion difference between these two plans, plus elimination of farm price support programs, would provide $6.5 billion—enough to pay for the $3,000, 50% plan.

If unemployment remains high, the Administration has talked of speeding up the effective date of tax relief promised in the 1969 tax bill. The desired extra stimulus, however, could be obtained instead by using the funds for a better income supplement program.

COMPLETE ABOLITION OF STATE SUPPLEMENTS

Very few people now on welfare receive more than $3,600. Thus, even the state supplements remaining under the $3,000, 50% plan could be all but eliminated if the $3,000 basic allowance were increased to $3,600 over a period of years. (The provision that supplements to those newly coming on the rolls be limited to $600 assures that few people will be entitled to more than $3,600.)

Alternatively, state supplements could be eliminated by putting a $3,600 basic allowance into effect in the first year. A plan with such an allowance and a 55% offsetting tax rate, for instance, would cost $16 billion more than the present system in fiscal 1973—about $5½ billion more than the $3,000, 50% plan. Since the states would spend only $700 million under the $3,000, 50% plan, complete elimination of state supplements would not provide much in the way of extra fiscal relief, although it would eliminate those few inequities which remain under the $3,000 plan. Such a plan was not recommended here because it was felt that the extra funds might best be used for job training and job creation, and for fiscal relief to the cities (the relief from welfare reform goes mainly to the states). Nonetheless, those who feel that any additional Federal spending for the poor is best spent on increased income supplement payments might prefer to move to the $3,600 level immediately.

COST OF LIVING ADJUSTMENTS

To prevent erosion of the value of income supplement payments by inflation, a cost of living adjustment paralleling that for Social Security payments could be written into the bill. In years where there is no specifically legislated increase, the basic allowance would increase in proportion to the consumer price index, provided that the increase in that index was 3% or greater. If Congress should provide for $800 yearly increases in fiscal years 1974 and 1975, to bring the basic allowance to $3,600, then the automatic adjustment would first take effect in fiscal year 1976.

SUMMARY AND CONCLUSIONS

The Welfare reform bill passed by the House ways and Means Committee and endorsed by the President goes a long way toward improving our present welfare system. It helps a large number of very poor people by raising payment levels in the Southern states. By making it possible for the first time for employed men who earn low wages to supplement those earnings with a federal payment, it ends the current system in which the families of such men would actually be better off if the man made them eligible for welfare by quitting his job or by deserting. Finally, it reduces the administrative burdens of the states by providing for a uniform federal administration both of federal income supplement payments and of any supplementation to those payments provided by the states.

The House bill provides for a $2,400 basic benefit payment, and a 67% benefit reduction rate. By reducing the benefit reduction rate to 50%, Congress can strengthen the work incentive and avoid the risk that an inadequate work incentive might undermine the whole income supplement program. By raising the basic allowance to $3,000, Congress would greatly increase the fiscal relief to the states, greatly reduce the need for state supplementation, simplify the administration of the program, and improve the benefits received by the poor. Together, these changes would raise the costs of the House bill by $6.4 billion. Of this, $3.8 billion would go to increased fiscal relief for the states, and $2.6 billion to increased payments to the poor.

Edward Moscovitch

Table 1

COMPARISON OF HOUSE BILL WITH $3,000, 50% PLAN, FISCAL YEAR 1973

	Present Welfare	House Bill	$3,000, 50%
Basic Allowance[1]		$2,400	$3,000
Offsetting Tax		67%	50%
$720 Exclusion[2]		yes	no
Break-even Level		$4,320	$6,000[3]
Income Tax Forgiveness		no	yes
Beneficiaries (in millions)	15	26	42
Federal Income Maintenance Payments (in billions)	$8.5[4]	$12.3[5]	$18.7[6]
Increase over Present Law (in billions)		$3.8[5]	$10.2
Cost of Administration, Day Care and Training (in billions)	$.9	$3.3	$3.3
Spending by States[7] (in billions)	$6.1[8,9]	$4.5	$.7
Savings to States (in billions)		$1.6	$5.4

1. For family of four.
2. Under House bill, no offsetting tax is charged against first $720 of earnings.
3. Families below $6,000 would pay no Federal income tax; families with incomes between $6,000 and $6,700 would receive some tax relief. The $1.7 billion cost of this forgiveness is included in the estimates below.
4. Includes $2.4 billion for Food Stamps and $6.1 billion for welfare payments.
5. To provide a fair cost comparison between the House plan and the $3,000 plan, cost estimates for both assume that they will be fully operational for the entire fiscal year. Under the House bill as written, payments to the working poor would not begin until January, 1973; this delay reduces first-year costs by $.6 billion.
6. Includes savings of $1 billion in non-combat related Veteran's pensions.
7. Includes General Assistance.
8. State spending in calendar '71 will be $5 billion.
9. Includes $.4 billion of Administrative costs borne by the states under present law.

Source: Estimates for the present system and the House bill are taken from: Social Security Amendments of 1971: Report of the Committee on Ways and Means on H.R.1. Estimates for the $3,000, 50% plan are based on income projections made by the Urban Institute.

Edward Moscovitch

Table 2

COMPARISON OF STATE EXPENDITURE
UNDER VARIOUS WELFARE PLANS FOR FISCAL '73
(in millions of dollars)

State	Present Welfare System	House Bill	$3,000, 50%
TOTAL, U.S.	$6,145	$4,501	$703
Alabama	43	10	0
Alaska	13	10	3
Arizona	33	12	0
Arkansas	20	*	0
California	1,284	1,049	44
Colorado	55	41	4
Connecticut	93	71	30
Delaware	31	29	0
D.C.	47	34	4
Florida	195	25	0
Georgia	61	9	0
Hawaii	30	23	3
Idaho	8	6	1
Illinois	385	323	54
Indiana	35	27	0
Iowa	54	27	4
Kansas	48	34	4
Kentucky	36	24	0
Louisiana	77	11	0
Maine	21	17	0
Maryland	81	39	0
Massachusetts	284	239	45
Michigan	298	253	31
Minnesota	88	73	15
Mississippi	24	*	0
Missouri	77	65	0
Montana	7	4	1
Nebraska	15	12	0
Nevada	4	3	0
New Hampshire	16	13	3
New Jersey	256	206	87
New Mexico	17	9	0
New York	1,098	909	227
North Carolina	44	12	0
North Dakota	6	5	1
Ohio	198	134	1
Oklahoma	56	17	0
Oregon	44	28	4
Pennsylvania	469	418	102
Puerto Rico	26	0	0
Rhode Island	37	30	4
South Carolina	26	13	0
South Dakota	8	6	3
Tennessee	44	10	0
Texas	108	51	0
Utah	13	9	1
Vermont	8	7	2
Virginia	53	43	11
Washington	93	82	22
West Virginia	21	3	0
Wisconsin	71	38	2
Wyoming	4	3	0

* below $500,000.

SOURCE: Estimates for the Present System and for H.R. 1 are taken from the Report of the House Ways and Means Committee; to the estimates there are added $983 million for general assistance and under the present system, $460 million in administrative costs. Costs of supplements under the $3,000, 50% plan were based on the Ways and Means Committee's estimates of potential 1973 welfare recipients, with the assumption that the states brought the income of all of these recipients up to the current maximum state payment, plus the value of the Food Stamp bonus.

Edward Moscovitch

Table 3

INCREASED BENEFITS TO THE STATES BY MOVING FROM THE HOUSE BILL TO THE $3,000, 50% PLAN

States	Increased Payments to Poor (in millions of dollars)	Increased Fiscal Relief (in millions of dollars)	Total Increase in Benefits (in millions of dollars)	Total Benefits Per Capita (in dollars)
TOTAL, U.S.	$2,600	$3,800	$6,400	$31
Alabama	128	10	139	41
Alaska	1	7	82	27
Arizona	37	12	48	28
Arkansas	78	*	78	41
California	71	1,005	1,077	55
Colorado	15	37	52	24
Connecticut	5	51	56	19
Delaware	2	29	31	57
D.C.	27	30	3	5
Florida	222	25	247	37
Georgia	195	9	205	46
Hawaii	2	20	22	29
Idaho	4	5	9	13
Illinois	25	269	294	27
Indiana	23	27	50	10
Iowa	42	23	65	23
Kansas	24	30	53	24
Kentucky	102	24	126	40
Louisiana	172	11	184	52
Maine	5	17	22	2
Maryland	40	39	78	20
Massachusetts	18	194	212	38
Michigan	20	222	241	28
Minnesota	14	58	72	19
Mississippi	126	*	126	59
Missouri	27	65	92	20
Montana	3	3	6	9
Nebraska	2	12	14	10
Nevada	4	3	7	15
New Hampshire	2	10	12	17
New Jersey	30	119	149	21
New Mexico	27	9	36	36
New York	57	682	739	41
North Carolina	139	12	151	30
North Dakota	5	4	9	15
Ohio	56	133	189	18
Oklahoma	73	17	90	36
Oregon	28	24	51	25
Pennsylvania	29	316	345	30
Rhode Island	3	26	29	31
South Carolina	72	13	84	34
South Dakota	8	3	11	17
Tennessee	141	10	151	39
Texas	232	51	283	26
Utah	16	8	24	23
Vermont	1	4	6	13
Virginia	41	32	73	16
Washington	18	60	78	23
West Virginia	51	3	54	32
Wisconsin	32	36	68	16
Wyoming	4	3	6	19

* below $500,000.

SOURCE: Estimates for increased fiscal relief to the states come from Table 2; estimates for increased payments to the poor are rough approximations based on the assumption that increased Federal payments to the poor resulting from an increased basic allowance will be distributed among the states in the same ratio as the Federal payments under the House bill. The figures here represent net increases in payments to the poor, taking into account the decreases in state payments. Per-capita benefits are based on 1970 Census figures.

THE COMMONWEALTH OF MASSACHUSETTS,
EXECUTIVE DEPARTMENT,
State House, Boston, February 11, 1972.

THOMAS VAIL, *Esquire,*
Chief Counsel, Committee on Finance,
Senate Office Building, Washington, D.C.

DEAR MR. VAIL: Enclosed please find "An Evaluation of the General Relief—Division of Employment Security Program, Preliminary Report" and copies of a release put out by my Commissioner of Public Welfare on that report. As I testified before the Committee on Finance, this report verifies the conclusions concerning efforts to secure employment for General Relief recipients.

Several members of the Committee requested additional information. I hope the enclosed is sufficient.

With best wishes,
Sincerely,

FRANCIS W. SARGENT.

Steven A. Minter, Commissioner of the Department of Public Welfare, is publicly announcing today the completion of a preliminary study on the recently implemented GR/DES program. This program, which was mandated by law, has required all employable General Relief recipients since October 15, 1971 to pick up their checks at the Division of Employment Security.

Commissioner Minter initiated this study when he contacted late in September Dr. Martin Lowenthal, Ph. D., Director of the Social Welfare Regional Research Institute located at Boston College. At this time Commissioner Minter requested that an objective evaluation of this program be made by the Institute. The Commissioner suggested that emphasis be placed on such matters as the number of recipients who failed to pick up their checks and why and on the costs and problems experienced in administering this program.

Having agreed to conduct this study, Dr. Lowenthal began gathering raw data almost immediately. The Department of Public Welfare cooperated fully in supplying all possible data to the researchers. Staff persons as well as participants in the program were interviewed. This week the preliminary report was completed. A final report is expected to be finished by the end of February. Dr. Lowenthal stated that the final report will not vary from the conclusions stated in this report; it will only give a more in-depth analysis.

Attached is a copy of the summary of the report as prepared by Dr. Lowenthal. Copies of the full report can be obtained upon request.

SUMMARY OF FINDINGS

The General Relief.—Division of Employment Security Program was initiated by the Legislature of the Commonwealth of Massachusetts in the late summer of 1971 by the following provision in the appropriations bill: "that after October first, nineteen hundred and seventy-one every person eligible for an assistance check under chapter one hundred and seventeen of the General Laws, determined by the Department to be an employable person, shall receive such check from the nearest office of the Division of Employment Security." Little, if any, formal study had preceded this provision so that its effects, problems, and possible approaches toward implementation were generally unknown. Further, the Legislature did not appropriate any additional funds at that time to the Department of Public Welfare or the Division of Employment Security to develop a program to meet this new requirement.

The overall result of this provision has been the following:

1. A great deal of human suffering and individual costs on the part of those clients who were unable to obtain their checks and often went long periods without sufficient funds to meet their minimal needs.

2. Administrative costs of the program in the local offices of the DPW alone run over $70,000 a month, according to our survey of the social workers in the Welfare Service Offices throughout the state.

3. When the costs of the central administration, overhead, and those of the Division of Employment Security are added to this figure, it will probably come to two or three times this amount.

4. Of those who did not pick up checks, 88.7% were ill, disabled, or hospitalized, according to two surveys on the first pay period of the program. Another

22.67% reported that they did not know of the new requirement and administrative errors by DES and DPW were involved in 15.5% of the cases. Approximately 17% were already-working—those who were already working full time were not supposed to report, and part-time workers stated they were working at the time of the appointment with DES.

5. Only 220 clients actually obtained jobs as of December 15, 1971 according to departmental releases.

6. Only 5 of the 20 clients surveyed, out of the 99 in Boston who got jobs, obtained employment through the services of DES. Fifteen reported they found their jobs through their own efforts. In other words, of this small sample which represents over 20% of those getting jobs in Boston, only 25% obtained their jobs through the new GR–DES Program.

7. Liberal estimates of the possible savings through the program range from approximately $51,000 to $71,000 a month from those who do not pick up their check at the employment office without good cause and from those who find employment through this program. These figures tend to be somewhat inflated due to the fact that they are not adjusted for normal turnover in the General Relief program and assume that the average payments to these individuals are the same as those for the program as a whole.

8. Even if the human costs are disregarded, it is obvious that the administrative costs alone far exceed the savings in this program.

9. In fact the payroll for General Relief, not including vendor payments, went down only $48,929 from September through December which covers the first months of the program when the highest savings were expected.

The total additional cost incurred by the local offices of the DPW as a result of the new GR–DES program is $1.69 per GR case per payroll period, or $3.38 per case per month. This comes to $7.96 per "unemployable" GR client in the month of December. Since no additional funds were appropriated for the program, workers had to shift time from other work on the General Relief and from work on the federal public assistance categories. Approximately $45,980 in the form of worker time was shifted in December from federal assistance categories to this new GR–DES program. This made up a large part of the approximately $70,642 worth of social worker time spent on the new program in that month.

Our findings on the management problems in administering the new GR–DES program concern the Department of Public Welfare which asked the Institute to look at this subject. Six problem areas were identified which represent deficiencies in the administrative implementation of the program by DPW. These were the following: (1) overloading of DPW staff in the Welfare Service Office (which is obviously due to the lack of additional funds for the administration of the program), (2) incompatibility of DPW and DES operational definitions of nonemployability, (3) problems arising from changes in the General Relief payroll procedures, particularly the transitional problems due to the shift from the local Finance Units to a central computer system for the state, (4) inadequate information and training in the new payroll procedures for the WSO payroll clerks, (5) insufficient staffing, equipping, and procedures at the GR–DES Project Office, and (6) low staff morale resulting from the manner in which the changes in the General Relief program were developed and implemented.

In addition, the operational decision by the Department of Public Welfare to consider clients "employable" unless they could be determined to be "unemployable" inflated the number who had to report to DES, many of whom were subsequently determined to be unemployable. This involved additional costs to DPW, to DES, and to those clients who were unable to report due to illness and other reasons. Further, it placed the burden on the clients to prove to the Department that they were in fact unemployable and had good cause for not reporting to DES. This resulted in suffering for hundreds of clients and additional problems for the social workers to remedy incorrect classifications and check cancellations. The Department could have operated on the opposite assumption that clients were unemployable unless determined to be employable. Those who were seeking employment and were obviously employable could have been classified initially and then on the basis of a case-by-case intensive review, those who were found to be employable in the remainder of the caseload could have been so classified. This would have involved fewer errors which resulted in client hardships and marginally lower costs in following up incorrect classifications. Further, it would have permitted a phasing in of the program which would have allowed the Department time for training and revision of procedures where problems arose.

SOCIAL WELFARE REGIONAL RESEARCH INSTITUTE,
INSTITUTE OF HUMAN SCIENCES,
BOSTON COLLEGE,
Chestnut Hill, Mass., January 1972.

Commissioner STEVEN A. MINTER,
Department of Public Welfare, Commonwealth of Massachusetts, Boston, Mass.

DEAR COMMISSIONER MINTER: It is my pleasure to forward to you this preliminary report on the data and findings of our study of the General Relief—Division of Employment Security Program. We plan to have all the data analyzed and be able to present a final report at the end of February 1972.

I would appreciate any comments you may have and additional information that you feel should be included and assessed. This will help us in preparing the final parts of this study.

I want to thank you and your staff for the generous cooperation in the development and implementation of this study.

Sincerely,

MARTIN LOWENTHAL, Ph. D., *Director.*

PREFACE

This study was undertaken at the request of Commissioner Steven Minter of the Department of Public Welfare. In his charge to the Regional Research Institute, the Commissioner asked that an objective evaluation of the new General Relief—Division of Employment Security Program to restore employable General Relief clients to self-support, be undertaken at the outset of the program in October. The following points were to be covered:

1. How many recipients failed to pick up their checks and register, and why?
2. How many recipients were placed in jobs? What kinds of jobs did recipients receive?
3. To what extent was the administration of the program problemmatical, unmanageable or excessively expensive?

Without financial assistance from the Department of Public Welfare but with full cooperation and generous amounts of DPW time, the Social Welfare Regional Research Institute (SWRRI) at Boston College, which receives support from the Social and Rehabilitation Service of the Department of Health, Education, and Welfare agreed to do as much of the study as was permitted by its own resources. This preliminary report represents the tentative findings and the initial analysis of the data collected as of the beginning of January 1972. In addition, the United Community Services of Metropolitan Boston generously collaborated in the study of those recipients who did not pick up their checks at the DES by conducting interviews and analyzing the data collected in those intervews.

The data and findings presented in this report are almost entirely concerned with the Department of Public Welfare portion of the program. Part of the reason for this was the general lack of cooperation from the Division of Employment Security. Even after making prior arrangements with the Division, researchers from the Regional Research Institute met with resistance in attempting to assess the implementation of procedures within the DES as it dealt with the new check pick-up program. After unsuccessful visits to four DES offices, the researchers decided to reallocate their time to other parts of the study, particularly that portion dealing with those recipients that found jobs within the first two months of the program.

The personnel who worked on this study were: Barry Bluestone, Kevin Farrington, Michelle Leary, Martin Lowenthal, Thomas Naughton, Sue Ellen Press, Mildred Rein, Natalie Weinrebe, and Robert Wintersmith from the Social Welfare Regional Research Institute; Jean Driscoll and Michael Kerr from UCS; and Steven Girton, a doctoral candidate at M.I.T. who worked on this study with the SWRRI.

I. SUMMARY OF FINDINGS

The General Relief—Division of Employment Security Program was initiated by the Legislature of the Commonwealth of Massachusetts in the late summer of 1971 by the following provision in the appropriation bill: "that after October first, nineteen hundred and seventy-one every person eligible for an assistance check under chapter one hundred and seventeen of the General Laws, determined by the department to be an employable person, shall receive such check from the

nearest office of the division of employment security." Little, if any, formal study had preceded this provision so that its effects, problems, and possible approaches toward implementation were generally unknown. Further, the Legislature did not appropriate any additional funds at that time to the Department of Public Welfare or the Division of Employment Security to develop a program to meet this new requirement.

The overall result of this provision has been the following:

1. A great deal of human suffering and individual costs on the part of those clients who were unable to obtain their checks and often went long periods without sufficient funds to meet their minimal needs.

2. Administrative costs of the program in the local offices of the DPW alone run over $70,000 a month, according to our survey of the social workers in the Welfare Service Offices throughout the state.

3. When the costs of the central administration, overhead, and those of the Division of Employment Security are added to this figure, it will probably come to two or three times this amount.

4. Of those people who did not pick up checks, 38.7% were ill, disabled, or hospitalized, according to two surveys on the first pay period of the program. Another 22.67% reported that they did not know of the new requirement and administrative errors by DES and DPW were involved in 15.5% of the cases. Approximately 17% were already working—those who were already working full time were not supposed to report, and part-time workers stated they were working at the time of the appointment with DES.

5. Only 220 clients actually obtained jobs as of December 15, 1971 according to departmental releases.

6. Only 5 of the 20 clients surveyed, out of the 99 in Boston who got jobs, obtained employment through the services of DES. Fifteen reported they found their jobs through their own efforts. In other words, of this small sample which represents over 20% of those getting jobs in Boston, only 25% obtained their jobs through the new GR–DES Program.

7. Liberal estimates of the possible savings through the program range from approximately $51,000 to $71,000 a month from those who do not pick up their check at the employment office without good cause and from those who find employment through this program. These figures tend to be somewhat inflated due to the fact that they are not adjusted for normal turnover in the General Relief program and assume that the average payments to these individuals are the same as those for the program as a whole.

8. Even if the human costs are disregarded, it is obvious that the administrative costs alone far exceed the savings in this program.

9. In fact the payroll for General Relief, not including vendor payments, went down only $48,929 from September through December, which covers the first months of the program when the highest savings were expected.

The total additional cost incurred by the local offices of the DPW as a result of the new GR–DES program is $1.69 per GR case per payroll period, or $3.38 per case per month. This comes to $7.96 per "unemployable" GR client in the month of December. Since no additional funds were appropriated for the program, workers had to shift time from other work on the General Relief and from work on the federal public assistance categories. Approximately $45,980 in the form of worker time was shifted in December from federal assistance categories to this new GR–DES program. This made up a large part of the approximately $70,642 worth of social worker time spent on the new program in that month.

Our findings on the management problems in administering the new GR–DES program concern the Department of Public Welfare which asked the Institute to look at this subject. Six problem areas were identified which represent deficiencies in the administrative implementation of the program by DPW. These were the following: (1) overloading of DPW staff in the Welfare Service Offices (which is obviously due to the lack of additional funds for the administration of the program), (2) incompatibility of DPW and DES operational definitions of nonemployability, (3) problems arising from changes in the General Relief payroll procedures, particularly the transitional problems due to the shift from the local Finance Units to a central computer system for the state, (4) inadequate information and training in the new payroll procedures for the WSO payroll clerks, (5) insufficient staffing, equipping, and procedures at the GR–DES Project Office, and (6) low staff morale resulting from the manner in which the changes in the General Relief program were developed and implemented.

In addition, the operational decision by the Department of Public Welfare to consider clients "employable" unless they could be determined to be "unemployable" inflated the number who had to report to DES, many of whom were subsequently determined to be unemployable. This involved additional costs to DPW, to DES, and to those clients who were unable to report due to illness and other reasons. Further, it placed the burden on the clients to prove to the Department that they were in fact unemployable and had good cause for not reporting to DES. This resulted in suffering for hundreds of clients and additional problems for the social workers to remedy incorrect classifications and check cancellations. The Department could have operated on the opposite assumption that clients were unemployable unless determined to be employable. Those who were seeking employment and were obviously employable could have been classified initially and then on the basis of a case-by-case intensive review, those who were found to be employable in the remainder of the caseload could have been so classified. This would have involved fewer errors which resulted in client hardships and marginally lower costs in following up incorrect classifications. Further, it would have permitted a phasing in of the program which would have allowed the Department time for training and revision of procedures where problems arose.

II. Reasons Given by General Relief Recipients for Not Reporting to D.E.S. During October 15 to October 29 Period, 1971

The check period of October 15 to October 29 was the first period wherein "employable" General Relief recipients were required to obtain their assistance checks at local offices of the Division of Employment Security. A total of 11,507 such individuals in the State of Massachusetts were sent notification by the Department of Public Welfare, to report at a scheduled time within the above period. Three hundred and fifty of these notifications to report were returned by the post office. Of the remainder 9,016 recipients reported and 2,141 or 18% who ostensibly had been notified did not report. In the following check period of November 1 to November 15, 2,063 out of 10,087 or 20% did not report. This section is concerned with the reasons for not reporting during the first period of October 15 to 29.

The methodology used to study the reasons for not reporting to D.E.S. was twofold: (1) By *questionnaire* sent by mail to all those in Massachusetts who did not report, asking for a voluntary and anonymous reply by mail, (2) by personal *interview* of a random sample of all those in Boston and Lowell who did not report to D.E.S. for the October 15 pay period and who indicated a willingness to be intreviewed by not mailing back a card stating unwillingness.

The questionnaire dealt purely with a list of reasons for not reporting including an "other" category where the respondent could write in alternative or additional reasons, elaboration or clarification. The interview schedule was much more detailed and contained questions about sex, age, race, residential area, type of housing, household composition, procedures of D.P.W. and D.E.S. regarding notification to report and follow-up, maintenance and sources of income, and work history and employability.

Both methods of study dealt with samples of voluntary respondents. Both samples are not exclusive and to some extent, undoubtedly overlap. This was unavoidable since the reply to the questionnaire had to be anonymous to insure a large enough number of replies. Out of 2100 that were mailed, 600 completed forms were returned. The random sample of those to be interviewed personally, included 244 names and addresses. Of these, at least 40 individuals were no longer at the addresses reported. This preliminary report deals with data on 79 interviews. Forty additional interviews will be conducted later. Since there is an undetermined amount of duplication of respondents, the questionnaire sample and the interview sample will be analyzed separately rather than cumulatively and then compared with each other.

The results of the questionnaire contain an analysis of distribution of reasons and of the number of times each reason appeared in the 600 returns. The questionnaire listed 13 reasons, but the "other" category resulted in the addition of three new reasons: hospitalization, reclassification, and administrative error, which made 16 in all. There were 1084 instances of these 16 reasons. Sixty percent of respondents gave only one reason while 40% checked multiple reasons. Thirty-eight percent of respondents wrote in "other" reasons. TABLE I distributes respondents by reason while TABLE II illustrates the distribution of reasons.

TABLE 1.—DISTRIBUTION OF RESPONDENTS BY REASONS FOR FAILURE TO REPORT TO D.E.S. OCT. 15-29, 1971

	Number of instances	Percent of total number of respondents giving this reason (600 respondents)
Reason:		
1. Didn't know	136	22.67
2. Couldn't leave house—had to care for someone	21	3.50
3. Too far to travel	41	6.83
4. Too sick or disabled to go	184	30.67
5. Working full time	57	9.50
6. Working part time	23	3.83
Not sure I was entitled to check:		
7. Have other income	61	10.17
8. New welfare rules	44	7.33
Did not want to go to employment office:		
9. Am already working	44	7.33
10. Cannot work	67	11.17
11. Am too old	22	3.67
12. Am disabled	92	15.33
13. Must care for someone in house	16	2.67
14. Hospitalized	46	7.67
15. Reclassified	87	14.50
16. Error	93	15.50

TABLE 2.—DISTRIBUTION OF TOTAL NUMBER OF REASONS GIVEN FOR FAILURE TO REPORT TO D.E.S., OCT. 15-29, 1971

	Number of instances	Percent of total number of reasons
Reason:		
1. Didn't know	136	13.14
2. Couldn't leave house, had to care for someone	21	2.03
3. Too far to travel	41	3.97
4. Too sick or disabled to go	184	17.79
5. Working full time	57	5.51
6. Working part time	23	2.22
Not sure I was entitled to check:		
7. Have other income	61	5.90
8. New welfare rules	44	4.26
Did not want to go to employment office:		
9. Am already working	44	4.26
10. Cannot work	67	6.48
11. Am too old	22	2.13
12. Am disabled	92	8.90
13. Must care for someone in house	16	1.55
14. Hospitalized	46	4.45
15. Reclassified	87	8.41
16. Error	93	8.99
Total reasons	1,034	99.99

The two tables clearly indicate that the reason given most frequently for not having reported to D.E.S. was "too sick or disabled to go." This response was offered by 31% of the respondents and there were 184 such instances which accounted for 18% of total reasons. The next largest category "didn't know" was cited by 23% of respondents and appeared 136 times which accounted for 13% of total reasons.

Adding category (4) to category (12), but subtracting 66 of these as duplicatory, there were 210 persons who listed illness or disability as a reason. In addition, of the 46 instances of "hospitalized," if also adjusted for duplication, 22 can be added to make a total of 232 persons who were disabled. This represents 38.7% of all respondents.

The category "didn't know" can be combined with "error" in order to arrive at a figure of those that could be viewed as temporary. Eliminating duplicated responses (32) and adding these categories, the total is 197 persons or about 33% of the respondents.

In regard to those who did not report to D.E.S. because they were working, we can add the part-time and full-time categories and get a sum of 80 to which can be added 17 unduplicated responses of "already working" under (9) to become 97 who are at work, or approximately 17%.

The Results of the Interviews showed a distribution of reasons for not having reported to D.E.S. remarkably like the distribution in the questionnaire phase of the study. Thirty-eight percent of respondents said that they were ill. Just as the questionnaire data shows that 23% of the respondents "didn't know" they were supposed to report to D.E.S., the interviews illustrate that 30% of those 79 respondents said they did not receive a notice from the D.P.W. in regard to this requirement. An additional 22% said they had gone to D.E.S. at the scheduled time and out of these, one-third said their checks were not at D.E.S. and consequently they did not receive them. In the interview results, 22% responded that they were working and therefore could not report to D.E.S.

The types of illness were not noted but the interviewers were asked to give an estimate of visible handicaps of the total sample which was categorized as follows:

Visible handicaps of all respondents as noted by interviewers

Type of handicap:	Percent of respondents
Feeble, senile, confused	8
Alcoholic	5
Difficulty walking	9
Back brace	1
Asthma, emphysema, labored breathing	4
Injury	3
Old, infirm, frail	8
More than one	1
Total	37
No visible handicap	63
Total (N–79)	100

Some of the responses which indicated illness probably indicated temporary illness, but the independent interviewer designation of illness which came to 37% of the whole sample as noted above clearly concerned more serious illness having some bearing on employability. In addition, out of 79 respondents, 31 said that they were not able to work and out of these, 62% (a quarter of the total respondents) gave illness as the reason.

The most frequent reason given by respondents in both parts of the study for not reporting to D.E.S. was illness. The significance of this finding can be, to some extent, evaluated by relating it to date on the total General Relief caseload and DPW procedure and practice regarding illness.

The Survey of General Assistance in Massachusetts (1971) concludes that "in nearly one-half of the cases physical or mental illness or handicaps contributed to the need for assistance." This is well borne out by total caseload data which indicates that 37% of adults whose cases are known and recorded were unemployed for reasons of illness, this being the most frequent reason for termination of employment. Similarly among the reasons for application to General Relief, 14,000 concerned some form of illness of adults out of 62,000 reasons (23%) in 33,000 cases (42%). The analysis of services received by adult recipients also reveals that 14,551 medical or psychiatric services were rendered out of 23,128 recorded services (63%). Medical care alone was obtained by 40% of the caseload and was the most frequently provided service.

Given the assumption that such a large part of the General Relief caseload appears to have some condition of illness, the issue of to what extent the category of Disability Assistance plays a part, should be taken into account. According to the *Survey of General Assistance*, in only 20% of General Relief cases was eligibility for Disability Assistance explored. Out of 7,106 cases that were submitted to the Medical Review Team for certification, as many as 2,512 or almost one-third were denied. So that a low proportion of cases are referred and a high proportion denied. In addition, only 7 DPW offices use the presumptive Disability Assist-

ance category for all pending Disability Assistance cases, while 19 offices use it for obvious cases only, and in 9 offices it is not used at all.

But Disability Assistance applies only to the permanently and totally disabled. There should be ways of ascertaining temporary disability in regards to employability. Before the new system of reporting to D.E.S. was instituted, the recipient who claimed to be too ill to work had to present verification of this obtained by himself. However, it appears that this was not enforced in any comprehensive way, so that in the initial periods of this program, a large number of recipients in this category would not have obtained this verification and would have been deemed "employable" as a result. Since the new requirement has gone into effect, 2,400 General Relief recipients have obtained this verification.

Error, according to the questionnaire, aside from the 186 responses of "I don't know" (and eliminating duplicate responses), left 61 instances of other type errors. Fifteen of these were "went to D.E.S. but check was not there"; the balance included such categories as : "social worker told me to go on the wrong day," "was notified too late," "sent to the wrong D.E.S. office," and many other assorted designations. The Social Welfare Regional Institute which conducted the questionnaire aspect of the study, also received about 50 telephone calls from respondents in response to the questionnaire. Although the content of these calls was not recorded, the impression is that at least 30 of these calls were about mix-ups regarding the new procedure, and resulting missed checks, about which recipients were asking advice and assistance.

The third largest reason that respondents gave for not picking up checks was that they were *working*. This finding should be related to the state of the General Relief caseload in regards to employment before the current program went into effect. At the time of that study (1971) 7% of the adult caseload were employed either full or part-time receiving General Relief supplementation. Only 4,778 out of 41,458 persons were registered with D.E.S. Thirty-five percent of total adult recipients and 60% of those known and recorded had no marketable skills. A much smaller proportion—28% of all adult recipients and 40% of those known and recorded did have marketable skills. Nevertheless, only 38% of all and forty-three percent of the known and recorded had been regularly employed, sporadically employed, or seasonally employed.

The date of this study shows that 17% to 22% of the respondents indicated that they did not report to D.E.S. because they were already working. We can assume that a certain proportion of these, as suggested from the overall caseload, were obtaining and entitled to supplementation. A certain proportion of these, no doubt, were part of the group that is usually closed each month; 17% are closed each month but the amount closed for employment is not known. In addition, we must allow for administrative error as those already at full-time work were not to be referred to D.E.S. but apparently many of them incorrectly were so referred. The data does not permit us to make this analysis of those at work in any more specific terms than these. It is apparent, however, from the over-all caseload data that, as a whole, the General Relief caseload seems to consist mainly of sporadic and seasonal workers who have marginal skills and who have a high rate of return to General Relief. It is not clear then, at which point in the work continuum this 17% to 22% falls.

It sould be noted that out of the 2141 recipients who did not meet the requirement of reporting to D.E.S. to obtain their assistance checks, 600 or 28% replied to the questionnaire and 79 were interviewed. Both samples may have over represented those clients with good cause due to the voluntary nature of the surveys. However, the anonymous nature of the questionnaire would tend to offset this potential bias somewhat.

Of those who did respond, the major reasons for not having complied with requirements were illness, error and work, in that order. What is important to understand is the hardship that prevented compliance and that resulted from non-compliance. People were either too ill to report or too ill to consider work. Errors resulted in both confusion and deprivation which was clearly illustrated by the data and corroborated by the phone calls received. Some respondents who had good cause thought they had been simply dropped from the roles and did not know how to deal with the situation. Many of these were still having difficulties at the time of the survey. These hardships may be the highest cost imposed by the program, falling on those who may be least able to cope with poverty and the administrative structures.

III. Genegal Relief Recipients Who Obtained Employment Through the Check Pick-Up System

The ultimate goal of the check pick-up system is to restore "employable" General Relief recipients back to self support. Out of the original 9,016 recipients who reported to D.E.S., only 220 actually obtained jobs as of December 15, 1971. This figure represents only 2.4% of those who reported in October and 4.8% of those found referrable by D.E.S. Further, it is reasonable to expect that many employable recipients would have found jobs through their own efforts without having to sign up for work at D.E.S. to obtain their checks.

In order to understand the job-finding process, a survey of 99 recipients who supposedly received jobs through D.E.S. was conducted in the Boston area. In this survey we attempted to get a qualitative picture of the recipients' work and welfare history, present job characteristics, and their job-finding habits. The results of the survey proved to be most interesting. Of the 70 recipients who were willing to be interviewed, a quick survey of 21 recipients revealed that 15 obtained their own jobs without the aid of D.E.S. According to their statements, all did in fact sign up for work at D.E.S., but only 5 actually received jobs through D.E.S. (one claimed he did not get a job). The results can be seen as indicative of a phenomenon in which many General Relief recipients tend to obtain jobs on their own initiative.

Of those 20 people surveyed who said they had gotten jobs, only 25% were placed through referrals by D.E.S. Projecting this figure to the population of those who got jobs, approximately 55 clients would be expected to have been placed by D.E.S. This last figure must be qualified by the realization that the number of people surveyed, while 21% of those finding employment in the Boston area and almost 10% of those in the state, is a small sample, not randomly selected. Projections on this basis are subject to possible errors, but the findings and projection do indicate a probable pattern to the job finding process.

One recipient who is employed as a hospital housekeeper earning $1.85 per hour obtained her job through her own efforts. Since she felt that there were "no other opportunities available," she made the decision to "do it myself." As a result of applications to a local hosiptal, she obtained a job similar in nature to that of her previous work experience. Commenting on the welfare regulations requiring her to sign up for work at DES, she felt that the system was ineffective and described it as "just more talk."

Another recipient interviewed did obtain a job through DES. She inspects razor blades which is also similar to what she had been doing on her last job. Since she obtained her last job through DES, she felt that it would be easier to get a job through the employment service again.

These examples suggest that recipients who have had previously successful experiences with DES in obtaining jobs might have used the employment service anyway. Whether they were required to pick up their checks or not. However, for those 15 recipients in our survey who did not get jobs through DES, their job finding experiences had always been through other means: friends, newspaper ads, or on their own initiative. They continued looking for employment while on relief, and after a few months duration were able to restore themselves to self-support. In this survey, we found no instances in which people were working and receiving relief at the same time.

Considering the very small number of recipients who have been able to obtain employment since the system began on October 15, 1971, and also considering the very small number of recipients who actually obtained employment through DES, the check pick-up system appears to be relatively ineffective in achieving its goal of restoring General Relief recipients back to self-support through employment services.

Further research is needed to determine the connection between employment history, experiences with DES, and job finding success. Other General Relief recipients such as those who have not been able to obtain jobs, should be surveyed as well.

IV. Manageability and Cost

Introduction

Two aspects of the new GR procedure will be discussed in this section: (1) problems of manageability and (2) additional cost. In brief, this section is an attempt to get at the Commissioner's third charge: "To what extent was the administration of the program problematic, unmanageable or expensive?" The find-

ings contained herein are based on field visits to selected Welfare Service Offices and to the Project GR-DES office at 48 Hawkins St., Boston. The quantitative remarks rely on responses to a questionnaire concerning additional time given to the new GR procedure, sent to all workers and other staff involved in the new GR procedure in all WSO's in the Commonwealth.

FINDINGS ON MANAGEABILITY

Although some of the problems in the administration of the new GR procedure are doubtless attributable to the fact that the system has been in effect only a short time, six major problem areas were discovered from field visits. Each problem area represents the most striking and significant deficiencies in the administration which cannot be written off as temporary aberrations due to the transition. The six problem areas are:

1. Overloading of GR staff in WSO's
2. Incompatability of DPW and DES operationalization of employability
3. Problems arising from change in GR payroll procedure—from local Finance Units to a central computer for the state
4. Inadequate information and training in new payroll procedures for WSO payroll clerks
5. Insufficient staffing, equipping, and procedures at the new Project GR-DES office
6. Low staff morale resulting from the way in which changes in GR were implemented.

1. Overloading of GR Staff in WSO's

We found workers and payroll clerks of WSO's hard pressed to fit in the additional tasks necessitated by the new procedures for GR. Whereas before GR had been a low priority program which required little time on the part of the staff—priorities going to federal category programs, especially AFDC—the new GR procedures suddenly thrust GR to center stage. Workers had to take time from federal categories to review their GR caseload, to make necessary determinations of employment capabilities of recipients (fill out Form GR-DES 1), keep up-to-date on Form 8660's returned daily from DES, follow up on clients who didn't pick up checks or follow up with the Project Office for checks not received.

Many workers claimed that whereas before GR had taken a few hours of their time a week, it now required twice to three times as much attention. Many worked overtime during the first month. Some came in on their own time or stayed later to keep up with the paperwork, in order not to detract time during the work day from seeing clients, making home visits, troubleshooting problems with checks, and doing work for the other categories. Many said they felt more like clerks than social workers as so much of the time demanded by the new procedures involved filling out forms, especially the 8660's from DES. They felt especially desk-bound as a change in AFDC had come through at the same time as the new GR procedure, requiring additional time to re-compute the budgets for the AFDC clients in their caseload.

WSO's with specialized GR units were especially hard hit as they are usually large offices where the caseload is heavy and the staff severely shorthanded. Prior to the change many were doing little more than providing "over-the-counter service" to the GR clients who walked in the door. In many cases they had to bring in staff from other units or find temporary help to manage the initial review to determine which category—employable or non-employable—in which to place their GR cases. In one office the GR caseload dropped from over 700 to under 500 during this review process by simply closing out cases who left the rolls long ago but the undermanned staff had not gotten to review the files previously. (Payroll clerks were also hard-hit by the change. This problem will be discussed in item #4 below)

2. Incompatibility of DPW and DES Operationalization of Employability

One of the most difficult and time consuming problems in the new procedure for all parties—social workers, employment counselors, and clients—is the basic conflict between the operating procedures with regard to employability of the two agencies participating in the program. DPW operates as if a GR recipient is employable unless specifically exempted (refer to State Letter 283). The six categories of exemptions listed in the State Letter provided the grounds for deeming a recipient non-employable. In order to classify a client as non-employable the social worker had to fill out Form GR-DES 1—stating the reasons for the exemp-

tions and verifying it. A worker is thus under severe pressure to place a recipient in the employable category unless he can produce written verification to the contrary in the recipient's file (i.e., in most cases, a doctor's letter). Then, and only then, is the recipient placed in the non-employable category.

However, DES operated on the opposite set of assumptions. Despite written instructions to the contrary, we found in practice that DES staff operate from the premise that a client is considered employable only if he is potentially employable, i.e., has work related characteristics—age, sex, previous work experience, education—which make it likely for him to be placed in a job or in a training program. Employment counselors at DES are under pressure to deem employable only those GR recipients who are likely to be placed and to deem non-employable those with little chance of placement. This approach serves two purposes for DES staff. First it conserves staff time—the employment counselor does not have to continually see clients who are not likely to get jobs. Secondly, it produces good monthly reports—the rate of placements per number of active cases is not depressed by a large pool of clients who are not likely to get jobs.

The result of these conflicting agency positions is that many GR recipients find themselves constantly shuttled back and forth between the WSO and DES office. The worker classifies the client as employable and sends him to DES. At DES the employment counselor interviews the recipient, finds him or her not likely to be employed and sends the Form 8660 back—checked #9, non-employable. The worker must then follow up—find out why the recipient was marked non-employable and try to get verification in order to fit the recipient into one of the exemptions for non-employability. The recipient often does not qualify for an exemption and is sent back to DES where the process is repeated.

We further discovered that these and other problems in the relations between the local WSO and DES offices were more or less difficult depending on the quality of previous relations between the two offices prior to new regulations. Where two offices were in close proximity, e.g., WSO and DES offices in the same city or town—and had worked together before, i.e., workers had taken the previous department requirement that GR recipients visit DES once a month as a beginning point for working with the local DES staff to find the recipient a job—both were better able to manage the conflicts arising from opposing agency purposes with regard to the new procedure. Further, the free flow of information between worker and DES staff prior to the new regulations facilitated communications under the new system. Information about a client which was valuable in placing him in a job was not provided for in the new procedure. The Form 8660 proved inefficient for exchanging the type of information needed by either the social worker or DES staff.

The example given by a worker at one WSO we visited illustrates the problem: A GR recipient with no physical disability showed up at the DES office hunched over a cane. Through previous contact with the DES staff, the worker was able to correct this false impression and to get the recipient placed. In the same office we also found a number of cases of recipients who could not fit any of the exemptions, e.g., widows in their late 50's or early 60's without previous work experience. Both the workers and DES staff realized these people were "socially" non-employable, but were unable to deal realistically due to the requirements of the DPW State Letter to classify the recipient as employable.

3. Problems Arising From Change in GR Payroll Procedure—From Local Finance Units to a Central Computer for the State

The portion of the new GR procedures which was most likely to occur yet was so ill prepared for was the change in the method of dispersing the GR payroll from the local Finance Units to the Data Processing Center in the Boston Finance Unit at 48 Hawkins Street.

One of the chief difficulties with this new procedure—which was repeatedly brought out in our interviews with the staff of WSO's—was that processing GR under the old system through the Finance Units allowed the kind of flexibility and personal contact which enhanced the aims of the program, strengthened worker-client relations, and seemed most appropriate to the kind of population which GR serviced. As WSO staff described it, GR functions as a residual category for those in need who are not eligible for other categories or other programs, e.g., widows and widowers prior to age where they are eligible for OAA or Social Security, families not eligible for AFDC where the breadwinner is unemployed temporarily, unskilled laborers who are not covered by workman's compensation.

GR as dispersed through the Finance Units where a few WSO's are in close proximity to the Finance Unit (in some instances in the same building) permitted the worker to get cash quickly into the hands of a recipient, who in many cases needed help immediately. Through the Finance Unit's the regular payroll lead time was under a week. In emergencies the workers could often get a check out of the Finance Unit the same day by personally going to the Finance Unit and walking the authorization through. Among many of the staff at the WSO's visited, there was a noticeable preference for a return to the Finance Units in order to recoup this kind of flexibility now lost with the statewide computer payroll.

In contrast, the payroll procedure under the new GR system seems to offer the least flexibility and responsiveness to clients who need it the most. The payroll lead time has jumped from a few days to over two weeks. We found that in many cases due to the long lead time and errors in preparing the payroll both in WSO's and at Data Control it took workers up to 3 or 4 payroll periods to get recipients a computer payroll check.

In the meantime while waiting for the first computer check the procedure of relying on vendor payments has proved to be unsatisfactory. For recipients there was no cash for non-food or rent items. It was proving difficult to arrange for certain types of bills, e.g., utilities. From the Department's perspective the vendor system was proving costly as well as difficult to monitor. In some WSO's the vendor payroll appeared to be soaring under the new GR procedure.

Further, the fact that recipients were not able to get computer checks for two to three pay periods meant that workers were not able to comply with the Department's regulation that a person eligible for aid receive the full amount he or she was eligible for from the date of application. Vendor payments inevitably fell short of the full grant. Computer checks were not retroactive as had been the case for GR under the Finance Units and is still the case for federal categories.

The problems discussed below in the staffing, equipping, and operating of the Project GR–DES Office aggravated what for many WSO staff was an already intolerable situation. Lack of telephone lines and trained personnel made it difficult, if not impossible, for workers to follow up errors in the computer payroll, or for staff to get information about how to fill out the new forms in order to avoid errors in future payrolls.

The biggest headache for WSO staffs in the new computerized GR payroll was the procedure for releasing to the recipient checks returned from DES to Data Control for not being picked up. We found numerous cases where workers received the Form 8660 from DES but were delayed in getting in touch with the recipient. By the time the completed Form 8660 and Form GR–DES 4 was returned to Data Control that check had already been re-deposited. In other cases the worker completed the forms promptly, but still could not get the check released to the recipient.

While some of these problems may be due to the transition to the centralized computer payroll, many of them indicate the need for additional procedures within the new system. Ways of restoring flexibility and speed in responding to client needs should be developed.

4. Inadequate Information On and Training in New Payroll Procedures for WSO Payroll Clerks

As mentioned above we discovered on field visits that payroll clerks in the WSO's were confused by the change to the new GR payroll procedure. Prior to the new system, preparation of GR payroll was relatively simple and consumed little of the clerk's time. All that was involved in getting out the payroll was the completion of one form—Form A–R–I. The sum of the adds and deletes to GR was added to the amount of the previous payroll to get the payroll for the current period. Under the new procedure the number of forms has quadrupled—Form GR–DES–2—the GR payroll, Form GR–DES–2A—the payroll update, Form GR–DES 2B—the computation and reconciliation form, and Form GR–DES 3—the pull list, one for the employment payroll and one for the non-employable payroll. The initial GR payroll was filled out on Form GR–DES 2 and included in addition to recipients' names as before—recipient's social security number, address, amount, date of birth, sex. The action code—add/delete/change—was especially confusing to clerks not familiar with computer programming. They could not understand the difference between adds, deletes, and changes, or the reason that in order to change from employable to non-employable or vice

versa they had to delete from one and add to other, where previously they simply would add or delete.

In order to figure out this complicated new procedure, the clerks could rely only one the general program guidelines in State Letter 288 and the briefest instructions on the new forms. They received no explanation of the steps to follow in filling out the forms nor explanation of the rationale behind them.

5. Insufficient staffing, Equipping, and Procedures at the New Project GR–DES Office

On visiting the Project GR–DES Office at 43 Hawkins Street we discovered that many of the problems discovered in the WSO's were due to the fact that the change in the GR work requirement was coupled with a somewhat unsatisfactory transfer of the GR payroll from the local Finance Units to the Department's Computer Center in Boston. The brief lead time mandated by the Legislature's statutory change in GR did not allow time or resources for putting together the operation at 43 Hawkins Street to handle efficiently the GR payroll of the whole state.

The first and most obvious deficiency was the absence of separate telephone lines to the Project Office. Workers following up errors or staff calling for information about the new procedures had one telephone extension through the switchboard at 43 Hawkins Street. In the early weeks of the program workers literally could not get through for days.

A further source of difficulty was that the only additional staff available to set up the new office were 15 Grade 8 clerks who were hired as 30 day temporary employees. They had neither the necessary skills nor the tenure to enable proper training in putting together a payroll or troubleshooting errors. (Initially, there were not even enough desks for these temporary staff.) As a result no procedures were developed for handling the queries coming in from the WSO's. The staff of the WSO's reported that when they were finally able to get through to the Project Office, the person on the other end of the line did not know what they were asking about or how to find it; or if they did know something the WSO staff were not assured that they would follow up or be able to get in touch with the same person on a return call.

At the time of our visit—in mid-December—to the Project Office, considerable improvements had been made in correcting these deficiencies. The new director—since mid-November—had attempted to routinize procedures, to log in and follow up promptly "problems" coming in from the WSO's, to get additional phones, desks, and more permanent and experienced personnel, and to cut down on the lead time for the GR payroll. These reported improvements corroborated with our experience of our later field visits in which interviewers reported some improvement in access and responsiveness at Data Control in recent weeks.

One problem originating in the Project Office, but not due to their own deficiencies, is the lack of fit between the number of employable and non-employable payrolls per pay period. There are currently four employable and two non-employable payrolls per month which Data Control must process. The reason for the additional employable payrolls is the DES procedure of distributing checks by social security number. This results in the employable payroll being split into two Groups, A and B. As a result of this non-comparability between the employable and non-employable payrolls, it is difficult to transfer recipients easily from one to the other. For this reason a change in category frequently results in the recipient missing out on one computer check.

6. Low staff morale and negative attitude toward State DPW over the way in which the GR changes were implemented.

Visits to WSO's generally revealed that most staff were sympathetic to the changes in GR but were negative toward their own Department which had carried out the Legislative mandate. In some cases workers had been assisting GR recipients to find work prior to the new program. Many workers felt that those GR recipients who could work ought not to live off welfare or that many of their GR recipients were genuinely interested in getting off welfare into a job. Thus, the availability of DES services under the new program was a benefit to some workers and recipients. The staff was generally sympathetic to the predicament of the Department in having to make such drastic changes in such a short time due to the nature of the mandate from the Legislature.

The feeling of resentment and hostility toward the DPW must be traced to a number of causes. Much of the workers displeasure was directed at the loss

of discretion over the clients and the extent to which they had to enforce the DES registration provisions under the new regulations. The use of discretion instead of rigid guidelines, some argued, would have been a valid use of professional judgement given the mixed bag of clients who compose the GR population; this was somewhat substantiated by the difficulties that developed for DES in not knowing what to do with those GR recipients who were obviously not employable but who could not qualify for the non-employable payroll under current exemptions. In addition, there was some lingering hostility among some of the older staff against state take over of welfare. Further some remarked about the incompetence of the "bosses" and their lack of sensitivity to the staff's real problems, a common complaint in large bureaucratic organizations, especially governmental.

However, the more serious problem which was uncovered concerned DPW communications. Many staff voiced the criticism that they first heard about the program through the newspaper and that they continued to learn more about it—changes, progress, reports and other day to day feedback on the program—through the newspapers not through the Department. A reading of the State Letters on the subject, the occasional memos from Data Control, and the few articles in the monthly in-house newsletter of the Departments, tends to corroborate these feelings. The insufficient flow of information from the top to the bottom produced not only the feeling among lower echelons of being left out. but resulted in inefficiencies due to the shortage of basic information on how to operate the new procedures, e.g. payroll clerks lacked instructions on filling out the new GR payroll forms.

In addition, the criticism was made that the staff most affected by the change in GR procedures were not involved in the planning and implementation of the changes. The new procedures were developed by the central office and presented as a fait accompli to the regional and local office with little apparent consideration for the likely impact of these changes on the front line staff. In addition, few, if any, orientation sessions for GR staff were held prior to the change. The recently inaugurated training sessions conducted by Data Control for GR payroll clerks came only after voluminous criticism of obvious inadequacies of the new procedures and after the question of credibility of the central staff was raised.

The general feeling among many of the staff might be summarized as follows: The WSO workers were the ones who had to bear the brunt of the problems brought about by changes in welfare policy, yet their interests were not considered in shaping department policy. The central office was caught between economy minded Legislators looking for votes back home and militant welfare recipients. In the process they left the local workers in the Department to fend for themselves, as they attempted to mediate between the two groups as well as maintain their own positions.

RECOMMENDATIONS ON PROBLEMS IN MANAGEABILITY

In order to deal with some of the problems of manageability, the following recommendations are presented for consideration by the Department.

1. Discussions between DPW and DES about the possibility of eliminating the duplicate employable payroll-Group A and Group B payroll should be initiated in order to simplify the operation of the computer center and eliminate many of the problems now occurring in changing a recipient from an employable payroll to a non-employable one.

2. To reduce confusion and time now spent negotiating employability between DPW and DES the Department should adopt one of these two courses of action: either a) reverse present policy to conform with the current DES operational definition—i.e., consider a recipient employable only if able and likely to be placed; or b) broaden the definition of "non-employability" to include the large number of GR recipients who are "socially" employable. This could be accomplished through a number of means: 1) by expanding the medical category to include emotional and other non-physical reasons for exemption, 2) by using the DES determination of non-employability as functional verification thereof, 3) by giving workers limited discretion to certify clients non-employable for special causes, and 4) by setting up additional categories of GR recipients who would be considered non-employable, e.g., widows between 58 and 62 with no previous work experience.

3. Workers should be granted limited authority to hold checks for employable clients who are not able to make their DES pick up appointment. For example, a worker could be allowed to authorize DES to keep the check an extra day before returning it, so the client could get into pick it up. Or alternatively he could be authorized to have the check forwarded directly to the WSO or to the client if "good cause" was determined. In addition, the client should be permitted to change his pick up time to suit his schedule rather than the arbitrary method of assigning appointments by social security number, which obviously bears no relation to the recipients availability or access to transportation.

4. The time needed to put together the GR payroll should be reduced to 5 working days, thus permitting the WSO's 7 days lead time for preparing their GR payroll, which corresponds more closely to previous procedures and allows greater responsiveness to changing client circumstances.

5. As soon as #4 is completed and the necessary staff is available an emergency payroll should be initiated to handle clients prior to going on regular GR payroll (currently 8 days for client to get a check in the Boston Finance Unit where the emergency payroll is now in use). This would eliminate the vendor system which is presently inadequate to meet clients needs and costly for the Department.

6. In order to improve staff morale, the needs of staff and potential impacts of changes thereon should be given higher priority in planning and implementing changes made in the future. The Department should be working towards an operating style which seeks to involve staff in these changes, rather than presenting them to the staff as completed and unalterable. Such options as the following might be appropriate depending on the nature of the change: a) Supplement the State Letters with concise but informative background pieces to be sent ahead of time to staff involved in different programs—to keep them abreast of current programs in which they are involved and to prepare them for changes, b) increase the role of the regional staff in working with WSO staff in preparing for changes as well as serving as feedback units to the departments central staff, and c) under appropriate conditions include other staff levels in the planning process through task forces or committees drawn from local staff who would be involved in the changes. This last approach would increase information flow as well as participation and feedback. This would not only lead to greater "productivity" and less of the counter productive energy we discovered resulting from a failure to consider these issues, but also to better inputs to central planning—information on the state of the organization and ideas for improvement therein.

These additional recommendations are aimed at a more immediate improvement:

1. The installation of a separate telephone line for the Project GR–DES office might avoid the bottleneck at the 48 Hawkins St. switchboard which currently cripples access and information flow between the WSO's and Data Control. It would be preferable for increased efficiency to have a separate number for each region with one person handling all the calls from the WSO's in that region. This would serve two purposes—the WSO staff would get to know one person they could rely on and the Data Control clerk could have a manageable number of WSO's to become familiar with.

2. The present temporary personnel should be replaced with experienced clerks who can be trained in procedures for preparing the GR payroll and handling queries from the WSO's.

3. A brief informal memo should be sent to WSO payroll clerks which will inform them on how the new computerized payroll works, what steps they must follow, what function each of the forms serves, and a simplified explanation of how the new procedures are related to the demands of a computer operation. In addition, the Director of Data Control should continue, and accelerate if possible, the meetings with payroll clerks to familiarize them with the new system and answer their questions.

4. The number of days the Project Office holds checks returned by DES should be extended to allow workers enough time a) to receive Form 8660, b) to contact the client, and c) to return Form GR–DES 4 to the Project Office. This change would eliminate some of the problems of recipients not getting comupter checks and thus having to rely on the vendor system.

COSTS

The purpose of this part of the GR–DES study was to compare the differential in administrative cost of the GR program before and after implementation of the new procedure (October 15, 1971).

After making several site visits and conducting numerous interviews with Welfare Service Office (WSO) Directors, social workers and clerical and fiscal personnel, schedules were developed and pretested.

The schedule of items were selected from the comments of experiences consistently and unanimously reported during the interviews. The schedule attempted to elicit responses along four themes; (1) per cent of GR cases of the total caseload, (2) time expended on each assistance category before and after the new GR–DES program; (3) average number of clients referred back from DES during one pay period, and (4) estimates of time and description of tasks for which additional time was expended on the new procedure. Also each respondent's Civil Service rating was requested.

Questionnaires were distributed from the Commissioner's office to each of the 150 WSO's. Seventy-seven WSO's (50%) returned the questionnaires with a range from 1 to 22 personnel responses per WSO.

While legislation was enacted which called for all employable recipients of General Relief to pick up bi-weekly checks at local DES Offices, no additional funds were allocated for planning and implementation of this new procedure. The intent of the legislation was to assist and encourage employable recipients to register, be referred to, and placed on jobs, thereby reducing the rolls and effecting a savings to the taxpayers.

Even though no additional funds were expended on the new GR program expenditure shifts (in man hours) were necessary to meet the new requirements. Also numerous additional tasks resulted from the new procedure.

1. Time Transference

The average GR caseload of social workers (from our sample) who have GR cases assigned to them as part or all of their load is 42. The average expenditure of time (prior to the new GR system) per social worker (that service GR cases) per payroll period (2 weeks) is 17.5 hours. While we found no evidence, either from our investigation or from DPW monthly statistical reports, that the GR rolls had increased, an additional time expenditure of 8 hours per social worker per two week period was reported by those with integrated case loads.

These eight additional hours per worker represents the amount of time that social workers (whose caseloads are integrated) are taking from other public assistance categories to meet the requirements of the new GR–DES program. The cost being shifted from federal public assistance categories to service the General Relief population is $42.08 per two week period per worker, (again, this figure is only applicable to DPW personnel that assist in the processing of GR cases). Each GR case costs an average $1.10 of worker time per two week period taken from other categories to process under the procedure of the new GR program. The total cost of worker time transferred from federal public assistance categories to the GR category approximately was $47,960.00 for November 1971 and approximately $45,980.00 for December 1971. (2)

To illustrate the impact of the time transferrence; the average total caseload (all categories) of social workers (having any GR cases in their caseloads) is 149. Of these 149 cases an average of 32 are in the GR category, leaving 117 in the non GR category. Average time allocated to GR cases prior to the new system was 17.5 hours. It has been necessary for social workers to increase their time to GR by almost 50% (8 hours) over time previously spent processing GR cases (prior to the new system), bringing the average time expenditure per social worker to 25.5 hours per two week period. The remaining 49.5 hours (per two week period) is left for servicing cases in other public assistance categories. Therefore, 34% of the social worker's time is allocated to 21.5% of his total caseload under the new system as compared with 28.3% time being devoted to 21.5% on the old system.

2. Additional Tasks and Time Expenditure

Prior to the new GR procedure social workers did not tend to refer employable GR recipients to the DES for job registration. Under the new procedure three clients per worker per two week period, have been referred back from DES. The cost of coordinating these clients and procedurally-related matters with DES personnel is $.82 per case.

Four additional tasks, (inherent in the new procedure) none of which were required under the old system, were identified during our site visits. They are (1) determination of non-employability of GR clients, (2) following up clients who did not pick up their check from the DES offices. (3) handling client prob-

lems related to the new GR procedure, and (4) other. This last miscellaneous category would include (according to our data) tasks relating to new forms, clarification of unclear procedural instructions and efforts to trace welfare payments through central data processing.

The cost of social workers assisting clients in determining their non-employability was $.88 per case. The cost of social workers following up clients who did not pick up their checks from the DES offices to determine current status was $.26 per case. The cost of social workers responding to clients' problems related to the new procedure was $.75 per case. The cost of time expended on "other" tasks of the new procedure was $.30 per GR recipient. These costs were obtained from computations of individual hourly wage rates and hours expended performing each task.

The total additional cost incurred by the local DPW offices due to the GR-Des program is $1.69 per GR case per two week period. (based on a survey of over 1,700 cases) The assumption in reporting this $1.69 bi-weekly per case cost figure is that DPW personnel were working at relatively full capacity (time-wise) prior to initiation of the GR-DES program. Indeed there is reason to believe from our data that DPW personnel were over-extended in terms of caseload size, of time for minimally required services, and of worker time available to reassess cases in each pay period. This was certainly apparent in the larger WSO's.

For the months of November and December 1971, DPW statistics reported that there were 21,800 and 20,900 GR recipients respectively. The additional cost in the local DPW offices of the new GR-DES program was approximately $73,684.00 for November, and approximately $70,642.00 for December.

Of the 20,902 GR recipients reported for December 1971, 12,039 were certified as non-employable. The remainder, or 8,873 (42%) were employable. Therefore, the $70,642.00 additional cost for December represented the expenditure of processing 8,873 so that the additional monthly cost of each employable GR recipient under the new system is $7.96 per case.

In computing the total cost of the program for the month of December, the cost to the central office of DPW, to the Division of Employment Security, and the overhead would have to be added to this figure. Assuming that the costs to the D.E.S. are similar to those of DPW, the total administrative cost of the program per month would be in excess of $140,000, or over $1,680,000 per year.

An assessment of savings is difficult to determine in order to compare them with the administrative costs. The difference between the payroll in September, the month before the program began, and December, the third month of the program, was only a savings of $48,929. However, this could have been due to many other factors as well. The fact that the number of cases involved dropped significantly and that the average payment went from $112.86 to $140.70 would indicate that those who were receiving the lower payments tended to leave General Relief, possibly as a result of the increased costs of staying in due to the new procedures.

For purposes of computing a figure of possible savings, the figures from the questionnaire were used to arrive at the probable number who would not pick up checks in December who did not have "good cause". This savings was then added to the amount that would be saved if the monthly average of 110 persons finding jobs held true. Since our findings are that most of these were not due to the program, we made the liberal assumption that 50% of these persons found jobs through DES. Further, the assumption was made that the average payment to all individuals no longer on the rolls was the same as that for the GR payroll as a whole, which, as has been pointed out, is probably not the case. These figures are also not adjusted for the normal 16% turnover in the General Relief caseload, which would have also made them smaller.

The savings from the program for the month of December, if we subtract all those who are ill, care for a person in the home, have been reclassified, are the subject of administrative error, are too old, and who did not know but probably have good cause, is 63.737 due to those who did not pick up their checks. If the figure for those who find employment through DES is added, the total savings comes to a high estimate $71,475. If the assumption is made that 80.5% of those who did not pick up checks had good cause, which is the most reasonable according to the surveys, then the total savings is estimated to be $50,792.

When these possible savings are compared to the administrative costs alone, not counting the human costs, the administrative costs far exceed the potential savings.

The CHAIRMAN. Next we are pleased to have Governor Licht of Rhode Island.

STATEMENT OF HON. FRANK LICHT, GOVERNOR OF THE STATE OF RHODE ISLAND, ACCOMPANIED BY JOHN J. AFFLECK, DIRECTOR, RHODE ISLAND DEPARTMENT OF SOCIAL AND REHABILITATIVE SERVICES; AND JOSEPH F. MURRAY, ACTING ADMINISTRATOR, ASSISTANCE PAYMENTS PROGRAM

The CHAIRMAN. Will you identify for the record, Governor Licht, your assistants and aides with you today?

Governor LICHT. I am Governor Licht.

On my left is Mr. John J. Affleck, who is the director of the Rhode Island Department of Social and Rehabilitative Services; and on my right, Joseph Murray, who is the acting administrator of our assistance payments program in that department.

I may say, Mr. Chairman, I appreciate this opportunity to come before you. I am not sure that after the colloquy between the Senators and Governor Sargent——

The CHAIRMAN. Governor, hold up just a moment.

There is a little commotion in the room right now; everybody has shifted around.

Governor LICHT. I am not sure——

The CHAIRMAN. Hold on just a second, Governor.

There are copies of your speech being distributed and I wouldn't want the committee to fail to hear your statement because someone was distributing copies of your speech.

All right; thank you, Governor.

Governor LICHT. I was going to say I have distributed a statement that I think is longer than what I am going to say to the committee, but I think it is fair to say that the discussion already with Governor Sargent covered a great deal of the territory or area which I would address the committee. It may be a matter of emphasis but I think it is fair to say that Governor Sargent comes from the Commonwealth of Massachusetts and I come from Rhode Island, and while Governor Sargent is a Republican and I am a Democrat, the fact still remains when it comes to this problem of financing welfare it is very difficult to find a difference between the views of Governor Sargent and myself. So you will find we will be covering somewhat the same territory and, if I repeat it, I would say that I am reenforcing, really, the position that has been stated here earlier.

I appeared before this distinguished committee in September of 1970 to discuss the family assistance plan then under consideration, H.R. 16311, both as to its specific impact on my own State and its general adequacy as a measure of national welfare reform.

Since the first draft of the family assistance plan was introduced into the U.S. Congress more than 2 years ago, there have been numerous changes in the legislation and even more innumerable proposals for changes. The intense and widespread nature of the surrounding discussions point up the very critical problems inherent in our present social welfare system and the growing awareness of the desperate financial position in which State governments throughout the Nation are being placed because of the burdens of this system.

I, for one, am encouraged by the broadened scope of the present legislation. Knowing your very real concern in this area and your obvious commitment to genuine welfare reform, I wish it were possible for me to come before you today to advocate passage of H.R. 1 in its present form. I cannot do this.

Instead, I believe that many of the words I used 16 months ago to describe my stand on H.R. 16311 are still valid in their application to H.R. 1. At that time I noted that—

> In H.R. 16311 there is for the first time a fundamental recognition of Federal responsibility to establish a national minimum assistance level for the aged, blind, disabled and family groups including those deprived of parental support. Movement toward this concept is long overdue and I support this approach. The legislation now before us, however, is inadequate.

My position today is that certain standards of the proposed legislation continue to be grossly inadequate and that the bill, generally, still fails to come to grips with some very fundamental social and financial problems and I think that, if I may just digress for a moment, I think the heart of the question has been put on several occasions and that has been the question of what the State responsibility should be with respect to financing of welfare or to what extent or whether the Federal Government should take over a larger share or all the share of Federal financing.

When we finally clear away many of the real questions about social welfare, I think we still get back to that fundamental question, and so from the point of view of my State, the income level of $2,400 for a family of four without food stamps falls far short of meeting human needs.

There is no provision for the Federal Government to share directly with the State any of the cost of supplemental assistance.

For example, increased State expenditures for medical assistance would be inevitable as new families became eligible for aid under the provisions of H.R. 1. Moreover, there are cutbacks in the current bill for medicaid coverage, and the Federal program as proposed continues to exclude single individuals and childless couples; and we take care of them under our general public assistance. In other words, I believe this measure falls far short of the massive welfare reform so desperately needed, both from the general and social need and the financial need of the States.

I think you have heard this story many times and I think it was suggested that there are six former Governors or more on this committee and, really, the issue is social—but it is very, very definitely financial. Some Governors have already said we have reached the end of the line in this field and I think it is true that with our other commitments, education and other needs of State governments, we have just about reached the end of the line.

For example, there was one question put—and I don't mean to anticipate, but I think I would be better off to say some other things rather than just try to repeat what has been said—I think it was Senator Fannin who said something about HEW regulations.

We get caught in these situations very frequently. I have this situation in which, for example, the legislature of my State, concerned with escalating costs, attempted to cut out special needs for furniture and furnishings; and we were going to then move to an averaging

system, planning to go to an averaging system. We have not yet gone to that.

The State legislature indicated to us it didn't want us, without legislative approval, to change standards.

We attempted to cut out these special needs for furniture and furnishings which, for example, in 1967, cost the State some $300,000 and last year cost us $5 million; but the Federal district court in *Rosado* v. *Wyman* told us we could not do so. Unless we wanted to go on a flat grant system or ratable reduction we had to continue with these.

In some cases, for example, we are not sure, are we in compliance with HEW, or are we not in compliance with HEW regulations; so just as a digression, Senator Fannin, there is a problem just in the administration of social welfare which I think would be resolved if we were talking about a national program of social welfare.

I speak as a Governor of a State which is doing everything within its ability to meet the human needs of its citizens.

As a frame of reference for my remarks, let me point out that during fiscal year 1970, Rhode Island was sixth in the United States in the amount expended per inhabitant for public assistance payments, fifth in the United States in the amount expended per capita for medical assistance, fourth in the United States in the amount of personal income per $1,000 spent in public assistance.

At the same time we were 14th in the United States in per capita income and during fiscal 1970 we were 11th in the United States in the number of public assistance recipients per 1,000 population.

When I came to testify before this committee in 1970 there were some 43,000 people receiving AFDC. Today this number has increased 16 percent to 50,000. During this same period the rate of monthly expenditure increased 28 percent from $2.5 million monthly to $3.2 million monthly. During the 10-year period from June 1961, through June 1971, our AFDC regular caseload increased from 5,300 families to 12,800, up 140 percent. Since June 1961, our rate of AFDC spending for maintenance increased from $660,000 monthly to $3.2 million last month. Rhode Island is, therefore, now spending at five times its rate of 10 years ago.

No one can dispute, I believe, Rhode Island's extraordinary investment in human resources, and no one can dispute the extraordinary drain this has meant on my small State's limited fiscal resources. In Rhode Island we already provide between $2,800 and $3,200 for a family of four. Welfare today, including medical assistance, accounts for approximately one-quarter of the State's total budget which is supported by both the income and the sales tax and a great many other taxes.

It is my conviction that certain amendments to H.R. 1, offered by Senator Ribicoff and endorsed by Governor Sargent and many other Senators including the distinguished senior Senator from my State, John O. Pastore, and, as I say, a number of Governors including myself, would markedly improve the proposed legislation.

I particularly endorse:

(1) The increase in levels of payment for families; (2) Federal participation in the cost of required State supplementation of the Federal grant levels; (3) increasing Federal responsibility on a phased

basis to the point in 1976 where income maintenance payments would be fully federalized; (4) the inclusion of single individuals and childless couples; (5) continuation of the present matching plan for social services; (6) the calculation of income availability on a current basis rather than on the basis of earnings for the previous three-quarters of a year; and (7) protection of civil service rights, retirement benefits, et cetera, for career State welfare employees.

The passage of a bill including these amendments and the present provisions in H.R. 1 for strengthening the child welfare program through Federal participation in the costs of foster care, day care, and adoption would, in my view, represent the most significant social legislation since the original passage of the Social Security Act.

It is estimated by the U.S. Department of Health, Education, and Welfare that with the passage of H.R. 1 the number of persons participating in and benefiting from Rhode Island's welfare program would increase by some 50 percent. For the most part, these additional persons would include the heretofore neglected working poor, many of whom Rhode Island already does try to supplement through a totally State-financed general public assistance program.

Although the proposed legislation does not mandate the extension of medical care benefits to these additional persons, it would be difficult for a State to deny to some benefits received by others. Providing additional medical care will mean a substantial increase in State costs if these people are included under the title XIX program. We cannot ignore these immediate increased costs by anticipating eventual enactment of a national health insurance program.

H.R. 1 also proposes significant changes in the medicare and the medicaid provisions of the Social Security Act. We applaud the proposal to make available to social security disability beneficiaries the provisions of the Federal medicare program now available to individuals over 65.

We are concerned, however, with the proposal which decreases Federal financial participation by one-third after the first 60 days of care provided in a general hospital for title XIX medicaid beneficiaries.

Further, we oppose the proposal to allow for administrative discretion to reduce the Federal share of the cost of skilled nursing home care and we oppose a decrease in Federal matching by one-third after 90 days of treatment for mental hospital patients under the medicaid program. These provisions would have a most serious fiscal and program effect in Rhode Island.

Although I support the efforts represented in H.R. 1 to intensify medical utilization review and to develop greater reliance on health maintenance organizations, I cannot accept reduction in Federal participation in appropriate kinds of care for title XIX beneficiaries. Such reduction would leave to the States once again a heavy responsibility which they are unable to meet within their limited resources. Indeed, in Rhode Island we estimate the cost of the proposed changes to be in excess of $3 million, offsetting by half the $6.3 million of State savings estimated for us by the House Ways and Means Committee under the H.R. 1 program.

Finally, let me bring up an issue of immediate and vital concern. I was delighted, Senator Ribicoff, when I heard you say you were proposing to introduce into the Senate today a hold harmless, as I call

it, fiscal relief. I say this with the most profound respect for the members of this committee. States must have fiscal relief now.

The impact on Rhode Island's resources of increasing numbers of dependent individuals and families has been so severe as to create what I termed in my 1972 annual massage to the legislature, "A Welfare Crisis." I know that this situation is prevalent in other States. I also know that the States must have immediate relief if we are to cope with the urgent needs before us.

As I stated to the Rhode Island General Assembly, "The system's—welfare—fiscal drain on the States is seriously impeding their efforts to remain financially viable. This cannot long continue."

The various hold-harmless provisions that have been proposed show a general recognition of the need for immediate fiscal relief for the States. I view these proposals with some hope.

I would like to finally conclude by saying that the question has arisen, and I think I want to direct myself to it, as to whether indeed each of the States does not have an obligation with respect to taking care of its welfare recipients.

We have tried that but I think we can address the Congress on another point, and that is, that to the extent that the economy plays a role in the question of welfare, it must be said that that cannot be a State's responsibility because we don't live in a vacuum when it comes to the economic strength and health of this Nation.

What we produce is not sold primarily in Rhode Island; it is sold outside of the State. We have been up as high as 7 percent with our unemployment; we are 6.2 right now. I think Connecticut, Senator, has a larger unemployment rate than does Massachusetts.

We have no control over the question of the economic strength of the Nation and while Governors have on occasion taken great credit for the economic prosperity of the State when it was national prosperity and perhaps they shared some problems when we don't have it, the fact is we don't live in a vacuum and if employment is a national responsibility then I think it can be said that poverty is a national responsibility.

So, in my view, it becomes essential that we look at this, however the financing—as a national obligation. If you are talking about $2,400, the State of Rhode Island will get some $6,300,000 and half of that will go in some of the other changes—that is not meaningful reform as far as financial relief to my State is concerned.

So I come here to say to the Senate, and to say to this honorable committee, that while I recognize that there may be arguments made about the symmetry and the beauty of the national system, I am for it, I would be less than candid if I did not say that many of us—I am talking about the States we represent—are in severe financial difficulty and it is going to take the Federal Government in this area.

In the last three Governors conferences which I attended, I think with respect to welfare reform it was unanimous; every Governor voted that welfare should be taken over by the Federal Government on a phased basis.

So, I am delighted to have this opportunity, Senator Long and members of the committee, to come down and join with Governor Sargent and the other Governors who feel so strongly about this matter.

The CHAIRMAN. Governor Licht, there are several things I am convinced that we will do in the Senate; First, I have no doubt we are going to provide more benefits. We have differences but when we close the door on this committee and start voting, we arrive at majority votes and it puts us in one position and it decides the questions.

Now, there is no doubt in my mind that however we work this thing out, we are going to provide more benefits for the deserving cases; we are going to do that for the aged, disabled, blind, children. There will be more benefits.

Second, the additional benefits that we provide are going to be paid for entirely by Federal revenues. We are not going to expect the States to put up additional money to do it; and third, by the time we get through with it the bill will pay less and we will be moving in the direction of the Federal Government paying the entire cost of a uniform type program.

Now, that does raise one question in my mind that we should resolve and that is, in terms of administration; just who is going to do the paperwork?

Now, we have had testimony before us; for example, if we voted H.R. 1 through the way the House passed it, it would be 18 months before anybody would receive the first check. They would have to hire 80,000 people. How many interviews would have to be conducted of potential recipients? I think maybe 30, 40, 50 million interviews, some such thing. There is so much paperwork and so much redtape involved that it would be 18 months before people would get the first benefit check.

Now, meanwhile we still have the States administering their program. Admittedly, the program has a lot of discretion that the State legislature voted and apparently, if the Federal Government is going to do it all, that would mean that these people generally would have to be discharged from State payroll. But most of them would, I expect, apply to work for the Federal Government.

Now, we handle our unemployment insurance differently. The Federal Government votes the tax and the States administer it. You had a lot of objection to that when it started out but you couldn't change it now; it has been tried and it can't be done.

The people are very happy with the amount of State discretion that is left in the program and State administration appeals to the people in those States and it appeals to a majority in the Congress.

Now, it seems to me that the next step should be simply to arrange to pay for it but to leave the same people who are administering the program now to administer it for the next several years to come.

I know in my State we provide benefits and will continue to provide benefits for a long time to come beyond what the Federal program provides. Our standards for the aged, for example, are far broader than the Federal standards. We provide hospital care to a great number of people who apparently are not eligible for it under Federal programs.

Now, what would your reaction be to simply requiring that we pay for welfare but that the Governor would continue to appoint the administrator within the State and that they would administer it. Why have a complete Federal takeover of the administration of it?

Governor LICHT. Well, I can appreciate the fact, Senator, that

certainly if you put a deadline for the changeover of administration, you would have chaos; I can recognize that and, as a matter of fact, it is a fair statement to make that while, for example, there are sometimes complaints about the department of employment security, the fact is that it generally is not a problem department. It gets the checks out and gets paid and we appoint a director and we have—they are all on the Federal payroll but there is an organization as far as the department of employment security is concerned.

We have tried in Rhode Island—and I can't say it has been wholly successful—we have tried to—we think it is a progressive step—we are trying to move from the matter of the social worker handling both the eligibility of payment and to the business or his business of doing social work; and we have separated the departments where case aides, by and large, are handling the eligibility and payment requirements; whereas, the social worker is intended to help with the family and in attempting to do the work for which that person has been trained, and I would still hope that even if there was a system in which, for example, payments were on a national basis that would leave to the States that matter of the social worker, the person on the scene who would be creative at least with respect to whether it is marriage counseling or helping somebody get a job of helping in many, many ways.

Now, if you were to say to me will I take a national system and well administer it by the State, yes, I will, of course. I am not going to—I wouldn't let the change rise or fall based upon who is going to administer it and whatever the wisdom of the Senate would be in that regard. But my own view is if we could get the eligibility and payments from the national, on the national level, or payments made over a period of time so you wouldn't have chaos, we would certainly want to continue the social effort with respect to the family in the State of Rhode Island.

The CHAIRMAN. It seems to me, Governor, if you retain some State responsibility in this program, then when things develop in it that are not good, those of us who vote for the program and try to oversee it will come a lot nearer knowing about it than we will if you have simply one enormous thing administered by one man at the top with a lot of people in there that neither you nor I can do anything about. By retaining some State responsibility for oversight and for administration we would come a lot nearer knowing if it is not being run the way it ought to be run and also doing something about it than we would do if we just make this one vast Federal program which theoretically is being run by a Presidential appointee where, as a practical matter, it is being run by people whom I will never know and you will never know.

Governor LICHT. I think you would get a lot better accountability if we retained some State responsibility in this matter.

Senator BENNETT. No questions.

Senator RIBICOFF. Just a few.

Mr. Chairman, again, because these statistics have suddenly gone through, my staff points out ironically when HEW said our bill would put 30 million on welfare they then said the cost would be $22 billion. Today, according to their new tables when they say we have 40 million on welfare, they say now the cost would be $16 billion. I point this

out to indicate we have gone through all this with medicare and medicaid.

You remember the hassles we had in the committee to try to get some figures, and what bothers me about the basic dishonestly of this table that was presented, which I saw for the first time, is that it talks about the present law and my proposal but it leaves out the 14 or 15 million that would be on it under H.R. 1.

If you are going to compare these tables, the least that HEW could have done would have been to have had the number of people under present welfare, the number of people who go on under H.R. 1, and the number that go on under my proposal, because my proposal does add more people than H.R. 1 and I think that is the least that HEW could have done to play honest with this committee, Mr. Chairman.

A few questions, Governor.

The unemployment rate is some 6 percent?

Governor LICHT. 6.2.

Senator RIBICOFF. How many people?

Governor LICHT. 24,000 plus.

Senator RIBICOFF. 24,000.

Let us say that we had adequate public service job programs in this country. How many people could you legitimately put on in constructive employment in public service employment in the State of Rhode Island?

Governor LICHT. I would like to answer it this way, Senator: We are now training under the WIN program people and we have more people who want to be trained than we have slots for, but the point is at this stage after we train them what do we do with them?

Senator RIBICOFF. Which is a tragedy; you train people for a job and not have any jobs existing for them.

Governor LICHT. That is precisely the case.

If you were to say to me let's make a distinction between just makework and meaningful jobs——

Senator RIBICOFF. Meaningful work?

Governor LICHT. I think you would have to put it that way because I don't think we are going to advocate just makeshift, makework jobs. I am not able to tell you but I am certain that considering it is not fair to say that everybody—I am talking about the AFDC cases—that everybody who in AFDC is going to be able to go to work, but take those who can go to work, that if in your proposal there are some 300,000 jobs you are talking about, we would take a fair percentage of that and we would put them to meaningful work.

Senator RIBICOFF. I am just curious about your experience.

You heard me questioning Governor Sargent and you must have the same problem with all the grant programs—there are some 168 programs supposedly addressed to alleviating poverty, and the cost is some $31 billion.

Do you consider that each and every one of those 168 programs does alleviate poverty?

Governor LICHT. No; I do not. I think, for example, the OEO program that has perhaps been one of the most successful has been the health care centers around the community in the Providence area. There have been a number of jobs in OEO where I think, on the administrative level, where persons who otherwise might never have

had an opportunity toward administrative positions and to come to the point of holding jobs of this kind, have taken a position. But if you mean has it eliminated poverty or has it given great numbers of meaningful jobs, many of these programs, I have to frankly say, no.

Senator RIBICOFF. In other words, if it came to a choice with a $40 billion deficit this year and maybe another $50 billion deficit next year, of trying to find the money, would it be preferable to supplement the working poor or people on welfare with the cash to bring them up to poverty rather than many of these 168 programs that as far as I can determine——

Governor LICHT. You can go to programs and eliminate them to get the money to finance the program; no question about it.

Senator RIBICOFF. Thank you very much.

May I commend you, Governor, living in the State of Connecticut I am interested in my fellow New England Governors. I follow your activities with great interest and I want to commend you for the excellent job you are doing in the State of Rhode Island.

Senator BENNETT. The chairman has asked me to call on Senator Jordan next.

Senator JORDAN. Thank you. I just have one or two questions, Governor.

Your State, obviously, is doing a better than average job with respect to your welfare people—sixth in the United States, and I think you said you are above the national average in degree of effort.

The point has been raised about people going to the welfare market rather than the job market. Are you aware of in-migration into your State?

Governor LICHT. We have attempted, Senator, to make a determination with respect to that and I must say to you that we have no demonstrable evidence to indicate that we have a large shift based upon movement in the welfare market rather than the job market.

Senator JORDAN. You haven't any figures?

Governor LICHT. Well, I think the figures we have, we do—the figures we have are really not significant figures. We have some figures and I can get them to you; but I know the results of what we submitted to the Senate, our own State senate, with respect to these matters indicated that the movement was not significant.

Senator JORDAN. I wondered how extensive it was because we keep hearing various witnesses say there is a movement.

Governor LICHT. We have not found that to be the case and I will submit, with your permission, I will submit those figures.

Senator JORDAN. Very well; if you will, please.

(The following information was subsequently received by the committee:)

STATE OF RHODE ISLAND & PROVIDENCE PLANTATIONS,
EXECUTIVE CHAMBER,
Providence, February 7, 1972.

HON. RUSSELL B. LONG,
Chairman, Finance Committee, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: During discussion following my testimony on HR 1 before the Honorable Members of your Committee on January 24, 1972, a question was raised concerning residency and public assistance expenditures. Since data on this matter was presented to our Rhode Island Senate last year in

response to a Resolution by that body I said that I would be pleased to make copies of the material available for your Committee's use. I am enclosing fifteen copies of the response to the Senate Resolution prepared by John J. Affleck, Director of the State Department of Social and Rehabilitative Services, and John C. Murray, as State Budget Officer.

I very much appreciated and enjoyed the opportunity to again discuss with you and the Honorable Members of your Committee my thoughts on the need for welfare reform. Certainly, the subject is one of the major issues facing the American people today, and it is my hope that some meaningful resolution of the issue can be reached which will include essential fiscal relief to the states.

With best wishes and appreciation for your courtesy and consideration.

Sincerely,

FRANK LICHT, *Governor.*

Enclosures.

JUNE 16, 1971.

To: The Honorable Senate.

From: John J. Affleck, Director, Department of Social and Rehabilitative Services.
John C. Murray, Budget Officer, Division of the Budget, Department of Administration.

Subject: Resolution S. 911—Re Residency and Public Assistance: Further Data.

In further reference to S. 911 and as planned in our response of June 7, 1971, we are pleased to provide the Honorable Members of the Senate with the following data secured from the study of Aid to Families with Dependent Children cases newly accepted during the October–December 1970 quarter and the General Public Assistance cases newly accepted during May 1971.

AID TO FAMILIES WITH DEPENDENT CHILDREN

There were 990 AFDC families newly accepted during the October–December quarter. All such newly accepted Aid to Families with Dependent Children cases in Providence (328) were read by members of the Social Audit Unit of the Public Assistance Agency. In order to complete the statewide findings promptly, a random sample of one-third of the total of 661 cases accepted outside the City of Providence was read, namely, 220 cases. The findings of the sample cases outside Providence (220), were factored by three to arrive at statewide findings.

Table I below shows the recorded length of residence in Rhode Island.

TABLE I

Recorded length of residence in Rhode Island	Number of cases	Percent of cases
Lived in Rhode Island entire life	642	64.8
5 years or more	85	8.6
3 to 5 years	27	2.7
1 to 3 years	65	6.6
Under 1 year	171	17.3
Former Rhode Islanders	50	5.1
New residents	121	12.2
Total		100.0

Nearly two-thirds of the 990 AFDC families had lived in Rhode Island their entire lives. An analysis of the 171 who had less than one year of Rhode Island residence showed that 50 had had some prior Rhode Island residence. Some were born and raised in this State before marrying and moving away or had lived for some years in Rhode Island before moving out of State. Some had parents or other relatives still living in Rhode Island.

Table II below shows the breakdown between Providence and outside Providence for the 171 newly accepted Aid to Families with Dependent Children cases with less than one year residence in Rhode Island.

TABLE II

	Providence actual total	Outside Providence projected total	Total State
Number with under 1 year:			
Former Rhode Islanders	20	30	50
New residents	55	66	121
Total	75	96	171
Total new cases accepted	328	662	990
Percent with under 1 year:			
Former Rhode Islanders	6.1	4.5	5.1
New residents	16.8	10.0	12.2
Total percent	22.9	14.5	17.3

TABLE III[1]

	Former Rhode Islanders	All other	Total	Percent
To be with or near relatives	31	46	77	45.0
Had a job to come to	8	11	19	11.1
To seek work	1	15	16	9.4
Other reasons	4	39	43	25.1
Not reported	6	10	16	9.4
Total	50	121	171	100.0
Percent	29.2	70.8	100	

[1] Table III shows the reasons why families with less than 1-year residence in Rhode Island came to the State.

The most frequent reason reported for coming to Rhode Island for those families with less than one year of residence was to be near or to live with relatives (77 of 171 or 45%), including several who came to care for ill parents. Another 20.5% (35 of 171) represented either those having employment to come to or seeking employment.

Table IV below indicates two-thirds of the cases with under one year residence came from the Northeast (114 of 171); 27 came from the South (15.8%); 18 came from western States; seven from the north central region; and five came from outside the continental United States.

TABLE IV

	Total	Percent
Northeast	114	66.4
South	27	15.8
West	18	10.3
North central	7	4.1
All other	5	3.4
Total	171	100.0

The 171 Aid to Families with Dependent Children cases accepted during the quarter studied, with under one year residence in Rhode Island, received $45,000 in AFDC money payments during that quarter, representing $21,700 in State funds. The length of assistance rendered varied from a minimum of two weeks to the total quarter.

The current status of the 171 cases studied, which had less than a one-year residence in Rhode Island prior to acceptance on Aid to Families with Depend-

ent Children, was reviewed as part of the study as of May 30, 1971. Sixty-eight of the 171 cases have been closed. These include 24 who obtained employment; 17 who moved out of State; 10 because the absent father returned to the home; three because of increased support from the absent father; and 14 closed for a variety of other reasons.

The review as of May 30, 1971 indicated the 68 cases closed had received Aid to Families with Dependent Children for an average period of 3.4 months and had been closed to assistance for an average period of 3.1 months. One hundred three of the 171 cases studied continued to receive assistance as of May 30, 1971.

It is significant to note that during the October-December 1970 quarter, 140 Aid to Families with Dependent Children cases were closed because they moved from the State.

GENERAL PUBLIC ASSISTANCE

The Social Audit Unit reviewed the total number of Providence cases newly accepted and a random sample for areas outside of Providence for the month of May 1971. The sample outside of Providence included both rural and urban areas. The study revealed that eight of 204 new cases accepted for a General Public Assistance money payment during the month had lived in Rhode Island less than one year. This was 4.0% of all such acceptances.

As noted in our memorandum to the Honorable Senate under date of June 7, 1971, the current study documents again the increasing mobility of the American family. This is seen in the movement into and out of the State of individuals who for whatever reason may need financial assistance at a point in time and shows an intensification of this mobility since the 1967 study noted in our June 7 memorandum. Again, as in 1967, no evidence developed during the study to demonstrate moving to Rhode Island was directly attributable to the lack of residence requirements in the Federal/State categories of assistance and the authority of the Local Welfare Directors to waive the residency requirement under certain circumstances in General Public Assistance. Families and individuals moved to Rhode Island primarily for a variety of economic and social factors involving seeking employment opportunities and/or joining families.

Senator JORDAN. Does your State have a graduated income tax?

Governor LICHT. I think you would have to say we do, but you wouldn't call it that. We have the piggyback.

Senator JORDAN. I see; you take a percentage?

Governor LICHT. A percentage of the Federal liability so we have built in to our tax the Federal graduated income tax of the Federal Government.

Senator JORDAN. Of course, you graduate it; you are just the same as the Federal Government?

Governor LICHT. You mean we don't have our own graduated income tax but we follow the Federal?

Senator JORDAN. But if you follow Federal rates, then you are graduated?

Governor LICHT. Precisely.

Senator JORDAN. That is all.

Senator BENNETT (presiding). Senator Nelson?

Senator Hansen?

Senator HANSEN. No questions, Mr. Chairman.

Senator BENNETT. Just one observation: Rhode Island being the kind of a State it is and being so close to Boston and New York, might not be expected to have the kind of immigration that they have had because particularly in New York the people who are looking for welfare tend to go to the big urban cities. That has been the pattern in the past?

Governor LICHT. Senator, I was not attempting to suggest that New York or Massachusetts might not have a different experience; but I think Senator Jordan was directing his question to our experience.

Senator BENNETT. That's right.

Governor LICHT. And I wouldn't like the impression to be left that I think that might be a factor.

We just have not had that experience.

Senator BENNETT. No further questions, then, Governor.

Governor LICHT. Thank you very much.

(Governor Licht's prepared statement follows:)

WRITTEN TESTIMONY BEFORE THE SENATE FINANCE COMMITTEE ON H.R. 1, BY GOV. FRANK LICHT, RHODE ISLAND

I am Governor Frank Licht of Rhode Island, and I thank you for giving me this opportunity to present my views on H.R. 1. I am accompanied today by John J. Affleck, Director of the Rhode Island Department of Social and Rehabilitative Services, and Joseph F. Murray, Acting Administrator of our Assistance Payments Program in that Department.

I last appeared before the distinguished members of the Senate Finance Committee in September, 1970, to discuss the Family Assistance Plan then under consideration, H.R. 16311, both as to its specific impact on my own State and its general adequacy as a measure of national welfare reform.

Since the first draft of the Family Assistance Plan was introduced into the United States Congress more than two years ago, there have been numerous changes in the legislation and even more innumerable proposals for changes. The intense and widespread nature of the surrounding discussions point up the very critical problems inherent in our present social welfare system and the growing awareness of the desperate financial position in which State governments throughout the nation are being placed because of the burdens of this system.

I, for one, am encouraged by the broadened scope of the present legislation. Knowing your very real concern in this area and your obvious commitment to genuine welfare reform, I wish it were possible for me to come before you today to advocate passage of H.R. 1 in its present form. I cannot do this.

Instead, I believe that many of the words I used 16 months ago to describe my stand on H.R. 16311 are still valid in their application to H.R. 1. At that time I noted that, "In H.R. 16311 there is for the first time a fundamental recognition of federal responsibility to establish a national minimum assistance level for the Aged, Blind, Disabled, and family groups, including those deprived of parental support. Movement toward this concept is long overdue, and I support this approach. The legislation now before us, however, is inadequate."

My position today is that certain standards of the proposed legislation continue to be grossly inadequate and that the bill, generally, still fails to come to grips with some very fundamental social and financial problems.

For example, the proposed income level of $2400 for a family of four, without Food Stamps, falls far short of meeting minimum human needs.

There is no provision for the Federal Government to share directly with the State any of the cost of supplemental assistance.

Increased State expenditures for Medical Assistance would be inevitable as new families became eligible for aid under the provisions of H.R. 1.

Moreover, there are cutbacks in the current bill for Medicaid coverage.

And, the Federal program as proposed continues to exclude single individuals, and childless couples.

In other words, I believe that this measure falls far short of the massive welfare reform so desperately needed.

THE RHODE ISLAND PROGRAM

I speak as a Governor of a State which is doing everything within its ability to meet the human needs of its citizens. As a frame of reference for my remarks let me point out that during fiscal year 1970, Rhode Island with sixth in the United States in the amount expended per inhabitant for Public Assistance payments; fifth in the United States in the amount expended per capita for Medical Assistance; fourth in the United States in the amount of personal income per $1,000 spent in Public Assistance. At the same time we were fourteenth in the United States in per capita income and during fiscal 1970, we were eleventh in the United States in the number of public assistance recipients per 1000 population.

When I came to testify before this Committee in 1970 there were some 43,000 people receiving AFDC. Today this number has increased 16 percent to 50,000. During this same period the rate of monthly expenditure increased 28 percent from 2.5 million dollars monthly to 3.2 million dollars monthly. During the ten year period from June, 1961, through June, 1971, our AFDC regular caseload increased from 5300 families to 12,800 up 140 percent. Since June, 1961 our rate of AFDC spending for maintenance increased from $660,000 monthly to 3.2 million dollars last month. Rhode Island is, therefore, now spending at five times its rate of ten years ago.

No one can dispute Rhode Island's extraordinary investment in human resources, and no one can dispute the extraordinary drain this has meant on my small State's limited fiscal resources. In Rhode Island we already provide between $2800 and $3200 for a family of four. Welfare today, including Medical Assistance, accounts for approximately one quarter of the State's total budget which is supported by both the income and the sales tax.

THE ECONOMY

As you know, our nation has experienced the worst economic crisis in a generation. The unemployment rate in the country is reflected in the unemployment rate in Rhode Island.

Many persons within my State have been out of work for more than a year and some persons are presently receiving extended unemployment benefits. Many others will now be able to take advantage of the new national legislation providing for additional weeks of emergency unemployment assistance.

There is a direct connection between the health of our economy and the welfare caseload as can be seen by the fact that from July 1, 1970, to June 30, 1971, our AFDC caseload for Unemployed Fathers increased almost 250 percent.

RIBICOFF AMENDMENTS

It is my conviction that certain amendments to H.R. 1 offered by Senator Ribicoff and endorsed by many other Senators, including the Senior Senator of my State, John O. Pastore, and a number of Governors, including myself, would markedly improve the proposed legislation. I particularly endorse—

(1) The increase in levels of payment for families;

(2) Federal participation in the cost of required State supplementation of the Federal grant levels;

(3) Increasing Federal responsibility on a phased basis to the point in 1976 where income maintenance payments would be fully federalized:

(4) The inclusion of single individuals and childless couples;

(5) Continuation of the present matching plan for social services;

(6) The calculation of income availability on a current basis rather than on the basis of earning for the previous three-quarters of a year;

(7) Protection of Civil Service rights, retirement benefits, etc. for career State welfare employees.

The passage of a bill including these amendments and the present provisions in H.R. 1 for strengthening the child welfare program through Federal participation in the costs of foster care, day care and adoption, would, in my view, represent the most significant social legislation since the original passage of the Social Security Act.

It is estimated by the U.S. Department of HEW that with the passage of H.R. 1, the number of persons participating in and benefiting from Rhode Island's welfare program would increase by some 50 percent. For the most part, these additional persons would include the heretofore neglected working poor, many of whom Rhode Island already does try to supplement, through a totally State financed General Public Assistance Program.

Although the proposed legislation does not mandate the extension of medical care benefits to these additional persons, it would be difficult for a State to deny to some benefits received by others. Providing additional medical care will mean a substantial increase in State costs, if these people are included under the Title XIX program. We cannot ignore these immediate increased costs by anticipating eventual enactment of a National Health Insurance program.

H.R. 1 also proposes significant changes in the Medicare and Medicaid provisions of the Social Security Act. We applaud the proposal to make available to social security disability beneficiaries the provisions of the Federal Medicare program now available to individuals over 65. We are concerned, however, with the proposal which decreases Federal financial participation by one-third after

the first sixty days of care provided in a general hospital for Title XIX Medicaid beneficiaries.

Further, we oppose the proposal to allow for administrative discretion to reduce the Federal share of the cost of skilled nursing home care and we oppose a decrease in Federal matching by one-third after 90 days of treatment for mental hospital patients under the Medicaid program. These provisions would have a most serious fiscal and program effect in Rhole Island.

Although I support the efforts represented in H.R. 1 to intensify medical utilization review and to develop greater reliance on Health Maintenance organizations, I cannot accept reduction in Federal participation in appropriate kinds of care for Title XIX beneficiaries. Such reduction would leave to the States once again a heavy responsibility which they are unable to met within their limited resources. Indeed, in Rhode Island we estimate the cost of the proposed changes to be in excess of three million dollars, offsetting by half the 6.3 million dollars of State savings estimated for us by the House Ways and Means Committee.

ADULT CATEGORIES

I continue to support strongly those aspects of this legislation which will transfer the determination of eligibility and the payments of monies for the Aged, the Blind, and Disabled into the Social Security Administration. In my State some 80 percent of our Old Age Assistance caseload receives supplementation of low Social Security benefits. One cannot quarrel with the suggestion that those who are aged, blind or disabled receive from the Government an amount of money which will enable them to spend their remaining years in dignity and in a decent environment.

ADMINISTRATION

When I appeared here previously I expressed my concern that the Family Assistance Plan would place a ceiling on expenditures for social services and that collections made on behalf of clients, especially the support from absent fathers, would go to the Federal government. I continue to oppose both of these provisions. While I recognize that H.R. 1 provides for greater Federal participation in the cost of Day Care and Family Planning Services, limitations on other forms of social services would hamper a State's ability to design programs directed at ensuring and enhancing family stability and individual self-sufficiency.

INTERIM FISCAL RELIEF

Finally, let me bring up an issue of immediate and vital concern—interim fiscal relief for the States. I say this with the most profound respect for the members of this Committee—the States must have fiscal relief now.

The impact on Rhode Island's resources of increasing numbers of dependent individuals and families has been so severe as to create what I termed in my 1972 Annual Message to the Legislature, "A Welfare Crisis." I know that this situation is prevalent in other States. I also know that the States must have immediate relief if we are to cope with the urgent needs before us. As I stated to the Rhode Island General Assembly, "the system's (welfare) fiscal drain on the States is seriously impeding their efforts to remain financially viable. This cannot long continue."

The various hold-harmless provisions that have been proposed show a general recognition of the need for immediate fiscal relief for the States. I view these proposals with some hope.

CONCLUSION

Gentlemen, the legislation under your consideration is complex and intricate. Each section of this very extensive bill will have far-reaching effects. I have only attempted to bring forth those issues which will have the most profound impact on my own State. If I have expressed the concerns of others, it is because we face so many similar problems and have had such common experiences.

Thank you.

Senator BENNETT. In the absence of the chairman and assuming that when he told me to call on Senator Jordan, my power goes to the end of the period, the meeting will be adjourned and we will be together again at 10 o'clock tomorrow morning.

(Whereupon, at 12:25 p.m., the hearing was adjourned, to reconvene at 10 a.m., Tuesday, January 25, 1972.)

SOCIAL SECURITY AMENDMENTS OF 1971

TUESDAY, JANUARY 25, 1972

U. S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to recess, at 11:05 a.m., in room 2221, New Senate Office Building, Senator Russell B. Long (chairman) presiding.

Present: Senators Long, Ribicoff, Byrd, Jr., of Virginia, Nelson, Bennett, Curtis, Miller, Jordan of Idaho, Fannin, and Hansen.

The CHAIRMAN. The hearing will come to order.

I would like to explain that the absence of our Democratic members at this moment is due to the fact that a Democratic conference is going on. The Democratic members will be along when the conference breaks up.

We are honored to have today three of the Nation's outstanding Governors, the first of whom will be Hon. Richard Ogilvie, Governor of Illinois.

STATEMENT OF HON. RICHARD B. OGILVIE, GOVERNOR OF THE STATE OF ILLINOIS, ACCOMPANIED BY EDWARD T. WEAVER, DIRECTOR, ILLINOIS DEPARTMENT OF PUBLIC AID

Governor OGILVIE. Thank you, sir.

Mr. Chairman and members of the committee, I have with me Edward T. Weaver who is the director of the Illinois Department of Public Aid, in the likelihood that you are going to ask me some technical question and I may need an expert witness, if that meets with your approval.

The CHAIRMAN. Fine; he can sit beside you, Governor.

Governor OGILVIE. He is sitting right here, sir.

Gentlemen, I am grateful for the opportunity to testify here today. I regard the issue at stake in your discussions to be of paramount importance to the future of this Nation and its constituent governments.

In the bluntest possible terms, I believe the present disaster in the administration of public welfare presents a serious challenge to the viability of our Federal system.

In the first place, the imposition of a detailed and increasingly rigid structure of administrative regulations has given the Federal welfare bureaucracy, quite literally, a life-or-death grip over the ability of State governments to act in the best interests of their citizens in this important activity.

But of even more immediate concern, the present system is threatening the States, especially the major industrial States like my own, with financial chaos.

Last October we determined that our present appropriation of $1 billion, $53 million for welfare would fall $180 million short of adequately funding Illinois' present program. Of that total, the shortage in State resources, exclusive of Federal reimbursements, would be $107 million.

Faced with this urgent dilemma, we have attempted to accomplish two major goals in the administration of our Illinois welfare program:

First, we are doing everything possible to maintain existing grant levels for the blind, the aged, the disabled and families with dependent children, in other words, those in the federally assisted categorial programs.

Second, in order to save sufficient resources to accomplish the first objective, we have attempted to make some selective changes in other aspects of the welfare system.

At the outset, I should say that we in Illinois recognized 3 years ago the urgency of the first objective, as I mentioned, as we also saw the need for increased aid to our schools, expanded day-care efforts, reform in our penal system, tougher laws and machinery for fighting pollution, and more humane facilities for our mentally retarded.

In a spirit of bipartisan responsibility, the legislature at my urging, enacted in 1969 the first income tax in our State's history. With that action we raised more than $1 billion in the first full year of the levy and increased by nearly 50 percent our State's general revenues.

Substantial increases in most other State levies, except for the regressive sales tax, also were enacted that same year.

Yet, just 3 years later, we find ourselves in a financial straitjacket once again. Why? The reason is quite simple and is best illustrated by citing this one fact:

Eighty-four percent of the increase in State revenue during fiscal 1972 in our State is being absorbed by the welfare budget alone, and even that is now proving to be insufficient. That leaves 16 percent of our new revenues to meet the growing demands of our colleges, common schools, hard-pressed local governments, park system, corrections system, and other traditional activities of State government.

Accomplishment of our first objective has proven difficult because we are at the mercy of national conditions beyond the control of the States, especially the recent economic recession with its higher rates of unemployment and the growing awareness of poor people of their right to relief and their increasing propensity to claim it.

These trends have converged on in Illinois with devastating human and fiscal results.

During calendar 1971, some 203,000 new people joined the rolls of those claiming welfare benefits in Illinois. Our monthly disbursement rose from $68 to $91 million. To illustrate the impact of that growth, it is as if the entire population of our second largest city and all of its surrounding suburbs were added to the caseload in just 1 year's time.

Needless to say, keeping up with this growing burden has severely crippled our capacity to provide other essential services—those in

education, health, child care and manpower development—services which are intended to help keep families off the welfare rolls in the first place.

Despite these pressures, however, we have thus far succeeded in maintaining the existing grant levels in the federally assisted categorical programs of assistance.

Indeed, I believe Illinois is the only major industrial State which has increased its grants in the past 2 years to reflect the rising cost of living.

But our effort to make selective changes in other aspects of the program has been temporarily stymied, thus casting serious doubt on our ability, that is, the ability of the State to continue maintaining present grant levels in the categorical programs.

At present levels of spending, our entire welfare appropriation will run out next May, several weeks before the end of the current fiscal year.

Our efforts to accomplish the second objective—selective reforms—have been centered in three areas. I would like to cite each of them briefly and the nature of the delay we have encountered.

First, medicaid. Only 6 years old, this program already comprises 44 percent of our total welfare budget and constitutes by all odds the fastest growing component of the welfare systems.

We have sought to make selective cutbacks and eliminate duplication in what we feel are nonessential services to reduce the sort of overuse we have found.

These changes have been obstructed in court by a series of allegations that the State must do these things: (1) provide individual hearings upon request to each of the 800,000 recipients who might be adversely affected; (2) commit itself—the State to commit itself—to a definition of comprehensive health care far exceeding anything envisioned by Congress when it enacted that provision; and (3) improve its utilization review program to control costs.

Despite HEW administrative approval of our program revisions, the Federal regulations are so contradictory and so confusing that they open wide loopholes which allow welfare rights groups to initiate interminable litigation to delay proceeding with the federally-approved changes.

The second focus of our concern has been public-service employment.

Our attempt to utilize Emergency Employment Act funds for the hiring of welfare recipients for jobs in State and local governments was delayed by legal maneuvering and administrative difficulties.

Our third effort at selective reform involves the relationship between Federal categorical assistance and our county relief or general assistance program.

For years Illinois has met its welfare responsibilities well beyond Federal requirements with a State-local program for aiding the working poor, single employables, childless couples, and other persons who do not fit the narrow definitions of the Federal categories.

I think it is worth noting that the local contribution to this effort presently consists only of a 1-mill levy at the county or township level, and that the remainder, which is about 92 percent of the total dollar commitment, is provided solely from State source.

In the face of the financial pressures I have already described, we sought to force local governments, especially Cook County where more than 90 percent of the general assistance funds are expended, to shift their eligible recipients to the Federal categorical programs where that was possible and thus save the State some $20 million.

We proposed to shift funds within our existing appropriation from the general assistance effort to the categorical programs that were funded by the Federal Government in order to avoid making the grant reductions which would hit hardest those least able to sustain the cuts.

And it was that effort which has been enjoined by the Illinois courts and they have done that on the intriguing grounds that we cannot make distinctions between those poor people who are eligible for Federal assistance and those who are not.

In light of these experiences and considering the legislation now pending before your committee, Mr. Chairman, I would like to make two basic recommendations:

First, it is essential that the bill which emerge from this committee include a provision holding the States harmless from the present skyrocketing increases in welfare.

Because of the relatively narrow tax base of most States and local governments and the preemptive nature of the Federal income tax, the States simply are not able to sustain these sudden cost increases of the dimensions we have been experiencing in the past few years, an average of 30 percent a year for the last 3 years.

As evidence of the relative abilities of different levels of government to meet their needs, we may cite those figures, with which you are probably familiar with: During the past 5 years State governments were forced to increase their tax collections by 67 percent; for local governments the figure was 50 percent; but for the Federal Government tax collections in the same period went up only 25 percent or less than half the rate of increase for State and local units combined.

Senator Percy's proposed amendment to H.R. 1, which is supported by the Governors of the States, would authorize the expenditure of $561 million to help the States meet a portion of the increase in welfare costs incurred in the year beginning last July 1.

Because Federal payments would be limited to 120 percent of the outlays for fiscal 1971, this bill would offer incentives to the States for tighter administration while relieving them of the present intolerable financial burden. I would urgently commend the Percy amendment to you for your favorable consideration.

Senator MILLER. Mr. Chairman, could I interrupt at this point? In my text it has $1 billion 88 million as the cost.

Governor OGILVIE. That was the first cost-out, Senator. We have since received further information that was originated in HEW and I have provided a copy of that schedule which shows the total figure for all States would be the figure I cited—$561 million.

Senator MILLER. $561 million?

Governor OGILVIE. $561 million.

Senator MILLER. Thank you.

Governor OGILVIE. Secondly, I would urge you to consider the passage of reform legislation, such as H.R. 1, as an opportunity for sim-

plifying an exceedingly complex tangle of contradictory, costly and virtually incomprehensible laws and regulations.

An effective federal system requires that the State and Federal Governments complement each other and not function as adversaries. Yet, the present administrative morass makes inevitable such adversary relationship.

One one hand, too much has been delegated to agency determination, permitting and, in fact, encouraging the kind of judicial interaction we are experiencing in Illinois. On the other hand, State administration has been paralyzed by Federal rules when flexibility at the State level was most needed.

There are some very important steps forward contained in the bill now before you which I believe are essential to your final product:

1. It corrects one of the most glaring inequities of the existing system by making provision for the working poor, a vital step toward reversing the debilitating welfare psychology.

2. It also establishes the principle of a national floor of assistance, thus allowing for the elimination of the present gross disparities among the States.

3. It takes cognizance of the need for a greater Federal role in the financing of public assistance, a recognition of the truly national nature of the problem we face.

If the legislation you enact can retain these vital principles, while coming to grips with the incredible complexity of the existing system, you will have performed an enduring service not only to our beleaguered Federal system but also to some 15 million Americans now on relief.

As an aid to the administration of welfare in the future, I have directed our State agencies in Illinois to undertake a section-by-section analysis of H.R. 1 to assess its impact on the implementation of welfare programs. I would like to request permission of this committee that this analysis be submitted at a later date to be included as an appendix to this testimony.

Mr. Chairman and gentlemen, I thank you for the opportunity to appear here this morning and we are prepared to try to answer your questions.

The CHAIRMAN. Well, thank you very much, Governor. To the extent that we can find the money to provide some welfare relief for State governments we will do so. At the same time, we will try to provide more generous benefits where we think we can.

There is a great deal of harassment against your State government in your efforts to try to use what funds are available to you for the benefit of people as best you can that the majority of us, I think, and I know on this committee, would like to relieve you of.

I know you are doing the best you can with the present situation.

Governor OGILVIE. Thank you, sir.

Senator BENNETT. Mr. Chairman, I have five questions on which the Governor felt he would like to expand. I suggest because it is now 11:20 and the Republican members of the committee have an appointment at 12:30, like the Democrats had at 10 o'clock, that we ask the Governor to submit these questions and answers for the record without taking the time to read the questions and answers.

May I do that?

Governor OGILVIE. Yes, sir; we will be happy to do that.
The CHAIRMAN. Yes.
(Questions and answers referred to follow:)

Question: You mentioned, Governor, that you have not been able to implement changes in the Medicaid program in Illinois. Would you be more specific in outlining the reasons for this failure?

Answer: Illinois' experience in attempting to reform the Medicaid program further illustrates several points I made in my testimony. Illinois entered into the Medicaid program in July, 1966. We have since developed one of the most comprehensive Medicaid programs in the country. At this time, however, we are anticipating a budget deficit of $90 million in Medicaid for Fiscal 1972—we simply have not been able to keep up with soaring Medicaid costs.

In order to alleviate this situation I proposed several program changes including a reduction of benefits to the medically needy (the MA–NG program), adjusted reimbursement rates for hospital care, a hospital utilization review program, and a freeze on payments to hospitals. The courts have enjoined us from making most of these changes. In each case our actions have been paralyzed by regulations promulgated by H.E.W. One regulation requires that a hearing be granted to any recipient requesting one, even if the change in benefits is a "policy decision", and across-the-board reduction. Another requires the State to pay "reasonable costs" for medical care.

I cite these cases as examples of federal regulations that only serve to frustrate state initiatives to control costs of a program that everyone agrees is too costly. I have noted that HR 1 will give the states more latitude in setting rates for example. These provisions, however, are only beginning steps toward improving our Medicaid system. While I realize that major health insurance proposals are being considered by Congress, I urge you to reconsider strengthening the Medicaid portions of HR 1. Without further changes, states like Illinois will not be able to sustain comprehensive medical programs for the poor.

Question: What other changes have you proposed to control welfare costs in Illinois?

Answer: As I also mentioned in my testimony, I proposed changing the General Assistance program (Home Relief in other states) in Illinois. Faced with fiscal problems that had no immediate answer, we were forced to choose *among* the poor. Let me stress the point that Illinois, unlike many other states, has not reduced benefits to AFDC and AABD recipients. I have held that we have a primary responsibility to protect our children and the aged. I therefore proposed that General Assistance payments to Chicago be reduced. The State pays 90% of G.A. costs in Chicago. The funds originally allocated were transferred into the AFDC program where federal reimbursement would be received. Again the State was taken to court, and we have been ordered to continue General Assistance payments at their previous levels.

Illinois' experience with General Assistance is again related to HR 1. While this program remains local in nature in many states, states like Illinois are also assuming a greater share of the program's costs. At the same time General Assistance exemplifies arbitrary and inequitable treatment of a portion of our poor population. A next step in major welfare reform is to deal with both the human and fiscal inequities of this situation.

Question: It would be helpful if you would elaborate on the "hold-harmless" funding proposal that was introduced by Senator Percy as an amendment to the Tax Bill. Would you also state your opinions on the "hold-harmless" provisions of HR 1?

Answer: The need for fiscal relief in the states is immediate. In Illinois we anticipate a public aid deficit of $108 million in State dollars, or $180 million in total expenditures. This deficit has been somewhat alleviated by trimming the General Assistance caseload of persons ineligible for any program and persons eligible for the federal categorical programs.

I therefore have worked with Senator Percy to support an interim fiscal relief measure that would provide 100% federal reimbursement for 20% of the *increase* in public aid expenditures during Fiscal Year 1972. The proposal requires that states maintain present benefit levels in order to receive "hold-harmless" funding. This was added to protect recipient grant levels. Since the

Percy proposal only covers 20% of the increase in expenditures, states are encouraged to control public aid costs. The Administration supports this proposal, and I strongly urge its acceptance.

Furthermore I support the "hold-harmless" provisions of HR 1. I would suggest, however, that in order to make these provisions consistent with the Percy proposal the base year be changed to Fiscal Year 1971 instead of Calendar Year 1971. (This would also afford the states greater fiscal relief.)

Question: Governor, I realize that Illinois has been planning a public service jobs program for welfare recipients utilizing Emergency Employment funds. Since the present version of HR 1 requires that a portion of funds for work and training programs be used to create public service jobs, I would like you to outline the major provisions of your program and point out what you hope it will accomplish.

Answer: My staff has spent a considerable amount of energy designing the public service jobs program for welfare recipients. As a result we have gained invaluable understanding of what must go into such a program. Illinois received $12 million in Emergency Employment funds for this program. With these funds approximately 3,700 jobs will be created through grants to cities, counties, and the State itself. The program has several important aspects. All jobs have been designed to include career development opportunities. We take great pride in the fact that these are not "dead-end" jobs. Jobs were chosen to meet unmet public needs and cover the areas of mental health, correctional rehabilitation, children and family services, education, and conservation of our state and local parks. While our program has been designed to provide people with a work experience that will eventually lead them into an unsubsidized job and independence from welfare, we have emphasized the need for a program that, at the same time, provides meaningful work experiences. I would be pleased to offer to this committee Illinois' expertise to ensure the effectiveness of public service jobs programs as proposed in H.R. 1 and mandated under the Talmadge amendments. Utilizing work and training funds in this manner is an extremely important contribution to improving the effectiveness of our work programs. In Illinois there are many welfare recipients who want to work—we must provide them with job opportunities.

Question: As I'm sure you are aware, H.R. 1 introduces a major change in the provision of social services by placing a ceiling on available federal funds. What implications will this have for Illinois?

Answer: Illinois has greatly expanded social service programs in the past few years. A ceiling on services would significantly hinder further progress. The Federal matching support in such areas as foster care and adoption services are examples of the kind of new initiative undertaken by our State which would be slowed or reduced by a ceiling on expenditures.

Futhermore, the provision of day care services in H.R. 1 is very important. We need to develop a greater capacity and in Illinois we have increased our budget for day care sixfold in the past three years. Open ended support for further development is essential if we are to help potential wage earners get off the welfare rolls. At the same time day care must be quality care. Simply providing a storage place for children so mothers can be forced to work will not solve the dependency problems that lead to the perpetuation of welfare reliancy from one generation to the next. Day care must provide a means for breaking the poverty cycle by providing comprehensive development for children.

Senator BENNETT. I have one other comment.

Governor, I am the author of an amendment to H.R. 1 which would set up a voluntary system of peer standards review in an attempt to control the rising cost of medicare that grows out of improper utilization, unnecessary medical services and the use of unnecessary sites, the treatment at the wrong sites.

I am very much interested to notice in a story in the Chicago Sun-Times of October 12, 1971, that you have organized a plan to cover your medicaid problem in Illinois which probably is very much like the amendment that I will suggest to this bill.

Has it been successful?

Governor OGILVIE. I believe, Senator, you are referring to the program we have described as HASP—H-A-S-P—Hospital Admission and Surveillance Program?

Senator BENNETT. Right.

Governor OGILVIE. Yes, sir. We went to the Illinois Medical Society and asked for their cooperation in assisting in a monitoring of the hospitalization of our public aid recipients. They have agreed to cooperate in this program. It has been estimated, I think reliably, if we could cut the hospital stay of welfare recipients by 1 day we could save $12 million in Illinois of the overhead that is presently committed to medicaid.

Let me make it clear, too, that we feel, in fact we have indications that public aid recipients when they get into hospitals tend to be the last ones that get attended to in operating schedules and things of that nature and a doctor perhaps would be more inclined to take a so-called paying patient, private paying patient, earlier than he might take a public aid recipient who is in there for attention. They go in, we will say, on a Friday for a workup and operation Saturday and they get knocked off the operating schedule and may not get on until Monday and Tuesday.

In the meantime we are paying over $100 a day to keep that individual in that institution. HASP was put into operation just a few days ago.

Senator BENNETT. I assume then that you would welcome a Federal counterpart to HASP? And I would like to suggest that you have your welfare people or the people who are operating HASP take a look at what has been done recently in the State of New Mexico where New Mexico is a small State; they have only 800 physicians; they have set up a foundation, as you have and they have reviewed all the medicaid cases in that State.

They have discovered that 32 percent of the people now in nursing homes shouldn't be there; and they have succeeded in reducing the number of hospital days drastically; and this is a whole statewide effort. They have been over all the State and it is a very dramatic thing.

Governor OGILVIE. It is very encouraging.

Senator BENNETT. I hope that my amendment will again be approved; it was approved by the Senate when it was offered in 1969, to the bill which was finally not passed, 1970, but I hope that if it is approved it can then be linked in to State efforts on medicaid so perhaps the same group can be checking the medicare patients and the medicaid patients and others who get hospital treatment for one reason or another, because if we don't have something like this, I think the cost of medical care for the indigent and for the people who are entitled by law to Government support in medical care will get to the point where it will bankrupt social security and greatly increase the cost of State medical services.

I personally would be interested in a report of the success of your Illinois experience; I think this committee would, because we are facing the same problem.

Governor OGILVIE. We will be happy to provide that.

Senator BENNETT. Thank you.

(At presstime the material referred to had not been received by the committee.)

Senator BENNETT. No other questions, Mr. Chairman.

The CHAIRMAN. Senator Ribicoff?

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

Governor, Senator Percy's proposal would limit State payments to 120 percent of your 1971 outlays. Congressman Mills of the House and myself in the Senate have introduced an amendment to reimburse you on the basis of 100 percent instead of 80 percent of your 1971 expenditures.

Would you prefer Senator Percy's or my proposal?

Governor OGILVIE. I think the answer is obvious; we would prefer yours. I helped Senator Percy develop the amendment and, very frankly, sir, we asked for what we thought we were likely to get.

Senator RIBICOFF. And I remember that I told Senator Percy as far as I was concerned there was a lot of justice and we would look into it. I do believe that your State as well as my State and other States desperately need this help.

Now, would you tell me what is the average payment in Illinois for a family of four?

Governor OGILVIE. We have a monthly card put out, Senator, which I will be happy to give you and I will recite from this. It shows a breakdown of all the categories, the amounts that went into funding that particular category for the last available month which happens to be November in the case I have here, and in the month before that, October; so we get some indication of a monthly change as well as the yearly change from November 1970 to November 1971.

It was $237.71 in November 1971, exclusive of food stamps.

Senator RIBICOFF. In other words, that is about $2,800?

Governor OGILVIE. That is approximately right.

Senator RIBICOFF. Do you believe that any beneficiary should receive less than he or she is now receiving under any welfare reform bill?

Governor OGILVIE. Certainly I would hope we would not see any reduction in grant levels involved. That is why we in Illinois are working so hard to keep grants at existing levels in the program we have.

Senator RIBICOFF. Under H.R. 1, the Federal payments are at a permanent level of $2,400. Do you believe a family of four in Illinois can live on $2,400?

Governor OGILVIE. Well, they probably can survive but not live.

Senator RIBICOFF. Not very well?

Governor OGILVIE. That's right.

Senator RIBICOFF. And that is on a permanent basis without any provision for increased costs due to inflation.

How would you react to the Federal Government by 1976 taking over the entire burden of welfare costs with a declining State participation between now and 1976?

Governor OGILVIE. Senator, that would depend on what else would go along with it. I am not prepared to accept as a static condition that any family of four is going to have to stay on welfare indefinitely. There are other programs—not necessarily other programs but flexibility for the State of Illinois to work through some of the areas that I described in my earlier testimony—where we could work to get them

off. We, of course, are interested—concerned that a family have enough not just to survive but to live on.

Senator RIBICOFF. That's right; but basically you would be in favor of federalizing whatever welfare still exists by 1976?

Governor OGILVIE. Senator, the millennium will have arrived when that happens.

Senator RIBICOFF. When that happens. And that, as far as you as Governor are concerned would be devoutly hoped for?

Governor OGILVIE. If I could get the Congress to take over welfare and funding education, it would be a delightful experience.

Senator RIBICOFF. Is there any reason you can see why a person who is working as hard as he can at the most menial task who is receiving $2,000 or $2,400 a year should be receiving a total income smaller than a family on welfare who is not working?

Governor OGILVIE. I think that is a deplorable situation. I had an earlier office. I was sheriff of Cook County and I had some policemen who were at that time—we have since improved this—who were so poorly paid that they were asking for opportunities to get food stamps and other assistance, just to get by.

Senator RIBICOFF. So, in other words, the family assistance part of the President's program you believe is most important?

Governor OGILVIE. I do.

Senator RIBICOFF. And the fact that many people condemn welfare, which is a great semantic mistake which was made by this administration, doesn't scare you, the fact is that there is basic justice in paying somebody who is working and doing their best and not being able to keep body and soul together, financed by the Federal exchequer?

Governor OGILVIE. I think one of the great disservices—and I won't point my finger at any individual—that has happened is we tend to generalize welfare so that in the ordinary citizen's mind when you are talking about the aged, the blind or the permanently disabled, they are lumped in with those people who do take advantage of the system. We tend to generalize from the particular deplorable case that does come to the attention of the public and assume this is an indictment of the whole system.

Senator RIBICOFF. Let me ask you what is the rate of unemployment in Illinois?

Governor OGILVIE. 4.9

Senator RIBICOFF. That would be about how many people out of work in Illinois?

Governor OGILVIE. Well, we have a total population of approximately 11 million. I would suppose that 250,000 are out of work.

Senator RIBICOFF. So in that 250,000 I would assume you have trained workers, experienced workers, educated workers who can't find a job in Illinois today?

Governor OGILVIE. That is correct.

Senator RIBICOFF. From your experience as Governor, many people on welfare lack education, lack skills, lack experience; isn't that correct?

Governor OGILVIE. Right.

Senator RIBICOFF. So it would be difficult for them to find a job in their present market with the high unemployment rate?

Governor OGILVIE. Not only difficult; I would say virtually impossible in some cases.

Senator RIBICOFF. Virtually impossible. So if we talk about making people work in order to get welfare this is a great illusion if we have no jobs to give people?

Governor OGILVIE. I would say at the present time it would not be possible. With an improving economy it could be possible sometime in the future.

Senator RIBICOFF. All right. But now we are talking about the present or a bill that goes into effect July 1, 1973.

Now, take the State of Illinois. If it weren't a question of money and a shortage in revenue funds that you have in your State treasury, could you develop a program of public service jobs in Illinois, not leaf-raking but jobs of significance that would add to the overall benefit of all the people of Illinois? Could you find public service jobs to put people to work?

Governor OGILVIE. Yes; we can. In fact, we have. Illinois, under the EEA program, is involved in a voluntary type of approach to public service jobs: We have been required, as you know, by HEW, or the Labor Department, excuse me, to indicate twice the number of jobs funds are available to fill. We have done that rather easily and these are jobs, I might say, Senator, that have been identified because they have the potential of developing into a career of some nature—of a career nature with the opportunity to develop dignity.

Senator RIBICOFF. Would you please give us some examples of the type of work that this type of employee is now engaged in?

Governor OGILVIE. We have identified in the area of mental health technician trainee 200 individual positions in State government at a beginning salary of $4,610 annually; mental health technicians, $2.750; support service workers, 100 of those, $4,350 a year; laborers, skilled and semiskilled workers in conservation—there is a great need for this in a State like Illinois to develop and improve our recreational areas—58 positions at $6,000 a year.

Resident counselors—this just happens to be 12 in an expanded correctional program—prison guards; we need 25 of those, at an average salary of $7,613, for improved security at our state penal institutions.

In the department of public aid, a position described as eligibility aide, 198 positions there at $5,117 annually.

I have a component of the Governor's Office which we call the Governor's Office of Human Relations and we are looking for field or neighborhood representatives to go into the communities as eyes and ears for that group; 10 of those positions at about $5,500 a year. Social service trainees, clerical positions—these are examples of what we have.

Senator RIBICOFF. These are examples of people who otherwise would have been on welfare but if you had money allotted to you for these jobs you could take these people and put them in these jobs?

Governor OGILVIE. That's right.

The CHAIRMAN. Would you submit the list for the record, Governor. I would like to have the whole list in the record.

Governor OGILVIE. All right.

(At presstime, the material referred to had not been received by the committee.)

Senator RIBICOFF. Do you see any justification for this or any other society to allow people to remain on welfare without working as against providing public service jobs at an additional cost to put people to work constructively for the benefit of society as a whole?

Governor OGILVIE. It is a desirable objective and I would have to say consistent with our ability to fund it.

Senator RIBICOFF. All right.

Now, I am curious, Governor. I suppose you are involved, like every other Governor, with all these lists of poverty programs, these categorical programs. There are 168 programs, maybe more, designed supposedly to remove people from poverty.

If the Federal Government comes to you and says, "We have got x amount of dollars and if you were to go into this particluar type of program and give us 10 or 20 or 30 or 40 percent in a matching program,"—I am just curious—how many people do you know in the State of Illinois who have been removed from poverty because of these so-called 168 poverty programs in the Federal category?

Governor OGILVIE. Senator, we cannot, unfortunately, give you a figure with any precision. I met yesterday with the administrator of our State employment security office. I do recall his mentioning some figures but, unfortunately, I didn't make a note of them. We will inquire and I will provide that.

Senator RIBICOFF. Let me ask you, do you think that each one of these 168 programs is worthwhile and necessary?

Governor OGILVIE. Well, what I would, of course, prefer is that we get a block grant. I think we have got the ability, the dedication, the integrity in our public aid and other social service delivery agencies, if we had the flexibility, which we do not now have, to develop programs that would be far more meaningful than all these limited categorical efforts.

Senator RIBICOFF. In other words, if you had block grants or you had funds, instead of trying to slot 168 different programs along the lines of the list that you named, you could probably put more people to work and take them off of poverty——

Governor OGILVIE. We could.

Senator RIBICOFF (continuing). That would be more effective than the big bureaucratic apparatus that you have got working in Illinois now?

Governor OGILVIE. It is amazing how much money could be saved in administrative costs that would then be available for more meaningful applications.

Senator RIBICOFF. In other words, the only beneficiaries of many of these so-called 168 programs is the bureaucracy that is built around to administer them; isn't that right?

Governor OGILVIE. Yes, sir; although I suppose that is somewhat counterproductive because if we put them out of work then we would have to find a place for them, too. [Laughter.]

Senator RIBICOFF. Yes, but that is still no justification?

Governor OGILVIE. Right, and I agree with you.

Senator RIBICOFF. I am sure you, as Governor, are not just filling the jobs for the sake of a job—I mean, if they have no basic meaning——

Governor OGILVIE. Well, the trouble is that frequently I don't personally find that. It is reported to me many of these people in order

to justify the niche that they have in the bureaucracy have to do something; and usually what that something is is to foul things up for us.

Senator RIBICOFF. I am just curious if you have in your experience as Governor—how many people were actually taken out of poverty and stayed out of poverty because of any of these 168 programs?

Governor OGILVIE. I would have to investigate this; I will have to provide that.

(At presstime, the material referred to had not been received by the committee.)

Senator RIBICOFF. Thank you very much.

Governor OGILVIE. Thank you, Senator.

The CHAIRMAN. Senator Miller?

Senator MILLER. Thank you, Mr. Chairman.

Governor, if there is, let's say, a family of four on welfare in Chicago, do they receive any more than a family of four on welfare in one of your small towns, for example, like Rushville, Ill.?

Governor OGILVIE. I believe it is the same, Senator. My director points out the only distinction would be that in some communities, smaller communities, rentals are not as high as they would be in an urban area like Chicago and there might be a differential in the rent allotment.

Senator MILLER. Outside of that?

Governor OGILVIE. They get the same.

Senator MILLER. Welfare funding is the same?

Governor OGILVIE. Yes, sir.

Senator MILLER. Don't you think there should be a differential taking into account the cost of living differential?

Governor OGILVIE. I would say that there would be some validity to that at some point but at the levels that we are paying now, no, I would not.

Senator MILLER. If I understand it, in New York State, for example, they take the New York metropolitan area and two or three counties and they receive one level; and then the rest of the State receives another level. But you have not sought to refine your program to take into account cost of living differentials between Metropolitan Chicago and the smaller towns?

Governor OGILVIE. Right.

Senator MILLER. But you do think this is worthy of some study, I suppose?

Governor OGILVIE. Well, I think that, as I indicate, if levels were pushed up there would be a reason for a differential between somebody residing in one of our more rural areas where costs of living are not as high; transportation costs are not a factor of the type that you get into in a highly urbanized area. Rents are not as high. Food costs are not so high; maybe they can have a garden and raise some of their food, which a person living in a ghetto in Chicago cannot do.

Senator MILLER. Doesn't the Bureau of Labor Statistics have a cost-of-living index for Chicago itself?

Governor OGILVIE. I am sure they do.

Senator MILLER. I am wondering if it would be feasible for you to use something like that to make a differential?

Governor OGILVIE. I would suspect that the level of funding that we are providing would be well under that.

Senator MILLER. Well, but let's say we do something down here in this bill by way of a level of funding; the question then poses itself whether we ought to provide for a level of funding with a cost-of-living differential cranked into it so that the people in Chicago, for example, will receive more than the people in a smaller rural community or perhaps the people in Chicago would receive more than a similar family who located in a very low cost-of-living Southern State. This is one way, it seems to me, that we might avoid unnecessary costs and also might avoid what concerns many of us, the additional very large number of people eligible for welfare.

Governor OGILVIE. Yes.

Senator MILLER. For example, I talked to Governor Ferre of Puerto Rico a year ago and he was aware of the fact that under this bill, as it stands now, some 800,000 people in Puerto Rico would be eligible for welfare of one kind or another.

Governor OGILVIE. And would be living better than most of the people who are working in Puerto Rico at the present time.

Senator MILLER. Well, he didn't say so but that would be a possible conclusion and I guess the situation would be somewhat similar in some of our other States—Southern States in this country, so it seems to me that a cost-of-living differential approach might avoid that kind of situation and also it would do equity among the welfare recipients themselves.

Would you——

Governor OGILVIE. I would agree, Senator, that clearly there is a very reasonable area of investigation in the amounts of money that are necessary to live in different parts of the United States. It costs more to live in Illinois than it would to live in one of our more southerly States. It costs more to live in the northern part of our State than it does in the southern part.

Senator MILLER. Yes. Thank you very much.

The CHAIRMAN. Senator Jordan?

Senator JORDAN. Thank you, Mr. Chairman.

Governor, several things have been brought out in these hearings and the most important one, I think, we all agree, is that the present system has to be replaced. It is wholly inadequate.

You spoke earlier in your statement about the inefficiencies that arise because of the divided responsibility, the fact that administrative regulations have given the Federal welfare bureaucracy quite literally, you say, a life or death grip over the ability of the State governments to act.

That being true, and we got that from a good many witnesses, there are two ways to go: totally Federal or totally State under block grants.

Now, the HEW has told us that in order to implement H.R. 1, they will require 80,000 employees. It will still not eliminate the States entirely from welfare administration. What if the States had total responsibility, that is, administrative responsibility such as you have now under State employment service, supplemented by block grants from the Federal Government. Can you do a better job of administration in welfare than the Federal Government or are you going to surrender and say that the Federal Government can do the better job?

Governor OGILVIE. No, sir; I would say emphatically to you that we can do a better job than the Federal Government can do.

Senator JORDAN. The money is coming from the same pockets anyway and, if it comes, it is a question of who can do the more efficient job for the taxpayer dollar. It seems to me that you can make a strong case for State control and State administrative authority over the welfare program as opposed to total nationalization.

Governor OGILVIE. Yes, sir.

Senator JORDAN. Thank you.

The CHAIRMAN. Senator Fannin?

Senator FANNIN. Thank you, Mr. Chairman.

Governor Ogilvie, I want to commend you for your statement and the way you have answered these questions. I just wish that we could keep the administration at the State level and that is why I am concerned when the Governors testify that they approve H.R. 1, and recommend that we go forward with the program, I think they are going against their own feelings regarding the bureaucracy that has been working with them at HEW and the inefficiency and inadequacy of the activities of that department.

Governor OGILVIE. Senator, could I interrupt just a moment and give you a personal observation of something rather current?

Last Friday, I think it was, the executive committee of the National Governors Conference, of which I have the honor of being a member, and, of course, these are Governors of both political parties—met over at the Office of the Vice President for kind of an off-the-record session. It will be off the record, except that I would like to say that I listened to Governor after Governor around the room saying precisely, reciting exactly the same frustrations of trying to conduct the affairs of his State, particularly as it relates to the problems of welfare.

Democrat, Republican, we are all in the same boat and it is the most aggravating, frustrating experience you can imagine.

Senator FANNIN. Well, I have written my Governor and I have the same message carried to me from the Governor of Arizona, Governor Williams.

Governor OGILVIE. Governor Williams—yes, sir.

Senator FANNIN. And, of course, he has been involved in some lawsuits recently you probably know about.

Governor OGILVIE. We are all involved in those.

Senator FANNIN. Yes; because they are trying to carry through a program that would be very advantageous.

The difference seems to be between the Federal and State Governments that you can't spend money that you don't have and we can, and at the Federal level——

[Laughter.]

Senator FANNIN (continuing). We are spending money that we may never get.

Governor OGILVIE. One modification: now you are making us spend money that we don't have.

Senator FANNIN. That's right. Our programs are adverse to the very goals that you have. You are trying to take care of the people to the greatest advantage possible and, as I stated first, I do commend you for those efforts. You have given us a very forthright formula for solving some of these problems; but, unfortunately, the legislation is not being supported and I understand the predicament because I, too, had the experience as a Governor.

I feel we need your services; we need the services at the State level to try to keep a balance in this welfare program and I really feel from your testimony that you would favor that type of approach rather than the approach that is taken in H.R. 1.

Governor OGILVIE. Well, unfortunately, H.R. 1 is so complicated and there are so many things in it that it would be difficult—in fact I would have to take a week, frankly, to discuss effectively and efficiently what is in there.

There are parts of it that—you know I said a bill like H.R. 1—I was hoping you would pass out. I think that if we can take these categories such as the aged, the blind, and permanently disabled, those conditions that are established that are not going to change, and take them out of public aid, don't even call them that, put those under social security, we are going to begin to reduce or at least refine what precisely our problem is in terms of public aid people, those who can be helped, those who can be restored to be a meaningful part of our society.

Right now it is so confused we are all over the place.

Senator FANNIN. I agree with you, Governor, but in your statement you say: "Despite HEW administrative approval of our program revisions, the Federal regulations are so contradictory and confusing that they open wide loopholes which allow welfare rights groups to initiate interminable litigation to delay proceedings of the federally approved changes."

You have testified to that but now how are we going to correct these inequities that are involved in your statement if we bring the Federal level in? The pressure then will be right here and they can bring greater pressure. When you speak of these groups, welfare rights groups, to initiate interminable litigation, they can also come to Washington and do the same here as they are doing now in the States?

Governor OGILVIE. We are hoping that you are going to produce a simplified procedure.

Senator FANNIN. Well, I commend you for that hope.

Governor OGILVIE. It is encouraging.

Senator FANNIN. And I trust it will come true.

Thank you, Governor. I am very pleased with your testimony.

Governor OGILVIE. Thank you, sir.

The CHAIRMAN. Senator Hansen?

Senator HANSEN. No questions, Mr. Chairman.

The CHAIRMAN. Governor, I do think I would like to ask you about a couple of things here.

Governor OGILVIE. Surely.

The CHAIRMAN. Even though, and I extend my apologies to the other two Governors that might push them over to an afternoon session; I promise them I will be here to hear what you have to say and hear the suggestions of the Governors so far as they are concerned.

I think we might explore a couple of things and ask the other two Governors to comment on these.

In the first place, Governor, with all this talk about the Federal Government can do a better job, let me say, to begin with, the States have been imposed on by court decisions that were contrary to the intention of Congress. In some cases we here in the Congress have needlessly imposed on you.

For example, I think I was one of the initiators of what now is a maintenance of effort provision that is being used in ways not intended and would not support in the beginning any part of it if I knew it was going to work out in that way.

There have been court decisions that have misconstrued the intention of Congress and have placed burdens on the States that nobody ever for a moment intended; and so if that is not bad enough, HEW regulations have also misconstrued the intent of Congress to the extent that I just marvel that you have managed to do as good a job as you have done at the State levels.

But even so, I don't find any basis whatever to say that a Federal administrator can do a better job than a State administrator.

I would just like to point out a couple of regulations that to me are utterly ridiculous. I didn't know it until a few nights ago when the administrator of my State pointed this out.

I want to ask you if this is true, to your knowledge, in Illinois: Let's take a situation where a man is obviously the father of children and admits he is the father. He is living under the same roof with the mother and the children, and has an income adequate to support that family. Are you aware of the fact that it appears that HEW regulations require that that family be placed on welfare for the full amount without taking into account the father's income merely by virtue of the fact that that father says he is not contributing any of his earnings to the support of that family?

Governor OGILVIE. The director says that is true.

The CHAIRMAN. Well, frankly, Governor, I had been working in the welfare area before I became a U.S. Senator, and I have been up here 23 years, and on this committee for a long time dealing with this problem. To me I couldn't believe it because obviously that is ridiculous.

Let's assume the man is making $10,000 a year. Why should the wife and children be drawing, let's say $4,000 a year, in welfare when that man has the legal obligation to support those children and he is living under the same roof and everybody knows he is there?

Wouldn't the logical answer be to file a lawsuit against the father for support and have a court order him to pay part of that $10,000 to those children and to the mother of those children?

Governor OGILVIE. Yes, sir.

The CHAIRMAN. Now, every time I try to suggest that somebody ought to go to work—somebody comes in here and calls it slave labor or something or other. It seems to me that the slaves in this country are the people who are out working for every nickel they are getting and having to contribute their hard-earned tax money to support somebody who refused to work or somebody who is chiseling or cheating on his neighbor.

Now, if I have anything to say about that we will correct that. But to my knowledge, so far as I know, the State administrators never wanted that; that was imposed on them by HEW; it is utterly ridiculous. A lawsuit should be filed to have the man declared to be the father of the children, and order him to pay for the support of that family.

Governor OGILVIE. Senator, we have another situation where the States are now forbidden to require a woman to identify the father of her children.

The CHAIRMAN. Absolutely, utterly ridiculous; at least she could give you her best guess. [Laughter.]

But, Governor, there is another regulation and, mind you, it is backed up by a court decision. It is my understanding that HEW let that erroneous court decision stand without appealing it when it could have easily been appealed; and, as ridiculous as some of these Supreme Court decisions have been, I have my doubts they would have upheld that one that you don't have any right to even insist on her telling you who she thinks is the father of her children, or at least tell you—honestly swear, that she doesn't know and has not the slightest idea. She ought to at least tell you what she thinks about it.

Now, further than that, we were confronted last week with an honest and sincere, diligent State district attorney seeking to prosecute these families who were fraudulently on the rolls and we find that HEW has propounded themselves a regulation to say that for the protection of privacy that you can't inquire or can't ask that State records be made available to a State prosecuting attorney so that he can see whether this father is making that, let's say, $1,000 a month working at some point either in the county or some place just beyond the county, so as to prosecute that family for fraud in obtaining taxpayers' money fraudulently, which is about the same thing as stealing—a totally ineligible family.

Do you see any sense in that kind of a regulation?

Governor OGILVIE. Was there any distinction made between compelling that testimony before a grand jury, or was this merely for investigative purposes—I say merely——

The CHAIRMAN. You see, Governor, I would be willing to support a regulation that you not needlessly make public the information about the needs of a family; there is no point in spreading that business around the countryside. But if anybody on this committee or anybody in this audience, including you, does not pay his income tax, there will be some fellow show up, and he will want to know all about your business, and you cannot decline to tell about that. If you have a bank box, he would get an order to go into it, just anything about your business he can know about. You cannot protect yourself from telling about all of your private affairs and especially your income under the guise of privacy from Uncle Sam and that is on money you earned.

Why do you have any greater right on money that you are cheating the Government out of?

Now, it is utterly ridiculous to say that a prosecuting attorney in the proper performance of his duty cannot have made available to him the information which is a public record about the fraud.

Now, in the State of Louisiana, we had some argument about it in the aged category about the privacy, and so we passed a law that anybody can see those books but he could not publish that information unless he had some justifiable basis to publish it. Having seen how the issue was resolving in our State—even the newspaper reporters can see it, but they are enjoined from needlessly embarrassing somebody by publishing his financial plight, which is to be made available only in the event there is some mischief involved there. But imagine—can you see any point in denying that to a grand jury

investigating criminal violations of a law, or denying that to a prosecuting attorney who might have the decision or be required to make a decision whether prosecution should be requested?

Governor OGILVIE. I don't think they could deny it to a grand jury.

The CHAIRMAN. Well, they have gone about as far as can be gone; they have even said the time you go to court and ask for a subpena that this regulation is to be shown the court. Let's look here: "The same policies are applied to requests for information from a Government authority, the court, or law enforcement officials, as from any other source."

As I understand, it says you are supposed to show this to the judge and tell him he is enjoined by the Department of Health, Education, and Welfare from issuing a subpena for these records of criminal violations of the law.[1]

Now, the point I have in mind is this: Every time I have run across one of these things where a State administrator says, "This doesn't make any sense and I don't want to do it," we find that the HEW has been forcing them to do that.

How did you feel about this thing of people putting themselves on the welfare by their own certification rather than having somebody inquire of the facts, the so-called certification method of going on the welfare rolls?

Governor OGILVIE. Well, I don't particularly like it.

The CHAIRMAN. Well, I don't know of any conscientious administrator who did, and our understanding, where we looked into it, is that the number of ineligibles on the rolls appear to be at least 10 percent greater where you use that method than where you don't. That leads me to this question:

It seems to me that rather than fire all the State employees or displace them from the job they are doing, that if we could find the money for full Federal funding, all right, go ahead and provide full Federal funding. But I don't see any point in having HEW in complete control of this, when I think that there is a place for State responsibility, and it would seem even if we go to full Federal funding that there still ought to be some State responsibility here.

I think most of the mischief with the program hasn't been in the case of HEW telling it to me; it has been difficult to get it even with a staff to help us. Where I found out about it, generally speaking, is that State administrators tell us about it and suggest this is wrong and we should correct it.

Would you find some appeal to a proposal to simply say that this would continue to be administered by the States, with the Federal Government paying expenses of it insofar as we can find the money to do so?

Governor OGILVIE. I think, in very general terms, yes, sir; that would be what I would stand for. I want the State to run the program. I have given some thought to the States controlling the service aspect of these public aid programs, with the Federal Government monitoring or controlling the cash or the fiscal implications.

The CHAIRMAN. Well, Governor, it just seems to me if something is wrong——

[1] The regulation referred to appears on p. 855.

Governor OGILVIE. With the State, I might say, as a participant?

The CHAIRMAN. Right.

Governor OGILVIE. I don't think, frankly, the States ought to be relieved totally of some responsibility for public aid.

The CHAIRMAN. Well, particularly when you get to the very difficult decision of putting someone on the rolls whom we will have to support because a person alleges that they either don't know or can't find the father of the children. Now, I believe we will find the votes in this committee and in the Senate, and so far, HEW says they won't oppose us on this, to provide that we will pursue and provide a mother with a lawyer to institute litigation, if need be, against the father to make him accept his responsibilities.

But where we are going to have to support somebody from the time the child is born until the time the child reaches the age of maturity and becomes a wage earner in his own right, in those situations it seems to me as much as you can obtain participation of the local people, the nearer you will become getting the correct answer.

If you want to have accountability you can come nearer getting it by calling upon the local administrators or even the district office and then if something is wrong and you can't get it corrected call upon the Governor to correct it and if he can't then at least he will tell you he is powerless to correct it and then you can go to the top in Washington if need be.

But is there any real need, why you should have to go all the way to Washington, D.C., to get it corrected when the local people could be placed in responsibility?

Governor OGILVIE. It is very time consuming and unless there are some abuses that can be shown, it ought to be handled on a local basis.

The CHAIRMAN. Thank you very much, Governor.

Senator RIBICOFF. Mr. Chairman, a couple of questions.

The CHAIRMAN. Yes.

Senator RIBICOFF. Governor, you have about 650,000 people in Illinois on welfare—in September you had some 642,000?

Governor OGILVIE. We have got 920,985 in November, 1971, all categories.

Senator RIBICOFF. 900,000?

Governor OGILVIE. Your figure probably was just those federally supported—yes, that was just FDC cases.

Senator RIBICOFF. But total welfare about 900,000?

Governor OGILVIE. 920,000.

Senator RIBICOFF. Let me ask you, In your appraisal what percentage of those 900,000 people on welfare in Illinois are guilty of fraud?

Governor OGILVIE. A very small percentage.

Senator RIBICOFF. What is your guess?

Governor OGILVIE. Five percent.

Senator RIBICOFF. All right. Five percent.

Let me ask you, going to a basic philosophical point here, let us say we should close all the loopholes that allowed fraud should we be designing a welfare program to take care of the 5 percent of the people who are guilty of fraud or should we be designing a welfare program that takes care of the 95 percent of the people who are not guilty of fraud?

Governor OGILVIE. I think you have got to address yourself to both parts of this because if you are going to get public support for public aid, you are going to have to address yourself to the problem of fraud because——

Senator RIBICOFF. That is right.

Governor OGILVIE. Because this really affects attitude. But, of course, the objective, the overall objective is to take care of the 95 percent that truly need the assistance.

Senator RIBICOFF. That need the assistance. So, in other words, what you are faced with if you have a responsibility as a Governor or Senator is not just going and making speeches indicating that that 5 percent of the people who may be guilty of fraud represent everybody who is getting welfare. So while you try to close the loophole, responsible men in public life must address themselves to the overall problem of the 95 percent who aren't guilty of fraud. In other words, in your State if you have 900,000 people and 45,000 people are guilty of fraud, I mean it is unfair to condemn 855,000 people who are not guilty of fraud; isn't that correct?

Governor OGILVIE. Yes, sir.

Senator RIBICOFF. So, therefore, if it is a question of humaneness, a question of equity and a question of justice, you have to construct a welfare system based on what the problems really are that confront society?

Governor OGILVIE. Senator, I don't think we are condemning the 95 percent. I think that the words I heard from Senator Long, and I have said something not dissimilar, we are condemning a system.

Senator RIBICOFF. That is right, but in the process of condemning the system there is a big broad brush dipped in black paint.

Governor OGILVIE. There is no question about that.

Senator RIBICOFF. That smears everybody who is on welfare.

Governor OGILVIE. There is no question about that.

Senator RIBICOFF. And even though most of them are blind, infirm, aged, and children, you have 126,000 ablebodied men in the entire United States on welfare who can work and yet the impression is everybody on welfare is ablebodied, who could work, who don't want to work.

So we have got a basic philosophical problem that we address ourselves to.

Thank you, Governor.

Governor OGILVIE. Senator, I do want to give you this because it does have this breakdown.

Senator RIBICOFF. I would like to see it personally and would you make another copy available for the record, please?

(At presstime, the material referred to had not been received by the Committee.)

Senator FANNIN. Senator, it is not misleading to say 95 percent are not quilty of fraud. Here you are talking about 5 percent may represent the head of the family would be the one who would be guilty of fraud. If there is a fraudulent act committed but there may be four or five in that family so you can't say that 95 percent are not guilty of fraud; isn't that right, Governor?

Governor OGILVIE. That's right.

Mr. Chairman, the director here, I think, has a point on this if you would be willing to listen to him.

The CHAIRMAN. Yes.

Mr. WEAVER. There is a fine line, I think, between what is fraud and what are normal errors of management in a very complex system. Fraud in many of these cases, even in the 50 percent that I suggested to the Governor, would be an approximately correct figure. Many of those instances are not actually fraud. The major source of error in our State, for example, is miscomputation with respect to earnings exemptions when people are going to work and they are receiving a supplementary payment under public assistance. So it gets very difficult to define what are errors in administration of an exceedingly complex system and what are intentional cases of actual fraud.

The CHAIRMAN. Let's just take the kind of case, sort of case I am familiar with. I know it happens and I can give you examples. I don't want to embarrass the people; I know some of them, but here is a situation where a man has a wife and a large number of children. Let's say this man is poorly educated and poorly motivated so he discovers that he can make just a lot more money by separating from that family unit, by getting them on the welfare; so by the time they get on the welfare they would just get a lot more money that way than they do by the man working as he had in the past to make a living. And so we just support them right on. We have all sorts of regulations: You shouldn't harass people; you can't ask any questions.

That is another regulation, by the way, that you can't ask the neighbors about the situation of a welfare client without first obtaining the client's consent—give him a chance to go down the road and tell the neighbors what to say in the event somebody comes around asking the questions, or if you are going to see if somebody is living in the home with the mother if the father is home or not, you first have to make an appointment to make sure papa won't be there when you come by to ask the questions.

But in any event, there is a father available to support the family but they make a lot more money on the welfare than they do by the man working. I want to help that poor family but I would rather do it by supplementing the man's wages than I would by making it to her advantage going on welfare. I see you nodding your head, Governor. You know what I am talking about?

Governor OGILVIE. Yes.

The CHAIRMAN. It is not classified as fraud but it is a very prevalent thing in this country today. I am perfectly content to add something to his earnings if it is not adequate to support that family, but I don't want to vote for these situations where you are encouraging people to load the rolls with welfare clients where it would make better sense to provide a better job or supplement his wages.

Governor OGILVIE. That is why the working poor program is so important because the system right now compels a family to do that.

The CHAIRMAN. Governor, I hope I can get together with Senator Ribicoff on the working poor. I am willing to spend a lot more money provided the fellow is actually working. But what I am opposing is a fellow putting his name on a sheet of paper and saying he is available when he has not done a lick of work up to that time. Maybe we are going

to resolve our differences by saying we will provide the jobs if need be.

Well, maybe it is desirable to hire domestic help; we will provide assistance to day care to help working mothers.

Governor OGILVIE. Go back to WPA.

The CHAIRMAN. Give the cities the money to put them in a job and then we will add something to what they are making. I think that the majority of people in this country would be happy to add something to a person's earnings if the person is doing the best he can.

What the people of the country object to so much is that people find it more profitable to apply for welfare than to go to work.

Senator BENNETT. Mr. Chairman. I hate to continue this but there is one set of figures on this little card that I have been handed that amazes me and I would like to ask the Governor if he can give us an answer, not necessarily now but in writing for the record.

In November 1970, in Illinois, there were 110,000 families on aid to dependent children; November 1971, a year later, there were 167,000 families, an increase of 50 percent in 1 year, yet he tells us, the Governor tells us that the rate of unemployment in Illinois is around 5 percent, which is lower than the national average; so it hasn't been that kind of a thing that has caused it?

Governor OGILVIE. Well, it was lower than that before, Senator, in some areas of the State that have been much more heavily impacted than others.

Senator BENNETT. It would seem to me there must be some reason for an increase as great as this.

Governor OGILVIE. What I could do would be to break this out on a district basis, identify the areas of the State where the larger increases have taken place. I suspect in the Rockford area as an example, where machine tool business has been so hard hit, this would be one of the impacted areas; and Chicago, of course.

Senator BENNETT. There has been no change in the method of operating the system which would get more people on it?

Governor OGILVIE. No.

Senator BENNETT. That is all, Mr. Chairman.

The CHAIRMAN. Governor, I have a memorandum provided me here that indicates that you ran a sample study of your general assistance program in Illinois, and discovered that 33 percent of those on these rolls were ineligible for any type of assistance.

Governor OGILVIE. General assistance in Cook County.

The CHAIRMAN. Yes.

Governor OGILVIE. Can I ask the director, because he has more current information on that than I do?

Mr. WEAVER. Yes, Senator, that was probably one cut at that particular effort. The actual number ineligible as of the last cut in terms of the total review that we have done was 17 percent, and we expect that to actually diminish. Ineligibility was determined at a point when people did not report for an interview and maybe subsequently it was determined that they were in fact eligible, did not report on that day and may report subsequently. I think the 33 percent was at and earlier point in the review. We had a larger number. It has not proven out over the entire caseload in the city of Chicago, general assistance to be that way.

The CHAIRMAN. Well, the figure we have on the family category indicates that 70 percent of these children have a father somewhere who ought to be able to make a meaningful contribution to the support of that family.

Now, it may be that some of them are unemployed, but I would hardly think that more than about 20 out of that 70 are unemployed. That is a major area we are going to have to try to do something about.

Governor OGILVIE. Gentlemen, thank you very much.

Senator RIBICOFF. In order to make the record clear, general assistance is not covered by the present law or H.R. 1; it is completely State funded?

Governor OGILVIE. That's right.

The CHAIRMAN. Thank you very much.

(An analysis prepared for Governor Ogilvie and a communication subsequently received by the Committee from the Governor follows. Hearing continues on p. 1088.)

ANALYSIS OF TITLES II, III, (XX), IV, (XXI), AND V OF H.R. 1

(Prepared For Governor Richard B. Ogilvie By Illinois Institute for Social Policy, Welfare Division, January 28, 1971)

FOREWORD

On December 30, 1971 in a letter to State agency directors, Governor Ogilvie stated:

To date extensive analysis has been done on H.R. 1. Much of this work, however, has frequently been general in nature with little detailed consideration of the bill's content. Thus, I am proposing that Illinois undertake a project that will produce this kind of section by section analysis.

Determining the administrative feasibility, internal consistency, and technical quality of H.R. 1 is critical if the proposed programs are to work. As a State director you are aware of how vague, contradictory and restrictive Federal guidelines frustrate the State's ability to initiate and administer needed programs. As a state experience in administering a wide variety of federally funded programs, we must help assure that these problems are kept to a minimum under H.R. 1.

I am asking each State agency that will be affected by H.R. 1 to submit a detailed analysis of those portions of the bill that apply directly to the agency's operations.

This analysis, compiled by the Welfare Division of the Illinois Institute for Social Policy, is the result of responses from the various State agencies to the Governor's request. Because of the amount of debate which has already occurred concerning the major provisions of H.R. 1, e.g., level of payments and populations covered no analysis of such issues is included. In the interest of brevity comment has been made only on those sections of the Bill in which specific recommendation for change was suggested by an individual agency.

The following Illinois State Agencies contributed material incorporated in the analysis:

Bureau of the Budget
Department of Children and Family Services
Department of Mental Health
Department of Public Aid
Division of Vocational Rehabilitation
Governor's Office of Human Resources
Institute for Social Policy
Office of Health Economics

INTRODUCTION

The recommendations made in this analysis are based upon the operational experience of State agencies in working with the existing welfare programs. Our purpose is to suggest ways in which the bill in its current form can be improved in

order to make operational provisions more effective in terms of meaningful welfare reform. There are four major areas of concern which have significant impact upon the effectiveness of welfare reform at the State levl. These are: eligibility, cost control, administration, and delivery of services. The report is organized according to title and area of major concern.

ELIGIBILITY

[Title II: 254(d)(1)(2)]

SECTION DESCRIPTION

This section provides definitions of health or rehabilitation services and active treatment as they apply to intermediate care facilities that are primarily engaged in the care of mentally retarded persons or persons with related conditions.

EXPLANATION

The definition of these terms, as they refer to care for the mentally retarded, affect the State's funding for the care of the mentally retarded. It is important for the states to be able to interpret these terms in the same context as they are set forth in the Title XIX standards for intermediate care. This specification is necessary so that the states can determine the status of matching funds for this type of patient.

The proposed language clearly delineates the meaning of health or rehabilitative services and active treatment. This permits the State to evaluate the status of the matching funds available for the care of the mentally retarded patient in intermediate care facilities.

RECOMMENDATION

254(d)(1)(2) should read:

The primary purpose of such institution is to provide health or rehabilitative services for mentally retarded individuals as defined in the Title XIX standards for intermediate care and which meet such standards as may be prescribed by the Secretary.

The mentally retarded individual, with respect to whom a request for payment is made under a plan approved under this title, is receiving active treatment as defined in the Title XIX standards for intermediate care under such a program.

COST CONTROL

[Title II: 207(a)]

SECTION DESCRIPTION

Paragraph (2)(C) of the new section 1903(g) decreases the Federal medical assistance percentage by 33⅓ percent for inpatient services furnished an individual in a hospital for mental diseases after he has been furnished such services for 90 days after June 30, 1971, and for up to an additional 30 days if the State agency demonstrates that such additional days would provide an opportunity for combined therapeutic improvement, with Federal payment for inpatient services furnished any individual in a hospital for mental diseases being completely eliminated after the individual has been furnished such services for a total of 365 days during his lifetime.

EXPLANATION

By reducing the population over age 65 in State mental institutions from 7,751 to 3,846 from November 1968 to November 1971, Illinois has made great strides in eliminating the problem to which this provision is addressed. Placement of the elderly out of mental institutions is continuing at the maximum rate permitted by the availability of private resources. This provision does not address the real problem in Illinois which is the expansion of alternate care resources and may unfairly penalize the State. In addition, the State is controlling the utilization of mental institutions by Medicaid recipients through the Hospital Admission and Surveillance Program (HASP is more fully explained on the next page).

Finally, this provision would appear inconsistent with the recently passed Harris-Bellmon amendment to H.R. 10604 which authorizes Federal matching to

care in intermediate nursing and shelter care facilities under Medicaid Title XIX. This type of care was previously matchable only under Title X, XIV and XVI. The above amendment recognizes the propriety of financing under Title XIX services to patients in need of health-related supportive institutional care such as that provided to geriatric patients in State mental institutions.

RECOMMENDATION

Priority should be given to the elimination or alteration of the provision in paragraph (2)(c) of the new section 1903(g) which reduces Federal matching by ⅓ after a patient has been hospitalized in a mental institution for 90 to 120 days and eliminates matching entirely after 365 days.

Alternative revisions: (1) The current effective date of this provision should be changed from 7/1/72 to 7/1/73. (2) Federal matching would be reduced only when states do not show progress in reducing the stay of patients.

SECTION DESCRIPTION

The new section 1903(g) (in paragraph (1)) provides a 25 percent increase in the Federal medical assistance percentage, not to exceed 95 percent, for amounts paid by States after June 30, 1971, under contracts with health maintenance organizations and other facilities providing comprehensive health care. Such percentage may be increased only if such contract provides that payments for services provided under the contract will not exceed the payment level for similar services provided in the same geographical area and rendered under an approved State plan.

EXPLANATION

Increased Federal matching for outpatient and clinic care will encourage states to emphasize this source of treatment, reducing total outlays by economizing on the use of expensive inpatient care. Illinois is attempting to emphasize outpatient care. The State also recently introduced a program designed to control the utilization of inpatient care by Medicaid recipients. The Hospital Admission and Surveillance Program will identify unnecessary hospitalization and deny reimbursement where required, develop criteria for determining necessary lengths of stay, and improve the function of hospital utilization review committees. It has been estimated that if at least one hospital per day stay were eliminated, Medicaid expenditures would be reduced by $25 million in Illinois.

This is not to say that HMO's are not supported in Illinois. State policy as expressed in the Governor's Health Care Message strongly supports the formation of HMO's and includes several initiatives designed to encourage their development. However, it is unlikely that H.R. 1 will have a strong effect on encouraging HMO's which are faced with high start-up and development costs well before they can open their doors and receive Medicaid reimbursement. H.R. 1 could be greatly strengthened if a mechanism such as Federal guaranteed loans for the development of HMO's were included.

Under present circumstances the HMO limitation in H.R. 1 is harmful fiscally since the State is unlikely to buy much care from HMO's this fical year or in FY 1973. Very few HMO's now exist in Illinois and it takes two to three years to develop a functioning HMO. In addition, buying into an HMO increases the State's cash outflow due to the customary requirement for an advance payment. Illinois would instead argue that an increase in Federal matching for outpatient and clinic care would do more to encourage HMO's at present by strengthening the resource base of outpatient facilities so vital to the effective performance of Health Maintenance Organizations.

RECOMMENDATION

It is recommended that the 25-percent increase be provided for outpatient and clinic hospital care rather than for HMO's or other comprehensive health care facilities. This was the original language contained in the House version of H.R. 17550 (Ways and Means Committee Report, 5/14/70, p. 8).

SECTION DESCRIPTION

The new section 1903(h)(1) authorizes the Secretary to compute for reimbursement purposes a reasonable cost differential between cost of skilled nursing home services and cost of intermediate cost facilities. If the Secretary determines for

any calendar quarter after December 31, 1971, that a reasonable cost differential does not exist between the cost of skilled nursing home and intermediate care facility services in a State, he may reduce the amount which would otherwise be considered under the State plan by the amount he judges to be a reasonable equivalent of the differences between costs for these types of facilities. The new section 1902(h)(2) requires the Secretary to consider the range of cost differentials in various States.

The new section 1902(h)(3) defines "cost differential" (determined by the Secretary on the basis of data for the most recent calendar quarter for which satisfactory data are available) as the excess of the average amount paid in such State per inpatient day for inpatient skilled nursing home services over the average amount paid for such services in intermediate care facilities.

EXPLANATION

According to 207(a), if the Secretary determines for any calendar quarter after December 31, 1971, with respect to any State that there does not exist a reasonable cost difference between the cost of skilled nursing home services and the cost of intermediate care facility services in such State, the Secretary may reduce the amount which would otherwise be considered as expenditures under the State plan by an amount which, in his judgment, is a reasonable equivalent of the difference between the amount of expenditures by such State for intermediate care facility services and the amount that would have been expended by such State for such services if there had been a reasonable cost differential between the cost of skilled nursing home services and the cost of intermediate care facility services.

This provision is inconsistent with the section that permits states to develop alternative methods for reimbursing the reasonable costs of inpatient hospital services. It is inflexible and arbitrary. It does nothing to control costs but simply restricts government payment to providers. This provision would ultimately preclude the constructions of new intermediate care facilities. This action on the part of providers will escalate overall health costs because in the absence of a sufficient supply of intermediate care facilities the consumer utilizes higher cost hospital facilities. Illinois is in the process of developing a system of prospective rate reimbursement that will establish incentives for providers to control cost.

RECOMMENDATION

Deletion of the entire new subsection: section 207(a) which amends the Social Security Act by adding section 1903(h)(1)(2)(3).

[Title II: 208(a)]

SECTION DESCRIPTION

Section 208(a) of the bill amends section 1902(a)(14) of the Social Security Act to provide, effective January 1, 1972, that (A) in the case of cash assistance recipient adults or foster children or individuals meeting appropriate income and resources requirements no enrollment fee, premium, or similar charge and no deduction, cost sharing, or similar charge may be imposed for required services, and any deduction, cost sharing, or similar charge imposed for optional services must be nominal in amount (as determined in accordance with standards approved by the Secretary and included in the plan), and (B) in the case of those adults or foster children who are not receiving aid or assistance under any such State plan and who do not meet the appropriate income and resources requirements there will be imposed an enrollment fee, premium, or similar charge which (as determined in accordance with standards prescribed by the Secretary) is related to income and no other enrollment fee or premium may be imposed.

EXPLANATION

The section makes no specific provision for cost sharing or co-payment for non-cash recipients.

Since there is a provision for co-payment or cost sharing for optional services utilized by recipients of cash assistance, an inconsistency is created between the non-cash recipient program and the cash assistance program. This inconsistency

may tend to provide the non-cash recipient with an incentive to seek optional care and services that are not essential. The proposed language provides consistency between participants not receiving cash assistance and recipients of cash assistance grants. It also provides a deterrent for the demand of non-essential services by including the recipient as a participant in the cost in a nominal way. In addition, it gives states the flexibility to plan for and control use of optional services.

RECOMMENDATION

Delete section 208(a)(14)(B)(ii) and substitute the following provisions: no deduction, cost sharing, or similar charge with respect to the care and services listed in clauses (1) through (5) and (7) of section 1905(a), will be imposed under the plan. Any deduction, cost sharing, or similar charge imposed under the plan with respect to other care and services will be nominal in amount (as determined in accordance with standards approved by the Secretary and included in the plan.)

[Title II: 221]

SECTION DESCRIPTION

Subsection (a) of the new section 1122 expresses the congressional intent that funds appropriated under titles V, XVIII, and XIX of the Act shou d not be used to support unnecessary capital expenditures and that reimbursement under such titles should support State health planning activities.

Subsection (g) of the new section 1122 defines the term "capital expenditure" as an expenditure which, under generally accepted accounting principles, is not properly chargeable as an expense of operation and maintenance and exceeds $100,000, changes the facility's bed capacity, or substantially changes the facility's services.

EXPLANATION

The purpose of this section is to assure that Federal payments are not used to support unnecessary capital expenditures made by, or on behalf of health care facilities or health maintenance organizations and that, to the extent possible, reimbursement under such titles shall support planning activities with respect to health services and facilities in the various states.

This provision, while reinforcing the control of State planning bodies, has no effect on controlling excessive costs being paid to providers for depreciation interest expense and return on equity capital. It has no effect on capital acquisitions below $100,000.00 and, in addition, makes no provision to control expenses claimed by providers that are cash outflows but are simply accounting entries. Non-cash outflows may ultimately be reimbursed a second time in the form of interest payments. This pseudo-cost is continuing to drive the cost of medical care upward at the Federal and State level.

The purpose of the recommended alternative language is to strengthen the government's ability to avoid duplication in the health care industry while minimizing the cost for capital acquisition. This provision is designed to reduce the unit cost of health care to all levels of government, other than third party purchasers and the consumer.

RECOMMENDATION

The following should be incorporated in the provisions of section 221 (new section 1122):

The Secretary shall exclude any expenses related to a capital expenditure that has not been approved by the State planning agency. Interest expense requires the approval of the local planning agency prior to the date that the expenditure was made. Depreciation expense must be fully funded and controlled jointly by the State planning agency and the individual provider. At the discretion of the governor of a state, the agency organized to control health care costs may be designated to control the depreciation funds in lieu of the planning agency. For purposes of this section, a capital expenditure may be defined as any expenditure over $1,000.00 which, under generally accepted accounting principles, is not properly chargeable as an expense of operation and maintenance.

Title II: 224(a)(i)(ii)

SECTION DESCRIPTION

This section provides that no charge may be determined to be reasonable in the case of bills submitted or requests for payment made under this part if it exceeds the higher of (i) the prevailing charge recognized by the carrier and found acceptable by the Secretary for similar services in the same locality in administering this part of (ii) and the prevailing charge level that, on the basis of statistical data and methodology acceptable to the Secretary, would cover 75 percent of the customary charges made for similar services in the same locality during the last preceding calendar year elapsing prior to the start of the fiscal year in which the bill is submitted or the request for payment is made.

EXPLANATION

The ambiguity of the first part of this provision will tend to confuse the carrier and the Secretary to the point that no set criteria for the establishment of reasonableness will be established. The second part of the provision will be impossible to apply in many cases where the frequency distribution is diverse. The overall result will be an inconsistent approach to the application of limits to prevailing charges.

This recommended change in language provides for specific statistical criteria to be used in establishing the prevailing rate limit and also permits the use of a relative value scale, if and when a scale is approved by the Secretary.

RECOMMENDATION

224(a)(i)(ii) should read:

No charge may be determined to be reasonable in the case of bills submitted or requests for payment made under this part if it exceeds the modal charge for similar services in the same locality or if it exceeds the charge computed from a relative value scale approved by the Secretary.

Title II: 225

SECTION DESCRIPTION

This section provides that in determining the amount payable to any state with respect to expenditures for skilled nursing homes services or intermediate care facility services furnished in any calendar quarter, there shall not be included as expenditures under the State plan any amount in execss of the product of (A) the number of in-patient days of skilled nursing home services or the number of in-patient days of intermediate care facility services provided under the State plan in such quarter, and (B) 105 percentum of the average per diem cost of such services for the fourth calendar quarter preceding such calendar quarter.

EXPLANATION

This provision is entirely inconsistent with the provision that would allow states to develop methods and standards for reimbursing cost of in-patient hospital services. It would appear that, on one hand, Congress is encouraging states to develop more effective methods for reimbursing providers, however, in this section the restrictions are so inflexible that it will ultimately limit the number of providers that will be willing to participate in the program.

This section mandates a limitation on the rate of increase for the average per diem costs for skilled nursing homes and intermediate care facilities to a maximum of 105 percent of cost related to the same quarter of the previous year. This limitation is not only restrictive but it is impractical and conflicts with the spirit of the rest of the bill.

In this state, reliable cost data is not available from nursing homes. As a result, nursing homes are compensated on a negotiated rate basis. These rates, on a per diem basis, should constitute average per diem costs for the purpose of this section. In addition, since utilization of these homes tends to reduce the length of stay in more expensive acute care institutions, this alternative to average per diem cost should be provided.

RECOMMENDATION

It is recommended that this section be eliminated and be combined with the incentive provisions for the reimbursement of hospital care. In the event that the provision is not eliminated, it is recommended that the following language be incorporated in an effort to clarify average per diem costs for those states that negotiate nursing home and intermediate care facility rates.

For purposes of determining average per diem costs where providers are compensated on a negotiated rate basis for skilled nursing care and intermediate facility care, because of the absence of reliable cost data, negotiated rates are to be considered to be average per diem costs for the purpose of this section.

[Title II: 232(a)]

SECTION DESCRIPTION

This section provides for payment of reasonable cost of in-patient hospital services provided under the plan as determined in accordance with methods and standards which shall be developed by the State and included in the plan, except that the reasonable cost of any such services as determined under such methods and standards shall not exceed the amount which would be determined as the reasonable cost of such services for purposes of Title XVIII.

EXPLANATION

This section limits the standards for reimbursement developed by the states to the standards developed by the Federal government for Title XVIII recipients. These standards are based on a limited population and the statistics will tend to be skewed for some elements of cost. For example, the Medicare group does not have pediatric or maternity services, and therefore, costs for this type of care would not be included in the Medicare standard. If these standards are applied to the total hospital population, it will result in mandatory reimbursement by the states based on statistics that are inappropriate.

The recommended revised language provides for reimbursement ceiling to be based on entire hospital population rather than a single segment. This will result in a more equitable compensation for the provider and more meaningful controls for the purchase of health services.

RECOMMENDATION

232(a) which amends 1902(a)(13)(b) should read:

Provides for payment of the reasonable cost of inpatient hospital services provided under the plan, as determined in accordance with methods and standards which shall be developed by the State and included in the plan, except that the reasonable cost of any such methods and standards shall not exceed the amounts which shall be determined by the Secretary. Amounts specified by the Secretary shall be based on statistics and standards for the entire hospital population. Maximum reimbursement standards may be applied by category, type and geographic area of providers.

Title II: 238

SECTION DESCRIPTION

This section provides for a reimbursement rate for hospitals of less than reasonable cost in cases where the customary charge is less than cost.

EXPLANATION

At minimum, this provision will be difficult, if not impossible, to administer. It attempts to reconcile the Medicare, Medicaid, and Blue Cross type cost formulas to the individual providers' schedule of charges which is subject to change. In cases where hospital charges are less than cost, the hospital will be compensated at a rate less than cost. The bill provides for the reimbursement of charity hospitals with an ambiguous statement related to fair compensation.

RECOMMENDATION

It is recommended that the entire section 233 be deleted and that hospital reimbursement be made on the basis of reasonable cost or on a plan of prospective reimbursement approved by the Secretary and the State.

Title II: 234

SECTION DESCRIPTION

This section provides for an annual overall internal plan and operating budget from each institutional provider. It also requires the execution of a capital budget for at least a three-year period for all capital expenditures exceeding $1,000.00. It fails to provide for other vital operating statistics that are necessary for an evaluation of the efficiency of the institution.

EXPLANATION

It is necessary that State government have free and detailed access to all financial and statistical information concerning institutional providers that participate in any and all state welfare programs. This information is paramount in order to provide the State with the ability to purchase health care under programs at the lowest cost while maintaining the viability of the state health delivery system. In order to determine the purchase rates for care, the State must not only have access to operating and capital budget projects, but also to historical data and forecasts of patient statistics, ancillary service statistics, patient census statistics by type of patient, incidence of service statistics, productivity analysis and other data that the state may deem necessary for rate determination. Capital expenditures should be identified and justified for all capital expenditures exceeding $100,000.00 because of the significance of capital expenditures on the rising cost of health care and the necessity to plan for them. The words income and expense should be changed to revenue and expenditures in an effort to avoid any misinterpretation or exclusion of any flow of funds.

The recommended language tightens the accountability controls for capital expenditures and expands the requirements for information to be included in the annual operating budget. The primary purpose of the language is to force the institutional providers to make a full and detailed disclosure to the State so that they may effectively control costs in the State health delivery system.

RECOMMENDATION

234(z)(1)(2) should read:

Provides for annual operating budget which includes all historical annual revenues and expenditures for the past two years and a forecast of all annual revenues and expenditures for the next year. The historical breakdown and forecast shall include patient statistics, ancillary services statistics, patient census statistics by type of patient, incidence of service statistics, productivity analysis and any other financial and statistical data which is deemed necessary by the State to facilitate the rate setting function.

Provides for a capital expenditures plan for at least a three-year period (including the year to which the operation budget is applicable) which includes and identifies in detail the anticipated sources of financing for, and the objectives of each anticipated expenditure in excess of $1,000.00 related to the acquisition of land, the improvement of land, buildings, and equipment which would, under generally accepted accounting principles, be considered capital items.

Each provider under Medicare agrees, as a condition of participation, to provide the appropriate State agencies with copies of their annual budget and capital plans v[illegible]der Medicare.

ADMINISTRATION

[Title II: 222(a)(3)]

SECTION DESCRIPTION

Section 222(a)(3) of the bill provides that the Secretary may waive reimbursement requirements of titles V, XVIII, and XIX with respect to such experiments

and demonstration projects. Any costs incurred in such experiments or projects in excess of amounts which would normally be paid under such titles will be borne by the Secretary. The Secretary will obtain the advice and recommendations of competent specialists prior to instituting any such experiment or project.

EXPLANATION

State agencies charged with the responsibility of developing innovative methods for reimbursing providers of health care will be utilizing this section of the bill frequently. The present wording in Part (3) is ambiguous and leaves the approval of the Secretary of experiments and demonstrations open to attack by providers that will resist constraints on reimbursable cost.

The revised language, while maintaining the criteria for approval of the project, eliminates the portion of referring to qualifications of qualified specialists to be used in the review process. This will tend to limit the possible attack of special interest groups and possible litigation over projects that are not in their best interest.

RECOMMENDATION

222(a)(3) should read as follows:

All experiments and demonstration projects submitted to the Secretary for approval shall contain an adequate showing as to the soundness of its objectives, the possibilities of securing productive results, adequacy of resources to conduct it, and its relationship to other similar experiments or projects already completed or in process.

DELIVERY OF SERVICES

[Title II: 226(b)]

SECTION DESCRIPTION

The language of H.R. 1—Title II and the Report of the Committee on Ways and Means on H.R. 1 often speaks of "health maintenance organizations, group practice prepayment plans, comprehensive group health, comprehensive health plan, comprehensive health care, health services, scope of services, inpatient hospital services, health coverage, benefits, etc.," but nowhere, to our knowledge, does it specifically and simply state that the provision of mental health services *is* included in the above and/or similar language. (On the other hand, however, no where does it specifically state that mental health services are excluded.

EXPLANATION

Services for the mentally ill and mentally retarded are just now beginning to move away from their traditional source—the State as sole provider. The community is taking on an ever increasing share of responsibility for care and treatment of the mentally ill and mentally retarded and should be strongly encouraged to do so.

RECOMMENDATION

To further strengthen this concept of comprehensive health care, we strongly urge inclusion of comprehensive community mental health centers as integral parts of Health Maintenance Organizations.

[Title II: 265]

SECTION DESCRIPTION

This section removes the present requirement for Social Services in an Extended Care Facility. Under existing regulations a professional social worker, or an individual supervised by a professional caseworker, attends the medically related social problems of patients. (This requirement is not specified in the statute but was promulgated under the authority of the Secretary of HEW.)

EXPLANATION

According to House Committee on Ways and Means, experience has tended to indicate that while the provision of these services have great emotional and social adjustment values, the substantial cost to an extended care facility cannot be justified by the value derived by its total population.

It is unclear from the language of the bill or the report of the House Committee on Ways and Means if the intent is to make medically oriented social services an optional matter (the individual facility to decide upon its appropriateness and feasibility) or if it is no longer part of the approved program and therefore non-reimbursable.

We would not favor the total cessation of reimbursable social services as our experience clearly indicates that in the long run this service justifies its expenditures as persons *are* progressively moved to lower levels of care and often to independent living.

We can appreciate the feeling that it is difficult, expensive and perhaps inappropriate to use Social Services in some facilities, under certain conditions, but we must recognize that some individuals' medically related social problems must be met, if not by a professional social worker, than by an individual close to the patient/resident. Extended care facility personnel, as an irreducible minimum, ought to have access to a professional social caseworker for educational and consultative purposes.

RECOMMENDATION

Social services in extended care facilities, if not required, should be on an optional basis.

[Title II: 267]

SECTION DESCRIPTION

Section 267 of the bill amends section 1902(a)(28)(B) of the Social Security Act (which requires skilled nursing homes to have an organized nursing service under the direction of a full-time professional registered nurse) to authorize a State agency with the approval of the Secretary to waive this requirement for any one-year period (or less) ending no later than December 31, 1975.

EXPLANATION

Our experience indicates that carefully prepared and on-the-job trained persons in the allied fields of nursing care can perform at an adequate level, under proper medical guidance, without the intensive day to day supervision of a registered nurse, for short periods of time. This, of course, lowers the professional level of care for a short time but this is preferable to a facility failing to qualify and thus depriving an area of, perhaps, much needed services.

However, we would not favor a waiver of this Skilled Nursing Home requirement at the federal level as dilution of this standard may ultimately lead to pressures sufficient to force adoption of this section as a new minimum standard.

RECOMMENDATION

The decision to waive the requirement that Skilled Nursing Homes in rural areas have at least one full-time registered nurse on the staff be left to the appropriate State licensing agency.

ELIGIBILITY

[Title XX: 2011(c)(1)]

SECTION DESCRIPTION

"Benefit eligibility and benefit amounts are to be determined for each calendar quarter . . ."

EXPLANATION

Unlike Title XXI for FAP and OFP, this title and section do not specify how income received in previous quarters affects the applicant's current eligibility for benefits. We are opposed to applying three quarter approach to the AABD popu-

lation as previous income is not a predictor of current assets and income. If he is eligible except for income, this could create strain on the General Assistance rolls, since he may need both cash and medical care concurrently.

RECOMMENDATION

Initial benefit eligibility should be based on current income for AABD category.

Title XX: 2012(a)(3)(A)(B)(C)

SECTION DESCRIPTION

Section allows blind individuals to deduct "reasonable" employment expenses and does not allow the same provision for the aged and disabled.

EXPLANATION

A change is suggested in order to maintain uniform benefit levels, simplify eligibility requirements and assure equitable treatment for all individuals receiving assistance under this title. In the above provisions, the disabled and aged are penalized and deprived of incentives. This is a particularly important issue because of the "trial work" provisions for disabled delineated in section 2014(a)(4)(D).

RECOMMENDATION

Make deduction of "reasonable" employment expenses applicable to disabled and aged as well as blind.

Title XX: 2014(a)(3)(D)

SECTION DESCRIPTION

This section provides that the Secretary will prescribe by regulations, criteria for determining if earnings demonstrate an ability to engage in employment. If individual meets these criteria, whatever his income, he will not be disabled.

EXPLANATION

Title XX described aged person in terms of "age" and blind person in terms of "visual acuity". Disabled persons are described not only in terms of "disability" but also in terms of present or potential earning capacity. Consequently, earnings can penalize the disabled much more than the aged or blind. A test of *earned income* before total income discriminates against a person with little or no unearned income. Furthermore, Medicaid may be denied to a disabled individual dependent on minimal earned income whose total income is under the statutory limits; but the aged or blind would not be denied. This again, would put pressure on the General Assistance Program.

RECOMMENDATION

The section of the definition dealing with present or potential earning capacity should be deleted.

[Title XX: 2014(d)(1)]

SECTION DESCRIPTION

To avoid encouraging couples to live separately to get a higher total benefit (two singles get more than a married couple) the bill provides that an eligible individual and spouse will receive a couple's benefits even though they live apart.

EXPLANATION

In effect, these provisions implicitly define any legal spouse as a responsible relative without giving the agency authority to enforce support, and establish a stricter eligibility requirement for AABD than existing titles. In June, 1970 there were almost 12,000 individuals in the State of Illinois on AABD, married but not living with a spouse. In effect, this provision will work a hardship on these 12,000 who may have been separated for many years but cannot afford to take legal action. In addition, it may penalize married women separated from a spouse,

whose benefits are reduced because her spouse's income is enough to meet all or part of her needs, but whose spouse refuses or fails to provide this income. This provision would then increase pressure on the State's General Assistance program.

RECOMMENDATION

Continue definition of spouse as responsible relative in current law, and give agency authority to enforce support provisions.

ADMINISTRATION

[Title XX: 2011(c)(1)]

SECTION DESCRIPTION

"Benefit eligibility and benefit amounts are to be determined for each calendar quarter and redeterminations are to be made as provided by the Secretary. . . ."

EXPLANATION

This section provides for quarterly redetermination of eligibility for benefits. Eligibility for AABD is now redetermined on an annual basis in most states. There is no evidence to suggest that quarterly redetermination will increase the efficiency of the payments system, reduce the number of people receiving payments or otherwise result in savings. To require a determination of eligibility four times a year rather than once a year may represent a substantial increase in time and staff required to fulfill this requirement.

The method for redetermination of benefits are left unspecified. We suggest that based on Illinois experience, AABD redeterminations be handled by declaration on an annual basis. A Quality Control report for 4/70 showed that there were no differences in error rates for cases redetermined by client contact. Error rate on eligibility was 0.4 percent. Error rate on payment showed overpayments for 6.9 percent and underpayment of 5.9 percent.

RECOMMENDATION

The statute should mandate provisions for annual redetermination of eligibility of AABD clients by declaration.

[Title XX: 2015]

SECTION DESCRIPTION

This section requires quarterly review of blind and disabled by the Division of Vocational Rehabilitation.

EXPLANATION

To make a quarterly referral and review of each case a mandatory provision will mean a substantial increase in time and staff of Department of Public Aid and Division of Vocational Rehabilitation. The current Illinois caseload contains approximately 70,000 disabled and blind recipients.

RECOMMENDATION

Referral of individual for vocational rehabilitation services should be based on potential benefit from referral as diagnosed by a physician.

[Title XX: 2031(a)(1)]

SECTION DESCRIPTION

Section provides that benefits under Title XX are to be paid at such times and in such installments as will best effectuate the purposes of the title.

EXPLANATION

If a person is now eligible for a grant, he receives a monthly check, regardless of the amount. The assumption is that if the person is eligible for money for that month, he needs the money that month. Statute at present is so loosely

constructed that Secretary can set up schedule to pay all eligibles on a quarterly basis.

RECOMMENDATION

Require payments to eligible individuals for each month except in instances where benefit is less than $5.00.

[Title XX: 2031(c)(2)]

SECTION DESCRIPTION

This section provides that failure or delay on the part of the client or delay to report changes will result in fines to be deducted from the assistance check unless "good cause" exists.

EXPLANATION

This section contains no criteria for procedures to be used in determining whether "good cause" exists, and may permit arbitrary administrative action.

RECOMMENDATION

This provision should be changed to read that client must be notified of right to hearing, before benefits can be reduced.

[Title XXI: 2152(d)(L)(2)(3)]

SECTION DESCRIPTION

Under current provisions extent of current eligibility is determined on the basis of income for the prior nine months with any income in excess of the allowable to be deducted from benefits due in the current quarter.

EXPLANATION

Because of the eligibility provisions of section 2152(d) it is possible for numerous families currently covered by AFDC to be without income for as long as nine months before becoming eligible for OFP or FAP. Their only recourse, in these circumstances, would be General Assistance. This gap in coverage can arise in the following circumstances for sizeable numbers of persons: A female-headed family employed at a high enough wage to permit carryover into several quarters who loses a job not covered by unemployment insurance. (Some 500,000 Illinois workers are not covered by any form of unemployment protection.) It is possible for her to face a number of months with zero income and yet be ineligible for OFP and FAP. Under today's law the family would be eligible for AFDC but would have to be picked up by FA if H.R. 1 were in effect.

For Illinois, in October 1971, 31.7 percent of AFDC case openings were due to loss of employment because of layoff or illness. For the AFDC–U program the comparable figure was 89 percent. It is clear that large numbers of these people would be ineligible for OFP benefits due to earnings in prior quarters under the current provision of H.R. 1. It is equally clear that large numbers of these people *while working full time* had not been earning at levels sufficient to allow savings. The only recourse for such individuals, who are willing to work but cannot through no fault of their own, would be General Assistance or no income.

RECOMMENDATION

Payments of benefits shall be made during any quarter of a calendar year on the basis of the Secretary's estimate of the families income and resources actually available for current use.

[Title XXI: 2152(g)(1)]

SECTION DESCRIPTION

This section provides that no family will be eligible if any family member fails within 30 days after notification by the Secretary to take all necessary steps to apply for any other benefits due him.

EXPLANATION

The present language of section 2152(g)(1) would deny an entire family benefits because of the refusal, inability, etc. of a single family member to apply for other benefits. Thus, even though the family might have no control over the lack of cooperation of a particular member, the entire family would be penalized. Even though the family cooperated fully with the Secretary in attempting to have the individual family member apply they would be denied benefits until the application was made. The only recourse for such a family would be General Assistance.

RECOMMENDATION

Benefits for the individual failing to make application would be denied. The remainder of the family would be eligible if application requirements were met by them individually.

[Title XXI: 2102—Basic eligibility for benefits]

SECTION DESCRIPTION

Section 2102 provides that every eligible family whose employable members have registered for manpower services, training, and employment will be paid benefits by the Secretary of Labor under the Opportunities for Families Program (Part A), and that eligible families in which no members are employable will be paid benefits by the Secretary of Health, Education, and Welfare under the Family Assistance Plan (Part B).

EXPLANATION

Employability which fluctuates is the ruling factor for program eligibility. Depending upon the status of employability, families will be assisted by either FAP or OFP. Changes in employability will apparently necessitate shifting from one program to another and, therefore, administrative responsibility will shift from HEW to Labor. Although it is stipulated that regulations are to be similar (Section 2151), there, nevertheless, appears to be the probability of confusion, delay, etc. Consideration of other record and reporting requirements placed upon enrollees in other areas of H.R. 1 further support the probability of administrative problems.

RECOMMENDATION

Administrative responsibility for the payment of benefits for both OFP and FAP should be vested with a single agency rather than with both DHEW and DOL.

[Title XXI: 2117(a); 2132(a)]

SECTION DESCRIPTION

Section 2117(a) requires the Secretary of Labor to review at least once each quarter the continued need for vocational rehabilitation services by an individual receiving benefits under the OFP who is referred due to an incapacity. Section 2132(a) requests the Secretary of Health, Education and Welfare to make a quarterly review (except for those permanently incapacitated) of the continued need for vocational rehabilitation services by an individual receiving benefits under FAP who is referred due to an incapacity.

EXPLANATION

It has been conservatively estimated that an additional 200 personnel would be required in Illinois to meet the quarterly redetermination requirements of the sections above. These people would not expand the service program but *only* perform redeterminations. In many cases the efforts of these personnel would be wasted because the need for redetermination is dependent upon the form of disability of the individual concerned. Quarterly redeterminations are necessary for some individuals but certainly not for all. Departmental regulations should govern the frequency of redeterminations and should be based on the type of disability which exists.

RECOMMENDATION

Requirements for quarterly redeterminations should be changed to periodic redeterminations as determined by the Secretary.

SECTION DESCRIPTION

Section 2117(a) provides that any family member receiving benefits under part A who is not required to register due to an incapacity will be referred for vocational rehabilitation services under the Vocational Rehabilitation Act. The Secretary of Labor is required to review such individual's continued need for and use of rehabilitation services at least once each quarter.

Section 2117(b) provides that any family member who is referred for vocational rehabilitation services under a State plan approved under the Vocational Rehabilitation Act is required to accept such services, except where good cause exists for failure to do so, and that the Secretary of Labor will pay to the State agency administering the State plan the costs incurred in the provision of such services.

EXPLANATION

It is conceivable that in addition to present practices of State VR agencies under HEW, separate contracts for services from State VR agencies and others could be negotiated by HEW, SSA, FBA and DOL and in certain instances such services could be directly provided and delivered on the local level by Federal agencies.

Every agency must, of course, have control of its own program and be responsible for its total outcome. They must defend their budget and their procedures and results. They should therefore control the standards for the services which they supervise or purchase. Such standards could most effectively be established and maintained by utilizing a single channel. RSA has the experience, expertise and machinery for the delivery of such services and would be the logical channel for such negotiations.

The possibility of all these agencies being required to separately negotiate with each and all of the states and each and all of the services, practices, etc. is horrifying. A multitude of problems would be created in State agencies by a divided and different administration, procedure, funding, accounting, record keeping, reporting, communication, responsibility, accountability, organization structure and other such consequences.

RECOMMENDATION 1

Rehabilitation Services Administration under HEW should be the Federal agency responsible for determinations of disability and incapacity and as such RSA should negotiate and contract with other Federal agencies for their needs and with the states so that the process is centralized with the Federal agency which is the major counterpart of the State VR agencies.

RECOMMENDATION 2

On the local level there should be one point of responsibility for determinations in the State and this point should be an expansion of whatever agency is doing disability determinations under Title II.

RECOMMENDATION 3

RSA should be responsible for budgeting for determinations and VR services to assure adequate estimates and to show inter-relationships to VR budget. A two party negotiation at this point should greatly simplify and resolve complex, technical and delicate problems in this area.

[Title XXI: 2117(b); 2132(b)]

SECTION DESCRIPTION

These sections authorize payment to State vocational rehabilitation services provided to OFP and FAP recipients referred.

EXPLANATION

No appropriation is provided for payment of these services, but the services themselves are mandated. State vocational rehabilitation agencies may be reluctant or unable to provide services under what represents a greatly expanded pro-

gram if payment is not guaranteed. State agencies are currently operating on budgets which would not allow massive program expansion and the necessary staffing required under H. R. 1. Therefore, it is essential that funding be guaranteed if these agencies are to be in a position to adequately service those individuals referred under the provisions of the bill.

RECOMMENDATION

Payment to State VR agencies by DHEW and DOL for mandated services should be required.

[Title XXI: 2151(e)]

SECTION DESCRIPTION

Section 2151(e) requires that after 24 months of receiving benefits a family must reapply and that no benefits may be paid until the eligibility redetermination has been completed.

EXPLANATION

The section makes no provision for families to receive notice of a discontinuance of benefits before the 24 month period ends. Under the assumption that eligibility determination would require an amount of time not dissimilar to that required presently under the OASDI program, the lack of provision for notice could surely penalize individuals who remain eligible but do not realize that reapplication is necessary for continued payments. If payments are interrupted these families will have to rely on General Assistance programs for interim income. It is also likely that costly litigation would occur if individuals were denied benefits without notice of their opportunity to reapply.

RECOMMENDATION

This section should require the Secretary to notify all families receiving assistance when a redetermination is necessary. Such notice must be provided with adequate advance time to ensure no loss of benefits to families which are redetermined eligible.

[Title XXI: 2112; 2133; 2134]

SECTION DESCRIPTION

These sections deal with the provision of child care for children of parents enrolled in Title XXI programs.

EXPLANATION

Under H.R. 1 both the Departments of Labor and Health, Education and Welfare are given responsibility for administering child care services. While sections in Title XXI attempt to clarify and separate their roles to a certain extent, there is much room for duplication of effort and confused administration at the State and local level. Since HEW will have primary responsibility for developing resources, establishing standards, etc. under H.R. 1, we propose that all major responsibilities for providing child care be vested in HEW.

In recent years Illinois has made a major effort to coordinate day care programs and funding at the State level. One agency in Illinois, the Department of Children and Family Services, now administers almost all day care programs. Over the past three years Illinois has increased funding for day care from less than $5 million to approximately $50 million this year. A large part of this money is targeted at the poverty population. At present there are approximately 75,000 children in Illinois being served in 1,680 licensed day care centers and 4,470 licensed day care homes. Provisions in H.R. 1 that provide for Federal administration at the State and local level, thus by-passing the State, will only serve to reverse the progress Illinois has made to date in expanding day care resources.

RECOMMENDATION

A single agency at the Federal level should have the responsibility for the administration of all day care funding provided under Title XXI. The states should be assured a major role in the development, procurement, and arrangement for child care services.

EXPLANATION

H.R. 1 does not provide for clear and meaningful local participation. The language of the bill gives broad discretion to Federal administrators in setting standards and evaluating programs while it provides minimal apparatus for parental involvement. Illinois has developed local and State 4–C committees as proposed by HEW. H.R. 1 should encourage these and similar efforts.

RECOMMENDATION

Provision should be made for the guaranteed involvement of parents in child care programs and for substantial local community participation in the establishment, operation, and review of day care services.

EXPLANATION

Under H.R. 1 the availability of day care services will be a major factor in determining whether or not a welfare recipient is able to accept a job. Since more day care slots will be available and recipients will be required to utilize them, government will take on increased responsibility for assuring that these services are high in quality and protect the physical and mental well-being of the child. H.R. 1 should therefore explicitly state that no day care facility must be accepted by a parent unless it is proven to be standard.

RECOMMENDATION

Provisions should be made explicit in H.R. 1 to insure that parents can refuse to accept training or employment if day care offered to them is of inadequate quality as judged by the standards developed in accordance with sections 2134.

[Title XXI: 2171(a)(4)]

SECTION DESCRIPTION

This section allows the Secretary to make emergency cash payments of no more than $1.00 to families initially applying for benefits. Such payments are to be deducted from future benefits.

EXPLANATION

Title IV of the Social Security Act provides that states may establish emergency assistance plans to avoid the destitution of children of families currently receiving or applying for assistance. Funds appropriated for emergency assistance are used in cases of fire, storm, theft, etc. Which deprive the family involved of the means to prevent their destitution. H.R. 1 has no such provisions for individuals who are recipients. This lack will force states to maintain emergency assistance programs which will result in further administrative complexity in the integration of Federal and State programs and reduce the effectiveness of H.R. 1 in money toward a Federal assumption of assistance programs.

Deduction of emergency benefits from future benefits may deprive the family of an income sufficient for subsistence if, for instance, the emergency grant must be used to replace household goods destroyed by fire.

RECOMMENDATION

Expand section 2171(a)(4) to include the provision of emergency assistance to recipients. Deduction from future benefits should occur only if the emergency resulted from mismanagement of previously granted benefits.

[Title XXI: 2178(a)(b)]

SECTION DESCRIPTION

This section provides for the establishment, membership, and expenses of local advisory committees which will evaluate and report on the effectiveness of the Title XXI programs.

EXPLANATION

No requirement is made in paragraph (b) for the inclusion of program participants on the advisory committees. Illinois and other states have had excellent results from the inclusion of recipients on various welfare advisory groups. The information provided by such persons on program performance from the standpoint of a user can be extremely valuable in evaluating effectiveness and redesigning program content. Including program participants would not significantly increase the costs of operating the committees.

RECOMMENDATION

Each local committee will include representatives who are former or current participants in Title XXI programs.

ADMINISTRATION

[Title V: 501(a)(3)]

SECTION DESCRIPTION

This section authorizes but does not mandate payment for the administrative expenses incurred by the states in implementing the new programs during the transitional period.

EXPLANATION

Since the State, per 507, may be required to be responsible for administering XX and XXI during the transition period, they should be reimbursed for administrative expenses incurred due to placing the new programs in operation. Placing these new programs in operation will require substantive planning, new operational designs and procedures, and retraining of staff on the part of the states.

RECOMMENDATION

Section 501(a)(3) should read as follows:

Appropriation for administrative expenses incurred by the states during the Fiscal Year ending June 30, 1972, in developing the staff and facilities necessary to place in operation the programs established by Titles XX and XXI of the Social Security Act, as added by this Act, and for child care furnished pursuant to section 508 during such fiscal year, shall be included in an appropriation Act for such fiscal year.

[Title V: 503(a)(1)]

SECTION DESCRIPTION

This section provides that the costs of assistance supplements to the states shall not exceed the non-Federal share of expenditures for quarters in calendar year 1971.

EXPLANATION

In order to make this section consistent with various proposals for interim fiscal relief, FY 1971 should be substituted for calendar year 1971. Both the "hold-harmless" to H.R. 1 introduced by Senator Percy and the Mills-Collins measure in the House based fiscal relief on FY 1971. To use a different base once H.R. 1 is in effect would complicate administration. States would also be afforded a greater amount of fiscal relief if FY 1971 were used due to the greater increases in caseloads and expenditures during that period.

RECOMMENDATION

Section 503(a)(1) should read: *The amount payable to the Secretary by a State for any fiscal year pursuant to its agreement or agreements under sections 2016 and 2156 of the Social Security Act shall not exceed the non-Federal share of expenditures as aid or assistance for quarters in the fiscal year 1971 under the plans of the State approved under Titles I, X, XIV, and XVI, and part A of Title IV, of the Social Security Act (as defined in subsection (c) of this section).*

[Title V: 511(a); 511(b)]

SECTION DESCRIPTION

These sections define services to mean specific activities.

EXPLANATION

The definition of services should be broadened to be consistent with the definition of child welfare and family services currently contained in Title IV. A list of services raises the possibility that the range of services offered and funded will be limited to narrow interpretations of those specified in the Act. This may discourage and prevent State agencies from developing innovative service delivery programs and, if narrowly interpreted, may force cutbacks in programs currently being matched by DHEW. There are no criteria which define the minimum quality and content of the individual services.

RECOMMENDATION

Section 511(a) which amends the Title IV Social Security Act definition of services should be amended as follows and a new category added:

"(d) The term 'services for any individual receiving assistance to needy families with children' includes any of the following services provided for any such individual:

(13) Services to a family or any member thereof for the purpose of preserving, rehabilitating, reuniting, or strengthening the family, and such other services as will assist members of a family to attain or retain capability for the maximum self-support and personal independence.

RECOMMENDATION

Section 511(b) should be amended to include the definition of services for the aged, blind, and disabled currently contained in Title XVI, section 163(a)(ii) and (C)(1).

[Title V: 512]

SECTION DESCRIPTION

This section creates a formula which will determine the State's share of the $800,000,000 closed-end appropriation for services.

EXPLANATION

This section contains a closed-end appropriation $800,000,000 and allotment formula for services and training (exclusive of day care and family planning). In the case of Illinois, the following situation will exist:

Allotment of $800,000,000

$$\frac{X}{800{,}000{,}000} = \frac{\text{Federal Share of State Exp. FY 72}}{\text{Total Federal Shares to States FY 72}}$$

FISCAL YEAR 1972

	Illinois	Federal
Services (+)	$86,069	$838,200
Training (+)	828	43,866
Child care (−)	18,287	108,000
Foster care service (−)[1]	13,100	
Total	55,510	744,066

[1] Covered under sec. 513.

$$\frac{X}{800{,}000{,}000} = \frac{55{,}510}{744{,}066}$$

X = $57,370,000 however, we would be frozen at $55,510,000 (FY 1972 level). Since Illinois will be substantially above the average, we will be frozen at the FY 1972 level. We would not be in a "service deficit" position unless the appropriation was substantially above the $800,000,000 level for a number of years. Therefore, assuming that the appropriation will remain around $800,000,000, Illinois will receive approximately $2,000,000 less on an annual basis than our allotment.

In addition, the freeze would not provide for normal program expansion. Assuming a 17 percent rate of increase, the freeze will cost Illinois approximately $12,000,000 that we would have been able to claim under the present open-end provision of Title IV–A and Title XVI.

The above discussion has been predicated on the assumption that Illinois will receive the full benefit from the Title IV–A plan amendments in Fy 1972. However, the FY 1972 appropriation bill for HEW contains a provision limiting any State to 110 percent of what it collected in Federal dollars for services under Titles IV–A and XVI during FY 1971. Since our plan amendments are effective for only part of FY 1971, this limitation has a severe impact on Illinois. This provision, coupled with section 1125 would freeze Illinois at 110 percent of the FY 1971 level of Federal collections. This would cost Illinois $20,000,000 to $25,000,000 in FY 1972 and each year thereafter.

At the Federal level, the 110 percent limitation and the $800,000,000 closed-end appropriation achieve the same purpose; however, the advantage of the latter for Illinois is great. It is extremely important that 110 percent limitation be removed from the HEW appropriation bill.

RECOMMENDATION

(b)(1) should be amended by striking the words ". . . but in no case shall such amount with respect to any State for any fiscal year exceed the Federal share of such expenditures in such State in the preceding fiscal year (exclusive of any amounts realloted to such State for such State for such preceding fiscal year under subsection (c);")

[Title V: 513]

SECTION DESCRIPTION

This section provides for subsidies to adoptive parents on behalf of physically and mentally handicapped children.

EXPLANATION

Older and other hard to place children, such as the mixed racial or minority group child, are equally in need of specialized adoption services as are physically and mentally handicapped children. Illinois began a subsidized adoption program in October, 1969. Its purpose is to allow parents who lack necessary financial resources to adopt physically and mentally handicapped children, older children, minority group children, and other hard to place children. Not only can adoption provide a more stable home for the child, but it also saves the State money since the State only subsidizes a portion of the child's expenses rather than paying full foster care fees. To date, 294 children, 130 are Black. A total of 85 have handicaps, 9 are retarded, 4 emotionally disturbed, and 12 have multiple handicaps. 33 children are under two years of age, 139 are from two to six, and 122 are over six.

RECOMMENDATION

Section 513 which amends section 427(a)(2)(13) should be revised to include "older and other hard to place children" in the definition of those children for whom payment may be made to adoptive parents who have financial need.

SECTION DESCRIPTION

This section appropriates funds for foster care and adoption.

EXPLANATION

This section appropriates for foster care and adoption:
—$150,000,000 in FY 1972
—$165,000,000 in FY 1973
etc.

$$\text{Allotment} = \text{Appropriation} \times \frac{\text{Ill. Children under 21}}{\text{U.S. Children under 21}}$$

FY 1972: 150,000,000 × 5.4%=$8,100,000
FY 1973: 165,000,000 × 5.4%=$8,900,000

Federal Share

$$\frac{X}{.50} = \frac{\text{Ill. per cap income}}{\text{U.S. per cap income}}$$

$$\frac{X}{.50} = \frac{3994}{3412}$$

X=58% (State share)
100—58=42% (Federal Share)

The Illinois foster care and adoption programs, exclusive of the ADFC-foster care program exceeds $40 million annually. Therefore, we would be able to claim our full allotment. However, recent admendments to our State plan for Title IV–A allow us to claim 75% Federal reimbursement for the cost of providing foster care services and adoptive services to current, former, and potential AFDC recipients. Under these amendments, we anticipate receiving between $8,000,000 and $10,000,000 annually. Therefore, Section 513 does not provide any fiscal relief to Illinois.

The Federal share in percentage terms is much higher under the current IV–A (75%) than under Section 513 (40%). However, the 75% applies only to services, whereas section 513 includes both services and care. In addition, section 513 applies to all children for whom the public agency has responsibility, whereas Title IV–A is limited to current, former, and potential recipients.

RECOMMENDATION

The appropriation for foster care and adoption should be on an open-ended basis.

STATE OF ILLINOIS,
OFFICE OF THE GOVERNOR,
Chicago, Ill.

Hon. RUSSELL B. LONG,
Chairman, Senate Finance Committee, Old Senate Office Building,
Washington, D.C.

DEAR MR. CHAIRMAN: Your committee graciously heard me at length last month on H.R. 1, and ordinarily I would be reluctant to add further to your record of testimony. However, major developments have occurred since then, particularly affecting the probable timing of the effective date of full implementation of the Family Assistance Plan in final form. Therefore, I would like to add my views on the urgency of immediate assistance to state and local governments, to bridge the transition period.

A recent *New York Times* editorial aptly refers to the "Perils of Pauline" fashion in which welfare reform was rescued from death in Congress. The rescue was accomplished by means of a compromise under which there will be extensive tests of the plan for a guaranteed minimum family income before it is adopted on a nation-wide basis.

All this may be well and good, but it means that the present system of Aid to Families with Dependent Children will be with us until 1974 or later. It means also that, unless Congress moves to help them, many states will need a similar rescue because they will run out of funds for welfare payments. They also will be crippled in their capacity to deal with other essential services, including education, corrections, health, and child care—all services which help keep families off the welfare rolls.

The problem is not one that can be postponed. The states need additional funds before the end of this fiscal year. To meet the crisis, Senator Percy of Illinois, backed by the governors of 20 states, has introduced an amendment to H.R. 1 which would authorize an expenditure of $600 million to help the states meet a portion of the increase in welfare costs incurred in the year beginning last July 1.

At stake here is the solvency of the states. The disastrous effects of the national welfare apparatus upon our state and local governments—upon our cherished federal system—raise an issue which today looms as important for American federalism as the great questions before John Marshall in another era. Now we must ask whether the federal government can require the states to spend themselves into debt and bankruptcy for public aid programs established by Congress, without providing meaningful federal relief.

The public aid programs were established with the best of intentions. Generally they were embraced gratefully by the states, because the federal grants-in-aid helped them meet their obligations to care for those unable to care for themselves.

The original social security theory was that much of the need for welfare would wither away as soon as the old age and survivors benefits were spread widely throughout the nation. Unfortunately it hasn't worked out that way.

Welfare costs have been rising steadily, in good times and in bad. Lately they have been soaring. A prime example is the newest of the major programs—medicaid. When it was started nobody in Illinois realized that seven years later it would be taking 40 per cent of the state welfare budget. But now it does. During calendar years 1970 and 1971 over 360,000 additional people claimed welfare benefits in Illinois, an increase of 62%.

As a result, Illinois faces a deficit in state funds of more than $100 million by this June 30, if federal help is not forthcoming. Many other states have worse problems than Illinois.

The United States Department of Health, Education, and Welfare reports that 20 states have tried to meet their welfare fund crises by reducing benefits in the program of Aid to Dependent Children (AFDC). In Illinois we have maintained the level of AFDC benefits, as well as those for the blind, the aged, and the disabled. Our attempts to make savings in the local general assistance and medicaid programs have been blocked in the courts.

Other states have met similar legal blockades when they have tried to cut costs. Some cases have dealt with the basic rights of welfare recipients. Others involve the interpretation of federal guidelines. The well-intentioned federal-state programs have become administrative nightmares for state officials. Even the most able find themselves immobilized by federal rules that are impossible to administer and by legal entanglements resulting from the proliferation of federal requirements.

We have not been shirking our duties in the hope of being rescued by the federal government. We have tried to cut welfare costs. We have been taxing ourselves heavily in an effort to help ourselves. Tax collections per person by the state governments increased 67 per cent from 1966 to 1971. Tax collections by the local governments rose 50 per cent.

The State of Illinois in 1969 adopted an income tax which is yielding about a billion dollars a year. In 1969 the cost of welfare was about $500 million. Next year the cost of welfare may exceed 1½ billion dollars if present trends continue unchecked. We cannot continue to survive as an effective state government if this continues.

The Percy Amendment, by protecting state and local governments against further worsening of welfare costs, would provide time for the experimentation called for by Senator Ribicoff of Connecticut before massive funds are committed to untested welfare reforms.

Senator Percy and other leaders who have endorsed the concept of his amendment, such as Chairman Long of the Senate Finance Committee, Chairman Mills of the House Ways and Means Committee, Senator Ribicoff, and the President, deserve commendation for coming together on this issue without regard to pride of authorship or partisan advantage.

I would appreciate having these views considered and included in the record of your hearings on H.R. 1.

Sincerely,

RICHARD B. OGILVIE,
Governor.

The CHAIRMAN. In view of the fact that our Republican members will have to depart now, I will suggest we stand in recess until 2:30 this afternoon. I would like to have both the Republican and Democratic members present.

(Whereupon, at 12:15 p.m., the hearing was adjourned, to reconvene at 2:30 p.m. this date.)

AFTERNOON SESSION

The CHAIRMAN. Next we are pleased to hear from the Governor of Texas, the Honorable Preston Smith.

Governor, we are very happy to have you here. Louisiana is a neighboring State of the State of Texas.

Governor SMITH. Thank you, Senator.

The CHAIRMAN. Sometimes I am the only Senator Texas has on this Finance Committee. Louisiana has always had a way of going to the aid of Texas when they needed some help and we sort of expect reciprocity from time to time.

STATEMENT OF HON. PRESTON SMITH, GOVERNOR OF THE STATE OF TEXAS, ACCOMPANIED BY RAYMOND VOWELL, COMMISSIONER OF PUBLIC WELFARE, AND ED POWERS

Governor SMITH. Thank you very much, Senator, and members of the Senate Finance Committee. Let me express to you my gratitude for the opportunity to appear before you and present my views on welfare reform; and I will say this to you, Senator Long, that I was privileged to hear your views as they were expressed at the National Governors Conference in Puerto Rico.

You gave many examples that I think are extremely interesting and some I heard again this morning in connection with some of the welfare abuses.

The problems of welfare and their solutions have been some of the most serious that I have faced in the 9 years that I have served the people of Texas as Governor. State welfare costs in Texas have increased from $55 million annually in 1960 to $260 million annually in 1972, and I am sure that these costs are no different from those experienced by many other States. These costs in Texas have nearly doubled every 2 years and such expansion not only presents fiscal problems to a State but also problems of another nature.

No State government in the Nation can plan intelligently for the future under such a burden of uncertainty as has characterized the welfare program and possible welfare legislation for the past 2 years.

It is imperative, in my opinion, that positive action be taken on meaningful welfare reform by this Congress.

Slightly over a year ago I came to Washington with other Governors and had the privilege to meet with President Nixon. At that time the President was advised that Federal assumption of the welfare program offers the only realistic road out of the welfare jungle in which we were; and I am even more convinced today of the validity of a Federal takeover of the welfare program.

In my opinion, we now need a new definition of responsibility between the States and the Federal Government, with the Federal Govern-

ment assuming complete and immediate responsibility for the operation and funding of the four public assistance categories, instituting a fiscal hold-harmless policy for medical assistance costs, a gradual elimination of all State medical assistance costs, and with the States assuming primary responsibility for providing direct social services to its citizens.

H.R. 1, as it passed the House of Representatives, is a step toward welfare reform; however, there are a number of provisions in H.R. 1 which were not fully understood at the time of its passage and which after careful scrutiny appear to make meaningful welfare reform and even more difficult to achieve.

I will now discuss specific changes in H.R. 1 which I believe will make it a better welfare reform bill for the entire Nation.

First, it seems essential to me that we improve the living conditions of our elderly citizens.

It is my recommendation that the proposed social security benefit increase in H.R. 1 be raised from 5 to 10 percent. This will result not only in a better life for our senior citizens but also will have the effect of decreasing the old age assistance rolls by a significant number. In Texas we estimate such an increase would decrease the old age assistance rolls by 14 percent.

In other provisions related to our senior citizens, I would strongly support the increase in widows' benefits to 100 percent and would also recommend that the amount of earnings of a retired social security recipient may be increased from $1,680 to $3,000. The stimulus and motivation to work should not be snuffed out simply because a person reaches a certain age.

It also seems to be inconsistent with the philosophy of H.R. 1 and with the concept of aiding our senior citizens to increase the medicare part B deductible from $50 to $60. I would recommend that rather than increase the deductible, serious consideration be given to reducing it.

It is my hope that the Finance Committee will also give consideration to the new provision in H.R. 1 extending medicare benefits to the disabled, but with a change in the waiting period from 2 years to 6 months to make the eligibility the same as for cash benefits. Certainly this Nation should not hesitate to provide help for people who are truly in need.

The establishment in H.R. 1 of a totally Federal program for the aged, blind, and disabled is one of the most far reaching and desirable features of the bill. This provision has my support and I look forward hopefully to it being enacted into law.

It is also my feeling that the Social Security Adiminstration can competently and effectively handle this new program.

The most controversial portion of H.R. 1 deals with programs for families. It is in the family area that our greatest increases in rolls and costs are occurring.

It is also in this area that our greatest opportunities for real welfare reform exist.

I strongly support the complete takeover of the family program by the Federal Government and the basic welfare payment of $2,400 to a family of four for those families presently in the welfare program.

I would also recommend that provisions be included for optional State supplementation at the current Federal matching formula. Such a system will most effectively meet the diverse needs and problems of the States in this area.

It is my belief that the inclusion of the working poor under welfare is too massive a step to take all at once. I would recommend instead that provisions be added to H.R. 1 calling for the inclusion of the working poor in certain experimental States for the next 3 years. During these 3 years there would also be experimentation and testing of different approaches concerning the working poor and the methods by which they are trained and employed. At the end of the 3 years coverage of the working poor would be expanded to include the entire Nation unless Congress took different action.

Such an approach would allow all of us to evaluate and more fully understand the tremendous impact that inclusion of the working poor may have on the development and economy of the States.

It seems essential to me that strong work requirements be included in any successful welfare reform measure. The recent amendment to the work incentive program by Senator Talmadge may have taken care of this matter; however, it is important that we realize that in many cases jobs are simply not available and that for these jobless people the Government must become the employer of last resort.

The public service job program contained in H.R. 1 is a step in the right direction but contains neither adequate funding nor number of jobs to meet the employment goals of this bill. I would support either the provisions recommended by Senator Ribicoff in this area or the provisions of the 1970 Senate bill.

It will also be necessary that adequate child-care provisions be included if these work requirements are to succeed. It is my hope that the committee would carefully examine this area and also determine if the appropriation authorization contained in H.R. 1 is adequate to meet the employment goals of the bill. I would also hope that the committee would consider the quality aspects of child development as well as just the babysitting functions of child care.

The H.R. 1 changes in the social service area would not be as effective as the present program and for this reason I would recommend section 512 of Senator Ribicoff's amendment which, in effect, continues the present program of social services.

I mentioned earlier the great increase in welfare costs that we have experienced in Texas, a doubling nearly every 2 years for the last decade. In some other States the increase has been even greater and placed burdens on their tax resources of an unbearable nature.

It is essential that some type of immediate fiscal relief be granted the States. I would recommend inclusion of a fiscal hold-harmless amendment and a provision similar to Senator Ribicoff's providing a gradual reduction in remaining State welfare costs.

Financially for the States, the provisions in H.R. 1 relating to medicare and medicaid are the most far reaching.

Many people do not realize that although public assistance costs are causing serious fiscal problems, it is actaully medical assistance costs within the welfare program that are the unbearable burden for the States. H.R. 1 contains the same failure.

While much ado is made about saving the State's money through federalizing the income maintenance parts of the welfare program, nothing is done about increasing medical costs.

In 1970, just 2 years ago, Texas was spending $57 million on medical assistance; now, in 1972, medical assistance costs have increased to over $100 milion, an increase of nearly 100 percent in just 2 years. Presently, there is little to indicate any change in the rate of increase in medical costs.

H.R. 1, instead of saving the States money, will multiply the medical assistance costs which a State must pay.

Section 209 of H.R. 1 clearly says that States are not required to provide medical assistance for new recipients made eligible for welfare assistance because of the provisions of H.R. 1. Certainly, this was the intent of the House Ways and Means Committee because the fiscal burden of providing medical assistance to the new recipients would quickly wipe out any savings to the State generated because of the Federal takeover of the income maintenance functions.

However, most observers agree it will be very difficult, politically and socially, not to provide medical assistance for the new recipients.

If Texas were to provide medical assistance to the new recipients projected in H.R. 1, the additional new State costs for the first year would be $170 million. However, if a State exercises its option and does not provide medical assistance to the new recipients, it must include as medically needy all these new recipients when their medical expenditures reduce their income below the State eligibility level.

The potential costs of this provision in the bill are tremendous.

Section 209, which is extremely difficult to understand, must be totally changed if the States are to be able to operate the program within their financial ability.

There are several other provisions under section 207 which will also add to the States' medical assistance costs and seem unreasonably arbitrary. I would recommend that the allowable length of hospitalization and Federal medicaid matching be changed only if a State's utilization review program is not adequate.

The total fiscal impact of the H.R. 1 medicare and medicaid provision is overwhelming. If these new costs were added to the already difficult burden of medical costs, our fiscal crises of the past would seem small in comparison to this new burden.

For these reasons I am strongly recommending a fiscal hold-harmless amendment for new State medical costs attributable to H.R. 1 with a provision for the gradual elimination of all State medical assistance costs.

I plan to contact my fellow Governors and urge their support of this amendment. This provision could well become the most important revenue-sharing measure considered by this session of Congress. It is my hope that you will give it your full consideration.

I am also encouraged by Senator Long's statement in his opening remarks last Thursday that the Federal Government must make a more comprehensive effort on medical insurance coverage in order to relieve the States of the large and growing cost of medicaid.

I mentioned earlier the need for a new definition of responsibility between the States and the Federal Government. It is important that

the States be allowed to provide human services to its citizens. For this reason, I would recommend an amendment which would allow the States to submit a plan for a comprehensive employability development plan combining manpower services, training, employment, child care, and other supportive and rehabilitative services. Such an amendment would provide for a primary State roll in the provision of these services. This is similar to an amendment suggested by the National Governors Conference.

It is also important that present State welfare employees be considered. I would recommend an amendment providing for priority to be given present State welfare employees for Federal employment in new Federal welfare programs and full protection of retirement benefits.

H.R. 1 or its successor is one of the most massive and far-reaching bills this Nation has seen in some time. The problems in its implementation and administration are going to be challenging.

I would recommend that an amendment be added which will allow the Secretaries of HEW and Labor to implement H.R. 1 beginning this next fiscal year in a small number of States in order to test administration of the new programs. Such an approach seems essential to me for such a complex and massive measure.

I am offering Texas as one of the experimental States and will be willing to establish a task force which I will personally head to assist in this experiment. We will also welcome personnel from other States to work with us. It is my hope that you will give this recommendation your most serious consideration.

Certainly I want to thank you for the opportunity of testifying before you.

Now, I and my staff members, Raymond Vowell is here. He is the commissioner of public welfare in Texas, and Ed Powers. And I have Jim Oliver with us and we will attempt to answer any questions that any of you might have, Senator.

The CHAIRMAN. Well, Governor, for some time—was thinking of offering an amendment to try to protect, at least offer a right of first refusal, you might say, to State employees in the new Federal program. But the more I think of it the more I believe it will be better to follow the type of approach we have in the unemployment insurance program where the Federal Government assumes the responsibility for raising the money but the State administrators continue to do the job, being appointed by the Governor but being subject to regulations that the overall program requires.

For example, in my State, HEW is talking about setting up 100 new offices and they tell us it will take 18 months for these family assistance people to get their first checks. How many interviews are they talking about—18 months—80,000 Federal employees—how many interviews—probably to pay benefits to 26 million people? I suppose that would be 30 million interviews.

In a great number of cases the file is there; the information is there; the people are there; the caseworkers are there and know the cases that they are working on and about all you really have to do is to take the information that you have and apply it to the new standards.

For example, I think we will do at least what the House did in the aged, for example, in providing $130 as the basic level of assistance

for the aged. We will give you some relief from your budget in doing it; maybe we will pay the costs but we will do the best we can afford so far as finding the money to pay for all of this.

Now, what would be wrong with just providing that the Federal Government will pay for these benefits but that the State would administer it?

Governor SMITH. I would see nothing wrong with it.

Raymond, you are the director of public welfare in Texas. I think you are talking about the same method which our Texas Employment Commission is using; that is, the unemployment.

The CHAIRMAN. When this type thing was proposed for unemployment insurance there was an enormous opposition to it but since that time we have had experience as to how it could work out with the States administering the program and you couldn't take it away from the States if you tried to now. In fact, efforts have been made unsuccessfully to take it away.

If something is wrong with the program, you can at least talk to the Governors about it and hold them accountable. If you have to go all the way to Washington to talk about the fact that they did not properly adjudge your case and you weren't treated fairly, it is much more difficult to obtain satisfaction or a response to what you think is a meritorious plea than it is if you can go to the statehouse or even to the seat of county government.

What is your reaction to that?

Mr. VOWELL. I am Raymond Vowell.

This approach would be entirely satisfactory as far as I am concerned and I think as far as many other commissioners over the country would be concerned.

The CHAIRMAN. Well, we will have a chance; they will be able to speak for themselves later on, but I am frank to tell you that I have thought about it for some time. I became convinced that that would be a better approach and I know Louisiana's representatives have submitted that to other commissioners and my impression is insofar as it has been suggested that it has just met with an overwhelmingly favorable response; I wouldn't say unanimous. Some are wedded to what they have already recommended but there has been tremendous acceptance and it seems to me as though that is a better approach.

Put this enormous program into effect and appoint a man who could hardly hope to know where all of the offset are, by the time he completes a 4-year term, and if you are lucky, 8 years—it is just too insuperable a job for one person to keep complete account of. The professionals in touch with it will be those hopefully at the State level, professionals who stay with it such as yourself who work with a program like this day in and day out and know what the old regulation was and know what the new regulation is.

Now, couldn't you process an application for an aged person to receive $130, for example, a lot faster by just taking out the old file and if there is any new information requested, to know that you have to ask about two simple additional questions rather than have to process the whole thing all over again?

Mr. VOWELL. Right. Certainly we have the files on all of them regularly available.

The CHAIRMAN. It seems to me as though we would get there quicker that way.

Now, I want to assure you that I am going to propose to the committee that, within the limits of the money we can raise, and we are the taxing committee here, we give you additional help to relieve some of this burden that medicaid has involved and insofar as we provide additional payments that we will find the money to pay for the costs of it. I realize what that is doing to your State budgets; it is doing it all over the whole country and we will certainly try to see that you receive the help that you mention in there.

Senator CURTIS. Governor, in the past years has there been an attempt in Texas to reduce the costs, lessen the rolls, eliminate abuses, and the like?

Governor SMITH. Yes. As a matter of fact, we have a program exactly like that going on at the present time.

Senator CURTIS. Are you aided or hindered by the Federal Government in those efforts?

Governor SMITH. I think we have been hindered to a great extent by some of the decisions that have been made that have destroyed the guidelines.

Senator CURTIS. Yes?

Governor SMITH. Your residence requirements.

Senator CURTIS. The residents of Texas are also taxpayers of the United States, are they not?

Governor SMITH. Right.

Senator CURTIS. Now I can understand why a governor is extremely anxious to take something out of his budget and put it in somebody else's, but what makes you herald this program as welfare reform if you turn it completely over to the partner who has hindered any improvement in its administration in the past?

Governor SMITH. Well, the problems, I think, largely that we have had have been some of the Federal court decisions, Senator.

Senator CURTIS. Yes. Now, by turning it all over to the Federal Government, what makes you think that that is welfare reform?

Governor SMITH. I just believe that you should not have divided responsibility in a case like that.

Senator CURTIS. That is true.

Governor SMITH. And it is my feeling that the States could do a lot better job than is being done if they had it all to themselves but I don't think you are ever going to have it all to yourselves as a State, as long as you have Federal courts that are going to determine so many different factors.

Senator CURTIS. Now, if you, as Governor of Texas, instituted a plan that doubled the number of people eligible for welfare, would the citizens of Texas regard that as welfare reform?

Governor SMITH. You know, I don't believe that they would. I think, generally speaking, that the ordinary person looks at welfare as something sort of evil, something sort of bad, and I heard the discussion this morning with Governor Ogilvie. Senator Ribicoff, I believe, was talking with him about it. Sometimes, you know, 5 percent can discolor an entire picture.

Senator CURTIS. Now, if we passed this bill it doubles the welfare rolls, if we pass it as the House passed it.

Governor SMITH. I believe we pointed out, didn't we—we had some problems with this bill—H.R. 1. I don't believe that we completely endorsed it, Senator.

Senator CURTIS. Now, you recommend a number of things that are not in H.R. 1. What would be the Federal cost of those?

Governor SMITH. Well, of course, I am not familiar with the costs involved. We would have to be—that would have to be determined, from some of the information we would have to have, Senator.

Senator CURTIS. You recommend that the amount of the social security payment be doubled?

Senator BENNETT. The amount of the increase.

Senator CURTIS. Out of the House bill, that is, the amount of the increase?

Governor SMITH. Right.

Senator CURTIS. And you gave as the reason that that would take certain people off old age assistance?

Governor SMITH. That 14 percent we estimate in Texas.

Senator CURTIS. How many of your social security beneficiaries in Texas are drawing old age assistance?

Mr. POWERS. Nearly half of our welfare recipients receive some type of social security benefits. That would be nearly 100,000 people.

Senator CURTIS. No; that was not my question.

Mr. POWERS. I am sorry.

Senator CURTIS. How many of your social security beneficiaries are receiving welfare—are receiving old age assistance—what percent of them?

Mr. POWERS. I believe it would be roughly one-fifth, but we will have to get the specific answer.

Governor SMITH. Do you have the specific information?

Mr. POWERS. I will get it.

Senator CURTIS. In order to get 14 percent of one-fifth off the old age assistance rolls, it is suggested here we double the increase in social security for the other four-fifths.

Mr. POWELL. I think, if I might comment, Senator, there are probably 110,000 or 120,000 old age who are drawing social security benefits and old age assistance. These people largely were phased in. They moved into the program late in life. We have a rural State and 57 percent of our old age recipients are over 75 years of age. They were not greatly involved until late in life and their pay is small but that would reduce, I think, that number.

Senator CURTIS. I understand. But the testimony here is that four-fifths of your social security beneficiaries are not old age assistance beneficiaries and the Governor has recommended doubling the House increase on their benefits. I don't know exactly what it would cost. It would cost quite a little money.

What would your proposal—that we raise the work limit to $3,000—what would that cost?

Mr. POWERS. If I could try to answer that, sir, we didn't attempt to project costs for every State in the Nation but we would be glad to work with the Senate Finance Committee staff in working out the financial cost projections on any of these provisions.

Senator CURTIS. Well, I am just interested in knowing whether you paid any attention to these costs before you recommended them. We can get the costs run down here, so far as mathematics are concerned.

If this committee followed the recommendations that you have made in reference to medicaid, what would the increased costs to the Federal Government be?

Mr. POWERS. Here again, we have not projected costs for the entire Federal Government but the cost would be enormous; there is no doubt about that.

Senator CURTIS. Enormous?

Mr. POWERS. Right.

Senator CURTIS. And the same would be true about medicare and the costs of the overall package would be higher than H.R. 1, particularly after the trial period is over?

Mr. POWERS. If the trial period ended up with the inclusion of all the working poor, but that is not the automatic outcome of the Governor's recommendation.

Senator CURTIS. It is automatic unless it is rejected?

Mr. POWERS. Right.

Senator CURTIS. Now, if you got your package that you recommend here, including the requests that Texas be included in the trial run of benefits to the working poor, how much would it relieve the budget of Texas?

Governor SMITH. It is estimated $100 million the first year, Senator.

Senator CURTIS. But the load on the Federal Government would be terrific?

Governor SMITH. No question about that.

Senator CURTIS. If we move into these programs and double the rolls and start paying welfare benefits of any size to millions of people who are not on the rolls now, no one can call that welfare reform, that is welfare expansion.

Now, I do not blame the Governors and the members of State legislatures for feeling the budgetary pinch but the Federal Government is not without its problems financially and there is all manner of indication here that the people don't want to go on with these burdens. We will get requests that this group be excused from their income taxes. On the floor last time we had an amendment to exclude a group by occupation. It has been proposed in this room that we excuse from income taxes more individuals of lower income.

I can understand your problem but I think that instead of calling it welfare reform when you are more than going to double the burden on the Federal Government, it should be called a request for relief to the States and certainly should not have high officials sending the word out to the public this is welfare reform. It is welfare expansion, tremendous expansion.

The staff have handed to me a memo that the $3,000 work test would cost between $1.5 and $2 billion. Is that in addition over the figure that is in the House bill? That is annual? That is all, Mr. Chairman.

Governor SMITH. Senator, let me say this, there is a lot said about revenue sharing and this to us would be the best revenue-sharing proposal we could have.

Senator CURTIS. But in order to get some revenue sharing I do 't think you should come in here and recommend that Federal expenses be more than doubled in activity.

Governor SMITH. Well, if there is revenue sharing, Senator, it is coming from somewhere and we would just as soon, in our case, that the Federal Government assume, if we are going to have revenue sharing, some of these programs like this because we don't believe you are ever going to give us the cash.

Senator CURTIS. If there is going to be revenue sharing and the States are to ask us to take over certain of their burdens, I don't know what right the State has to advocate that we increase that burden after we take it over.

Governor SMITH. Well, I suppose it would be your decision to make.

Senator CURTIS. That is what H.R. 1 would do; it would more than double the number of recipients.

Governor SMITH. That's right.

Senator CURTIS. I think that the Governors who have appeared here, not all of them, I guess, but some of them have asked that they be relieved of their burden but in order to give this legislation a boost that would do that they recommend that which would increase the costs for the Federal Government so much——

Governor SMITH. Senator, Isn't H.R. 1 a recommendation by the administration?

Senator CURTIS. Yes, sir; and I think it is terrible.

Governor SMITH. I don't think the States recommended it; did they?

Senator CURTIS. No.

Governor SMITH. I think——

Senator CURTIS. I think the administration is around drumming up some support from the States because they don't have enough on this committee.

Governor SMITH. I believe——

Senator CURTIS. Because we have studied it and we have the responsibility——

Governor SMITH. I believe the President has——

Senator CURTIS (continuing). Of raising the money to pay for it.

Governor SMITH. Didn't the President call this welfare reform?

Senator CURTIS. Yes; I think he was mistaken. He is a busy man and I think that he received poor advice. I think the people who have the responsibility of carrying that part of the burden for him are in error because I don't think you could go back home and convince any Texans that to double a problem is reform.

That is all, Mr. Chairman.

The CHAIRMAN. Senator Jordan? Senator Fannin?

Senator FANNIN. Thank you, Mr. Chairman.

Governor, I know your philosophy; I have correspondence from you and I realize you do favor fiscal responsibility and I think you are in the same position as many other Governors; and I know my Governor in Arizona, Jack Williams, talked to me about the fact the Federal Government is preempting the States so far as taxes are concerned, the income taxes, and so where do we go?

Well, isn't it a fact that the support for H.R. 1, and I am not saying that you are solidly supporting it because you are not—I realize from your statement—but isn't this support one of almost frustration to know what to do about the problem which has been created in your State partly because at the will of the Federal Government or the

compulsion of the Federal Government—isn't that one of the great problems the Governors face?

Governor SMITH. That is one of the big problems we have had, Senator, of course.

Senator FANNIN. Well, don't you think then, if we could work on a program, a workfare program—I note in your statement here that you would elaborate on that in one place; you would try to have a comprehensive employability development plan, and I certainly am with you on that. I think this is the only way in which we are going to circumvent all of these other problems or at least make headway in circumventing them. I am sorry that the Governors found it necessary to plead for, if not the complete plan, but for a plan whereby the Federal Government would be paying the money out of the same taxpayers' pockets as would be utilized at the State level, and I would just hope that we could get support from the Governors on a real workfare program, one that has fiscal responsibilities and still would accomplish the objectives.

We know this is going to be very difficult but I am concerned that because the Governors are in an untenable position now they have followed the line of least resistance.

Don't you think that you can do a better job at the State level, just looking at it from the standpoint of what has happened in administering a welfare program?

Governor SMITH. I don't think there is any question about it, Senator, if the Federal courts would just quit destroying our guidelines.

Senator FANNIN. And you would favor that? I know my Governor objects to what the Federal Government has been doing recently in the lawsuits—I think you heard me mention this morning and, of course, as I mentioned earlier this morning, the unfortunate position that we are in at the Federal level, that we can spend money we don't have but you can't do that?

Governor SMITH. That's right.

Senator FANNIN. And I said that this morning because I feel this is of real significance because we are going into debt spending the money we don't have; and with the present position of the dollar, I feel we are all worried about that. But I would hope, Governor, that you could give support to a practical program that is workable and that will last and I think that is what we are all seeking.

I don't think that you can do that and support some of the items that you have listed here today, and I hope that you would just rethink this and see if you could not come up with something that you could heartily recommend.

Governor SMITH. All right. We will surely do that. We will surely reevaluate and take into consideration the things that Senator Curtis and both of you have stated.

Senator FANNIN. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Ribicoff?

Senator RIBICOFF. In the event I ask you a question, Governor Smith, that you have already answered, please don't feel the necessity of doing it again. I had to go to the floor for a few minutes.

First, my thanks for approving some of the amendments that I have for H.R. 1.

How many people are on welfare in the State of Texas?

Governor SMITH. You mean employed or on the rolls?

Senator RIBICOFF. What's that?

Governor SMITH. You mean recipients?

Senator RIBICOFF. Recipients; yes, sir.

Governor SMITH. About 650,000, 675,000.

Senator RIBICOFF. 650,000, 675,000?

Governor SMITH. Somewhere around that; yes.

Senator RIBICOFF. What is the average payment in Texas for a payment to a family of four?

Governor SMITH. $116.61.

Senator RIBICOFF. $116—pretty low payment. What do you find happens to a family of four at $116 a month; how do they get by?

Governor SMITH. Well, I imagine, Senator, it is pretty tough.

Senator RIBICOFF. Pretty tough?

Governor SMITH. Yes, it is.

Senator RIBICOFF. Do you have many low-paid employees in Texas, people who might be working and doing the best they can and are not on welfare and might be earning $2,000, $2,400 a year?

Governor SMITH. I would believe so.

Senator RIBICOFF. There are a lot of people like that?

Governor SMITH. I am sure we do have.

Senator RIBICOFF. Pretty tough for them to get by?

Governor SMITH. No question about that.

Senator RIBICOFF. How do you react? Do you think it should be the objective of a nation to remove all its people from poverty?

Governor SMITH. Well, of course, that would be a desirable end, but sometimes it is not possible. I heard the testimony this morning of Governor Ogilvie, and he said the taxes they had imposed the last 2 years or 4 years, a great percentage of it went for welfare. But in Texas, a greater percentage went for education and especially in the field of technical vocational education whereby we can train people.

Senator RIBICOFF. Let's say it wasn't a question of money. Would it be possible for you to put people to work on public service jobs in the way Governor Ogilvie was describing? Could you find constructive work for people in Texas?

Governor SMITH. It is my belief that we could, Senator.

Senator RIBICOFF. You could supply constructive work for people?

Governor SMITH. I believe so.

Senator RIBICOFF. What is the unemployment rate in Texas as of today?

Governor SMITH. About 3.8 percent.

Senator RIBICOFF. In other words, you are much lower than the national average.

I suppose you have got a big agricultural population in Texas?

Governor SMITH. Yes; we have a good deal of agricultural population.

Senator RIBICOFF. How many people would you estimate receive agricultural subsidies in the State of Texas?

Governor SMITH. I just don't know.

Senator RIBICOFF. Would you have any guess? Ten thousand? One hundred thousand?

Governor SMITH. I just wouldn't have a guess on that.

Senator RIBICOFF. A substantial number?

Governor SMITH. Yes, no question; we have a good deal of agriculture.

Senator RIBICOFF. And I suppose a reason for an agricultural subsidy is that you have got a farmer who is doing his dardnest to farm the land and make a living and keep his self-respect and just isn't making it because of farm prices and circumstances and a nation feels that a farmer is worth saving so you give him a subsidy to keep his body and soul together and keep him on the farm. Would you say that that is one of the objectives in an agricultural subsidy?

Governor SMITH. Well, probably; that probably has a good deal to do with it, and then there is the need, of course, for the food that the farmer produces.

Senator RIBICOFF. Yes, that's right. I suppose that low-paid worker who may be earning $2,000 a year, he is doing a job that somebody has to do, whether it is in Texas or Connecticut?

Governor SMITH. That's right.

Senator RIBICOFF. And he doesn't have much skill. Do you see any difference in having a person with an unskilled job who isn't on welfare and who is working as hard as he can and earning a couple of thousand dollars a year, is there any reason why society shouldn't feel an obligation of maintaining him and keeping body and soul together as it does a farmer?

Governor SMITH. Well, it would occur to me there would be some reasons why he should be helped.

Senator RIBICOFF. He should be helped, too?

Governor SMITH. Yes.

Senator RIBICOFF. So do you think it would be a proper objective for a great nation to try to move its people out of poverty?

Governor SMITH. Yes, I subscribe to that theory, but it is difficult.

Senator RIBICOFF. What is that?

Governor SMITH. I subscribe to that, of course, but it is rather difficult to do.

Senator RIBICOFF. It is difficult because it costs money?

Governor SMITH. That's right.

Senator RIBICOFF. So the problem we have is a question if we are going to pay subsidies, whom do we pay subsidies to?

Governor SMITH. That's right.

Senator RIBICOFF. And, of course, there are—in your State there are many multimillionaires who are in the oil business and whose income is in the millions of dollars and want for nothing and yet because of the oil depletion allowance pay no taxes whatsoever, so basically they are being subsidized by Uncle Sam, too?

Governor SMITH. They are being subsidized, all right, but, you know, I come from an oil State.

Senator RIBICOFF. I know.

Governor SMITH. And I recognize the importance of the depletion insofar as finding new fields are concerned.

Senator RIBICOFF. That's right. In other words, if we can subsidize Paul Getty or H. L. Hunt, what is so sinful to subsidize some tenant farmer or some employee who is doing odd jobs on H. L. Hunt's or Getty's farm and maybe getting $2,000 a year and having trouble

keeping body and soul together? Why is it right for us to subsidize Getty and Hunt and not subsidize someone earning $2,000 a year?

Governor SMITH. Well, of course, it is right to help these other folks and I suppose you mean with money?

Senator RIBICOFF. Yes.

Governor SMITH. Sometimes money is not the only thing.

Senator RIBICOFF. He can't find a job.

Governor SMITH. Sometimes we ought to help them to help themselves; money is not everything.

Senator RIBICOFF. But that is just the point I make.

Governor SMITH. Yes.

Senator RIBICOFF. This is a man who isn't on welfare; he is working; he is working as hard as he can, whether it is 30 hours a week, 40 hours a week; he is picking up any odd job that he can; he is just scrounging around to make a living, so he is not a loafer; he is not a cheater, you know.

Governor SMITH. That kind of a person certainly deserves every assistance that he can get.

Senator RIBICOFF. That's right, so, therefore, if we are a group of responsible Senators, and this person is worth saving and nurturing, then maybe we have got an obligation to try to figure out some sort of a program to help that kind of a person.

Governor SMITH. Yes, sir; that is right.

Senator RIBICOFF. Thank you very much, Governor.

The CHAIRMAN. Senator Byrd?

Senator BYRD. I yield to Senator Nelson.

Senator NELSON. I have no questions.

The CHAIRMAN. Thank you very much, Governor Smith.

Governor SMITH. Thank you, Senator.

The CHAIRMAN. The next witness is the Governor of Ohio, the Honorable John J. Gilligan.

While you are finding your place, Governor, permit me to express our regrets that we could not arrange to hear you earlier today. We did discuss your timing problem but unfortunately Governor Smith had the same problem you have. You both are under great pressure to be back in your States, and we regret that circumstances were such that we couldn't have heard you sooner today.

STATEMENT OF HON. JOHN J. GILLIGAN, GOVERNOR OF THE STATE OF OHIO, ACCOMPANIED BY JOHN E. HANSAN, DIRECTOR, DEPARTMENT OF WELFARE, OHIO

Governor GILLIGAN. Mr. Chairman, I think we are all under pressures of time and other commitments, but I want to say to you and to the distinguished members of this committee that it is an honor for me to appear before you, especially following, I might say, two very distinguished Governors of two great States—one, I would notice, a Republican and one a Democrat, whose views and statements before this committee I would support almost without reservation.

Mr. Chairman and members of the committee, with me today is Mr. John E. Hansan, who is director of the Department of Welfare of the State of Ohio; if after I have concluded my statement to the com-

mittee, there are any questions that are to be put to me, I will answer the easy ones and he will answer the hard ones—that is why I brought him along.

Mr. Chairman, I must be frank and admit that I am a little weary and somewhat angry. I am weary, Mr. Chairman, with the endless debate over welfare stretching over the last 5 years or more.

I am weary of the endless charges and countercharges flung about on this issue.

I am weary of the seemingly endless stream of myths and misconceptions that make a reasoned and reasonable discussion of welfare nearly impossible.

And I am angry, too, Mr. Chairman. I am angry at those who have found it expedient to foster those myths and add to the misinformation.

I am angry that the pillory of welfare has found such an eager audience among people in this country who are anxious to find a scapegoat for our society's problems.

But, most of all, Mr. Chairman, I am angry at what the outcry over welfare indicates, that almost 200 years after we declared our freedom as a nation, we stumble about in confusion, unable to come to grips with our problems, unable even to distinguish the real problems from the false, unable to recognize the human rights which give this Nation its meaning and its purpose.

Mr. Chairman, I was asked to come before this committee and testify on H.R. 1, the administration's welfare bill, and I would like to honor that invitation.

As far as the details of H.R. 1 are concerned, I think that the bill as it now stands does contain two substantial improvements:

First, it provides the aged, blind, and disabled a uniform, guaranteed income with uniform eligibility standards through a program administered by the Social Security Administration.

Second, the two new programs the bill provides to replace AFDC are based on the principles of Federal financing and administration, and national uniform eligibility requirements. However, I support the amendments to the bill proposed by Governor Sargent, who appeared before this committee yesterday, and by Senator Ribicoff, which would, first, increase the basic Federal payment from $2,400 to $3,000 in the first year; in the second year to $3,300; and in the third year to $3,600.

Second, the amendments would have the Federal Government pay 30 percent of any State supplements required to maintain current assistance levels.

Third, the amendments would lower the benefit-reduction rate from 67 to 60 percent of each dollar earned.

Fourth, they would completely relieve the State of welfare programs by making childless individuals eligible for the benefits under this bill.

These amendments will help give real substance to the promise of reform by providing adequate payment levels, reasonable eligibility and work requirements, adequate legal protections and desperately needed fiscal relief to States.

But, Mr. Chairman, I do not believe, nor, I think, does anyone in this room believe, that H.R. 1, with or without the amendments I have just mentioned, will solve the problem of welfare in America.

For nothing in H.R. 1, nothing in the Ribicoff amendments and nothing in existing law will get welfare recipients off the welfare rolls and onto payrolls because nothing in H.R. 1, nothing in the Ribicoff amendments and nothing in existing law comes to grips with the central problem now facing the American economy—massive unemployment, unemployment that has affected even the most highly trained and experienced members of our work forces.

Mr. Chairman, the basis on which President Nixon has appealed for support for his welfare program is that it will get people off welfare rolls and onto payrolls.

Mr. Chairman, this is a commendable goal.

Who doesn't want able-bodied welfare recipients to work for their keep?

Who doesn't want welfare chisellers cut off from assistance and forced to go to work?

Everybody wants those who can work to go out and get a job.

But what job?

Mr. Chairman, over the past 3 years millions of jobs—millions—have been eliminated due to the policies of the Federal Government, policies initiated by the same administration that is exhorting welfare recipients to go out and find a job.

How many stories have we read of skilled employees thrown out of work because plants and factories were closed down?

How many stories have we read about the long and fruitless efforts of 1971 college graduates to find employment?

How in the world, then, does Mr. Nixon expect unskilled and uneducated welfare recipients to find jobs?

Only a concerted national effort at job creation can eliminate the economic stagnation that has left 5 million unemployed men and women to pore over the want ads.

Only that effort can give a toehold in the Nation's economic life to the 2.6 million heads of welfare families that H.R. 1 proposes to employ. Up to now there has been no leadership for that effort.

The President, who has already vetoed two bills to create public service jobs, is apparently beginning to feel that job creation with Federal funds is permissible, but only if done in a suitably backhanded manner, and through private industry.

He announced this month that the Government was prepared to finance construction of a space shuttle, a gravity-defying ferryboat that will purportedly cost a mere $6 billion.

First of all, I think that considering the history of cost estimates for space and defense projects, we should approach that $6 billion estimate with considerable caution.

More importantly, the 50,000 jobs the administration says this exotic piece of hardware will provide is only a tiny drop in the bucket when you consider that it takes about 1 million jobs just to reduce unemployment by 1 percentage point.

Two more drops in the bucket are the estimated 150,000 jobs to be created by the emergency employment program enacted last July, and the 200,000 jobs supposedly to be created by H.R. 1.

A few figures will show why this total of 400,000 jobs is simply not sufficient:

Since 1947—25 years ago—and 24 years after the passage of the Federal Full Employment Act in which the Federal Government guaranteed to every ablebodied American who was seeking employment, employment at a living wage—the unemployment rate has been at or above 5 percent every year except for the Korean and Vietnam war years.

What these war years masked, then, was a growing elimination of productive jobs in the private sector.

As for the 1970's, to achieve full employment in this decade will require an additional 1.5 million new jobs a year without even considering those who are now unemployed.

Mr. Chairman, we haven't had even 2 peacetime years in a row with more than 1.5 million jobs added per year since 1947.

And I would point out that 30 percent of all jobs created from 1960 to 1970 were in State and local government.

Mr. Chairman, what these figures indicate is that it is time for us to recognize that we are not living in an emergency situation in which private industry can eventually pick up the slack in employment. The jobs to support full employment simply do not exist in private industry and never will again.

The answer to our employment problem lies not in the manufacture of Buck Rogers gadgets or the creation of a relatively few temporary high-priced jobs. I would point out that in depression years before World War II the Works Progress Administration employed 7,800,000 heads of families between 1937 and 1943.

The Civilian Conservation Corps gave some 2 million young men useful work.

Beginning in the 1960's, programs such as the Neighborhood Youth Corps, Headstart, Foster Parents, and Project Green Thumb provided jobs for useful services that could not have been funded in the private sector.

These are all precedents for the kind of effort that will be necessary if we are to insure the dignity and self-respect that comes with useful employment for the poor and nonpoor alike.

I hasten to add that I am not advocating a new Work Project Administration, but I would point out that in the great cities of the United States, and especially in Ohio which has more cities of 100,000 population than any State in the Nation, we are confronted with a crisis of unprecedented proportions. For instance, in the city of Cleveland during the last year, calendar year 1971, 1,700 municipal employees were fired because the city of Cleveland couldn't afford any longer to pay for them.

In the first 2 months of the new Republican administration in the city of Cleveland, 350 additional employees have been discharged. Now, if that is to continue very much longer, the city of Cleveland, which is the ninth largest city in the United States, will very soon become uninhabitable.

In Ohio we are doing what we can in the absence of strong leadership from the Federal Government. Since I became Governor we have filled all our 4,600 WIN slots and have asked the Department of Labor to increase this number to 6,500.

At my direction, Ohio became the first State in the Nation to identify and locate jobless veterans of the Vietnam war.

We set out, Mr. Chairman, early last summer to find every young man in Ohio who had served in Vietnam, find out where he was and what he was doing, whether he was employed, whether he was in school, what had happened to him.

We found 32,000 Vietnam veterans in Ohio who could not find a job, some of them who had been home for 20 months, who had been searching high and low for employment. They had served this Nation gallantly and well in the rice paddies of Vietnam and had come home to an economy where they could not find employment; they could not find their way into higher educational opportunities, and they were left walking the streets. Of that 32,000, some were young men who had not finished high school, but many of them were people who were highly skilled, who had been drafted by the Federal Government to go to Vietnam, taken out of highly lucrative occupations for which they were very well adapted and then returned to an employment market in which those jobs had vanished. And to say that these young men were bitter, Mr. Chairman, bitter about what America had done to them, and for them, is to understate the case.

My administration in Ohio has also initiated a two-county pilot project to employ welfare recipients, a program that we believe to be unique in the Nation.

Under this 7-month project, 92 welfare fathers have been employed by the county welfare departments with regular wages and fringe benefits; in other words, we didn't require them to go through some make-work program for their welfare allotments, but we found them jobs and put them to work at regular wages.

I would emphasize that the costs of employment are the same as or less than the State welfare payments to those men and their families.

The fathers are being paid to work, such work as home cleaning, moving, and improvements and household tasks for needy people, particularly the elderly and the disabled.

The initial reaction to the project has been excellent and if all continues to go well, I intend to see the project expand into other counties.

Mr. Chairman, the kind of project now underway in Ohio is the kind of a project that should be undertaken on a massive scale nationally.

There is no lack of work to do.

If we are sated with material objects, we are starved for a whole range of services—medical and health care, cleaning up our cities, restoring our environment, and a host of others.

And it is clear that in an era when the predominant influence on employment opportunities is the Federal Government, the Federal Government has the responsibility of insuring that there is a job for all those who can work.

Unless and until the Federal Government can assure those on welfare or any unemployed person that there is a job for them, Mr. Nixon's "workfare" proposals are not just an empty promise, but a cruel hoax.

I urge the Congress to make the work incentives of H.R. 1 more than that by providing the public service jobs needed to allow this country's unemployed to assume the benefits and responsibilities of full participation in the work force and in society.

No welfare system can take the place of an aggressive policy of full employment that opens up opportunities for all who are able to work.

So, Mr. Chairman, in summary, I support H.R. 1, especially if it includes the amendments proposed by Governor Sargent and Senator Ribicoff.

The CHAIRMAN. Senator Nelson?

Senator NELSON. Concerning your program of providing jobs for 90 heads of households—part of the work being to assist the elderly in household tasks and so forth. How long has this program been in existence?

Governor GILLIGAN. It is just 2 months, Senator.

Senator NELSON. I see. So it is too early to make a judgment, but it is a very creative idea and you ought to be commended for it. In designing the programs, did you have in mind that providing some of this kind of service would permit these elderly citizens to remain longer in their own home rather than being transferred to a nursing home because they can't handle their own household?

Governor GILLIGAN. That certainly is part of it, Senator.

Mr. Hansan, who is with me today, was the chief architect of this pilot project. We don't plan for its absolute success; we don't know yet, but in his earlier capacity as a director of the war on poverty in the Cincinnati area, he was responsible for administering such programs as the foster grandparents program. It is a simple idea. The idea is, you take elderly people, talented, warmhearted, compassionate people with no income, with nothing to do, nothing to use their talents on, and send them into institutions where there are young children who are starved for tender, loving care and you let the elderly people adopt as foster grandparents these children, maybe mentally retarded, maybe just abandoned, and you give a living wage or something close to it, to the foster grandparents; you restore their dignity; they know they are not just drawing a check now; they are doing something that is worthwhile and they know it is worthwhile.

And it is a very badly needed service in our society. In our very inhuman and mechanistic society, it gives to those children something that money in itself can't buy.

Now, we can expand that simple concept into a great many other fields. As I say, if you ride through any city beginning here in Washington, D.C., through any major city or any of the small communities of America, you are confronted on every side by work that needs doing—decaying, delapidated cities, the need for daycare centers, the need for homes for the aged, the need for programs of all kinds—and yet we have people standing around idle who can't be employed; and yet we have plenty of money.

Well, we have the need; we have the idle people; we have the money. What is needed is to put the three elements together and we have got a program that can make America a pretty attractive place to live in.

Senator NELSON. It is interesting to note that in the green thumb foster grandparents and the green light programs, each of the last two administrations has tried to kill them. We have had to fight to preserve them. I had a fight with the Johnson administration, had a fight with this administration, to keep them from destroying the green thumb program. This program isn't understood by all those Wall

Street lawyers who come down here in each new administration and run it. No. 2, there isn't any commitment by this administration or the previous administration to provide this kind of program, particularly for our elderly citizens who can make a very fruitful contribution in all the fields that you mentioned and are making a fruitful contribution in very tiny programs. These programs could be dramatically expanded at minimal costs since a substantial percentage of the elderly are going to have to go on welfare rolls if you don't give them some productive work to do.

So I had never thought of assisting the elder citizens in the manner you suggest but if you could in your program, add home nursing care and some advice on diets and some assistance in managing the home, you could postpone expensive nursing homes for these people.

All of us know a half dozen people who ended up in a nursing home because they physically couldn't handle a household any longer but who would have stayed in their own surroundings for a much longer time and enjoyed a pleasanter old age and cost less money, if they could have afforded somebody to come in and help them.

So I would be interested in knowing what your evaluation of this program is 6, 8, 10, 12 months from now, because I think it is a very creative idea.

Governor GILLIGAN. Thank you, Senator. We will be more than happy to keep you abreast on it.

The CHAIRMAN. Senator Ribicoff?

Senator RIBICOFF. Governor Gilligan, first may I say I have watched your work as Governor with great interest. I commend you for your imagination and courage that you show in a very, very difficult task.

Along the lines of these programs you and your administration have instituted, if it was not a question of money restriction, how many people could you put to work in public service jobs in Ohio?

Governor GILLIGAN. Senator, I would have a little difficulty in giving you a very fast answer. As I said, the city of Cleveland, our largest community, has fired over 2,000 people in the last year and they were understaffed to begin with; and I would have to guess that the number would range up in the thousands, hundreds of thousands of people. It all depends on what kind of work we want to get done.

Senator RIBICOFF. Constructive work for the benefit of the people of Ohio, general community work.

Governor GILLIGAN. We could absorb, you know, as many people as there are around. The only question is money, and the tragic part of it is that we are paying people welfare allowances to do nothing or we are turning them off completely.

But there is an endless amount of work to be done. It is a question of how much we want to divert to this purpose, and that is why I use, for instance, the example of a space shuttle. Fine. I think it might be grand to have a space shuttle, but a similar amount of money diverted to putting people to work to clean up our cities and make them more livable seems to me a far more rewarding use of that kind of resource.

Senator RIBICOFF. What is the unemployment rate in Ohio today?

Governor GILLIGAN. The latest figures are 5.9 percent.

Senator RIBICOFF. So in people that would be how many?

Governor GILLIGAN. Well, in people, we have a hard time getting an exact figure on it. Let me say it this way, Senator; 2 years ago last

month we had 27,000 active unemployment claims in Ohio. A year ago last month we had 69,000; last month we had 109,000, with 60,000 expired cases that had exhausted their benefits. We figure that beyond that there are at least 50,000 people who do not qualify under unemployment compensation, so there are at least ¼ million people in Ohio who are actively seeking work who cannot find employment today.

Senator RIBICOFF. Let me ask you, while you have talked about your cities, Ohio is quite an agricultural State, too, is it not?

Governor GILLIGAN. Yes, sir; we are indeed.

Senator RIBICOFF. And you must have quite a number of people, a number of farmers who receive agricultural subsidies?

Governor GILLIGAN. Yes, not on the scale that some of the Western States enjoy because we are a State that is still largely a family farm operation as opposed to the large corporate enterprises. Still, we receive a very substantial amount of farm subsidies.

Senator RIBICOFF. And you believe that it is worth preserving the farmer, don't you?

Governor GILLIGAN. I do indeed.

Senator RIBICOFF. Now, if this country spends $7.5 billion in subsidies to 2,400,000 farmers to preserve them because you believe a farmer is worth keeping and saving, would you feel it would be worth this country's while to spend $7.5 billion to save 2,400,000 people who are working, for starvation wages, not earning enough; they are not loafers; they are not bums; they want to work and they are working but only earning very small sums of money—do you think it would be wrong to bring these people up to poverty at a cost of some $7.5 billion?

Governor GILLIGAN. No, sir, obviously I do not, and let me add one further statement to your line of reasoning.

If we were to take agriculture as an economic activity, there is probably no field of economic activity since World War II that has advanced as rapidly in terms of productivity, which is what everybody in America wants to talk about today—increased productivity. The agricultural people have raised productivity beyond the wildest dreams of our fathers, with the result that they have disemployed millions of Americans who aren't any longer needed to produce an agricultural product.

Now, if we had segregated out the agricultural community and we had said to them, "Every one you disemploy by improving your productivity you must support out of the agricultural income," we would have a hell of a situation in this country today.

Senator RIBICOFF. Let's pursue that.

Governor GILLIGAN. Now we are doing it in manufacturing.

Senator RIBICOFF. Let's pursue that. The truth is that many people who are on welfare today in the cities, blacks and whites, have been agricultural workers who have been disemployed by the industrialization of agriculture?

Governor GILLIGAN. Absolutely.

Senator RIBICOFF. And these are the people in most instances in America today who are called the working poor?

Governor GILLIGAN. Absolutely.

Senator RIBICOFF. And they come off the farms with the tradition of hard work and they want to work and they will take any odd job;

they are too proud to be on welfare and they are scrounging around all over America with a job that they can't keep body and soul together?

Governor GILLIGAN. That is exactly right.

Senator RIBICOFF. So if we can subsidize the farmers who have a farm and still a job, is there any reason why we can't subsidize the former agricultural worker who is either in the rural areas or in the cities working at starvation wages?

Governor GILLIGAN. No, sir. There is not and as we increase productivity in the manufacturing sector, following agriculture, and as we disemploy in the industrial sector more and more and more workers, which was what we were actually doing, we must be prepared to pick them up, too.

Senator RIBICOFF. In other words, what you are saying is that if we have a highly industrialized productive economy with a $1 trillion gross national product and because of our policies we can't put people back to work, 1.5 percent is a low figure to pay as part of the overhead for America's failures.

Governor GILLIGAN. Exactly.

Senator RIBICOFF. And these aren't just bums and no-goods we are talking about; these are the people who have been cast aside because of the failure of our system to put them into productive employment.

Governor GILLIGAN. Yes, sir. If somebody wants to call the unemployed bums and loafers, I want to bring them out to Ohio to talk to the 32,000 Vietnam veterans who can't find work and let them call them bums.

Senator RIBICOFF. So, in other words, when you indicate your anger and your dismay at the verbiage or the language that is being used against everybody who receives a welfare payment, you want them to come out to Ohio and take a look at the people who can't find a job and want to work?

Governor GILLIGAN. Yes, sir, and I will walk with them.

Senator RIBICOFF. Thank you very much.

Governor GILLIGAN. And thank you, Senator.

The CHAIRMAN. Senator Curtis?

Senator CURTIS. Governor, what your recommendation is is that the States be relieved of the welfare program; is that right?

Governor GILLIGAN. Yes, sir; the costs, essentially; right. I think it is a national obligation and a national program.

Senator CURTIS. How big an item is it in the budget in the State of Ohio?

Governor GILLIGAN. In fiscal 1972–73, the appropriation I requested was $1.8 billion. The legislature approved, for the fiscal biennium, $1.3 billion. About half of that is State money, so about $650 million.

Senator CURTIS. What proportion is that of your total budget?

Governor GILLIGAN. The $650 million would be out of an annual budget of about $4 billion.

Senator CURTIS. Do your localities bear any part of the welfare costs?

Governor GILLIGAN. Yes, sir; if the State picks up, as we generally calculate it, about 50 percent of the costs of welfare, the counties in Ohio, the 88 counties, pick up about 5 percent, so we are really picking up 45 percent, 5 percent from the counties, 50 percent from the Fed-

eral level. We proposed in our budget message last spring that the State absorb that 5 percent—the administrative costs and subsidy costs at the county level—but that was rejected.

Senator CURTIS. But if the program that you advocate were adopted, the State and localities would be relieved——

Governor GILLIGAN. Yes, sir.

Senator CURTIS (continuing). Of the total burden?

Governor GILLIGAN. They would be relieved in the sense that they wouldn't be paying for welfare through State and local taxes; they would be paying for it through their Federal taxes. They are the same taxpayers.

Senator CURTIS. Yes, sir.

And then you also recommend that in addition to H.R. 1 that those amendments sponsored by the distinguished Senator from Connnecticut, Senator Ribicoff, and testified to by Governor Sargent yesterday—you are in favor of those additions?

Governor GILLIGAN. Yes, sir.

Senator CURTIS. I won't take any further time at this time because yesterday the costs of those were developed here for the record.

That is all, Mr. Chairman.

The CHAIRMAN. Senator Bennett?

Senator BENNETT. I have just one question.

Governor GILLIGAN. Yes, sir.

Senator BENNETT. The impact of the Federal income tax burden on the various States is, of course, different because of the level of income, per capita income, in the States?

Governor GILLIGAN. Yes, sir.

Senator BENNETT. Is Ohio above or below the median?

Governor GILLIGAN. Well above, sir.

Senator BENNETT. So if you load the welfare burden on the Federal taxpayer, the burden to the people of Ohio will be substantially more than if the funds are collected at the State level because your taxpayers pay more than the median level and therefore, you will not only take care of your own burden but you will probably take care of a large part of the burden in the State of Utah?

Governor GILLIGAN. Senator, I can only say to you that I don't think the citizens of Ohio are afraid of being recognized as Americans and we are even willing to recognize the citizens of Utah as our brothers and as our fellow citizens and to share alike both the opportunities and the bountiful riches of America; and if we have more than our share we are willing to bear our responsibilities in proportion to our blessings.

Senator BENNETT. Well, I am grateful for that but I am glad I asked the question because the last 3 or 4 days the blanket statement has been made the taxes—it is the same taxpayer that pays the costs and, therefore, it does not matter whether you put it at the State level or the Federal level; and you gave me an excellent opportunity to point out that the tax burden on the taxpayers of Ohio will be considerably heavier than it will be on the taxpayers of many other States if you load his burden on the Federal Government.

Governor GILLIGAN. Senator, I can only say in response that I believe very firmly in the basic principle of ability to pay as the guid-

ing principle for taxation. This morning's Washington Post carried an article which pointed out the fact that, while the Federal Government is reducing its tax rates and its tax revenues $22 billion—as Mr. Nixon pointed out in his budget message yesterday, $22 billion less than would have been the rates prevailing before he signed the tax reduction bills of 1969 and 1971—tax rates and levels at State and local governments are going up, but by their character local and State taxation structures are regressive; they hit the low-income people and the moderate income people a lot heavier than do the Federal tax revenues.

So if we are going to use a tax structure to raise the revenues we need for public purposes, I would far rather use the Federal system which requires of those more blessed with the bounties of the world than the poor what they are able to pay. I would like to rely, for what we need to get the job done, far less upon State and local taxation which is basically regressive.

Senator BENNETT. I can understand all the Governors who come before us make it perfectly clear to us that they would like the Federal Government to take over more and more of their tax burden, and you have told us the same story.

Governor GILLIGAN. There may be a difference, though, Senator, between people who speak from this side of the table and the other in that each one of the Governors who have appeared here today has gone to his constituents within the last year and advocated a massive increase in taxation—massive. I proposed to the people of Ohio a 50-percent increase in general fund spending in the State of Ohio, $1.1 billion in new taxes, including, for the first time in the history of Ohio, personal graduated income taxation and corporate income taxation. The distinguished gentlemen on the other side of this table are in the happy position of being able to go to their constituents saying, "I voted for lower tax rates," but they are the same taxpayers.

Now, it just happens, you know, the luck of the draw, which side of the table we are sitting on. [Laughter.]

Senator BENNETT. I would like to point out that the citizens of the State of Utah have been paying both individual, personal income taxes, and corporate income taxes since the middle thirties, so welcome to the clan; welcome to the club.

Governor GILLIGAN. Glad to be there, sir. It took a struggle, but we made it.

Senator CURTIS. Mr. Chairman, one more question.

Governor Sargent yesterday, in reference to his proposal that we increase H.R. 1 by about $10 billion a year, said that he preferred to pay that by means of a Federal deficit rather than increased Federal taxes. What would be your position?

Governor GILLIGAN. Sir, I don't know that I would be ready to propose any increase in the Federal deficit already projected by President Nixon, which has reached rather breathtaking proportions, but I would say that increased Federal taxation is obviously the answer. The people of this Nation have the wealth to do what is needed, so let's do it.

Senator CURTIS. So the increases in Federal welfare costs that you propose, your recommendation to this committee, would be to accompany it with the necessary increased taxes?

Governor GILLIGAN. In general, yes. I would like to examine the proposition in greater detail as you address yourself to the problems of Federal tax structures and so forth, but in general, yes.

Senator CURTIS. That is all, Mr. Chairman.

The CHAIRMAN. Governor, I want to commend you for what you have to say here in support of providing jobs to people. It seems to me that we have now reached the point where, in fairness, if we have large numbers of people out of work, it is mainly because we weren't wise enough to devise policies that would give those people an employment opportunity.

I say that recognizing there are a lot of jobs that people won't take either because they don't pay enough or don't have sufficient dignity, matters of that sort, and perhaps we can do something about that.

But, at this point, I would think that the overwhelming majority of the American people do not agree that you ought to guarantee a person a wage whether he works or not. I would say the overwhelming majority, probably 80 percent, would agree that every person who wants to work ought to be provided an opportunity to work. I believe they would say that the Government ought to assume the burden of finding work for them.

Anybody who wants to take a position to the contrary, I think, is privileged to do so, but he will be out of step with the thinking of the overwhelming majority of the people in this country.

What has concerned me about this proposal of the President from the beginning has been that he was talking about asking people to register. To me, we ought to ask them to take a job and then when they take the job if they are not making enough we will add something to what they are making, so that you are doing, as Senator Ribicoff suggested you might be doing for farmers or for others; you are supplementing their income.

I applaud you for what you apparently have done in your State to try to followthrough on that concept anyway, to give your people an opportunity to work for a living.

Do you like the idea of trying to provide the jobs and then if need be supplementing whatever those jobs pay rather than simply asking a person to register and put him on the welfare without the job?

Governor GILLIGAN. Yes, sir; I certainly do, and it is a concept, as you know, that was at least implicitly embodied in the preamble to the 1946 Full Employment Act that every American was going to be given an opportunity by the Federal Government, if necessary, for a job if he were ready to take it at a living wage, at a wage that would enable him to live in dignity and raise a family. It is a pledge we have not kept.

The CHAIRMAN. Now, if my vote would do it, we would: (1) try to provide enough jobs in the private employment sector; and (2) failing that, provide funds to the States, to the local governments, to pick up the slack and provide public service jobs where there are no other jobs available and for those who can't work we would provide a higher level of assistance and assume the burden of finding the money to pay for all that.

Now, I have my doubts that we ought to take enthusiastic persons like yourself and your administrator sitting there completely out of

the picture by total Federal administration. To me it has much more appeal for us to find the money to pay for this and to continue State administration insofar as the State administrators can do the job.

I know as far as providing aid to these people they will get it a lot sooner if we would use the same offices and the same personnel who have been interviewing these people and who have a file on what their needs are, to get the help through to them, than it would be to start all over again by having to hire 80,000 employees and establish 100 offices in Louisiana. We are about the size of the average State, so multiply that by 50—that means 50,000 offices. Then try to find people, slot them in the right positions, engage in the personality conflicts that will arise because you have people in the Federal Government who don't want somebody in State government to have the same position in the Federal hierachy because he couldn't agree with him in previous years. I should think that we would do better where the States have what it takes to administer this, to simply provide the funds and have State administration to do it.

How does that appeal to you?

Governor GILLIGAN. Sir, I think it matters very little whether the employees—and we have a very great many very dedicated, very experienced, very hard working people in our welfare department all over the State of Ohio headed by Mr. Hansan here—are in the Federal employ or in the employ of the State of Ohio.

If the Federal Government wants to set down some reasonably simple guidelines, determining eligibility, setting benefit levels, letting these people go to work and give us the money to do the work, I am sure we can get a very good job done.

I think that what has happened inadvertently over the years has been the growth of this complexity of categorical programs and the very kinds of regulatory interpretations, judicial interpretations and so forth, about which you were commenting this morning, which have made such a bureaucratic jungle out of this whole program that the very hard working, very dedicated people at both the Federal and State levels of government are unable to make work for the benefit of the people of the United States.

So simplifying, collecting it up, properly funding it—if we accomplish those goals, then whether or not the people in the vineyard are actually working for the State of Ohio or for the Federal Government is of less importance than it is today.

The CHAIRMAN. Would you agree with me that it is probably better rather than putting a person on the welfare rolls and then trying to make that person take the job, and I am speaking now of the so-called working poor, it is better to make jobs available and then tell the person this is a program for the working poor and he becomes eligible only when he has accepted some job rather than our trying to assume the burden of forcing him to take some job and after he is already on the rolls?

Governor GILLIGAN. Yes, sir; I would say the greatest thing possible would be to confront him with the job:

Here is your chance; go take it. If you can't make it for one reason or another, we will backstop you and we will help you out. Here is your job and go to it.

The CHAIRMAN. Well, thank you very much Governor, I think you made a very fine statement.

Senator RIBICOFF. Mr. Chairman, I just want to say I am very excited about the prospect of how you and I are rushing toward each other's arms on this. [Laughter.]

I think the chairman makes a point that has convinced me, too, that I was not convinced of before, in other words, what he is saying to you:

I would rather have that Governor Gilligan in Ohio be responsible to make sure this works than have one of 80,000 bureaucrats directed from Washington.

I think that is what the chairman is saying here and I think that with broad guidelines and, as I have been indicating, these 168 poverty programs this must be driving you people absolutely nuts back in the State?

Governor GILLIGAN. Yes, sir.

Senator RIBICOFF. And you wonder with all the billions being spent what are they producing. If we could take a big chunk of the money, as other members are worrying about, including myself, where do we get the money for this, and I see that a great deal of the money that will be needed to put in a program for the working poor with jobs and public service jobs and implementing the working poor, can be found in many of these categorical grants which look good on paper but take nobody off poverty and out of poverty.

Governor GILLIGAN. I would agree, sir.

The CHAIRMAN. Well, there is one thought that occurs to me, Governor, and that is, we already are providing the cities a substantial amount of money to help put people to work where they can use them effectively. Now, what would be your thought toward requiring at least a certain portion of those jobs be made available, to persons whose families either are on welfare or would be on welfare if they didn't have that job?

Governor GILLIGAN. Senator, you have touched a very sensitive nerve, a matter that is under constant discussion in our administration. Mr. Hansan has said, as welfare director of the State of Ohio, when these emergency funds and others have been made available, that a good deal of that money ought to be diverted to taking people on welfare and putting them to work.

But when the funds flow in as they did recently under the emergency public employment act, directly to the cities, then they go, for instance, to the mayor of Cleveland who has seen 2,000 of his employees fired in the last year. Obviously, the first people he is going to put back on when he gets a few dollars are the 200 people that the Federal largesse now provides to him, so there were no people taken off welfare in Cleveland or the other major urban centers in Ohio by the Emergency Public Employment Act. All that money was being used for was to hire back employees—trained, dedicated employees—who had been fired because of a dearth of municipal funds at the local level.

So those are actually the proportions, Mr. Chairman; they fired something like 2,000 people in Cleveland and the Federal funds enabled them to get 200 back.

So, far from eliminating or even taking care of even those they had fired, they never got into the enormous, the absolutely enormous, unemployment backlog in Cleveland; so it is going to require a great deal more effort than that.

The CHAIRMAN. Well, it seems to me, though, if our purpose is to provide support for these poor families in providing these job opportunities, we would do well to earmark or require at least half these jobs be made available to people who had these families, because otherwise, as desirable as it is to help persons who don't have that problem finding employment, we are passing up the chance to put people in the jobs who can support the families.

I would like to have a comment from your administrator. He is nodding.

Mr. HANSEN. I would agree 100 percent. But the only problem is that when you have scarce jobs, whether it is a welfare client or the persons who soon will be, it becomes academic. The Governor's comment about the Emergency Employment Act is so true because most of the people who were employed under that were better trained and better educated than any of us had any reason to expect. They were not marginal employees; they were really first rate men and women who were out of a job for a considerable length of time and the welfare rolls are swelling with the marginal workers, so that, as the Governor said in his testimony, what we need then is a massive number of new jobs from some source.

The CHAIRMAN. Well, of course, everybody has his own economic theories but to me it is economic waste when you have able bodied people who are able to make a contribution either to clean up the place or to build new roads, provide new facilities for the public, new services, to have those people sitting around idle in a demoralized situation when you could have those people constructively creating new wealth and providing new services as well as a better environment for themselves and their neighbors. We will certainly propose in connection with this bill that funds be made available to put people to work.

Governor GILLIGAN. Mr. Chairman, let me give you just one little tiny example of that. I am responsible, as the Governor of the State of Ohio, for 8,000 mentally retarded children in the State who have become the wards of the State. By and large, they are kept in institutions in the State of Ohio that it would be hard for any of us sitting here to imagine.

Forty-six mentally retarded children, for instance, in a ward, with two women attendants, children who are severely retarded, who cannot sit up straight, cannot feed themselves, cannot, of course, dress themselves; they are not toilet trained, lying in their own excrement while these two women attendants try to get around from one to the other of 46. We could use hundreds, literally hundreds of women to go into those institutions to give the kind of tender, loving care that those children need; and they don't need a degree from MIT to do that job.

We can't get the work done. Those children are suffering needlessly. The women are sitting around idle; the work isn't being done. I could

multiply that example 1,000 times over, but that is what I am talking about. It need not be the production of aspirin tablets or deodorant cosmetics only. It can be people-to-people work that needs doing for a better society for all of them.

The CHAIRMAN. Thank you very much for your statement, Governor.

The committee will meet at 10 o'clock tomorrow.

(Whereupon, at 4:20 p.m., the hearing was adjourned, to reconvene at 10 a.m., Wednesday, January 26, 1972.)

APPENDIX F

Views of the Department of Health, Education, and Welfare on the testimony of Samuel A. Weems, Prosecuting Attorney for the 17th Judicial District of the State of Arkansas

THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE
WASHINGTON, D. C. 20201

14 FEB 1972

Senator Russell B. Long
United States Senate
Washington, D. C. 20510

Dear Senator Long:

Thank you for your recent letter in which you requested the Department's views on the testimony of Mr. Samuel A. Weems, Prosecuting Attorney for the Seventeenth Judicial District of the State of Arkansas. We are happy to have the opportunity to respond to Mr. Weems' testimony.

As the enclosed information indicates, the charges which Mr. Weems made are unjustified. Department regulations have not hampered prosecution of suspected welfare fraud, desertion, or child support cases. On the contrary, you will note that HEW regulations require State welfare officials to cooperate with law enforcement officers in cases in which fraud or desertion are suspected or in which the paternity of a child born out of wedlock must be established. State welfare agencies are also required to report to law enforcement officials all cases involving suspected fraud, desertion or abandonment. Disclosure of relevant information about a particular suspected case of fraud identified by law enforcement officials is also permitted. A general suspicion of fraud in a welfare program, however, does not warrant a fishing expedition into welfare case information by law enforcement officials; such disclosure would clearly violate Congressional intent to protect welfare recipients from unjustified public exposure.

I feel compelled to point out that the structure of the present welfare system makes consistent enforcement of regulations very difficult. Varying interpretations of regulations as well as alternative methods of implementing regulations may occur among the States. The Department recognizes these problems and believes that the welfare system proposed in H.R. 1 would greatly alleviate them. A federalized welfare system would standardize the handling and control of welfare fraud. As you know, strict procedures for

determining eligibility and income such as using social security numbers, verifying allegations, and intensive personal interviews would minimize the possibility of ineligibles becoming recipients, while validation and review control would curb other types of welfare fraud. Moreover, in addition to penalties for fraud, H.R. 1 also provides penalties for interstate flight to avoid parental responsibility.

With warm regard,

Sincerely

Secretary

Enclosure

cc:
Senate Finance Committee Members

MEMORANDUM

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
SOCIAL AND REHABILITATION SERVICE
Office of the Administrator

DATE: January 28, 1972

TO: The Secretary

FROM: Administrator
Social and Rehabilitation Service

SUBJECT: Comments on testimony of Samuel A. Weems before the Senate Finance Committee on January 21

You have asked me to respond to certain aspects of the testimony given by Samuel A. Weems before the Senate Finance Committee on January 21, particularly those parts which concern HEW's policy toward disclosure of information to local law enforcement officials in cases where welfare fraud is suspected. The testimony does not accurately describe the Federal laws or HEW's regulations concerning the disclosure of information relating to welfare recipients. There may also, however, be some misunderstanding by State welfare agencies of HEW's policy in this area, and copies of this memo will be sent to all HEW regional offices so that any erroneous impressions can be cleared up.

I. Federal law and regulations governing disclosure in the welfare area.

As a condition of receiving Federal welfare funds, the Social Security Act requires each State welfare agency to undertake to "provide safeguards which restrict the use or disclosure of information concerning applicants and recipients to purposes directly connected with the administration of the State [welfare] plan." (Tab 1a). Each public assistance title of the Federal statute contains a similar provision. The HEW regulations which implement this statutory requirement elaborate on those words, but do not impose any condition on disclosure of information which cannot be fairly inferred from Congress' general interest in preserving the confidentiality of welfare case-files. (Tab 1b).

II. Rules on disclosure in cases of suspected welfare fraud.

a. Disclosure required under mandatory fraud referral procedures. HEW's regulations specifically require State welfare agencies to cooperate with law enforcement officials in developing procedures for referral of situations in which the existence of welfare fraud is suspected by the welfare agency itself. (Tab 2a). Under such procedures, of course, the State welfare agency has an affirmative obligation to disclose to law enforcement authorities all information it has concerning a welfare recipient which is pertinent to the question of welfare fraud.

Welfare fraud can sometimes take the form of a false claim of desertion by the father. Federal law and HEW's regulations expressly

provide that, in all cases where a recipient claims desertion, the State must so advise the authorities and supply relevant information. (Tab 2b). The data which States must give to law enforcement officials under this requirement may well lead to the detection of welfare fraud involving a supposedly absent father who is really in the home.

b. Disclosure permitted in other cases of suspected welfare fraud. Although a well-run State welfare program should turn up most cases of welfare fraud, it is not possible for the State or local welfare agency to identify all such cases. Where law enforcement officials identify a case of suspected welfare fraud which has gone undetected by the welfare agency and wish to take action, there is no Federal statutory provision or HEW regulation which prevents the State welfare agency from disclosing information bearing on the question of welfare fraud to those officials. Disclosure of information unrelated to the suspected fraudulent conduct is, of course, both unnecessary and undesirable, and the welfare agency therefore has the responsibility to make available from the case-file only such information as is needed for the investigation of the fraudulent activity in question. Also, it would be administratively disruptive and a violation of the legislatively-mandated principle of confidentiality to permit unlimited access to all case-files when the law enforcement officials have no specific instance of welfare fraud in mind, but merely suspect that such fraud exists generally in the program.

c. Federal provisions related to paternity and child-support; enforcement activity unrelated to disclosure of welfare case-files. State welfare agencies are required by Federal law and HEW regulations to develop programs to establish the paternity of illegitimate child welfare recipients and to locate and secure support from parents who desert or abandon their children. (Tab 2c).

There is no Federal law or HEW regulation which prohibits a law enforcement official from making any inquiries he chooses from any source of information, including friends and neighbors, concerning an individual's suspected fraud on the welfare system. Moreover, I am aware of no informal policy to discourage the making of such inquiries.

d. Advice given by HEW's Dallas Regional Office. A few months ago, HEW's Dallas Regional Office gave certain advice to the Arkansas State welfare agency concerning the Federal laws and regulations on disclosure of information by the State welfare agency in cases of suspected welfare fraud. That advice was in no way inconsistent with what I have said above. I do not know what interpretation has been given that advice by State and local officials in Arkansas. Therefore, I am directing the Dallas Regional Office to contact the appropriate Arkansas welfare officials to reiterate HEW's position on disclosure in accordance with the views I have expressed herein.

III. Conclusion

I am distressed that Mr. Weems considers HEW uninterested in or, indeed, actively opposed to the cooperation of State welfare agencies in the investigation and prosecution of welfare fraud. The facts, as I have indicated, are to the contrary. Ironically, a problem reported by many State welfare agencies involves lack of interest on the part of State law enforcement authorities in following up on fraud-related information provided to them by welfare employees. (Tab 3, pp 29-31). This problem can often be reduced by improved procedures in the welfare agency, such as the hiring of more personnel trained in fraud investigation who can devote all or a large part of their time to this activity. I am advised, and Mr. Weems' testimony confirms this, that Arkansas' welfare agency has increased the number of employees engaged in the identification and preparation of welfare fraud and related cases. While not all of the 21 lawyers referred to by Mr. Weems are employed full-time by the agency, the permanent staff of 9 lawyers represents a significant commitment of manpower to the combatting of this very serious problem, and I would hope that the results will be equally significant.

John D. Twinsme

Enclosures
Tab 1a
Tab 1b
Tab 2a
Tab 2b
Tab 2c
Tab 3

SOCIAL SECURITY ACT—§ 2(a)

STATE OLD-AGE AND MEDICAL ASSISTANCE PLANS

Sec. 2. (a) A State plan for old-age assistance, or for medical assistance for the aged, or for old-age assistance and medical assistance for the aged must—

(1) provide that it shall be in effect in all political subdivisions of the State, and, if administered by them, be mandatory upon them;

(2) provide for financial participation by the State;

(3) either provide for the establishment or designation of a single State agency to administer the plan, or provide for the establishment or designation of a single State agency to supervise the administration of the plan;

(4) provide for granting an opportunity for a fair hearing before the State agency to any individual whose claim for assistance under the plan is denied or is not acted upon with reasonable promptness;

(5) provide (A)[5] such methods of administration (incuding methods relating to the establishment and maintenance of personnel standards on a merit basis, except that the Secretary shall exercise no authority with respect to the selection, tenure of office, and compensation of any individual employed in accordance with such methods) as are found by the Secretary to be necessary for the proper and efficient operation of the plan, and (B) for the training and effective use of paid subprofessional staff, with particular emphasis on the full-time or part-time employment of recipients and other persons of low income, as community service aides, in the administration of the plan and for the use of nonpaid or partially paid volunteers in a social service volunteer program in providing services to applicants and recipients and in assisting any advisory committees established by the State agency;[6]

(6) provide that the State agency will make such reports, in such form and containing such information, as the Secretary may from time to time require, and comply with such provisions as the Secretary may from time to time find necessary to assure the correctness and verification of such reports;

*(7) provide safeguards which restrict the use or disclosure of information concerning applicants and recipients to purposes directly connected with the administration of the State plan;[7]

(8) provide that all individuals wishing to make application for assistance under the plan shall have opportunity to do so, and

* * * * * * *

[From the Federal Register, Vol. 36, No. 40—Saturday, Feb. 27, 1971]

[See Part 204 for Preamble and approval]

§ 205.50 Safeguarding information.

(a) *State plan requirements.* A State plan under title I, IV–A, X, XIV, XVI, or XIX of the Social Security Act, except as provided in paragraph (b) of this section, must provide that:

---

[5] P.L. 90–248, sec. 210(a)(1)(A), deleted "provide" and inserted "provide (A)".

[6] P.L. 90–248, sec. 210(a)(1)(B), added clause (B); effective July 1, 1969, or on such earlier date as of which the modification of the State plan to comply with this amendment is approved.

[7] This requirement has in effect been modified by sec. 618 of the Revenue Act of 1951, 65 Stat. 569, as amended by sec. 141(e) of P.L. 87–543 effective July 25, 1962. Sec. 618 of the Revenue Act of 1951 now provides:

"No State or any agency or political subdivision thereof shall be deprived of any grant-in-aid or other payment to which it otherwise is or has become entitled pursuant to title I (other than section 3(a)(3) thereof), IV, X, XIV, or XVI (other than section 1698(a)(3) thereof) of the Social Security Act, as amended, by reason of the enactment or enforcement by such State of any legislation prescribing any conditions under which public access may be had to records of the disbursement of any such funds or payments within such State, if such legislation prohibits the use of any list or names obtained through such access to such records for commercial or political purposes."

*The other public assistance titles have similar provisions.

(1) Pursuant to State statute which imposes legal sanctions:

(i) The use or disclosure of information concerning applicants and recipients will be limited to purposes directly connected with the administration of the program. Such purposes include establishing eligibility, determining amount of assistance, and providing services for applicants and recipients.

(ii) The State agency has authority to implement and enforce the provisions for safeguarding information about applicants and recipients;

(iii) Publication of lists or names of applicants and recipients will be prohibited.

(2) The agency will have clearly defined criteria which govern the types of information that are safeguarded and the conditions under which such information may be released or used. Under this requirement:

(i) Types of information to be safeguarded include but are not limited to:

(*a*) The names and addresses of applicants and recipients and amounts of assistance provided (unless excepted under paragraph (b) of this section);

(*b*) Information related to the social and economic conditions or circumstances of a particular individual;

(*c*) Agency evaluation of information about a particular individual;

(*d*) Medical data, including diagnosis and past history of disease or disability concerning a particular individual.

(ii) The release or use of information concerning individuals applying for or receiving financial or medical assistance is restricted to persons or agency representatives who are subject to standards of confidentiality which are comparable to those of the agency administering the financial and medical assistance programs.

(iii) The family or individual is informed whenever possible of a request for information from an outside source, and permission is obtained to meet the request. In an emergency situation when the individual's consent for the release of information cannot be obtained, he will be notified immediately therefter.

(iv) In the event of the issuance of a subpoena for the case record or for any agency representative to testify concerning an applicant or recipient, the court's attention is called, through proper channels to the statutory provisions and the policies or rules and regulations against disclosure of information.

(v) The same policies are applied to requests for information from a governmental authority, the courts, or a law enforcement official as from any other outside source.

(3) The agency will publicize provisions governing the confidential nature of information about applicants and recipients, including the legal sanctions imposed for improper disclosure and use, and will make such provisions available to applicants and recipients and to other persons and agencies to whom information is disclosed.

(4) All materials sent or distributed to applicants, recipients, or medical vendors, including material enclosed in envelopes containing checks, will be limited to those which are directly related to the administration of the program and will not have political implications. Under this requirement:

(i) Specifically excluded from mailing or distribution are materials such as "holiday" greetings, general public announcements, voting information, alien registration notices;

(ii) Not prohibited from such mailing or distribution are materials in the immediate interest of the health and welfare of applicants and recipients, such as announcements of free medical examinations, availability of surplus food, and consumer protection information;

(iii) Only the names of persons directly connected with the administration of the program are contained in material sent or distributed to applicants, recipients, and vendors, and such persons are identified only in their official capacity with the State or local agency.

(b) ***Exception.*** In respect to a State plan under title I, IV–A, X, XIV, or XVI of the Social Security Act, exception to the requirements of paragraph (a) of this section may be made by reason of the enactment or enforcement of State legislation, prescribing any conditions under which public access may be had to records of the disbursement of funds or payments under such titles within the State, if such legislation prohibits the use of any list or names obtained through such access to such records for commercial or political purposes.

[See Part 204 for Preamble and approval]

§ 235.110 Fraud.

State plan requirements: A State plan under title I, IV–A, X, XIV, or XVI of the Social Security Act must provide:

(a) That the State agency will establish and maintain:

(1) Methods and criteria for identifying situations in which a question of fraud in the program may exist, and

(2) Procedures developed in cooperation with the State's legal authorities for referring to law enforcement officials situations in which there is valid reason to suspect that fraud has been practiced. The definition of fraud for purposes of this section will be determined in accordance with State law.

(b) For methods of investigation of situations in which there is a question of fraud, that do not infringe on the legal rights of persons involved and are consistent with the principles recognized as affording due process of law.

(c) For the designation of official position(s) responsive for referral of situations involving suspected fraud to the proper authorities.

LOCATION OF ABSENT PARENT

(Citations in the Social Security Act, as Amended)

STATE PLANS FOR AID AND SERVICES TO NEEDY FAMILIES WITH CHILDREN

SEC. 402. (a) A State plan for aid and services to needy families with children must * * *

(11) effective July 1, 1952, provide for prompt notice to appropriate law-enforcement officials of the furnishing of aid to families with dependent children in respect to a child who has been deserted or abandoned by a parent * * *

(21) provide that the State agency will report to the Secretary, at such times (not less often than once each calendar quarter) and in such manner as the Secretary may prescribe—

(A) the name, and social security account number, if known, of each parent of a dependent child or children with respect to whom aid is being provided under the State plan—

(i) against whom an order for the support and maintenance of such child or children has been issued by a court of competent jurisdiction but who is not making payments in compliance or partial compliance with such order, or against whom a petition for such an order has been filed in a court having jurisdiction to receive such petition, and

(ii) whom it has been unable to locate after requesting and utilizing information included in the files of the Department of Health, Education, and Welfare maintained pursuant to section 205,

(B) the last known address of such parent and any information it has with respect to the date on which such parent could last be located at such address, and

(C) such other information as the Secretary may specify to assist in carrying out the provisions of section 410;

[From the Federal Register, vol. 36, No. 40, Saturday, Feb. 27, 1971]

[See Part 204 for Preamble and approval]—

PART 235—ADMINISTRATION OF FINANCIAL ASSISTANCE PROGRAMS

8. Part 235 is added as follows:

Sec.
235.70 Notice to law enforcement officials.

AUTHORITY: The provisions of this Part 235 issued under sec. 1102, 49 Stat. 647, 42 U.S.C. 1302.

§ 235.70 Notice to law enforcement officials

State plan requirements: A State plan under title IV–A of the Social Security Act must provide that:

(a) The appropriate law enforcement officials will be notified in writing promptly as soon as AFDC has been furnished in respect to a child who is believed to have been deserted or abandoned by a parent. This requirement has no effect upon the determination of eligibility. It is a requirement upon the agency, and is fulfilled by providing the following information after a family has been found eligible and been granted assistance: A statement that AFDC has been furnished (date) to relative (name and address) in behalf of children (name and ages) in his home, who appear to have been deserted or abandoned by their parent(s) (name and address, if known). Under this requirement, the appropriate law enforcement officials are those responsible for initiating actions in cases of desertion or abandonment, as those terms are defined under State law.

(b) Criteria will be established for the selection of cases in which notice is given to law enforcement officials that AFDC has been furnished in respect to a dependent child believed to have been deserted or abandoned by a parent. In fulfilling this requirement, the criteria will include instructions for identification of the classes of persons who, under State law, are defined as parents responsible for support of minor children, and against whom legal action may be taken under such laws for desertion or abandonment.

(c) All applicants affected by the reporting requirement will be informed as early as possible during the application process, and each applicant will be afforded the opportunity to withdraw his application, if he wishes, before payment is issued and the required notice sent to the law enforcement officials.

SUPPORT

(Citations in the Social Security Act, as Amended)

STATE PLANS FOR AID AND SERVICES TO NEEDY FAMILIES WITH CHILDREN

SEC. 402. (a) A State plan for aid and services to needy families with children must * * *

(17) provide—

(A) for the development and implementation of a program under which the State agency will undertake—

(ii) in the case of any child receiving such aid who has been deserted or abandoned by his parent, to secure support for such child from such parent (or from any other person legally liable for such support), utilizing any reciprocal arrangements adopted with other States to obtain or enforce court orders for support, and

(B) for the establishment of a single organizational unit in the State agency or local agency administering the State plan in each political subdivision which will be responsible for the administration of the program referred to in clause (A);

(18) provide for entering into cooperative arrangements with appropriate courts and law enforcement officials.

(A) to assist the State agency in administering the program referred to in clause (17)(A), including the entering into of financial arrangements with such courts and officials in order to assure optimum results under such program, and

(B) with respect to any other matters of common concern to such courts or officials and the State agency or local agency administering the State plan * * *

PATERNITY

(Citations in the Social Security Act, as Amended)

STATE PLANS FOR AID AND SERVICES TO NEEDY FAMILIES WITH CHILDREN

SEC. 402. (a) A State plan for aid and services to needy families with children must * * *

(17) provide—

(A) for the development and implementation of a program under which the State agency will undertake—

(i) in the case of a child born out of wedlock who is receiving aid to families with dependent children, to establish the paternity of such child * * *

(B) for the establishment of a single organizational unit in the State agency or local agency administering the State plan in each political subdivision which will be responsible for the administration of the program referred to in clause (A);

(18) provide for entering into cooperative arrangements with appropriate courts and law enforcement officials

(A) to assist the State agency in administering the program referred to in clause (17)(A), including the entering into of financial arrangements with such courts and officials in order to assure optimum results under such program, and

(B) with respect to any other matters of common concern to such courts or officials and the State agency or local agency administering the State plan * * *

[From the Federal Register, vol. 34, No. 18, Tuesday, Jan. 28, 1969]

RULES AND REGULATIONS

(b) The State plan must also show the steps to be taken to achieve this objective, including the staffing for this function.

§ 220.46 Reports and evaluations (applicable to IV–A and B)

Such reports and evaluations must be furnished to the Secretary as he may specify, showing the scope, results and costs of services for families and children.

§ 220.47 Implementation: local agencies and service contractors (applicable to IV–A and B)

(a) The State agency must have methods of assuring that local agencies are meeting the plan requirements, and where services are purchased, of monitoring local agencies and service contractors to insure that the plan requirements are being met and funds are being appropriately and effectively used. See separate SRS policy governing purchase of services.

(b) The State plan must also describe the methods to be used to carry out this requirement.

§ 220.48 Establishing paternity and securing support for children receiving aid (applicable to IV–A)

(a) There must be a program for establishing paternity for children born out-of-wedlock and for security financial support for them and for all other children receiving AFDC who have been deserted by their parents or other legally liable persons. Efforts must be made to locate putative and absent parents and there must be a determination of their potential to provide financial support. There must be provision for the utilization of reciprocal arrangements with other States to obtain or enforce court orders for support. There must be a single staff unit in the State agency and in large local agencies to administer this program. (The files of the Social Security Administration are available to the State agencies when other efforts have failed to provide the necessary information on the address of a parent.)

(b) There must be a plan of cooperation with courts and law enforcement officials and pertinent information must be provided them when their assistance is needed in locating putative or deserting fathers, establishing paternity and securing support.

(c) In developing plans for cooperation with courts and law enforcement officials, there must be agreement that the information provided by the State or local agency will be used only for the purpose intended. There must be provision for financial arrangement to reimburse courts and law enforcement officials when it is found necessary for them to undertake services beyond those usually provided in such cases.

(d) There must be cooperation with other State welfare agencies administering AFDC in locating parents of an AFDC child against whom a support petition has been filed in another State and in attempting to secure compliance by a parent now residing in the agency's own State.

(e) Clearance procedures established with the Internal Revenue Service will be used in respect to any parents of AFDC children whose location is unknown and who are failing to comply with existing court orders for support payments or against whom petitions for orders have been filed. (See separate issuance related to these procedures.)

§ 220.49 Other plan requirements for child welfare services under title IV–B (Other regulations in 42 CFR Part 201 still pertain).

(a) *Single State agency.* (1) (i) The State plan shall designate a State agency as the single agency for the administration of the plan or for supervision of the administration of part of the plan by local agencies.

(ii) Effective July 1, 1969, the State plan must provide that the State agency responsible for the State plan approved under title IV–A will also administer or supervise the administration of the plan under title IV–B, except that

(*a*) If on January 2, 1968 the State agency administering the plan under title IV–B is different from the State agency responsible for the State plan approved under title IV–A, the requirement in this subdivision (ii) shall not apply so long as such agencies are different;

(*b*) If on January 2, 1968 the local agency administering the plan approved under title IV–B is different from the local agency administering the plan approved under title IV–A, the requirement in this subdivision (ii) shall not apply with respect to such local agencies so long as such agencies are different.

(2) The State plan shall set forth the authority of the State agency under State law for the administration of the program. Where there is administration by local agencies the plan shall set forth the legal basis for such administration or for the supervision of such administration by the State agency. Citations to all directly pertinent laws and copies of all interpretations of such laws by appropriate State officials, and citations to all directly pertinent interpretations of laws by courts, shall be furnished as part of the plan.

(b) *Organization for administration.* The State plan shall describe the organization of the State agency for the administration of the plan and of any local agencies engaged in such administration. It shall also describe the methods of administration utilization by the State agency in the administration of the plan and by any local agencies engaged in such administration. Where there is administration by local agencies, the State plan shall describe the nature and extent of the supervision exercised by the State agency.

(c) *Personnel standards.* There shall be, with respect to the employees of the State agency and those of local agencies, personnel administration on a merit basis which shall be in accordance with current Federal Standards for a Merit System of Personnel Administration in 45 CFR Part 70. The State plan shall contain necessary materials relating to personnel administration to permit evaluation for compliance with the said Standards for a Merit System of Personnel Administration.

(d) *Coordination with services under AFDC.* There shall be coordination between child welfare services and services in AFDC with a view to provision of welfare and related services which will best promote the welfare of such children and their families.

(e) *Reports.* The State plan shall provide that the State agency will make such reports with respect to any and all phases of the State program of child welfare services in such form and containing such information as the Bureau may find necessary to assure the correctness and verification of such reports.

Subpart B—Optional Provisions

§ 220.50 General

If a State elects under title IV–A to provide services for additional groups of families and children, i.e., current applicants or former or potential applicants and recipients of public assistance, the State plan:

(a) Must identify such group or groups and specify the services to be made available to such group;

(b) Contain provisions committing the State to meet the requirements in this subpart;

(c) Indicate the steps to be taken to meet those requirements; and

(d) Provide for the submission of such implementation and progress reports as may be specified.

SERVICES IN AID TO FAMILIES WITH DEPENDENT CHILDREN

§ 220.51 Range of optional services

(a) The Social Security Act (sec. 406(d) defines the full range of family services in AFDC as follows: "* * * services to a family or any member thereof for the purpose of preserving, rehabilitating, reuniting, or strengthening the family, and such other services as will assist members of a family to attain or retain capability for the maximum self-support and personal independence."

(b) The full range of or selected family services, and child welfare services as defined in this subpart, may be included except for those services excluded in § 220.61.

(c) Following are types of selected services:

(1) *Child care services.* Child care services provided to families other than those required in § 220.15, must meet the standards required in that section.

(2) *Elementary assistance—services.* Emergency assistance in the form of services to needy families with children, including migrants, may be provided. Such services must be planned and staffed, so as to assure immediate accessibility and prompt response, and separate policy instructions relating to emergency assistance must apply. (These separate policies do not apply to use of title IV–B funds.)

(3) *Educational and training services.* Educational and training services may be included where the Work Incentive Program has not been initiated in a local jurisdiction or is inadequate in scope or size to meet the needs of recipients; or where the Work Incentive Program has been initiated and there is an agreement with representatives of the Labor Department that these services are not available to recipients. Full use must be made of services available through the Employment Service.

(4) *Legal Services.* Legal services, in addition to those required in § 220.25. may be included for families desiring the help of lawyers with their legal problems (see separate policies governing the provision of such services).

§ 220.52 Coverage of optional groups for services.

(a) The agency may elect to provide services to all or to reasonably classified subgroups of the following:

(1) Families and children who are current applicants for financial assistance.

(2) Families and children who are former applicants or recipients of financial assistance.

(3) Families and children who are likely to become applicants for or recipients of financial assistance, i.e., those who:

(i) Are eligible for medical assistance, as medically needy persons, under the State's title XIX plan.

(ii) Would be eligible for financial assistance if the earnings exemption granted to recipients applied to them.

(iii) Are likely, within 5 years, to become recipients of financial assistance.

(iv) Are at or near dependency level, including those in low-income neighborhoods and among other groups that might otherwise include more AFDC cases, where services are provided on a group basis.

(4) All other families and children for information and referral service only.

(b) All families and children in the above groups, or a selected reasonable classification of families and children with common problems or common service needs, may be included.

CHILD WELFARE SERVICES

§ 220.55 Range of optional services and groups to be served.

(a) The Social Security Act (sec. 425) defines the full range of child welfare services as follows: "* * * public social services which supplement, or substitute for, (1) parental care and supervision for the purpose of preventing or remedying, or assisting in the solution of problems which may result in the neglect, abuse, exploitation, or delinquency of children, (2) protecting and caring for homeless, dependent, or neglected children, (3) protecting and promoting the welfare of children of working mothers, and (4) otherwise protecting and promoting the welfare of children, including the strengthening of their own homes where possible or, where needed, the provision of adequate care of children away from their homes in foster family homes or day care or other child care facilities."

§ 220.56 Day care services.

(a) If day care services are included under title IV–B, they must meet the standards required in § 220.18(c)(2), and in addition, the State plan must indicate compliance with the following:

(1) Cooperative arrangements with State health and education agencies to assure maximum utilization of such agencies in the provision of health and education services for children in day care.

(2) An advisory committee on day care services as set forth in § 220.4(b).

(3) A reasonable and objective method for determining the priorities of need, as a basis for giving priority, in determining the existence of need for day care, to members of low-income or other groups in the population and to geographical areas which have the greatest relative need for the extension of day care.

(4) Specific criteria for determining the need of each child for care and protection through day care services.

(5) Determination that day care is in the best interests of the child and the family.

(6) Provision for determining, on an objective basis, the ability of families to pay for part or all of the cost of day care and for payment of reasonable fees by families able to pay.

(7) Provision for the development and implementation of arrangements for the more effective involvement of the parent or parents in the appropriate care of the child and the improvement of his health and development.

(8) Provision of day care only in facilities (including private homes) which are licensed by the State or approved as meeting the standards for such licensing.

SUBPART C—FEDERAL FINANCIAL PARTICIPATION

§ 220.60 General.

The regulations in this subpart deal separately with Federal financial participation in the costs of services under the AFDC and Child Welfare Services programs because these programs have different legal provisons governing the extent of Federal funding. However, in general there are no differences in the kinds of services or methods of providing services under these two programs.

§ 220.61 Federal financial participation; AFDC

(a) *General.* Federal financial participation is available in expenditures, as found necessary by the Secretary—

(1) For the proper and efficient administration of the plan;

(2) For the costs of providing the services for the groups of families and children;

(3) For carrying out the activities described in subparts A and B of these regulations that are included in the approved State plan. Such participation will be at the rates prescribed in this subpart.

(b) *Persons eligible for service.* Federal financial participation is available under this section only for services provided to:

(1) A child or relative who is receiving aid under the plan and to any essential person living in the same household as such relative and child.

(2) The groups defined in § 220.52: current applicants for aid, former and potential applicants or recipients and other individuals requesting information and referral service only. In respect to any child or relative who has formerly been an applicant for or recipient of aid, counseling and casework services may be provided. Other services may be provided only to those children or relatives who have received aid within the previous 2 years or who qualify under the definition of potential applicants or recipients.

(c) *Sources for furnishing services.* Federal financial participation is available under this section for services furnished:

(1) By State or local agency staff, i.e., full- or part-time employed staff; and volunteers, or

(2) By purchase, contract, or other cooperative arrangements with public or private agencies or individuals, provided that such services are not available without cost from such sources.

(d) *Provisions governing costs of certain services.* (1) Medical and assistance costs. Federal financial participation under this section will not be available in

expenditures for subsistence and other assistance items or for medical or remedial care or services, except

(i) For subsistence and medical care when they are provided as essential components of a comprehensive service program of a facility and their costs are not separately identifiable, such as, in a rehabilitation center, a day care facility or a maternity home;

(ii) For medical and remedial care and services as part of family planning services;

(iii) For required medical examinations for persons caring for children under agency auspices, when not otherwise available or not included in purchase arrangements;

(iv) For identifying medical problems of children in child care facilities; or

(v) For medical diagnosis and consultation when necessary to carry out service responsibilities, e.g., for recipients under consideration for referral to training and employment programs.

(2) Vocational rehabilitation services. Federal financial participation is not available in the costs of providing services for the disabled as defined in the Vocational Rehabilitation Act except pursuant to an agreement with the State agency administering the vocational rehabilitation program. This applies to provision of services by staff of the agency and purchase.

(3) Federal financial participation is available in the costs of the following:

(i) Staff in providing services related to foster care, i.e., recruitment, study, and approval of foster family homes, services to children in foster care and their parents, and work with foster parents and staff of child-caring institutions. Vendor payments for foster care are assistance payments and are, therefore, not subject to the service rate of Federal financial participation.

(ii) Work related to child care resources to be used by the agency, i.e., the costs of staff engaged in the development, recruitment, study, approval, and subsequent evaluation of out-of-home child care resources, except the costs of staff primarily engaged in the issuance of licenses or in the enforcement of standards; study, approval, and subsequent evaluation of in-home care arrangements; and in the provision of technical assistance to improve the quality of child care.

(iii) Services provided in behalf of families and children, e.g., community planning, assuring accessibility to entitled services resources; and studies of service needs and results.

(iv) Certain services to assist individuals to achieve employment and self-sufficiency:

(*a*) Payments for additional expenses of individuals that are attributable to their participation in training or work experience projects, e.g., transportation, lunches, uniforms. (Not applicable to assistance recipients earning wages, including employment or on-the-job training, or on special work projects under Work Incentive Program, since such expenses will be deducted in determining net income.)

(*b*) Medical examinations that are necessary to determine physical and mental health conditions for training or employment.

(*c*) Education and training as provided in § 220.51(c)(3).

(v) Agency staff engaged in locating and planning with deserting or putative fathers; assessing potentials and determining appropriate actions; developing voluntary support; assisting relatives to file petitions for the establishment of paternity; reuniting families; and cooperative planning with appropriate courts and law enforcement officials.

(e) *Kinds of expenses for which Federal financial participation is available.* (1) Salary and travel costs of service workers and their supervisors giving full-time to services and for staff entirely engaged (either at State or local level) in developing, planning, and evaluating services. Where a full-time service worker also carries services under the adult categories, the portion applicable to AFDC (IV–A) is at AFDC rates.

(2) Salary costs of service-related staff such as supervisors, clerks, secretaries, and stenographers, which represent that portion of the time spent in supporting full-time service staff.

(3) Related expenses of staff performing service or service-related work under subparagraph (1) or (2) of this paragraph (e) in proportion to their time spent on services, such as communications, equipment, supplies and office space.

(4) Definitions: Applicable to staff performing service functions.

(i) *Full-time service work.* (*a*) Persons performing full time on functions related to the provisions of service means persons assigned on a full-time basis to such functions (services under the adult categories may also be carried).

(*b*) It is not necessary to maintain daily time records for this purpose but it is expected that States will check periodically to assure that persons assigned on a full-time basis are performing substantially on this basis.

(*c*) A full-time service worker can be expected to receive questions from recipients (and former or potential) related to eligibility and the amount of payment or medical benefits and to make this information available to staff responsible for eligibility and related functions. Such workers may not carry the responsibility for securing information or taking the actions in respect to determining initial and continuing eligibility for financial or medical assistance or to change the amount of financial assistance being provided.

(ii) *Meaning and illustrations of service work.* Service work means activity of staff in providing the services and carrying out the related responsibilities specified in subparts A and B. This includes activities of such staff as caseworkers, homemakers, child care personnel, Work Incentive Program coordinators, and community planning staff.

(iii) *Meaning and illustrations of service-related work.* Service-related work means activity of staff other than service workers which is necessary to administer a service program fully. This includes secretaries, stenographers and clerks serving service staff, supervisors of service workers and their supervisors, staff responsible for developing and evaluating service policies, and staff collecting and summarizing financial and statistical data on services, either at the State or local level.

(iv) *Staff.* Staff performing service or service-related work includes professional, subprofessional (e.g., recipients and other workers of low income), and volunteer staff.

(5) Other expenses related to the provision of service in support of full-time service staff, including a portion of the salary costs of any agency person (except the service workers who must be on a full-time basis) who is working part time on service functions (either at the State or local agency level). Such expenses include the portion of salary costs of supervisors related to supervision of service work, a portion of fiscal costs related to services, a portion of research costs related to services, a portion of salary costs of field staff, etc.

(6) Costs of services purchased.

(7) Travel and related costs for children and parents to obtain consultation, medical, and other services.

(8) Costs of State and local advisory committees including expenses of attending meetings, supportive staff and other technical assistance.

(9) Costs of administrative and supervisory staff attending meetings pertinent to the development or implementation of Federal or State service policies and programs.

(10) Costs of operation of agency facilities, used solely for the provision of services. Costs may include expenditures for staff; space, including minor remodeling, heat, utilities, and cleaning furnishings; program supplies, equipment and materials; food and food preparation; and liability and other insurance protection. Costs of construction and major renovations are not matchable as services. Appropriate distribution of costs is necessary when other agencies use such facilities for the provision of their services, such as in comprehensive neighborhood service centers.

(11) Child care expenditures for WIN participants must be charged as a service expenditure and separately identified since Federal funds for this purpose come from a separate appropriation. Child care expenditures for other AFDC cases may be charged as a service expenditure or included as a financial assistance expenditure subject to matching under the title IV—A formula, depending on how the State plan specifies. Where child care is provided as a service the payment may be made either to the vendor of the service directly or to the recipient for payment by him. In either case documentation is needed in the form of statements of the type and quantity of services rendered for each recipient (receipted by vendor when the service payment is made directly to the recipient) to establish the fact that the expenditure was for services.

(f) *Rates of Federal financial participation.* (1) (i) Federal financial participation at the rate of 85 percent for the fiscal year ending June 30, 1969, and at the

75 percent rate for subsequent fiscal years is available for the service costs identified in paragraphs (d) and (e) of this section; and at the rate of 75 percent for all expenses related to emergency services, and training and staff development.

(ii) With respect to Puerto Rico, the Virgin Islands, and Guam, the Federal share:

(*a*) For services and training and staff development for the fiscal year ending June 30, 1969, and subsequent years, is 60 percent, except 75 percent for emergency assistance in the form of services.

(*b*) For family planning services and referral for participation under the Work Incentive Program for any fiscal year beginning on or after July 1, 1967 to:

(*1*) Puerto Rico shall not exceed $2 million.

(*2*) The Virgin Islands shall not exceed $65,000.

(*3*) Guam shall not exceed $90,000.

(2) Time limited rates are applicable to certain service costs. The total costs of salaries and travel of workers carrying responsibility for both services and eligibility functions and supervisory costs related to such workers, and all or part of the salaries of supporting secretarial, stenographic, or clerical staff depending on whether they work full-time or part-time for the workers specified in this subparagraph (2), are subject to the following rates of Federal financial participation:

(i) 75 percent for the fiscal year ending June 30, 1969 (57 percent for Puerto Rico, the Virgin Islands, and Guam).

(ii) For the fiscal year ending June 30, 1970, at a rate, determined in accordance with standards and methods prescribed by the Secretary from time to time, which gives due regard to the amount of services furnished.

(iii) 50 percent for all subsequent years.

(3) For the period January 1, 1968, through June 30, 1968, Federal financial participation is available at the 75 percent rate for expenditures for services included in a State plan approved under the service policies previously in effect, except that the rate of 85 percent is applicable to expenditures for services furnished under an approved plan pursuant to section 402(a) (14) and (15) of the Social Security Act. However, Federal financial participation is not available for the purchase of service prior to June 10, 1968, from sources other than State agencies.

(4) Federal financial participation at the 50 percent rate is available in the costs of the following activities that are separate from but relevant to the costs of services:

(i) Salaries and travel of staff primarily engaged in determining eligibility and their supervisors and supporting staff (clerks, secretaries, stenographers, etc.).

(ii) Salaries and travel of staff primarily engaged in developing eligibility provisions and the determination process (either at the State or local agency level).

(iii) Expenses related to such staff, and for staff specified in paragraph (f) (2) of this section such as for communications, equipment, supplies and office space.

(iv) Costs of State or local staff engaged in the collection of support and accounting for such funds and determining the effect of support funds on eligibility or assistance payments. No Federal financial participation is available in the costs of agency staff engaged in apprehension, arrests, or enforcement activities.

(v) Costs of reimbursing courts and law enforcement officials for their increased effort or additional staff time in assisting the State or local agency in respect to its program to secure support and establish paternity. Such reimbursement is for costs that are specific to carrying out any of the following activities which the State agency believes will contribute to optimum results in securing support and establishing paternity:

(*a*) Consultation to State and local agencies on appropriateness of cases for court action to secure support or establish paternity.

(*b*) Consultation to State and local agencies on the development of evidence for court hearings.

(*c*) Developing information as to the location of parents and other legally liable persons, when all location efforts of the State or local agency have failed.

(*d*) Consultation and participation in the development of support on a voluntary basis; and followup services on court orders for support.

(*e*) Costs in presenting support and paternity actions to the court.
(*f*) Necessary fees for court judicial actions, when these are not waived.
(*g*) Costs of court and other officials providing training to public welfare staff may be included as staff development costs.
(*h*) Costs of the judiciary system, apprehension and arrest are not included.
(vi) Other expenses of administration not specified at the 75 percent (85 percent) rate for services.
(g) Federal financial participation in Work Incentive Program.
(1) Federal financial participation in expenditures for any services furnished by the State agency relating to the Work Incentive Program, including additional expenses attributable to an individual's participation in a program of institutional and work experience training under the Work Incentive Program, and the costs of prereferral medical examinations for all participants, as found necessary by the Secretary for the proper and efficient administration of the plan, is subject to the service rate of matching for which the State qualifies.
(2) Any amounts included in the assistance grants of participants, such as the supplementation of earnings on special work projects under the work incentive Program are matchable under the assistance formula. Payments into the account referred to in § 220.35(a)(13)(i) are also matchable as assistance.
(3) Any refund from such account to the State welfare agency will be regarded as an overpayment to the State and the Federal share thereof must be adjusted. This may be reflected in the State agency's claim for Federal financial participation for the month in which the money is received.

§ 220.62 Federal financial participation; CWS.

(a) *Federal share.* The Federal share of service programs under title IV–B shall be at the rate specified in or promulgated pursuant to section 423 of the Act.
(b) *Persons eligible for service.* (1) Federal financial participation under title IV–B is available to serve all families and children in need of child welfare services without respect to whether they are receiving AFDC.
(2) Expenditures for care of children in foster family homes, group homes, institutions, family day care homes or day care centers, or for care of unmarried mothers in foster family homes, group homes, institutions, or independent or other living situations, shall be for those children or unmarried mothers for whom the public welfare agency, through its child welfare services program, accepts responsibility for providing or purchasing such care. This responsibility includes: determining the need for such care and that the type of care is in the best interest of the child and his family or of the unmarried mother; determining the ability of the family to contribute to the cost of care; and developing a plan for continuing supervision of the child or unmarried mother in care.
(c) *Sources of services.* Federal financial participation is available under this section for services furnished:
(1) By State or local agency staff, i.e., full- or part-time employed staff, and volunteers, or
(2) By purchase, contract, or other cooperative arrangements with public or private agencies or individuals, provided that such services are not available without cost from such sources.
(d) *Kinds of expenses included.* Federal financial participation is available for expenditures for the following purposes: personnel services; professional education; institutes, conferences and short-term courses; foster care of children; care of unmarried mothers; day care of children; purchase of homemaker services; specialized services; return of runaway children; research and special facilitative services; merit system costs; advisory committees; membership fees; supplies, equipment and communication; and occupancy and maintenance of space.

§ 220.63 Relationship of costs under parts A and B of title IV.

(a) There must be methods of allocating the costs of providing services under the child welfare services program and providing services under the AFDC program.
(b) Service expenses that jointly benefit title IV–A and B programs may be allocated between them using any reasonable basis or may be charged entirely to IV–A or B if they are considered to be of primary benefit to such program. The title IV–A program may be considered to be primarily benefited if the number

of AFDC children served represents at least 85 percent of the total children served. The 85 percent computation may be based on local agency totals or on statewide totals.

(c) The one exception to the policy expressed above in paragraph (b) of this section pertains to educational leave. States can elect to charge educational leave totally either to AFDC under title IV–A or child welfare services under title IV–B, without regard to the proportion of time devoted to either program before or after educational leave. The only condition to be met is that the person returning from educational leave be employed in the single organizational unit supervising or providing all services for families and children under title IV–A and/or title IV–B of the Social Security Act as amended. Where a single organization unit has not been established an allocation of costs must be made in accordance with existing policy.

§ 220.64 Provisions common to title IV–A and B.

(a) Expenditures for certain functions under both parts A and B of title IV shall be in accordance with the other provisions governing:

(1) Employee benefit costs; as described in "Federal Participation in Costs of Employee Benefit Systems."

(2) Organization memberships; as described in "Federal Participation in Costs of State Agency Memberships in Organizations."

(3) Occupancy or maintenance of space; as described in "Expenditures by State of Granted Funds for Occupancy and Maintenance of Space."

(b) (1) Donated private funds for services may be considered as State funds in claiming Federal reimbursement where such funds are:

(i) Transferred to the State or local agency and under its administrative control; and

(ii) Donated on a unrestricted basis (except that funds donated to support a particular kind of activity, e.g., day care, or to support a particular kind of activity in a named community, are acceptable provided the donating organization is not the sponsor or operator of the activity being funded).

(2) Donated private funds for services may not be considered as State funds in claiming Federal reimbursement where such funds are:

(i) Contributed funds which revert to the donor's facility or use.

(ii) Donated funds which are earmarked for a particular individual or for members of a particular organization.

§ 220.65 Amount of Federal funding.

(a) The amount of Federal funds available for services under title IV–A is dependent upon the availability of and extent of matching State funds, except as stated in § 220.61(f), for Puerto Rico, Virgin Islands, and Guam.

(b) The amount of Federal funds under title IV–B may not exceed the amount available under the allotment formula prescribed by law. The availability of these funds is dependent upon matching State funds determined according to the formula prescribed by law.

Effective date. The regulations in this part shall be effective on the date of their publication in the FEDERAL REGISTER.

Dated: January 18, 1969.

JOSEPH H. MEYERS,
Acting Administrator,
Social and Rehabilitation Service.

Approved: January 18, 1969.

WILBUR J. COHEN,
Secretary.

[F.R. Doc. 69–977: Filed, Jan. 27, 1969; 8:45 a.m.]

FOR ADMINISTRATIVE USE

Developments in Dealing With QUESTIONS OF RECIPIENT FRAUD In Public Assistance 1951-1967

DEPARTMENT OF
HEALTH, EDUCATION, AND WELFARE
Social and Rehabilitation Service
Assistance Payments Administration
Division of State Administrative and
Fiscal Standards

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
SOCIAL AND REHABILITATION SERVICE
WASHINGTON, D.C. 20201

ASSISTANCE PAYMENTS
ADMINISTRATION

SRS-APA-AF
May 1, 1969

TO STATE AGENCIES ADMINISTERING APPROVED PUBLIC ASSISTANCE PLANS

Subject: Publication - Developments in Dealing with Questions of Recipient Fraud in Public Assistance, 1951-1967

Enclosed is an analysis based on the reports you have submitted to us, from 1962-1967, on your experience under the Handbook of Public Assistance Administration policy relating to questions of recipient fraud in public assistance. Developments during the ten years preceding issuance of the policy are also discussed.

Recurrence of charges of widespread ineligibility resulting from fraud emphasize the importance of a general understanding of what constitutes fraud in its legal aspects; also, that those responsible for administration of public assistance programs should be able to show that they have taken reasonable precautions to prevent fraud and have clear and just methods for dealing with it when it occurs. Your reports and your own special studies and analyses, as well as all other available information, substantiate your belief and ours that there is a minimal amount of recipient fraud in public assistance programs.

Of necessity, the treatment concerns itself primarily with operation and problems in definitions, policies and procedures for identification and handling of questions. As pointed out, the only firm data on actual fraud would be provided by reports of numbers of convictions and only those sustained if appealed. Since responsibility of agencies administering public assistance does not extend to action by law enforcement officials, required reporting does not cover this point. Data are obtained, however, where possible, on disposition (including initiation of prosecution) of cases referred. Emphasis has been placed on continuing cooperative efforts between public assistance and law enforcement officials and the reports show the results.

You will note that this document covers the period prior to enactment of the 1967 Social Security Act amendments. Reference is not made to policy issuances and State developments since that time.

With the foregoing in mind, the enclosed statement has been prepared. We hope it will be useful to you. Additional copies are available upon request.

Sincerely,

Stephen P. Simonds
Commissioner

Enclosure

FOR ADMINISTRATIVE USE

Developments in Dealing With QUESTIONS OF RECIPIENT FRAUD In Public Assistance 1951-1967

U.S. DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

Social and Rehabilitation Service

Assistance Payments Administration
Division of State Administrative and Fiscal Standards
Washington, D.C. 20201

1969

FOREWORD

This is a report on methods of dealing with questions of recipient fraud in the Federal-State public assistance programs.

The Assistance Payments Administration and its predecessors, the Bureaus of Family Services and Public Assistance, have, from the beginning of the Federal-State programs, worked with the State agencies on methods of ensuring that public assistance will be provided to eligible persons. In so doing, agencies at both levels of government have developed policy and guide materials as well as analyses of statistical reports.

The varied and significant contributions of many staff members of the Division of State Administrative and Fiscal Standards are acknowledged, also of other staff of the Federal and State agencies who have helped to prepare these materials. Statistical analysis of the reports prepared in the State agencies has been the responsibility of the National Center for Social Statistics, SRS (formerly the Division of Research, Bureaus of Family Services and Public Assistance).

This analysis was compiled by Doris Carothers, under the guidance and direction of Mary A. Craig, Chief, Administrative and Organizational Standards Branch, Division of State Administrative and Fiscal Standards, Assistance Payments Administration.

Stephen P. Simonds, Commissioner
Assistance Payments Administration

TABLE OF CONTENTS

INTRODUCTION

This report on developments in relation to questions of recipient fraud in public assistance traces the history of the Federal policy and analyzes State experience since its issuance in 1961.

Because this is a report with national focus, developments in single States are not discussed. We believe that individuals closely involved with a State's entire public assistance program and its interacting forces and activities are better qualified to describe and evaluate the subject for that specific State.

Much of what follows has been taken from Federal policy and guide materials, and from reports prepared in the central office and used by Federal staff for administrative purposes, but not released for general distribution. Annual reports from almost all State public assistance agencies, beginning with the 1964 fiscal year; reports from the majority of the States covering several months in 1962; State plans; and special reports and analyses by selected States also constitute major sources for this report.

Federal policy in the Handbook of Public Assistance Administration, IV-2600, and the statement on "Development of Policies and Procedures Relating to Recipient Fraud in Public Assistance" 1/ were intended to assist States in 1) demonstrating that they have taken reasonable precautions to prevent fraud and have clear and just methods of dealing with it when it occurs; 2) clarifying the role of the public assistance agency and distinguishing its function from that of the law enforcement authorities; 3) emphasizing the protection of clients' rights under law; and 4) providing for an orderly accumulation of information on which to base further action. The guide materials were not intended as a stimulus to public assistance agencies to develop specialized methods of determining initial and continuing eligibility for assistance payments. Administrative requirements of the agency were expected to be kept in balance; procedures employed when there is reason to suspect the possibility of fraud should not outweigh overall administrative efforts directed toward accomplishment of the agency's objectives.

1/ See Appendix IV, page 51.

The reporting form was developed as a structured way of obtaining information on the number of cases processed in the States in which fraud might have been a factor. The form was designed to include all categories, to provide information on methods used in the States in dealing with possible fraud, and to facilitate agency suggestions and recommendations.

Reports, during five years of experience with the policy, reflect wide diversity among the States in eligibility and payment policies and great variation in administrative machinery for identifying, investigating, or evaluating questions of fraud and for referral for legal action. The subjective nature of policies and decisions and the wide and fundamental differences in the operations of the 58 State agencies 2/ and more than 3000 local public welfare offices and the many law enforcement agencies and courts permit only the conclusion that the extent of recipient fraud in public assistance is small. There has been sufficient consistency in the reports from year to year to lead to the conclusion that State agencies have taken reasonable precautions and that instances of fraudulent receipt of assistance are minimal in relation to the number of cases receiving aid.

This analysis is based on reports for the period ending June 30, 1967 (before enactment of the 1967 Amendments to the Social Security Act). Accordingly, State reports are considered in reference to Federal policy in effect during that period. It follows, therefore, that even though they may appear pertinent, no reference is made to the 1967 Amendments or Federal policy issuances and interpretations based on those amendments, or on legal and administrative developments since the beginning of the 1968 fiscal year.

2/ Including 4 agencies administering only Aid to the Blind.

SUMMARY

The Social Security Act, under which the Federal-State public assistance programs operate, provides for Federal financial participation in assistance only to eligible persons. No reference is made to possibilities of fraudulent efforts to receive assistance. Federal policy concerning fraud was not issued until 1961, since it was believed by State and Federal staff that State law and policy were adequate for dealing with these quite infrequent situations. Federal policy and requirements for reporting were issued, however, when it became clear that factual information on a national basis was necessary in order to respond to increasing public assertions that assistance was being received by ineligible persons and as a result of fraud.

In only a very few cases, less than 0.4 percent (18,200 in 1966) of the almost 5,000,000 individuals and families receiving OAA, AB, APTD, AABD or AFDC during a year, do facts available to agencies administering the programs support allegations that applicants or recipients willfully withheld information or gave false information that resulted in the receiving of payments to which there was not entitlement in whole or in part. For example, in 1966 fewer than 0.2 percent (7800) were referred to law enforcement officials and fewer than 0.05 percent (2700) were prosecuted by legal authorities. We do not have information on the number, but undoubtedly some of those prosecuted would not have been convicted; hence, the number and proportion of assistance recipients found to have committed a fraud on the program would be even smaller than the above figures indicate.

Fraud, as it relates to receipt of public assistance, is a matter of legal determination, based on the laws of each State. It is often equated in the public mind with receipt of public assistance, for whatever reason, by an ineligible person. Reports show that the great majority of payments that are improperly made do not result from intent to deceive the agency but rather from lack of understanding, complex procedures, or agency error.

The narrative reports reflect concern of the States in preventing, identifying, and coping with situations in which assistance funds were received by individuals who were not entitled to them. They also reflect marked differences in State law, underlying philosophy of the program, procedures, administrative machinery, and disposition of questioned

---

3/ See Appendix I, page 35.

72-573 O - 72 - pt. 2 - 29

cases. Much valuable information is provided on methods in use and being developed by the States in their handling of cases in which questions of fraud arise, and in pinpointing problems. Agencies recognize that curtailment of the incidence of fraud must begin with the preventive measures, and that training in this area is essential. Workers must be alert to the possibility of improper payments and be able to differentiate between overpayments due to agency error or other factors and those in which there may be indication of possible fraudulent intent or act.

Preventive proposals vary, including deterrence through penalties and publicity, exposure through investigation, continuing scrutiny, and unexpected worker visits; development of mutual trust between worker and client which adds to understanding of motivations and knowledge of the effect of physical and mental limitations on client responsibility; liberalized eligibility requirements; simplified methods for computing amounts of assistance needed; and more adequate payments. Prevention of fraud is also dependent on the assumption of continuing responsibility by the agency for reducing caseloads, developing staff understanding, identifying critical areas of potential fraud, and providing corrective procedures; by the worker for appropriate investigations, for interpretations to the client of eligibility requirements as well as the elements which determine the amount of assistance, and for sound determination of eligibility; by the recipient for reporting changes that would affect the extent of his eligibility or terminate his assistance payment.

Most common bases of questions of fraud are those relating to need, although "statutory eligibility" requirements such as age and disability also give rise to questions from time to time. Special problems include the aged who sometimes fail to report their resources and, as a result of senility rather than intent to defraud, may exhibit little capacity for comprehension; and families with children, where household composition and residence change frequently, where absent fathers return, or a person included in the budget departs.

In many States, cases are referred to law enforcement officials only when restitution is not made or a plan for reimbursement cannot be developed. Agencies differ on the question of when to seek repayments, some continuing assistance when need continues, others terminating or reducing assistance regardless of current need or the lack of liquid assets.

In developing cooperative activities between assistance agencies and the legal authorities, the reports show continuing efforts to achieve better communication and understanding through mutual recognition of problems and coordinated efforts to establish sound working relationships. The reports suggest that agency relationships with law enforcement officials are most effective when an agency has its own legal

counsel or counsel assigned to it by the law enforcement officials; and when there are established procedures, clear interpretations, and sound understanding of policies and responsibilities.

It is significant that large proportions of cases referred to law enforcement officials are not prosecuted because of insufficient evidence, the small amounts or special hardships involved, or because voluntary reimbursement was arranged. Furthermore, punishment of the old, the ill, and the destitute would be of no value to the program. In addition, a low priority is given to prosecution of welfare fraud cases, due in part to chronically crowded court dockets and in part to the high costs of taking such cases to court.

It should be kept in mind that this analysis relates to a period ending June 30, 1967, before enactment of the 1967 amendments to the Social Security Act and policy developments during the 1968 and 1969 fiscal years. Changes in public services and their availability to meet recognized human needs are always attended by modifications in organizational structure and methods of operation. Current and future movements toward separation of assistance payments and service functions, simplified procedures for determining initial and continuing eligibility and standards of assistance, and other modifications in the administration of public assistance may influence methods of dealing with recipient fraud and administrative actions taken under State agency policies and procedures.

BACKGROUND FOR POLICY

Possibilities of erroneous payments, either in total or partial amounts, were recognized from the earliest days of the programs and dealt with in Federal policy on financial participation in State expenditures for aid to needy individuals. The Manual of State Public Assistance Legislation, developed in the first years of operation of the Federal-State programs and revised and reissued April 1, 1940, to Federal staff, and on a selective basis to State officials, stated:

> "In cases involving fraud or misrepresentation, the State almost universally has an adequate remedy under ordinary principles of law and no provision on this subject is needed or recommended in the public assistance law. If a provision on this subject is included in the public assistance law, it should not include a punitive clause providing for collection of more than the amount of assistance granted under the circumstances involving fraud or misrepresentation."

At a later conference of Federal, State, and local staff when issuance, implementation, and evaluation of the policy were discussed, it was acknowledged that there have been, and probably always will be, fraud possibilities in all governmental benefit programs, just as there is fraud in business activities. There are some people, fortunately only a few, who may set out through planning and deliberate action to defraud a program. They are often clever people who may be extremely difficult to detect. There is a larger group, but still a very small percentage of the total, who are weak, subject to temptation, often frightened and confused. While the end result may be the same -- that is, receipt of public money by ineligible individuals -- the actions leading to it are often not thought out in advance, but are the result of happenstances of which advantage is taken. Then there are the situations where ignorance, inability to understand or remember, and other such unintentional causes lead to what is sometimes identified as "fraud." Not infrequently, this type of fraud is a result of unrealistic agency policy or complicated methods of operation which bring about situations for which recipients are held responsible. An agency must be clear on what it understands as fraud.

Some exploratory work was done in this area by the Bureau of Public Assistance in the early 1950's, including: 1) Review of Bureau policy materials and precedent statements; 2) collection of information on State agency experience; and 3) review of the experiences of other Federal agencies to determine whether they were applicable to public assistance.

The administrative materials which were prepared for staff use in work with States pointed out that the attacks on the public assistance program at that time, including allegations of widespread ineligibility of recipients, necessitated exploration of possible problems; and they emphasized the importance of clear and well-defined policies and procedures in preventing or dealing with improper payments, whether or not fraud was involved. It was stated that, although the number of improper payment cases in public assistance might be relatively small, failure to take the necessary preventive and corrective measures might seriously weaken public confidence in and financial support for public assistance programs. Every public assistance agency needs to conduct all its operations so as to protect itself and its clients against improper payments of all kinds, irrespective of whether willful misrepresentation by recipients is involved. Agencies should be able to demonstrate that they have taken reasonable precautions to prevent fraud.

State administrators agreed at that time that there was no need for extensive Federal activity on the subject. Most States firmly believed that there was little fraud and that they were handling it adequately. Consequently, a general statement was issued to regional office staff, pointing out that: 1) The actual establishment that fraud was committed is a legal matter; 2) general statutes in many States cover fraud, and some States have specific provisions relating to fraud in public assistance; and 3) there is need for clear and workable relationships with law enforcement officials.

It was pointed out that the proper determination of eligibility was the greatest single preventive measure against fraud.

Around the middle of the decade, special investigative units began to develop, most frequently in the urban areas, but a few at the State level for use throughout the State. The composition of the units varied from social workers to trained detectives, the methods from ordinary casework to strictly police activity, and the relationship to other agency activities from good integration to almost total autonomy -- an agency within an agency. Where such units existed, a common function was "checking on fraud."

The increased press reports about fraud in public assistance at the beginning of the 1960's and the lack of actual factual data in HEW to substantiate or refute such charges led to a review of the earlier decision that no special Federal policies concerning fraud were necessary, and an opposite decision was reached by the Secretary 4/.

4/ See Appendix III, page 45.

In accordance with Administrative directive, Handbook IV-2600 and guidelines for development of policy and procedures were issued, in December 1961, by State Letter No. 540. 5/

In considering how the policy should be stated it was borne in mind that public assistance is a complex area of operation, and from time to time is subject to pressure from sensational charges. A policy of this kind also requires attention to safeguarding the constitutional rights of individuals suspected of fraud, and to differentiation of the administrative responsibility of the public assistance agency from that of law enforcement officials of the State.

Several problems or limitations on "perfect" operation of the policy were recognized from the first:

1) This particular policy requires State agencies to clarify their often-confused definitions of fraud, utilizing the State's statutory definition rather than the agency's administrative one. This has led to a fuller recognition that there must be a differentiation between what had been termed "agency caused" and "recipient caused" receipt of money for which the client is not eligible; that is, overpayment vs. fraud.

2) The nature of the subject of this policy, as well as its specific requirements, required the State agencies to define the extent of their function more specifically than most States had done previously. This was accentuated by the involvement of another authority and its function -- namely, law enforcement.

3) Greater emphasis needed to be placed by policy makers on the use of the same words in the same ways, insofar as possible. The abrupt introduction of a new word or a new use of an old word immediately gives rise to the question of precise meaning.

5/ See Appendix IV, page 51. Additional instructions were contained in State Letter No. 559, March 20, 1962, "Recipient Fraud - Submittal of State Plan Material." Handbook IV-2600 was revised and reissued by Handbook Transmittal No. 60, Aug. 6, 1965. Handbook D-6800, June 17, 1966, was issued by Handbook Transmittal No. 83 for the medical assistance program.

WHAT IS FRAUD IN PUBLIC ASSISTANCE?

Only a very few, almost certainly less than 0.4 percent, of the almost 5,000,000 cases of individuals and families receiving public assistance under the Federal-State-local programs were considered in 1966 by the State agencies, on the basis of factual evidence, to have received assistance possibly as a result of a fraudulent act, that is, willfully withholding information or giving false information, which resulted in the receiving of payments to which there was not entitlement in whole or in part according to eligibility requirements for the program. Fewer than 0.05 percent were prosecuted by legal authorities, who alone are in a position to determine that, according to law, prosecution for fraud should be undertaken. These estimates are based on data reported by State agencies administering the OAA, AB, APTD, AABD and AFDC programs and relate to the total number of assistance units in which money payments were received.

Reports for successive years show marked similarity in proportions of recipient cases identified by caseworkers as involving possible questions of fraud (around 40,000, or one percent for all programs, approximately one-third of one percent for the adult programs and three percent for AFDC). Some agencies report few or no cases, while three or four States account for more than 60 percent of the total.

For approximately half of these cases (around 20,000 per year) agency staff charged with responsibility for decision held that facts were sufficient to support the question. For many cases, the amount of payments involved was small; for others there was special hardship; and for others reimbursement was arranged, assistance was suspended, or other action was taken to recoup amounts erroneously received.

Others, less than one-fifth of those in which caseworkers thought there might be questions of fraud, or one-fifth of one percent of all recipient cases, were referred to law enforcement officials. Prosecution was initiated in the case of somewhat more than one-third of those referred (about one-twentieth of those questioned, or 0.05 percent of all recipients). 6/

Public assistance applicants and recipients have the same basic qualities that are found in the general population, with additional pressures attendant on severity of economic and social problems. The Federal agency has always accepted and fully endorsed the concept that people are essentially

---

6/ See Appendix I, page 35.

honest in their dealings with their public agencies. It is recognized, however, that there are exceptions to the general principle among applicants and recipients, as well as in the general population. To protect against this small minority, State public assistance agencies were required in 1962 to adopt and exercise proper controls to minimize opportunity for fraud, and to provide for dealing with such situations, when they do occur, in accordance with Federal policy and guidelines.

For the first 25 years of operation of the Federal-State public assistance programs under the Social Security Act, State and local agencies operating the programs were governed to a varying degree by State laws and policies relating to fraud. The Social Security Act, in providing for Federal participation in State programs for public assistance to eligible persons, makes no mention of the possibility of fraud but places an obligation on State agencies to provide assurance with respect to the eligibility of recipients. Such assurance necessarily rests on the efficiency, thoroughness, and integrity of the total processes by which initial and continuing eligibility are determined, and involves legal, financial, and social safeguards.

The first requirement for State plans is a definition of fraud in accordance with State law as it relates to receipt of public assistance. Handbook section IV-2631 says further:

> "The definition of fraud, as it relates to the receipt of public assistance, is based upon interpretation by the appropriate State legal authorities of the applicable statutes. Prosecution for fraud and the imposition of a penalty, if the individual is found guilty, are prescribed by law and are the responsibility of the law enforcement officials and the courts. All such legal action is subject to due process of law and to the protection of the rights of the individual afforded by the process."

Closely related is the requirement that State plans provide for identification of cases in which there is reason to suspect fraud, in accordance with clear criteria.

"Recipient fraud" or even "question of recipient fraud" is not easily definable. As stated above, fraud is a matter of law and only legal authorities are empowered to make a definitive judgment that the action of an applicant or recipient is actionable under law -- but even these authorities differ widely in their decisions, within a State and in different States.

The general statutes of most States contain a definition applicable to fraud in efforts to obtain public benefits and services; in addition,

the basic public assistance legislation in many States includes a definition specific to public assistance.

Variations in criminal sanctions provided for conviction of fraud are greater than are differences in definition, and seem likely to exert considerable influence on translation of legal definitions into agency policy and practice. Fraudulent acts are sometimes considered a misdemeanor, sometimes a felony; sometimes subject to prosecution for any receipt of any assistance to which a person was not entitled, sometimes only if the period or amount exceed a specified amount considered as substantial; sometimes subject to payment of a fine, sometimes imprisonment, sometimes no more than loss of eligibility for assistance for a specified period.

The basis of State laws on fraud is in common law, the elements of which are: 1) False representation, 2) knowledge of falsity by maker, 3) ignorance of falsity by person to whom made, 4) intention that it should be acted on, and 5) acting on it with damage. Some courts have held that actionable fraud must include the five common law elements. It has also been held that misrepresentation may be made by "suppression" or "concealment" of truth.

With some minor variations, wording of the public assistance laws of many States is similar to this: "Whoever knowingly obtains or attempts to obtain, or aids or abets any person to obtain, by means of a willfully false statement or representation, by impersonation, or other fraudulent device, assistance to which he is not entitled, or assistance greater than that to which he is justly entitled, is guilty ...."

An addition by another State to the usual legal definition is "... or does any willful act designed to interfere with the proper administration of public assistance and care."

An example of a more strictly legalistic definition is: "It shall be unlawful for any person to intentionally steal the property of another, either without his consent or by means of deceit." Case law has defined fraud as "... all acts, omissions, concealments involving a breach of legal or equitable duty ...."

Specified actions -- for example, failure to report changes in need or in other eligibility factors, including household composition, income, or property ownership -- are considered as prima facie evidence of fraud in some States. In other States, more importance is placed on understanding the motivation of the client and on his current need and resources.

In general, however, willfulness or deliberate action or inaction with conscious intent to obtain assistance for which the individual is not eligible is the common requisite in a determination that fraud has occurred.

One State, in instructions to staff, points out that "knowingly" means that proper explanations and notices are given so that the applicant or recipient understands. "Willfully" requires determination of motive. Another State describes as fraudulent the receiving of assistance for which a person is totally ineligible or of a larger payment than the amount for which he is eligible, resulting from assertion of eligibility when he is ineligible in whole or in part -- by an overt act of deliberate concealment, falsification, or misrepresentation, including failure to report changes in requirements or resources.

A variety of words and phrases is used in State laws or in agency policy and staff instructions, in an effort to clarify the concept and to provide sound bases for dealing in an equitable and uniform manner with the possibility or question of recipient fraud. As pointed out above, it is obviously impossible to expect perfect attainment of such goals because of the subjective nature of the concept. As one State policy statement says, few instances of misrepresentation, when fully understood, represent a malicious intention to get something for nothing.

In the extremely difficult task of trying to distinguish between fraudulent and other actions which result in improper payments, agency materials attempt to differentiate between "improper" or "overpayments" in general -- many of which result from agency error -- and those which may result from a fraudulent act by an applicant or recipient. Speaking to the confusion of "excess resources" with fraud, staff are cautioned to consider whether a client understands and whether he is able to follow staff explanations of agency policy, and to consider also his reasons for withholding information and other motivations for his action or inaction. Complexity of policies and procedures may easily lead to misunderstanding. Agency error, rather than client misrepresentation, may be the causation. Age, illness, ignorance, language barriers, senility, or the "pension philosophy" may preclude client understanding.

A rather general classification is that of one State plan which distinguishes among overpayments due to: 1) Administrative error; 2) factual errors: incorrect interpretations, general misunderstanding, senility, etc; and 3) alleged fraudulent action.

Another State agency instructs its staff to consider the following questions: 1) Was explanation to client adequate, in that he understood policies of the agency and his responsibility; 2) was he competent to follow instructions in a responsible manner; 3) are the reasons given by the client for withholding information also given due consideration in determining whether there is a question of fraud?

Wide differences in agency philosophy and methods of operation, in addition to variations in State laws and legal systems, result in great diversity in policies and procedures developed by public assistance agencies to deal with fraud.

A major difficulty appears to be establishment of clear criteria for identifying instances of possible fraud. Some agencies appear to have been much more successful than others in arriving at distinctions between supportable questions of recipient fraud and improper payments for other reasons, and in obtaining worker and client understanding. Reports from the States during the years 1962-1967 show continuing development in policy, procedure, and accomplishment; and also reflect shifting attitudes and outlook of clients, agency staff, courts, and the public generally. Earlier reports identifying problem areas are often followed by reports of improvements in methods of prevention, identification, or dealing with questions of fraud. State agencies are reporting growing awareness and understanding of interrelated and contributory factors of client and agency actions to be considered and greater ease and skill in making determinations. As with all other aspects of administering public assistance programs, policy and procedural clarifications and constructive changes, as well as staff training and supervision, must be continuous if further improvement is to be achieved.

STATE EXPERIENCE UNDER THE FEDERAL POLICY

Reporting

The nationwide review of eligibility of families receiving AFDC, which was made in 1963 at the direction of the Senate Appropriations Committee, included the first requirement for State reporting on the question of recipient fraud which applied to all Federally aided public assistance programs. 7/ Questions were raised on methods of preventing fraud, on problems in carrying out plan provisions relating to questions of fraud, and on cooperation and problems in working with law enforcement officials. A section also requested selected statistical data if available. The period to be covered was from April 1962 until submittal of the report, which was requested by January 10, 1963. Reports were received from 37 States, New York City, and the District of Columbia.

No substantive changes have since been made in the reporting form. 8/ Required annual reports have been made, beginning with fiscal year 1964.

Coverage includes all Federally aided public assistance programs under Titles I, IV, X, XIV, XVI and XIX of the Social Security Act. The reports contain data on the number of cases in which there was a question of recipient fraud, the number in which facts were insufficient to support such a question, and the number in which facts were sufficient. For the latter group, the number referred and the number not referred to law enforcement officials are reported, as are reasons for non-referral and for disposition without prosecution by law enforcement authorities.

The following analysis deals only with the public assistance agency decision and action and with decision by the legal authorities to prosecute or reasons for non-prosecution. Data are not obtained on convictions, appeals, or reversals. Thus it must stop short of any statements based on legal decision that client action or non-action was fraudulent.

7/ State Letter No. 610, Dec. 17, 1962, "Inquiry on Methods used by State Public Assistance Agencies in Determining Eligibility," and enclosures, Form FS-332 and instructions, same title. Part III of the form is "Recipient Fraud (AFDC, OAA, MAA, AB, APTD)." Information relating to question of recipient fraud is contained in "Eligibility of Families Receiving AFDC: A Report Requested by the Senate Appropriations Committee," U.S. DHEW, July 1963.

8/ Successive issuances of the reporting form are by: State Letters No. 723 of April 9, 1964 and No. 816 of May 10, 1965 and Handbook Transmittal No. 81 of June 8, 1966. See Appendix II, page 39.

A wealth of philosophical comment and accounts of developing structure and methods for minimizing occurrence of recipient fraud is contained in the reports. They present a picture of differences in definitions and criteria for identifying questions of fraud and for determining whether facts are sufficient to support further investigation; in other methods of handling within the agency; in whether referrals are or are not made to law enforcement officials; and in action by such officials when referrals are made.

These differences in law, policy, and practice prevent comparison of quantitative data between States or even from year to year for a given State. Neither differences in law or policy nor in recipient action would seem to explain differences in numbers of cases reported by the worker or the staff member responsible for deciding whether there may be fraud and the sufficiency of facts and deciding whether to make a referral to law enforcement officials. Nor is it possible to assess actual differences in incidence of questions, or the extent to which reporting differs due to agency interpretation of Federal instructions. Some agencies appear to include in the report all cases in which there are overpayments when law or policy requires their review to determine whether there may have been fraud. Others report only those in which further investigation has indicated that facts are sufficient to support a question of fraud. In one State the county agency reports a case to the State agency only if the recipient has liquid resources and refuses to make a repayment for assistance fraudulently received. Other factors affecting the number of questioned cases include the nature of the assistance programs, adequacy of assistance, staff qualifications and training, and size and coverage of workloads.

A substantial proportion of the cases reported by some agencies are those in which facts are considered by agency reviewing staff not to support a question of fraud. Other agencies report all questioned cases as supportable by available facts. It seems obvious, where so large a proportion of total questions on cases are considered not supportable by available facts, that criteria for identifying and reporting are not as clear as could be desired and that staff are not sufficiently aware of definitions and evidence needed to support questions.

Bases for Questions and Policy and Procedure Changes

What may appear to be fraud or misrepresentation may actually be a lapse or failure in communications. Complex or unclear public assistance policies and procedures for determination of eligibility and amount of assistance payments increase the difficulties in initial determinations and in keeping abreast of changes in needs and circumstances of recipients and their families. Effective communication requires that policies and methods be understood by worker, client, and community, and that there be common

understanding and acceptance of rights and responsibilities in continuing relationships. Agency operations, including staffing and location of offices, are additional important ingredients for productive relationships in serving the needs of eligible persons.

As policies and methods of operating income maintenance programs are improved in content and simplified, and as better understanding and acceptance of mutual client and agency rights and responsibilities are achieved, improper payments involving agency or client error or fraud should decline further. The Federal agency believes that public assistance programs based on required methods for determination of eligibility will inspire public confidence so that those who are eligible will make appropriate use of the programs and those who do not need them will respect both the agency and those who avail themselves of the agency's assistance and other services.

Need is the primary eligibility requirement for all public assistance programs and the source of the largest number of questions on propriety of payments, whether due to agency or to client error. Legal provisions in the Social Security Act and in companion State laws must be translated into policies and procedures for meeting the needs of millions of persons in an infinite variety of circumstances and of ability to cope with their situations. In many States, appropriations have never been sufficient to meet full need in all cases. Complex policies and procedures have often been difficult for clients and agency staff to understand and follow.

The greatest single cause of questions of recipient fraud (as well as overpayments) is reported to be the client's failure to report changes in income or resources. The Social Security Act required consideration of all income and resources in determination of need for assistance in all programs until October 1, 1950, when exemption of $50 earned income per month per recipient was permitted in determining need for Aid to the Blind (AB). This exemption was required after July 1, 1952. Provisions for additional exemptions in AB and all other programs have been contained in successive amendments to the Social Security Act and in legislation for related programs such as the Manpower Development and Training Act, the Economic Opportunity Act, and the Elementary and Secondary Education Act. The Handbook of Public Assistance Administration has been revised to incorporate each change required by legislation. 9/

The impracticality of maintaining absolute currency of information on requirements and on resources of individuals is recognized in Federal policy. Federal minimum standards have been set, and modified on the

---

9/ Handbook of Public Assistance Administration, IV-3131.

basis of experience, for periodic redetermination of eligibility and for agency action following receipt of information on changes in the circumstances of recipients which may affect their eligibility. 10/

Recognizing the impossibility of describing all of the myriad and diverse circumstances of need which clients may have, and believing that greater equity in treatment of individuals would thereby be achieved, the Federal agency has encouraged State agencies to simplify standards and procedures for consideration of requirements and income and resources. Consultation has been provided to the States, guide materials have been issued, 11/ and several revisions have been made in the requirements and guides set forth in the Handbook. 12/

Agency error or client failure to provide accurate information, with or without intent, may also occur with respect to other eligibility requirements such as age; blindness; incapacity; permanent and total disability; those specific to AFDC, including deprivation of parental support or care, unemployment of a parent, living in the home of specified relatives; those particular to provision for foster care in AFDC, to the community work and training program, to the work experience and training program under Title V of the Economic Opportunity Act, or to the programs providing medical care by payments to vendors -- MAA under Title I or MA under Title XIX of the Social Security Act.

Reports show that policies and methods for eligibility determination have continued to be clarified and simplified. Policies and methods for prevention, identification, and dealing with questions of fraud have been refined. Understanding by client and staff and training for staff in more effective service have been emphasized.

The rate of progress has not, of course, been uniform. Program objectives and basic agency policy and procedures determine ways in which claims for assistance are received and handled. Questions continue on methods of determining eligibility, consideration of income and resources, and consistency of methods for investigation with the legal rights of individuals.

10/ Handbook of Public Assistance Administration, IV-2200.

11/ "Simplified Methods for Determining Needs," transmitted by State Letter No. 712, Feb. 5, 1964. "Simplified Methods for Consideration of Income and Resources," transmitted by State Letter No. 872, Jan. 7, 1966.

12/ Handbook Transmittal No. 76, Feb. 23, 1966, and HB IV-3120 and 3131; HT No. 86, July 6, 1966, and HB IV-3120-25, 3131-32 and IV-3140; HT No. 120, April 10, 1967, and HB IV-3120; a revision of HT No. 120 is contained in SRS Program Regulation No. 20-7 of Jan. 29, 1969 and Code of Federal Regulations, 45 CFR 233.20.

Among agency actions reported as factors in reduction of questions of possible fraud are:

1) Simplification of agency regulations and improvement of methods, forms, and procedures relating to determining eligibility and amount of the payment;

2) liberalization of standards for requirements and for consideration of income, leading to more nearly adequate assistance.

Because clients, staff, and the public are ever-changing groups and neither program content nor needs and circumstances of applicants and recipients are static, such efforts must be continuous in all areas of administration of public assistance programs. State and Federal agencies will need to continue to work toward simplification of procedures and standards for determination of eligibility and development and application of assistance standards. Efforts must be redoubled in recruitment and development of staff of more nearly adequate quality and numbers to carry assignments varying in nature and complexity.

Although there was little experience in separating the functions of eligibility determination and provision of social services during the years covered by these reports, this also appears a promising development in program operation and as such should enhance efforts to provide assistance promptly in proper amounts to eligible persons.

Prevention Through Client-Agency Understanding

The importance of prevention, rather than identification and handling of questions of recipient fraud, is the one point on which all agencies agree. Responsibility for prevention lies with both the agency and the client: With the agency for clear policy and procedure and for staff sufficient in number and quality to make valid determinations of eligibility and understandable explanations to clients of the conditions and requirements affecting their eligibility; and with the recipient for reporting changes that might affect his eligibility or the amount of his payment, even when the program is limited seriously by policy or financing. The recipient should not be held accountable unless he knows the elements on which his eligibility is based and how his budget is computed. The worker (as the programs were administered over the period covered by this report) had to have both the ability and the time for determining eligibility and amount of payment and for informing the recipient of his responsibilities. The agency had to help the worker develop his skills, give him the necessary knowledge, and arrange its administrative machinery in a manner to permit speedy action on reported changes in the circumstances of recipients.

Reports have placed greatest emphasis on client-agency communication and understanding, and considerable progress appears to have been made. As one report put it, full understanding between client and agency staff is basic to understanding of program content and of mutual and respective rights and obligations.

Another agency explained the decrease in questions of fraud as due in large part to growth of rapport between worker and client and mutual respect and trust that lessened the need for concealment associated with fraudulent behavior; and to dissipation of ignorance and bias in agency-client relations.

Many methods and techniques, some more useful than others, have been tried to achieve better understanding and utilization of the public assistance programs:

1) Community centers with trained staff leading to increased awareness of eligibility requirements and community involvement;

2) family rehabilitation methods which emphasize case analysis and identification of existing or potential problems and other areas of family functioning;

3) discussions of program and problems with client groups or organizations;

4) revisions of application blanks and other agency forms and communications and use of check stuffers or fliers explaining the program;

5) giving, reading, and discussing with clients, individually, a card or letter or other statement informing them of rights and obligations in relation to receipt of assistance, especially the obligation to report changes in circumstances -- one agency calls it "Keep us Posted" and issues it in two languages;

6) required use of an "Affirmation of Eligibility" (one version was held by a State court to be too narrow in definition to cover certain case situations in fraud trials; some States question usefulness of such statements as assurances of client understanding);

7) required client submittal of resources reporting forms (some States question usefulness due to lack of client understanding because of complexity, language barriers, or illiteracy, senility, or other mental limitations).

72-573 O - 72 - pt. 2 - 30

A method of preventing fraud that may have increasing use in the near future was reported by an agency which stated that in making changes in policy, procedures, or forms, there is special effort to see that changes do not afford opportunities for recipient fraud. Opinion of legal counsel is sought, if indicated, "as to the strength of the new material in event of its involvement in fraud proceedings before a court of law."

Staffing and Training of Workers

Staff adequate in numbers and skill to perform all agency functions is a goal of maximum importance and always to be sought. High workloads and frequent and heavy social work staff turnover have adversely affected consistency in application of agency policies and procedures; continued study and efforts to alleviate these problems are reported. Of equal importance in avoiding uncovered caseloads or being forced to rely on inexperienced workers, is presence of sufficient supervisory, administrative, and other supporting staff.

Many States have seen, as an important factor in fraud prevention, assignment of workloads more nearly commensurate with time and skill needed; Federal standards under the social services policy have supported this movement. In commenting, some States noted that reduced caseloads would increase the likelihood of exposure and punishment and emphasized the deterrent effects of more frequent visits, but others stressed the opportunity afforded for better worker-client relationships and the establishment of respect for the agency through rapport with its representative, the worker. Among the advantages cited are:

1) Greater opportunity for establishing a relationship of trust for mutual exploration of eligibility;

2) belief by the client that the agency exists to be of service to him;

3) time for becoming more familiar with families and their situations, for more complete and thorough determinations of eligibility, and for ensuring client understanding. In rural areas where caseloads are small, there seems to be less likelihood of fraud.

Some States have expanded their training materials to use findings of administrative reviews and the quality control system. These findings have pointed up sources of problems in valid determination of eligibility, including possibilities of misinterpretation or lack of understanding of specific policies, inequities or gaps in program development,

or ineffective administration. Other sources used for content for staff training include: Central review, internal audit, special services, and observation of normal daily operations of local units.

Training programs for workers have concentrated on understanding and working with client situations and agency regulations most usually found to be associated with overpayments due to agency or client error. As one State said, "the same steps that prevent overpayments also contribute to the prevention of fraud." Another commented "by requiring self-analysis it is hoped there will be more awareness of the contributory factors of agency policy and practice"; another made a careful study of social histories for possible danger areas. Use of policy exercises (short case situations) on a statewide basis to help staff be alert to various problem situations, uniform interpretation of new policies, and review of old policies; and working with local staff around better explanation of policies to clients have been found helpful.

A number of States have embarked on formal staff development efforts specifically related to fraud. One with a large program reports continuing training sessions by staff of large counties, with State agency staff holding similar sessions for staff of smaller counties. Focus is on the meaning of fraud in public assistance, on means of prevention, and on methods to be used when it is suspected or identified. A State training aid, titled "Recipient Fraud for County Welfare Workers," is available to counties. Each month, all counties report administrative and legal action on cases involving questions of recipient fraud. Compilations of these reports are issued by the State on a quarterly basis.

Workshop training sessions have effectively used manual material on aims and intent of statutes and policies on fraud, with emphasis on client understanding, careful determination of eligibility, and simplification of procedures. In other States, field representatives lead discussions with local staff, emphasizing purposeful direct-questioning of clients, rewording of questions as necessary, clear and verified establishment of eligibility and careful recording.

Another State, finding that "the objective determination as to whether suspected fraud exists ... is to a large degree dependent on the presentation of precise and factual data," turned its training efforts toward group meetings to improve the recording and presentation of relevant information. Sessions on fraud, a part of one agency's training for new workers, emphasized principles of client rights and responsibilities and use of the client as the primary source of information.

An example of use of legal staff to train public assistance staff is shown in the First Annual Progress Report of one State on an "Operation

Bootstrap" Section 1115 project for employment of a legal services specialist. Training was given, among other subjects, on:

> "The legal and constitutional rights of clients, and the resultant service obligations ....
>
> "Simple, elementary rules of evidence governing judicial or quasi-judicial proceedings (fair hearings) ....
>
> "To be touched upon hopefully, the changes in violation (fraud) procedures necessitated by the recent U.S. Supreme Court decisions as to circumstances under which admission of guilt by client may be used against him; also, the inadmissability of evidence secured illegally (house search, etc.) to sustain alleged fraud.
>
> "... due process has been defined, for staff awareness, as well as in adult fraud proceedings. Because of the almost universal rejection of alleged violations (fraud) referred for prosecution since Miranda and Escobedo, it was felt our procedures and forms for handling such matters should be reviewed. There was also some feeling, arising out of experience as referee in fair hearings, that local staff failed to understand that intent is a fundamental factor in criminal matters."

Investigation of Questions

State plans must provide for use of investigatory methods consistent with the legal rights of individuals in instances of suspected fraud. A major goal in developing agency policies and procedures is to accomplish program objectives of conservation and development of human resources and to follow principles affording due process of law. The Handbook states in IV-2633:

> "While somewhat more intensive methods of investigation in cases of suspected fraud may be necessary than are used in the determination of initial and continuing eligibility, it is important that the methods of securing facts necessary to support the agency's decisions with respect to eligibility and amount of payment, and for referral to law enforcement officials, are consistent with principles recognized as affording due process of law."

One State agency pointed out to staff that recipients suspected of fraud have the same rights (and protection) as any other citizen suspected of a crime: To counsel, to freedom from illegal search or seizure, to a court trial to determine innocence or guilt, to due process in any legal action, and to confidentiality of privileged information.

Concern about what happens to people in the course of investigations relating to fraud, voiced by a State board, was set forth in an early report which stressed protection of civil rights, efforts toward adequate advice, full awareness of rights and responsibilities, and due process in the investigations. Need was seen for additional training materials to achieve mutual understanding between clients and agency staff.

It seems clear that increasing recognition of clients' legal and constitutional rights, by the courts and the public generally, requires public assistance agencies to review all of their policies and procedures including those relating to recipient fraud. Several reports have referred to such review, to stepped-up staff training, and to joint planning with State and local legal authorities. Difficulties in interpretation of rights and responsibilities and in reaching mutual understanding between clients and agencies were reported as heightened by "outside pressure" groups which advised clients that they need not report their improved financial status. Recipients were said to believe that if failure to report were discovered, an offer of restitution would be sufficient to settle any question.

Agency Decision and Administrative Action

State plans must provide for designation of agency officials responsible for deciding whether individual cases involving a question of fraud are to be referred to law enforcement authorities.

State plans provide most commonly for such decision-making by State agency directors and program policy directors, sometimes independently and sometimes in consultation with other staff, including the legal advisor. In others, the decisions are made by local staff or county boards. With experience, some modifications have been made in assignment of decision-making responsibility.

Responsibility to determine whether an overpayment may involve a question of fraud and to make recommendation on how to handle it is often assigned to units variously titled "overpayment unit," "case review," "case audit," "legal unit," or "property or resource consultant." Many agencies channel all or the majority of the cases reported by workers as possibly involving a question of fraud through such units or staff. Recovery, reimbursement, or restitution may be arranged or action taken to suspend or discontinue the payment; liens may be taken, a civil suit may be instituted; or referral may be made to law enforcement officials for action including possible criminal proceedings. Examples of types of cases that may be reviewed are:

1) Overpayment cases;

2) cases in which employment was resumed;

3) cases closed for specified reasons such as those related to income or resources, for example, the receipt of OASDHI or other similar benefits;

4) cases closed for other eligibility reasons, such as return of the absent father.

Cases in which it is clear that the problem is one of client misunderstanding or other non-willful act or the result of agency error are handled, in most States, by agency procedures unrelated to fraud. When the public assistance agency determines, however, that facts are sufficient to support a belief that fraud may have occurred, a decision is made whether to refer the case to the appropriate law enforcement authorities, who then decide whether prosecution or other form of legal action should be undertaken.

Agency policies differ on action to be taken when facts are deemed sufficient to support the question of fraud. Some agencies are required by law or policy to refer all such cases to law enforcement authorities; some refer none. Some agencies themselves attempt to reclaim amounts improperly received in all cases; others, only if the recipient has liquid assets in addition to amounts needed for current living expenses; still others decide on the basis of whether the amounts due are small or whether repayment would work an undue hardship on the client.

An agency which reports a negligible portion of the questioned cases supportable after State office investigation believes that more can be accomplished by attempts to obtain repayments than by referring for possible prosecution. Another agency, while stating the general experience that circumstances of recipients usually preclude court action, nevertheless believes that "if repeated offenders are not referred to court, potential for repetition increases. Sometimes probation is the solution." Another analyzed its report, stating that age, senility, mental or physical condition of the recipient, the small amounts, and late discovery of the fraud make referral unproductive. Repayment plans, regardless of the method or whether they produce results, if worked out by the public assistance agency in some States, compromise chances for successful legal action.

Recipients alleged by the agency to have committed fraud may be referred for legal action in some States only if they refuse to repay; legal officials may then order repayment in lieu of prosecution, or the courts may grant probation only if repayment is made. Comments one State agency, "Unrealistic repayment agreements result."

In some States, regardless of need, clients are not eligible for assistance until repayment has been made or the repayment order rescinded by the court. In other States, if need continues, assistance also continues, even if the recipient is indicted or convicted. Still other States hold that "recipients should not be expected to make repayments from assistance grants or income required to meet monthly living expenses." Elsewhere, overpayments are treated as income and the case is closed if the overpayments exceed a two months' budget, or payments are reduced if a lesser amount is involved. Another report says "If repayment is not made and ability to repay seems clear-cut, the case may be referred to the Legal Division for possible court action." A penalty period of ineligibility is sometimes employed or a reduction of future assistance payments is authorized. Another agency said "With a stiff enforced period of ineligibility, fraud no longer appears so attractive to most of the clients."

In most States it is the welfare agency that evaluates the recipient's ability to repay, but one reported that "The court will make its own decision regarding restitution and the county department will observe any court orders." Some State laws require that restitution be made for assistance obtained fraudulently. It was reported by one State that "increasingly, judges are ordering restitution to the State and imposing probation with such condition."

Special Investigative Staff: Some State agencies, following report of a question of fraud in a given case, use staff other than regular caseworkers to make the additional investigations and perform other necessary activities. Establishment of a central fraud unit, assignment to a special unit for follow-up on resources, and more active participation of agency legal staff are reported as factors in furthering mutual understanding and acceptance of respective philosophies and roles of public assistance agencies and legal authorities.

Although the number of State and local agencies served by special investigative staff has increased somewhat, latest information shows none in a majority of the States at either level. Such staff are more likely to be found in the larger cities, but in several of the largest cities it has not been thought necessary to provide for special investigative methods.

States using special investigators differ in their attitudes as expressed in their reports. While one stated "The Department is convinced that there is need for the county social work staff to take greater responsibility in preventing and detecting fraud and in undertaking, when appropriate, the initial investigation of suspected fraud," some States commented that workers were relieved to have no part in the investigation of fraud. "It is difficult to work with a family concerning current

needs and at the same time be a witness against them in a criminal proceeding," one report said. Another noted that "designating an official primarily responsible for determining whether the case should be referred to the law enforcement agency has freed the caseworker from feeling directly involved in activities relating to the prosecution of the recipient. This has resulted in the worker becoming more objective and comfortable in reporting cases of suspected fraud." Another directed attention to the fact that "the benefits to be gained in the deterrents to fraud may be far outweighed by a corresponding loss in steps toward social rehabilitation."

Some agencies see the primary advantage in use of special investigators as "prompt, efficient investigation of suspected cases." Others welcomed their assistance in "making investigations which may require methods beyond casework." Troubled by the individual interpretations of workers concerning whether fraud existed and what action the agency should take with the recipient, another was relieved that it could permit the legal division to make this determination.

Some States reported that their special units were helpful in securing action by law enforcement officials. They were used to draw up fact sheets for prosecuting attorneys in cases where fraud was suspected and where the prosecutor had to make a determination of whether to prosecute. One agency reported that this relieved the workers of the problem of proper documentation of cases for presentation. Some cases are now actionable because of "the availability of these reports plus the availability of the investigators ... as witnesses." This has also led to a much better relationship with many district attorneys. In this State all cases of apparent criminal fraud in which the county agency needs help are referred to the investigative unit of the State Department of Justice.

Agency Legal Staff: Strength and effectiveness of legal units of public assistance agencies have been recognized in many States and localities by assignment to these units of responsibility for filing charges and following legal proceedings. While this relieves legal authorities of the sometimes onerous or thankless responsibility for seeking penalty from persons whose plight elicits public sympathy, it may also afford more understanding treatment from those with more extensive experience in considering the situations of those seeking or receiving public assistance.

In an increasing number of agencies, legal staff play a major part in decisions on handling of cases in which there is considered to be a possibility of fraud. Staff attorneys are used to prepare witnesses for trial and to present evidence in court. Where county departments

have the assistance of an attorney, cooperative relationships with the law enforcement officials and courts seem to have improved. A State agency reported that the main reason for the excellent relationships with law enforcement authorities is that the department acts as its own enforcement officer through its claims settlement division. Its agents prepare complaints, attend and testify at hearings, and assist the district attorney in preparing cases for trial.

In making these comments, however, the agency pointed out one of the major dilemmas of an agency whose purpose is to serve those in need. "The frequently serious consequences of prosecution have to be weighed against the deterrent values of court action. Although final decision rests with the Attorney General, the agency recommendation is rarely questioned and many factors must be considered in the judgment."

Referral to and Action by Law Enforcement Authorities

As indicated earlier, Federal policy provides that the role of the public assistance agency be limited to decision whether referral for possible legal action is justifiable. Decision that assistance has been obtained fraudulently is a judicial function of the law enforcement authority. States have found that discussion and agreement on respective roles of public assistance agency and law enforcement officials are essential. Criteria for referral of questioned cases and procedures for follow-up and reporting must be agreed upon. Advice by legal authorities on types of situations suitable for prosecution and consultation on individual cases, where necessary, has assisted in public assistance agency handling of questions. Procedures for appropriate investigation, required substantiation, and forms of evidence, and for reporting of results of legal action likewise have been worked out with a view to mutual understanding and acceptance.

Many public assistance agencies have worked long, intensively, and effectively to develop proper procedures and safeguards for referral to law enforcement authorities of those situations with which they cannot or are not legally empowered to deal; also, for following through to keep themselves informed of actions which may appropriately be required of them. Much progress has been made in mutual understanding of legal and social aspects of eligibility and of respective public assistance and legal functions. High turnover in legal and public assistance staff and trends in public understanding require constant attention in achieving optimum working relationships.

That it has not always been possible to maintain role distinctions between public assistance agency and legal authorities is evidenced by the reports. As cooperative relationships are developed, however, differences continue to exist within as well as between States.

A State agency which has supervisory, rather than administrative, authority has been concerned that fraud investigations in some counties might involve methods inconsistent with legal rights of individuals. It was reported that, in one county, welfare investigators were deputized, with power to make arrests; and that State welfare regulations prohibiting search of the recipient's home or property for evidence of fraud were violated. It was thought that only a few county agencies abused fraud regulations, but the potential in numbers of recipients who might be affected was large because caseloads were moderately large.

Agency reports emphasize efforts to educate all involved persons in the legal and policy base and in agency procedures. The situation varied in the counties -- from agreement between the county governing authority and the district attorney that fraud is totally a legal matter, to the setting of investigation policy by the district attorney, to be carried out by the welfare investigators. A few district attorneys appeared to continue to use provisions relating to fraud in a manner that elicited more publicity than substantiation of allegations. An administrative review which this State agency made in one county described the complementary activity of public assistance and legal authority staff. It was thought that prevention and control of fraud were well managed through cooperative relationships of the investigators of the financial resources unit and the staff of the district attorney.

Social workers and prosecutors do not always see eye to eye. The blame was placed by one agency on the social workers, stating, "There is very little worker appreciation of the legal concept of intent to commit fraud, and too frequently social workers label even honest actions on the part of recipients as fraudulent when it affects their control over an individual recipient's situation." Another places the blame elsewhere, noting that "although cooperation generally is good, some law enforcement agencies seem to have a lack of understanding as to just what constitutes fraud in welfare cases."

Local legal authorities still refuse to work with the caseworker on fraud cases in some instances. Welfare staff were unable to prepare proper reports, one report said, but the investigations unit, with specialized and trained staff, could follow up with verifications and complete a report that satisfied the law enforcement agencies. In another State, evaluation of legal evidence was hampered when the local agency did not have its own attorney, and staff training was not as effective as it might have been. "As workers and attorneys gained a clear understanding of the respective roles of each, the relationship between referring agency and law enforcement officials was placed on a more professional basis," summed up one report.

Regularly scheduled conferences on individual cases and attendance by a public assistance staff member at quarterly State meetings of

prosecuting attorneys have fostered understanding and cooperation. Assistant Attorneys General are assigned to the legal division of the agency in some States. Efforts of another State agency are directed on a continuing basis toward more consistent delineation of roles -- which have ranged from effective discharge of function by designated staff in fraud units, or by welfare attorneys, in some counties, to virtual abdication and relinquishment of all responsibility to law enforcement officials in others. The legal counsel of one of the larger agencies is authorized to prosecute fraud cases. A special district attorney is assigned when his investigatory powers are required or when the agency feels it is necessary to present the matter to a grand jury. Legal staff of the public assistance agency discuss cases with county or district attorneys in a State where a determinant in prosecution is whether restitution has been made. It is believed that such discussions, as well as investigation of questioned cases, have increased community awareness of penalties.

Some States report that legal officials often are reluctant to accept and slow to act on referrals. Obtaining testimony through appearance of witnesses or from records of employers or other sources often is a problem. Court dockets usually are crowded with cases considered to be more important and susceptible to successful prosecution. As one report said, "the majority of persons involved are aged, senile, and unable to understand the term 'income and/or other resources received.'" Costs of court action and small returns due to indigency of those referred, and difficulty of obtaining convictions against sick individuals or mothers with a number of children are other reasons that legal action often appears infeasible.

Delay in discovery of possible fraud is another impediment to action. Questions have been found after the recipient had been receiving assistance over a long period of time. It is difficult to prove that the recipient made a deliberately false statement or misrepresentation of circumstances at the time he was placed on the rolls some time earlier. In cases where fraud is discovered after the death of the recipient and the agency attempts to collect out of his estate, problems are encountered in proving fraud and in establishing the date or dates upon which the alleged fraud was committed. In the absence of documentation due to deletion of obsolete material from the case records, the question of fraud cannot be substantiated. Even a signed statement does not guarantee that there was mutual understanding.

Some prosecuting attorneys in metropolitan counties reject prosecution on the basis that caseworkers did not inform the client that he was being investigated for fraud and that he had a right to an attorney, or on "other aspects of Supreme Court decisions that are currently impinging on the law enforcement agencies." An agency reported that

only infrequently, when the local prosecuting attorney will take no action, does it become necessary to involve the office of the Attorney General. The majority of the referrals were disposed of without prosecution on the basis that prosecution was not appropriate, evidence was not adequate, or the client was not informed of his rights.

Where local law enforcement officials will not accept referrals or are so slow in their handling as in effect to ignore them, some public assistance agency staff or boards take various steps toward bringing the questions to resolution, such as discussions with State attorneys general or with judicial officials or discussions with local or State executive or legislative authorities. One report was that this problem "along with other matters related to appropriate revisions of our State statutes as they relate to the duties of the local county attorneys who have the responsibility for direct handling of fraudulent allegations concerning recipients" was discussed with the State's Senate Judiciary Committee by local public assistance directors.

Divergent attitudes of local judges were reported also in a State in which one court declined to prosecute for non-reporting of income from part-time employment since sentence would deprive the mother of employment, break up the home, and necessitate foster home care for the children. Another court required reimbursement for an unreported lump sum workmen's compensation payment even though assistance would need to be resumed soon.

Immediate prosecution has a deterrent value, some States report. One stated that this was important even where the sentence was suspended or a minimum fine assessed. Another reported the opinion of staff in one county, that "the one case that was taken before the grand jury and filed by court action prevented several instances of possible fraud." Cases prosecuted in another State were publicized "not only in the press but in a few special radio and TV programs with the hope the publicity would contribute to prevention."

Regarding suggestions that names and penalities be publicized, the agency in another State said: "While the social services law prohibits the public disclosure of the names of persons receiving public assistance, that law specifically permits disclosure by news media of the identity of persons convicted of crimes in connection with their application for or receipt of public assistance." Continuing cooperation must be maintained not only to resolve the individual cases but to provide for exchange of information needed in discharge of respective responsibilities of public assistance and law enforcement officials for the general welfare of the public and the individual clients.

Although legal officials in many States report status of cases which are prosecuted and some report other dispositions, less progress in working together has been made than in other areas in which public assistance agencies and legal authorities have related responsibilities.

In a State which refers for legal action all cases in which it is considered that facts support the charges, members of the bar have given dynamic leadership for social justice. Working relationships between the State welfare department and law enforcement authorities are close. Advice of the Attorney General's office is available as needed. A recent report summarizes concepts of cooperative activities:

> "The Courts are identifying more closely with the nature of the crime and the criminal. Such new directions are becoming manifest to Welfare Department personnel in daily contacts with the officers of the Courts. There is a reaching out, an invitation from the Courts for the participation of the representatives of the welfare Department.
>
> "As the Courts, the worker, and those charged under a criminal statute gain deeper insight into the matter to be resolved, there will develop a more meaningful understanding of the respective rights and responsibilities of all concerned.
>
> "More and more there is an acceptance and tolerance of ideas that once were entirely incompatible. Out of this growth in knowledge must come a closer alliance between the Courts, the Police, and the Welfare worker to preserve respect for law while safeguarding interest of the accused."

Agency responsibilities to the client and family do not end with the decision to refer to law enforcement authorities or with action by the courts. Among follow-up problems pointed out is the difficulty in determining policy on continuing assistance to a person indicted or convicted of welfare fraud; in individual cases, the decisions often become very difficult.

APPENDIXES

I. Summaries of Statistical Data

II. Form PS-343, "Annual Report on Methods of Dealing with Questions of Recipient Fraud in State Public Assistance Programs," and instructions.

III. Secretary Ribicoff's Directive for Welfare Changes to Curb Abuses and Help Recipients: December 1961.

IV. State Letter No. 540, Dec. 8, 1961, "Recipient Fraud," and enclosures: (a) Handbook of Public Assistance Administration IV-2600; and (b) "Development of Policies and Procedures Relating to Recipient Fraud in Public Assistance."

(APPENDIX I)

SUMMARY OF STATISTICAL DATA ON DISPOSITION OF CASES OF SUSPECTED FRAUD

Fiscal Year 1964 1/

1. During the year, 42,000 cases were identified by State and local public assistance agencies as cases involving a possible question of fraud. This figure represents about 1 percent of the average monthly caseload of the Federally aided categories. For the adult categories the percentage was about one-third of 1 percent; for the AFDC category, the percentage was about 3 percent.

2. Four States (California, Illinois, New York, and Pennsylvania) accounted for about 70 percent of all identified cases. Ten State jurisdictions reported less than 10 cases each.

3. Upon further review of the identified cases disposed of, the States found that in about 45 percent of the cases the facts were insufficient to support a question of fraud.

4. Only 6,700 cases, or less than 0.2 of the average monthly caseload were referred to law enforcement officials for action. The remaining cases were not referred for reasons such as small amounts of money involved, voluntary reimbursement obtained, special hardship, etc. California accounted for one-third of the cases referred to law enforcement officials. This State has a requirement that all cases of suspected fraud must be so referred.

5. Of the total cases reported disposed of by law enforcement agencies (not necessarily the same cases referred during the fiscal year) 2,300 were reported as prosecuted. This corresponds to about 0.05 percent of those receiving assistance during the year assuming action was taken within the year. The remaining cases were disposed of without prosecution for a variety of reasons.

1/ Data relate only to the Federally aided assistance programs.

Fiscal Year 1965 1/

1. During the year, 40,600 cases were identified by State and local public assistance agencies as possibly involving recipient fraud, with slightly more than three-fourths of them in the program of AFDC. These cases represent about one percent of the average monthly caseload in the Federally aided programs, three percent of those in the AFDC program, and about one-third of one percent in the adult programs.

2. Three States (California, Illinois, Pennsylvania) accounted for about 57 percent of all identified cases. Eleven State agencies reported fewer than ten cases each; four of these administered only programs of Aid to the Blind.

3. The facts known to the agency were insufficient to support a question of fraud in somewhat less than half (47 percent) of the cases involving questions of fraud.

4. Facts known to the agency supported a question of fraud in 21,700 cases. Of these, the agency referred 8,100 (less than 40 percent) to law officials for action. Most States do not refer cases if the amounts of money involved are small; if voluntary reimbursement or payment plans are worked out; or if special hardship, mental or physical limitation of the recipient or other factors rendering the case not actionable are present. California and Maryland, however, require that all cases of suspected fraud be referred to law enforcement officials. Excluding data for these two States, the proportion of cases referred to law enforcement officials comprised a little more than a fourth (26.4 percent) of all cases in which the facts were sufficient to support fraud.

5. During the fiscal year law enforcement officials disposed of approximately 6,600 cases, including cases referred both during and prior to the beginning of the fiscal year. Nearly 2,700 were prosecuted. The rest of the cases were disposed of without prosecution for reasons similar to those enumerated in item 4 above.

1/ Data relate only to the Federally aided assistance programs.

Fiscal Years 1966 and 1967 1/

1. Statistical data on the disposition of cases of suspected fraud, for each of the fiscal years 1966 and 1967, reveal a remarkable degree of similarity. Unless otherwise indicated the statistical data below apply to each year.

2. State and local public assistance agencies identified 39,400 cases in fiscal year 1966 and 39,200 cases in fiscal year 1967 as involving a question of recipient fraud. Slightly more than three-fourths of them were in the program of AFDC. These cases represent about one percent of the average monthly caseload, slightly less than three percent of those in the program of AFDC, and approximately one-third of one percent of those in the adult programs.

3. Three States (California, Illinois, Pennsylvania) account for slightly over three-fifths (62 percent, fiscal year 1966; 63 percent, fiscal year 1967) of all cases identified as possibly involving fraud. At the other extreme, 11 States in fiscal year 1966 and 10 States in fiscal year 1967 reported fewer than ten cases each. 2/

4. Among the cases involving a question of fraud, the facts known to the agency were insufficient to support a question of fraud in slightly more than half (54 percent).

5. The facts known to the agency supported a question of fraud for 18,200 cases in each year. For fiscal year 1966, the agencies referred 7,800 (43 percent) of such cases to law enforcement officials; for fiscal year 1967, 7,000 (38 percent) were referred. Most States do not refer cases if the amounts of money involved are small, if voluntary reimbursement or payment plans are worked out; or if special hardship, mental or physical limitation of the recipient, or other factors rendering the case not actionable are present. California and Maryland, however, require that all cases suspected of fraud be referred to law enforcement officials. Excluding data for these States, the proportion of cases referred to law enforcement officials comprised a little less than a fourth (23 percent) for fiscal year 1966 and slightly more than a sixth (17 percent) for fiscal year 1967 of all cases in which the facts were sufficient to support fraud.

1/ Data relate only to the Federally aided assistance programs, OAA, AB, APTD, AABD, AFDC.

2/ Four State agencies that administer only the program of Aid to the Blind also had fewer than ten cases each for both fiscal years.

72-573 O - 72 - pt. 2 - 31

6. Law enforcement officials disposed of approximately 6,800 cases during fiscal year 1966 and approximately 6,100 cases during fiscal year 1967, including cases referred both during and prior to the beginning of the fiscal year. During fiscal year 1966, almost 2,700, while during fiscal year 1967, 2,600 were prosecuted. The rest of the cases, for both fiscal years, were disposed of without prosecution for reasons similar to those enumerated in item 5 above.

(APPENDIX II)

Form PS-343 (6/66) Budget Bureau No. 122-R073
DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
Welfare Administration
Bureau of Family Services
H.T. No. 81
VII-6100

ANNUAL REPORT ON METHODS OF DEALING WITH QUESTIONS OF RECIPIENT FRAUD IN STATE PUBLIC ASSISTANCE PROGRAMS

State_____ Agency_____ Fiscal year 196___

Signature of agency official_____

A. Administrative and Legal Actions on Cases Involving Questions of Recipient Fraud

Item	Total	OAA	MAA	AFDC	AB	APTD	AABD	MAP*
1. Total cases disposed of (Sum of 2 and 3)....								
2. Facts insufficient to support question of fraud.....								
3. Facts sufficient to support question of fraud (Sum of a, b, and c).....								
a. Decision made to refer to law enforcement officials.....								
b. Decision made not to refer to law enforcement officials (Sum of (1)-(4))								
(1) Small amounts involved.....								
(2) Reimbursement arranged.....								
(3) Special hardship involved.....								
(4) Other (specify).....								
(a)_____..								
(b)_____..								
(c)_____..								
c. Decision with respect to referral to law enforcement officials, pending....								
4. Action by law enforcement officials (Sum of a and b).....								
a. Prosecution initiated.....								
b. Disposed of without prosecution (Sum of (1) through (4)).....								
(1) Small amounts involved.....								
(2) Reimbursement arranged.....								
(3) Special hardship involved.....								
(4) Other (specify).....								
(a)_____..								
(b)_____..								
(c)_____..								

* Medical Assistance Program (Title XIX).

Form FS-343 (6/66)

State_____ Agency_____

B. Methods of Dealing with Questions of Recipient Fraud

1. Describe developments during this reporting period in regard to
   (a) improvement of methods in prevention of fraud, and use of criteria in identifying cases in which there may be a question of fraud;
   (b) problems encountered in dealing with questions of recipient fraud and steps taken to resolve the problems;
   (c) Development of cooperative relationships with law enforcement officials and courts; and
   (d) receipt of information relative to court actions on cases involving charges of fraud.

   Attach continuation sheets if needed.

2. Add any other comments, including limitations in the data, suggestions or recommendations on questions of recipient fraud. Attach copies of reports and interpretative or illustrative materials pertinent to the subject.

   Attach continuation sheets if needed.

Instr. FS-343
June 1966
VII-6100

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
Welfare Administration
Bureau of Family Services

INSTRUCTIONS

FOR

FORM FS-343, ANNUAL REPORT ON METHODS OF DEALING WITH QUESTIONS OF RECIPIENT FRAUD IN STATE PUBLIC ASSISTANCE PROGRAMS

Content: Form FS-343 provides information on: (1) administrative and legal actions taken in clearly defined instances of willful misrepresentation; (2) developments in prevention of recipient fraud and working with law enforcement officials; and (3) State problems in these areas. Section A is a statistical report on administrative and legal actions on cases involving questions of recipient fraud; and Section B is a narrative statement describing developments occurring during the year in methods of dealing with questions of recipient fraud.

Requirements: A report on FS-343 is required annually of all State agencies administering or supervising the administration of public assistance programs under approved State plans. The report covers the fiscal year ending June 30 and is due not later than August 1 following the year covered by the report.

Submittal Procedure: Three copies of the report on Form FS-343 are needed. Submit two copies to the Director, Bureau of Family Services, Welfare Administration, Department of Health, Education, and Welfare, Washington, D. C. 20201; and one copy to the appropriate regional family services representative.

Instructions for preparation of report

General: Personnel in State office positions or units responsible for procedures and administrative actions related to recipient fraud should particpate in developing plans for collection and use of the data. Such participation should occur regardless of how the information is collected or who is responsible for the actual preparation of the report.

Section A. Administrative and Legal Actions on Cases Involving Questions of Recipient Fraud

The statistical items to be reported in this section relate to all cases disposed of during the year by the person(s) in the State agency having authority to take such action. A case is considered to be disposed of when a decision has been reached as to whether the facts are insufficient or sufficient to support a question of fraud.

2

Cases should be classified by the programs specified in the column headings.

1. Total cases disposed of (sum of items 2 and 3).

Enter the total number of cases disposed of during the year, as defined above.

2. Cases with facts insufficient to support question of fraud.

Self-explanatory.

3. Cases with facts sufficient to support question of fraud (sum of items a, b, and c).

Self-explanatory.

3a. Decision made to refer to law enforcement officials.

Enter the total number of cases on which decision was made to refer to law enforcement officials regardless of whether all procedures necessary to make the referral had been completed by the end of the reporting period.

3b. Decision made not to refer to law enforcement officials.

Enter in the total and in the appropriate sub-classification(s) the number of cases in which a decision was made not to refer the case to law enforcement officials.

3c. Decision with respect to referral to law enforcement officials pending.

Enter the number of cases on which no decision with respect to referral had been made at the end of the reporting period.

4. Action by law enforcement officials (sum of items a and b).

The items should be completed to the extent that information is available from law enforcement officials. Because of the time lag involved, the cases included in this section will represent a universe that overlaps only in part the cases reported in item 3a above. Thus, some of the cases reported in item 4 will have been referred in the preceding fiscal year; and some of those referred in the fiscal year will not have been acted on by the close of the year.

4a. Prosecution initiated.

Enter here the total number of cases on which prosecution was initiated during the year regardless of the status of the proceeding (pending or terminated) at the end of the year.

4b. Disposed of without prosecution (sum of items (1) through (4)).

Enter in the total and the appropriate sub-classification(s) the cases disposed of without prosecution during the reporting period.

Section B. Methods of Dealing With Questions of Recipient Fraud

The information in this section may be organized and presented in accordance with the State's best judgment. Answers should be developed as fully as seems necessary. Attach continuation sheets where needed. Also attach pertinent illustrative materials and special reports, etc.

1. The description under each topic should be representative of the State as a whole. Illustrations from local agency practice should be used where appropriate, but should be clearly identified as to whether they represent a general or unique situation.

2. Include in this section additional comments, suggestions, recommendations or other material that are pertinent to the subject area of recipient fraud and that add to the informational value of the report.

(APPENDIX III)

SECRETARY RIBICOFF'S DIRECTIVE FOR WELFARE CHANGES TO CURB ABUSES AND HELP RECIPIENTS: DECEMBER 1961

In a memorandum of December 6, 1961 to W. L. Mitchell, Commissioner of Social Security, Secretary of Health, Education, and Welfare Abraham Ribicoff spoke of a year-long review of existing laws and policies governing operation of Federal-State welfare programs with a view to improvements. He said:

1. More Effective Location of Deserting Parents. One problem warranting prompt attention is the large number of welfare cases caused by the desertion of a parent. The number of desertions across State lines is increasing. Efforts must be spurred to locate parents who have deserted their dependent families. These efforts should involve the following course of action by the States:

Each State shall establish within its administrative organization for Public Assistance a special unit responsible for locating deserting parents of children who are applicants or recipients of Public Assistance. This unit will be separately identified and adequately staffed. It will assist law enforcement officers and others in their efforts to require effective discharge of family responsibilities. The objectives of this special unit will be to reunite families whenever feasible and to obtain financial support.

Among the responsibilities which this unit would help perform would be:

(a) Handling intra-State and inter-State inquiries concerning deserting parents, and coordinating and supervising such activities of local public welfare agencies within the State;

(b) Reciprocal cooperation with other States in helping to locate deserters, obtain support from parents who live in States other than where their dependents are, and assess ways of restoring broken homes; and

(c) Establishing procedures for analyzing all desertion cases to make sure the agency is making every possible effort to locate the deserter.

2. Administrative Actions to Reduce and Control Fraud. Control and prevention of fraud must be a constant objective of welfare administration. Information from administrative reviews and special studies by independent experts all indicate that the proportion of ineligible persons who receive assistance is not more than 1.5%. Those who receive it as a result of willful misrepresentation are a small part of that percentage. Nevertheless, effective steps and constant vigilance are necessary by Federal and State agencies both to prevent fraud and to deal effectively with it when it occurs.

"Proper and efficient operation" of State plans under Titles I, IV, X and XIV of the Social Security Act requires that provision will be made to assure that assistance by the States is provided only to those who are eligible for it. To this end State and local welfare departments already maintain extensive procedures for investigation and control of improper payments, but improvements can and must be made.

Existing administrative requirements should be strengthened by inclusion in the State plan of the following:

(a) A definition of fraud in accordance with State law as it relates to receipt of assistance payments;

(b) The administrative procedures by which the State will assure that it has proper and efficient methods for identifying, investigating, evaluating, and referring cases in which there is reason to believe there may be fraud by assistance applicants or recipients;

(c) Methods that will be used in investigation of instances of suspected fraud that are consistent with the legal rights of individuals;

(d) Designation of a point of responsibility within the State Welfare Department for the follow-up, and, if indicated, referral for legal action, of cases in which fraud appears likely;

(e) State supervision, review and control, by which the agency will assure that the plan provisions for dealing with cases of suspected fraud are carried out; and

(f) Keeping records and making periodic reports.

The States should make periodic reports to the Department of Health, Education, and Welfare on the nature and extent of the problem so that it can be kept under continuous and careful surveillance with a view to making any future administrative or legislative changes that may be indicated.

3. Allowing Children to Conserve Income for Education and Employment. Title IV of the Social Security Act provides that assistance be given only to dependent children who are in need. The existing policies make it clear that States may permit a child with income to use it to meet certain special needs without a deduction from the public assistance grant. These include costs for medical care, school expenses, extra clothing and transportation needed for employment, etc. All of these needs for which the child's income may be used relate to something which is currently needed by the child. Not enough emphasis has been given, however, to the possibilities of recognizing certain additional needs of children that require expenses in the future for which their own income should be conserved. These needs include education, medical services and preparation for employment. We must not stifle incentives for children to earn money that will contribute to their future independence.

The present policy should therefore be modified to permit the States to develop their own arrangements under which income of children can be dedicated to appropriate future needs without a deduction from the public assistance payment. States should be encouraged to take full advantage of the opportunities this change in policy affords.

4. Safeguarding the Children in Families of Unmarried Parents. In about one-fifth of all ADC families a parent is unmarried. These families face serious social problems, which are of concern not only to themselves but to the entire community.

For all ADC families, but specially for this particular group of cases, receiving an assistance payment is not a complete answer. If we are going to avoid as far as possible more illegitimate births, if we are going to help these families become responsible citizens, we have to render to this category of families special services that we have seen can be effective. Providing these special services will involve the following steps in each State:

(a) Careful examination of ADC families with an unmarried parent, and of the special problems they face, to see which families are most in need of special services and which problems can best be resolved by services;

(b) Placing the selected families in caseloads sufficiently small so that effective services can be provided to them and making sure that special services are in fact rendered;

(c) Assigning to these cases staff members who are best qualified by education and experience to provide the kind of services that are needed;

(d) Increasing the frequency of home visits to these families so that those with serious social problems are seen at least once every three months; and

(e) Coordination with the child welfare services program to assure the maximum use of child welfare staff in providing consultation and services for the special problems of these families.

Developing plans to provide these special services will require close cooperation between the States and the Federal Government. I therefore propose we proceed initially by issuing to the States within the next few weeks materials outlining these important responsibilities. This will enable the States to make an early start in coming to grips with these unusually difficult problems. Shortly thereafter we will meet with the State welfare administrators in Washington so that we can discuss with them whatever practical problems there may be in providing these special services. On the basis of this advice and the experience gained in the coming months, we can expect to issue formal policies by the middle of next year.

5. Safeguarding Children in Families in Which the Father has Deserted. A second group of ADC families where special services should be provided are those in which the father has deserted. Desertion of a parent with the accompanying evasion of family responsibility is one of the serious indicators of family breakdown in our society. The families broken by desertion are faced, in most instances, by many serious social, economic and other problems. This is particularly true within the period just after the desertion occurs.

Therefore, in addition to the steps outlined with respect to the location of deserting fathers, the same kind of standards should be established as to the identification of such families, caseloads of limited size, the provision of services by trained personnel and the provision for home visits at least once each three months, that are established for families in which the parents are not married. The procedure for developing these special services should be the same for this group of families as applies to the group discussed in paragraph 4.

6. Safeguarding Children in Hazardous Home Situations. In addition to families in which the mother is unmarried and those in which the father has deserted, there are other family situations in which the physical and moral development of children is seriously threatened and where the home is in danger of becoming unsuitable for the children. Here preventive and protective services are clearly called for. While no single problem generally accounts for these threats to the development of children into responsible citizenship, we know there is a need

to identify such situations at the earliest possible moment and to afford them the best appropriate services that we are capable of providing. These families may have special problems such as money mismanagement, or may have home conditions or conduct by the parents that is likely to result in inadequate care, inadequate protection or neglect of the children. Such families should be made a third group subject to the same standards of intensive casework service, using the best available personnel, that are established for the families whose problems arise from unmarried parents or desertion.

With respect to this group, arrangements should also be made for including in the State plan (a) the conditions under which various protective methods will be used in making payments to such families when appropriate to the individual case, i.e., weekly and bi-monthly issuance of assistance checks, use of legal representatives, and guardianship, and (b) a program for increased State and local leadership and participation in the development of community services for rehabilitation in these cases.

7. Improvement of State Staff Training and Development Programs. The central core of proper and efficient administration is personnel -- adequate in number and appropriately trained to do the job required. With the changing characteristics of the public assistance caseload, and the need to emphasize more and more the preventive and rehabilitative aspects of public welfare, the existence in each State of an adequate staff development program is imperative.

Studies show an alarming shortage, in the public assistance programs, of personnel with the necessary professional and technical training needed to deal with difficult problems such as illegitimacy, deserting fathers, and protective services for children and the aging. Federal financial participation is now available for the administration of staff development programs, including in-service training and educational leave, as a part of the costs of administering public assistance. However, States vary in their present implementation of a balanced and comprehensive staff development program.

Each State should have a State-wide staff development plan which would include both in-service training and opportunities for professional and technical education.

In issuing new requirements in this area we must recognize that States will need time before they can be expected to have the fully developed training program which is contemplated. Accordingly, provision should be made for permitting the various steps to be implemented gradually, starting with the requirement for the submittal of a five-year plan and at least one full-time training position in each State agency by July 1, 1962. An annual report should be submitted

by each State indicating the progress made in implementing the plan it has developed.

8. Developing Services to Families. Too much emphasis has been placed on just getting an assistance check into the hands of an individual. If we are ever going to move constructively in this field, we must come to recognize that our efforts must involve a variety of helpful services, of which giving a money payment is only one, and also that the object of our efforts must be the entire family.

To emphasize these ideas the name of the Bureau of Public Assistance shall be changed to the Bureau of Family Services. This new designation will more accurately express the major emphasis in our activities and policies in the future.

9. Encouraging States and Localities to Provide More Effective Family Welfare Services. There shall be established within the newly designated Bureau of Family Services, as one of its major units, a division to be known as the Division of Welfare Services. This division will give special attention to activities carried on by the States in the reduction of dependency; services to children of unmarried mothers and deserting fathers; services to families with special problems arising from financial mismanagement or mental or physical inadequacy; studies of work relief activities and incentives to employment; and other activities of this nature which can contribute to the prevention and alleviation of dependency among aged, blind, and disabled persons, including the development of more effective legislative proposals to accomplish these objectives. This new division will absorb the functions of the former Division of Program Standards and Development; additional staff will be shifted as required to the new Division of Welfare Services in view of its new responsibilities.

10. Coordination of Family and Community Welfare Services. In order to assure that the maximum benefits are derived from our programs for the protection and well-being of children carried on by the Children's Bureau and the related ADC program administered by the Bureau of Family Services, there shall be established a new position of Assistant Commissioner in the Social Security Administration. The Assistant Commissioner will give full time directing the coordination of these programs and to the development and stimulation of welfare services that will involve the resources of community organizations, both public and private, in dealing with welfare problems. This effort should give special emphasis to all services and activities contributing to the strengthening of family life.

(APPENDIX IV)

IN REPLY REFER

FILE NO 15:A

DEPARTMENT OF
HEALTH, EDUCATION, AND WELFARE
SOCIAL SECURITY ADMINISTRATION
WASHINGTON 25, D. C.

BUREAU OF PUBLIC ASSISTANCE

December 8, 1961

State Letter No. 540

TO STATE AGENCIES ADMINISTERING APPROVED PUBLIC ASSISTANCE PLANS

Subject: Recipient Fraud

This letter transmits a new Handbook section IV-2600, Recipient Fraud, as part of the official interpretation and requirements for State plans under titles I, IV, X and XIV governing eligibility for assistance payments, to become effective April 1, 1962.

Charges of widespread ineligibility, recipient fraud and agency failure to apply safeguards gain easy public acceptance if factual reassurance is not easily forthcoming. Many times such charges are based on differences of opinion about who should receive assistance, rather than any knowledge of ineligibility. Information from the Bureau's administrative reviews, State agency reviews, and special studies all indicate that the proportion of ineligible persons who receive assistance may be about 1.5%. Those who receive it as a result of willful misrepresentation are, of course, an even smaller part of this total.

Because of the special concern of the public about improperly granted assistance, everyone concerned with the administration of public assistance programs needs to understand what constitutes fraud in its legal aspects, the kind of action to be taken in case fraud is suspected, the functions of specific staff members in regard to such cases, and methods and procedures for performing these functions.

State public assistance agencies must be able to demonstrate that they have taken reasonable precautions to prevent fraud and have developed clear and just methods for dealing with fraud when it occurs. This can be accomplished through the development of policies and procedures which define the duties of staff, and provide for mandatory records and making periodic reports.

A statement, "Development of Policies and Procedures Relating to Recipient Fraud in Public Assistance" has been prepared by the Bureau to assist State agencies in this area of administration. A copy is enclosed and additional copies may be requested through the regional offices.

We will be happy to receive any comments or suggestions you may have about this policy statement.

Sincerely yours,

Kathryn D. Goodwin

Kathryn D. Goodwin
Director

Enclosures 2

Instructions for Handbook Maintenance

Insert in Part IV the enclosed Handbook pages, IV-2600, IV-2620 - p. 2 and IV-2630 [= p. 3], immediately following page 2520-2531, dated 8/14/53.

2600. Recipient Fraud 1/

2610. Provisions of the Act

See IV-2110, Provisions of the Act

2620. Interpretation

The provisions of the Social Security Act set forth the scope of responsibility in grant-in-aid programs of public assistance. They impose an obligation on State agencies to provide assurance with respect to the eligibility of recipients of public assistance. Such assurance necessarily rests on the efficiency, thoroughness and integrity of the total processes by which initial and continuing eligibility are determined. These involve legal, financial, and social safeguards. They are discussed in other sections of the Handbook.

Public assistance applicants and recipients have the same basic human qualities that are found in the general population and may be subject to the special pressures of social and financial insecurity. The great majority of applicants and recipients will be honest in their dealing with public assistance agencies, insofar as they understand pertinent regulations. However, some persons will attempt to obtain assistance through fraud. It is expected, therefore, that methods of administration be provided not only to minimize the opportunity for fraud, but also to place responsibility for referring to the proper authorities those situations in which there is reason to suspect that fraud may exist.

Fraud, in all of its aspects, is a matter of law. The definition of fraud that governs between citizens and governmental agencies is found in the general statutes of all States. Prosecution therefor and the imposition of a penalty, if the individual is found guilty, are prescribed by law and are the responsibility of the law enforcement officials and the courts. All such legal action is subject to due process of law and to the protection of the rights of the individual afforded by this process. The State agency should seek the help of its legal authorities in defining fraud according to the interpretation of the State law, and establishing criteria for determining when there is valid reason to suspect that fraud has been practiced in order to obtain assistance.

1/ Superseded by HT 60 and revised IV-2600 dated 8/6/65. Supplemented for MA under Social Security Act Title XIX by HB D-6800 dated 6/17/66 Transmitted by State Letter No. 540

2620. Interpretation (continued)

Although agency action must be taken in either case there must be clear distinction between misrepresentation with intent to defraud the Government and misstatements due to the individual's understanding of eligibility requirements or of his responsibility for providing the agency with information. Similarly, distinction must also be made between intent to defraud by the individual, and omission, neglect or error by the agency's representatives in securing and recording information. Methods of securing facts necessary to support the agency's decisions with respect to eligibility and amount of payment, and/or referral to law enforcement officials should be consistent with principles recognized as affording due process of law.

Because of the special concern of the public about improperly granted assistance, responsibility for identification, investigation, and legal action should be clearly designated. There must be clearly defined procedures for determining whether the agency's facts are to be referred to law enforcement officials for their decision as to prosecution. Some States may wish to retain responsibility for all such decisions in the State office; others may delegate it to local agencies under specified conditions. At either level a position or individual should be designated as handling responsibility. These decisions may depend on whether necessary prosecution will be carried out by the State or local law enforcement officials.

The State agency is responsible for supervision, review, and keeping informed of action in cases of fraud, irrespective of methods of State and local agency organization and assignment of duties. Everyone concerned with the administration of public assistance programs needs to understand what criteria are used to refer for decisions as to possible fraud; the kind of action to be taken in case fraud is suspected; the functions of specific staff members in regard to such cases; and methods and procedures for performing these functions. The agency's responsibility does not include, and may not infringe upon, the functions of the State's law enforcement officials and its courts in prosecuting and adjudicating with respect to fraud.

Transmitted by State Letter No. 540

72-573 O - 72 - pt. 2 - 32

2630. Requirements for State Plans

Effective April 1, 1962, a State plan under titles I, IV, X, or XIV must set forth the legal base and the administrative procedures by which the State will assure that it has proper and efficient methods for dealing with facts that present suspicion of fraud by applicants for or recipients of public assistance. Specifically, the State plan must provide for:

1. A definition of fraud in accordance with State law as it relates to receipt of assistance payments.

2. Identification of cases in which there is reason to suspect fraud, in accordance with clear criteria.

3. Methods that will be used in investigation of instances of suspected fraud that are consistent with the legal rights of individuals.

4. Designation of official positions that are responsible for decisions that individual case situations are to be referred to law enforcement officials.

5. State supervision, review and control, by which the agency will assure that conditions and criteria for dealing with cases of suspected fraud are fulfilled.

6. Keeping records and making periodic reports.

2631. Federal Financial Participation

Federal financial participation is available in payments to or in behalf of individuals found eligible by the State agency, provided the agency has acted in accordance with the conditions specified in Handbook IV-2232, Federal Financial Participation - Determination of Eligibility, and IV-5512-5513.2, Federal Financial Participation - Eligibility in Relation to Payments.

Federal financial participation may not be claimed in payments in which assistance has been obtained through fraud unless the State agency has taken prompt action on indications of ineligibility as specified in the above cited sections.

Transmitted by State Letter No. 540

December 1961

DEVELOPMENT OF POLICIES AND PROCEDURES RELATING TO RECIPIENT FRAUD IN PUBLIC ASSISTANCE [1]

Introduction

It is necessary that a State public assistance agency carry out to the best of its ability all the responsibilities given it by the legislation governing the administration of the public assistance program. This applies to the State's responsibility to deal with those persons who deliberately contrive by concealment, misrepresentation or other dishonest means to cause erroneous payment to be made. Before a State agency can carry out its obligations in this area, it must have a clear understanding of the nature of its responsibility when there is reason to believe that fraud may have been practiced in order to secure assistance.

The purpose of the statement is to assist States in clarifying the role of the public assistance agency in dealing with fraud and in distinguishing the agency function from that of the law enforcement authorities. Specific suggestions are made with respect to (1) the content of State agency policies and procedures for handling cases of suspected fraud; (2) methods for developing policies and procedures; and (3) measures for preventing recipient fraud.

The kind and extent of responsibility that can be properly exercised in this area are not a matter which a State agency is free to decide for itself. To find the answer to this question it is necessary for the State agency to look to its legislation governing fraud and interpretations, and decisions thereof by appropriate legal authority. There must also be cooperative planning between the public assistance and the law enforcement agencies to establish a clear understanding of the role and responsibilities of each, methods of referral and exchange of information, and what each agency may expect of the other. The law enforcement officials will be able to advise as to the types of situations suitable for prosecution, appropriate investigative practices, the kinds of substantiating information which will be required, and the form in which evidence is to be submitted. The public assistance agency can interpret to the law enforcement officials the requirements of the programs it administers and the legal safeguards which have been established to protect the rights of clients.

Once these matters have been clarified, the State agency can proceed to develop policies and instructions so that everyone concerned with the administration of the public assistance programs can understand what constitutes fraud; the kind of action to be taken in case fraud is suspected; the functions of specific staff members in regard to such cases; and methods and procedures for performing these functions.

---

[1] See Handbook of Public Assistance Administration, IV-2600, "Recipient Fraud."

All administrative requirements of the agency should be kept in balance, so that procedures to be employed when there is reasons to suspect the possibility of fraud do not outweigh overall administrative effort directed toward accomplishment of the agency's objectives.

One of the basic objectives in public assistance is the conservation and development of human resources. These human resources have a direct relationship to economic resources. Their conservation involves consideration of such matters as health, employment skills, the desire and ability to manage one's own affairs, family solidarity, and the parental care of children who are the future workers and parents. This objective can be attained through social work methods where there is sufficient staff and skilled supervision to apply them to overcoming the hazards that threaten needy individuals.

Experience through the years has shown that the agency is faced with a minimum of uncertainty or suspicion as to its determination of either eligibility or ineligibility when it does two things; first, it establishes clear policy statements, requirements, and procedural guide lines concerning eligibility establishment; second, it implements these with staff through a continuing in-service training program.

Policies, requirements, and recommendations, should be established on a sound and logical premise that public assistance applicants and recipients have the same basic human qualities that are found in the general population. A fundamental premise of democratic government is the recognition of the right of an individual to avail himself of government services and the companion responsibilities which he assumes by virtue of exercising this right. A major responsibility in this respect is that of honesty in his dealings with government agencies. The Bureau has always accepted and fully endorsed the concept that people are essentially honest in their dealings with their public agencies. No reasons to support a change in this principle have been brought forward. As a consequence, the Bureau has encouraged State agencies to develop their policies and administrative procedures in line with this major premise.

On the other hand, the Bureau has recognized that there are exceptions to this general principle among persons applying for or receiving public assistance even as exceptions to it are found in the general population. To protect against this small minority, The Bureau requires State agencies to adopt and exercise the proper controls against the opportunity to commit fraud.

A. Content of State Agency Policies and Procedures for Handling Cases of Suspected Fraud

1. Local agency responsibility for investigation

a. Definition and interpretation of fraud

Before staff can be expected to perform their functions in a responsible manner, the State needs to define those actions which, if proven, constitute fraud. The definition of fraud in a State's law is the basis for the development of this interpretation. The definition in the State law, however, usually needs interpretation to public assistance staff with respect to the "willfulness" of the misrepresentation, or withholding of information of significance to the receipt of assistance. The State agency, with the help of its legal adviser, will want to make a clear distinction between deliberately fraudulent concealment or representations by an individual and incorrect omissions or representations made because of mistake or lack of understanding of eligibility requirements or of his responsibility for providing the agency with information. Similarly, distinction needs to be made between willful misrepresentation and agency omission, neglect, or error in securing and recording information. Experience of staff in dealing with various types of cases of suspected fraud, whether or not these proved to be fraudulent, will be helpful to the State agency in formulating a definition of the actions that would constitute fraud in public assistance. Furthermore, this experience should be useful in developing criteria by which staff can apply such interpretation in specific cases.

b. Responsibility of staff when intent to defraud is suspected

Even with clear criteria as to actions likely to be adjudged fraudulent, it will sometimes be difficult to determine whether there is reason to suspect fraud in the individual case. Therefore, manual material should also include instructions to staff as to how to proceed when indications of possible fraud come to their attention. This might cover such points as a more intensive investigation around the particular eligibility factor involved and review of the facts with the case supervisor, both to evaluate the significance of the information obtained and to plan next steps in the investigation process.

c. Facts necessary to support a finding of fraud

Whether fraud on the program has occurred is usually by law a question for the courts to adjudicate. However, the public assistance agency is responsible for determining whether there is a basis for belief that fraud may have been committed. Certain kinds of facts are necessary in making this determination. For example, intent and mental competence are importa nt elements and therefore staff will need guidance in the kind of evidence necessary to establish an individual's motives when intent to defraud is suspected. This is an area which the State agency's legal adviser or law enforcement officials will be able to make clear.

d. Review of questions by State office

The instructions to local staff should make clear who in the agency will be responsible for decisions that there is intent to defraud. Some States may wish to place such responsibility in the State office for all cases; others only until such time as it is apparent that local staff are secure in their understanding of policies.

State instructions should explain why these decisions are being made in the State office and should include criteria governing the selection of cases for review by the State office. The State field staff will be helpful in teaching local staff to understand and use the criteria in determining which cases or types of cases will need to be reviewed by the State office and whether there is sufficient information to support the belief that fraud has been committed.

Cases where it is clear that the problem is one of misunderstanding or mistake of the client or agency error will need to be handled in accordance with other agency policies. Instructions should be specific regarding the responsibility of recipients and staff in case assistance is received due to misunderstanding, failure to report facts promptly, or agency error. Clear instructions covering improper payments should help staff to deal with various situations involving improper payment in an objective fashion.

Agency policy should provide for the continuing of assistance if current eligibility of recipients is clear, while facts are under review by the State office or the law enforcement authority.

2. Responsibility for Referral to Law Enforcement Authorities

a. State agency

If the State decides to place in the State office decision-making responsibility for referring cases for possible prosecution, the instructions should (1) give the reason why this is being done, (2) indicate the extent of authority to be exercised by the State office, (3) designate who in the State office will carry out this responsibility, and (4) include the methods and procedures to be followed. After these methods have been decided upon, staff need to be trained in their use.

Any action taken by the State office should not infringe upon the function of the State's law enforcement agencies. Thus, any action taken by the State agency should consist of a determination as to whether the facts in each case might support a finding of fraud by law enforcement authorities. This principle may result in the State office taking one of three different courses of action. If, after thorough review, there is reason to believe that fraud may have been committed, the State office would decide in accordance with established criteria whether to refer the case to the appropriate law enforcement authorities, and the latter would decide whether prosecution or other forms of legal action should be undertaken. If it is clear to the

State office that fraud is not involved, the action would consist of making this known to the local office with an explanation as to why this decision was reached, and some advice as to how to work further with the case. In the event the State is unable to reach a decision because of inadequate information, State office action would consist of requesting the local office to furnish additional specified information, giving the reasons why such information is needed.

The State agency will designate the State staff member or members who will exercise the authority outlined above. The agency's legal adviser should play an important part in this decision, for his training and experience will be useful in determining whether the facts might support a finding of fraud. In States where cases would be referred to State law enforcement officials, the instructions should include procedures to inform the local office of the progress and outcome of such referrals.

b. Local agency

In States where responsibility for legal action will be carried by the local law enforcement authorities, it will be necessary for the local office to determine whether the facts support a belief that fraud has been committed and to refer cases to the authorities for appropriate action. This responsibility must be carried out under State supervision in accordance with State policies and procedures. The local office will need to review carefully each case before a decision is reached. As part of this review, the local office may want to consult the local board or a designated board member, the State field supervisor, the agency's legal advisor, or the local law enforcement officials. In cases where it is difficult to reach a decision, the local office may find it helpful to submit these cases to the State office for advice. This would afford an opportunity to have difficult cases reviewed by the State's chief legal officials before referral, as well as by State office personnel.

It should be clear to everyone in the local office participating in these decisions that the role of the public assistance agency is limited to a determination whether referral to to the law enforcement authorities for legal action is justifiable. It should also be clear that the public assistance agency does not have the authority to prescribe punishment.

3. Responsibility for Continuing Work With Individuals Referred to Law Enforcement Authorities

The local agency will need clear instructions as to what its responsibilities are when cases have been referred to the law enforcement authorities for evaluation as to evidence of fraud. If the latter decides that prosecution should not be undertaken, the local agency will need help in understanding and accepting the decision and in carrying on its service to the individual under regular policies and procedures.

B. Methods for Developing Policies and Procedures

A State's policies relating to recipient fraud should be designed to cope with the kinds of situations faced by local staff in the day-to-day administration of the public assistance programs. Policies can be developed in accordance with the realities of the State situation by securing illustrations of the kind of cases in which staff believe there was intent to secure assistance through fraud. Distinctions can be made between such intent and occasions when there is some reason to suspect the veracity of applicants or recipients but no demonstrable intent to defraud.

To facilitate the development of criteria to identify the first type, an agency may wish to review illustrations of the various types of cases in which fraud was believed to have occurred, and borderline cases in which it was later decided that any assistance improperly received was due to agency error or to misunderstanding by the recipient of his responsibilities. This might include illustrative cases that have developed in the past year or two, and some current cases. Information should be furnished by the local agency in support of its belief that fraud was intended. Analysis of these cases will be valuable to the State agency in identifying the kinds of problems workers and clients have in understanding each other. Policies should be formulated to help the staff to clarify its responsibility and discharge it effectively.

The State should collect information on the number of cases of suspected fraud, the circumstances under which intent to defraud appears to arise, the kind of action taken by the agency, the client, the law enforcement officials and the courts, etc. The State agency's instructions should be specific about the kind of information required, who is responsible for reporting, and methods of reporting.

The State agency, in making an analysis of such reports may wish to draw upon the experience and skill of both agency staff members and its legal adviser. This might be accomplished through the establishment of a committee which could include staff responsible for policy development, field supervision, supervision of local workers, and the agency's legal adviser. Such a group might set forth some of the essentials of staff training in contributing to the understanding and proper application of these policies. These are recognized as highly important, particularly since it is possible that relationships may be strained when State decisions are made which do not correspond with the views expressed by the local offices. These differences can be reduced to the extent that there are clear and comprehensive instructions which are understood all along the line.

C. Measures for Preventing Recipient Fraud

Taking positive measures to prevent the occurrence of fraud is a part of the basic responsibility of every public assistance agency for proper and efficient administration. It is only when preventive measures fail, as they will in some cases, that measures to protect the interest of the agency and public should come into play.

It is highly important to develop a positive program to prevent fraud through policies and procedures designed to strengthen the determination of initial and continuing eligibility. A preventive program based on this principle will promote efficient and economical administration, establish a basis for good relations with the public, and, most of all, give applicants and recipients the opportunity of working with the agency on a basis of mutual understanding of their respective obligations and responsibilities. These are some of the elements of administration which are considered essential to the development of a positive program of fraud prevention.

1. Sound Program Objectives

The agency's objectives, as expressed in policies and staff practices, should be positive and constructive, reflecting concern for people, recognition of human rights, and the intent that assistance will be granted promptly, adequately, and equitably to all eligible persons. A climate of suspicion, arbitrary action, and harassment of recipients will discourage the kind of cooperative relationship between worker and client necessary to mutual exploration of his resources and potentialities for a better life.

2. Competent Staff

Staff competence is an essential element in enabling a public assistance agency enlist client cooperation so as to carry out the complex operations of determining initial and continuing eligibility and the proper amount of payment in such a manner as to reduce to a minimun the opportunities for improper payments of all kinds. Staff must be able to help each client understand and accept the agency's policies governing eligibility. Staff must be able to apply these policies to individual cases. Skill in establishing relationships and in interviewing demands; some knowledge of the motivations of people and how these motivations influence the behavior of people in trouble. The aim of supervision and staff training should be to help staff develop the competence needed for proper administration of the public assistance programs.

3. Clear Policies

Continuing emphasis needs to be placed upon clear policies and instructions to staff regarding the objectives of the State's public assistance program. These instructions should set forth the specific responsibilities of staff in carrying out these policies in a way which is conducive to establishing a relationship with needy individuals in which facts can be secured and analyzed together and sound decisions reached that are based upon these facts.

4. Methods of Investigation

The methods of investigation should be suited to the widely varying situations of individuals and to the different eligibility factors. However, they must also be subject to provisions of law safeguarding the

civil liberties of individuals. The methods of investigation may not result in any infringement of these rights by agency staff, such as invasion of the privacy of the home, unreasonable search and seizure, denial of due process of law, the right to legal counsel, use of confidential information for purposes other than administration of public assistance, etc. The necessity to amplify and verify information obtained from the applicant or recipient and the method of verification will depend upon the complexity of the eligibility factor itself and careful appraisal of the individual's understanding of what is needed and his capacity to secure it. One way to achieve this understanding is by meticulous explanation of eligibility requirements and of the individual's obligation to report all changes in his health, his income, his resources, his living arrangements, and other facts that affect his need for assistance. Agency instructions, supervision, and all aspects of staff development should be so directed that staff will always make these points clear in the initial interview and in all subsequent contacts with individuals receiving assistance.

Difficulties may be apparent when there is a reluctance on the part of the individual to give accurate and complete information or to assist the agency in securing facts pertaining to his eligibility. Such difficulties, if skillfully recorded, will guide the agency in determining the number and nature of future contacts with these persons. Skilled interviewing will also furnish clues to instances of possible misinterpretation which can then be appropriately handled under agency policies. These discussions should be supplemented with a leaflet summarizing the eligibility requirements and the responsibilities of individuals in connection with the receipt of assistance. In addition, a written statement might be mailed periodically with assistance checks to remind recipients of their responsibility to report changes in circumstances.

5. Administrative Supervision, Controls, and Analysis

All agency procedures should be scrutinized to assure that effective controls are established and are in operation to prevent improper payments at any time. Records should contain information regarding the precise facts which are specific to each eligibility requirement. Agencies should determine how frequently, within the minimum Federal and State requirements, reinvestigations of eligibility ought to be made and should establish criteria for the selection of cases for more frequent contact. Proper administrative controls should be established continuing eligibility and providing other services. Competent supervision is likewise essential in the development of these criteria and controls, in assuring that they operate properly, and in teaching staff how to use them effectively.

Periodic analysis of cases involving improper payments and the factors resulting in such payments can be helpful to determine if there is a relationship between misunderstanding or misrepresentation and specific eligibility requirements.

The effect of the frequency of investigation upon the extent of improper payments and of concentrated effort to help the recipient accept his responsibility for reporting changes can be studied in order to develop proper agency policy. This analysis may also throw light upon gaps or weaknesses in agency procedures or controls requiring corrective measures in order to strengthen the administration of the program and thereby reduce opportunities for misunderstanding or fraud.

6. Public Interpretation

State public assistance agencies should be able to demonstrate that they have taken reasonable precautions to prevent fraud and have developed clear and just methods for dealing with fraud when it occurs. The public should be informed of the nature and purpose of public assistance, how it differs from social insurance or pension programs, and the rights and responsibilities of recipients under the law.