

92d Congress }
2d Session }

COMMITTEE PRINT

WELFARE REFORM

GUARANTEED
JOB
OPPORTUNITY

Explanation of Committee Decisions

COMMITTEE ON FINANCE
UNITED STATES SENATE
RUSSELL B. LONG, *Chairman*



APRIL 28, 1972

Prepared by the staff and printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

77-189

WASHINGTON : 1972

S362-9

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Explanation of Finance Committee Workfare Amendment

Senator Russell B. Long (D., La.), Chairman of the Senate Committee on Finance, announced today that the Committee had agreed to substitute a guaranteed employment opportunity program for family heads in place of the guaranteed welfare income provisions of H.R. 1. The Committee's substitute also includes wage supplements for family heads working at low wages and work bonuses for wage earners with low and moderate incomes who head families.

Under the Committee's workfare approach, families headed by able-bodied fathers and families headed by mothers with no child under age six would be ineligible for welfare. However, these families, as well as other families so desiring, would be able if they choose, to participate in an employment program providing a *guaranteed job opportunity* at a wage of \$1.20 an hour (\$2,400 a year). This contrasts with a guaranteed minimum income under H.R. 1 of \$1,600 for a family of 2, \$2,000 for a family of 3, and \$2,400 for a family of 4.

Family heads engaged in employment in the private sector at a wage paying at least \$1.20 an hour would be provided a *wage supplement* of three-fourths the difference between their pay and the minimum wage of \$1.60 an hour. Jobs covered by the minimum wage would not be eligible for the supplement. Family heads employed in jobs covered by the social security or railroad retirement programs would receive a *work bonus* equal to 10 percent of their wage income up to \$4,000. This produces a maximum work bonus of \$400. As income continues to rise, this work bonus would be reduced until it vanished at a wage income level of \$5,600.

Like H.R. 1 and present law, the Committee amendment would not apply to single persons and childless couples; only families with children would be eligible to benefits.

In announcing the Committee decision, which was agreed to by a vote of 10 to 4,¹ the Chairman observed that the principal defect of the present welfare system was that by providing recipients with considerable income without regard to the work effort the relative value of work is sharply reduced, and, in some cases, is completely eliminated.

He said that H.R. 1, as passed by the House, actually makes the situation worse by increasing the number of people eligible for welfare and by guaranteeing an income level that makes it impossible to devise effective work incentives except at prohibitive cost.

On the other hand, he said, the Committee amendments would substantially strengthen the work incentive by allowing needy families to keep all of the income they earn from private employment. If that income should come from jobs in the private sector paying less than the minimum wage, the wage supplement provided under the plan would make the job more financially rewarding than it is today. He noted that, under the welfare approach in the House bill, two-thirds of an individual's earnings would be subtracted from his

¹ Yeas: Long, Anderson, Talmadge, Byrd, Bennett, Curtis, Miller, Jordan, Fannin, and Hansen. Nays: Hartke, Riblicoff, Harris, and Nelson.

welfare grant, and that this "tax" on the poor could stifle any incentive they might have to seek to better their condition, since they would retain only one-third of what they earned.

Senator Long observed that the Committee's decision represented the first concerted effort in Congress to try to break the cycle of dependency characterizing today's welfare system. By relating benefits to work effort, as the Committee amendment proposes, he continued, it would be possible for welfare recipients to greatly improve their condition by working.

The Chairman noted that, under the Committee provision, 40 percent of the almost three million families now receiving Aid to Families with Dependent Children would no longer be eligible for welfare. Thus, the Committee bill would for the first time mark a substantial reversal in the trend of rapid increases in the AFDC caseloads in recent years.

Senator Long noted that the Committee's decision was in full accord when the President's statement last December when he said:

We are a nation that pays tribute to the working man and rightly scorns the freeloader who voluntarily opts to be a ward of the State. No task, no labor, no work is without dignity or meaning that enables an individual to feed and clothe and shelter himself and provide for his family.

The Chairman stated that the Committee's workfare substitute would provide substantially more income to families with low income wage earners than would the Administration's Family Assistance Plan. He said the important difference was that, under the workfare approach, the additional money would go only to people who are working, whereas the Administration bill provided its benefits principally for people who are not working.

The Chairman said that the Committee would now be devoting its attentions to working out the details of the guaranteed job opportunity program, including such matters as a children's allowance for large families; the scope of benefits for families still eligible for welfare; child care; and effective dates.

Senator Long stated that the combination of the Committee's decisions with respect to workfare and child support would substantially change the direction of the welfare system. With those who can work earning their own way and with deserting fathers contributing to the support of their abandoned children, the welfare system in the future would be able to better serve its purpose of assisting children who have no other means of support.

There follows a brief outline of the major features of the Committee approach.

Outline of the Approach

Under the guaranteed employment program, persons considered employable would not be eligible for Aid to Families with Dependent Children but would be eligible on a voluntary basis to participate in a wholly Federal employment program. Thus, employable family heads would not be eligible for a guaranteed welfare income, but would be guaranteed an opportunity to work.

The following table shows which families would continue to be eligible for welfare and those which would no longer be eligible for welfare under the Committee proposal:

<i>Eligible for Welfare</i>	<i>Not Eligible for Welfare</i> ¹
1. Family headed by mother with child under age 6	1. Family headed by able-bodied father
2. Family headed by disabled father where mother is caring for father	2. Family headed by mother with no child under 6 (unless the mother is attending school full time)
3. Family headed by mother who is ill, incapacitated, or of advanced age	
4. Families too remote from an employment program to be able to participate	
5. Family headed by mother attending school full time even if there is no child under 6	

¹ The heads of these families would be eligible to volunteer for a job in the guaranteed employment program.

Heads of families eligible for welfare as well as heads of families no longer eligible for welfare could participate in the new employment program.

An estimated 40 percent or 1.2 million of the 3 million families currently receiving Aid to Families with Dependent Children would no longer be eligible for welfare once the Committee provision became effective.

Increasing the value of work under the Committee plan.—The Committee proposal is designed to increase the economic value of work to low-income persons; the table below shows the incentive effects under the guaranteed employment opportunity proposal. Three types of employment are compared:

1. Employment by the Federal Government at a wage of \$1.20 per hour (three-quarters of the minimum wage);
2. Subsidized employment with a private employer in a job not covered by the Federal minimum wage which pays \$1.20 per hour; and
3. Employment at the minimum wage of \$1.60 per hour.

The table also shows what happens to total family income under the proposal if the parent works 40 hours a week, 20 hours a week, or no hours a week.

The sources of income shown for the Committee proposal are: (a) wages paid by the employer, (b) wages paid by the Government, either as employer or in the form of a wage subsidy to the employee (for those earning less than the minimum wage), and (c) the work bonus equal to 10 percent of wages covered under social security.

The table shows these major points about the Committee plan:

- (1) Since the participant is paid for working, his wages do not vary with family size (although a transitional children's allowance may be devised by the Committee as its work continues. Thus a family with one child would have no economic incentive to have another child. This feature of the Committee proposal also preserves the principle of equal pay for equal work.

(2) As the employee's rate of pay increases, his total income increases.

(3) As the employee's income rises due to higher pay in a regular job, the cost to the Government decreases. \$1.20-per-hour employment by the Government costs the taxpayer \$48 for a 40-hour week; working the same 40 hours for a private employer at a \$1.20 hourly rate gives the employee a \$17 boost in income while cutting the cost to the Government by \$31. Moving to an unsubsidized job at the minimum wage increases the employee's income another \$6 while saving the Government about \$10 more.

(4) The less the employee works, the less he gets. No matter what the type of employment, the employee who works 20 hours gets half of what he would get if he works 40 hours; he gets nothing if he fails to work at all.

(5) The value of working is increased rather than decreased. Working 40 hours for the Government is worth \$1.20 per hour; when a private employer pays \$1.20, the value of working to the employee is \$1.62 per hour; and working at the minimum wage is worth \$1.76 per hour to the employee. This will assure that any participant in private employment will receive more than the minimum wage of \$1.60. (Under H.R. 1, by way of contrast, the value of working is decreased rather than increased, since the family would be eligible for welfare benefits if the family head does nothing.)

Wage paid by employer	Actual value of forty hours of employment under—	
	H.R. 1 (cents)	Committee proposal
\$1.20.....	63	\$1.62
\$1.60.....	¹ 76	1.76

¹ 83¢ for a family of 2.

(6) Earnings from other employment do not decrease the wages received for hours worked. Thus an individual able to work in private employment part of the time increases his income and saves the Government money. Virtually no policing mechanism is necessary to check up on his income from work. (Similarly, child support payments do not reduce the wages received for hours worked; support payments thus benefit the family in their entirety.)

TABLE 1.—WORK INCENTIVES UNDER THE COMMITTEE PROPOSAL

	Employed by—		
	Government at \$1.20 per hour	Private employer at \$1.20 per hour	Private employer at mini- mum wage (\$1.60 per hour)
40 hours worked:			
Wages paid by:			
Employer.....		\$48.00	\$64.00
Government.....	\$48.00	12.00	
Special 10-percent payment.....		4.80	6.40
Total Government payment... ..	48.00	16.80	6.40
Total income.....	48.00	64.80	70.40
20 hours worked:			
Wages paid by:			
Employer.....		24.00	32.00
Government.....	24.00	6.00	
Special 10-percent payment.....		2.40	3.20
Total Government payment... ..	24.00	8.40	3.20
Total income.....	24.00	32.40	35.20
No hours worked.....	0	0	0
Hourly value of working 40 hours...	1.20	1.62	1.76

Work disincentives under present law and administration proposal.—By way of contrast with the Committee proposal, under present law a mother who is eligible for welfare is guaranteed a certain monthly income (at a level set by the State) if she has no other source of income; if she begins to work, her welfare payment is reduced. Specifically, in addition to an allowance for work expenses, her welfare payment is reduced \$2 for each \$3 earned in excess of \$30 a month. Generally, then, for each dollar earned and reported to the welfare agency, the family's income is increased by 33 cents. Families headed by unemployed fathers are currently eligible for Aid to Families with Dependent Children in 23 States. For these fathers, the same earnings exemption (work expenses plus \$30 plus one-third of earnings above \$30) applies if they work part-time, but once they are no longer unemployed (defined as working less than 100 hours a month), they are no longer eligible to receive any welfare assistance.

The Administration proposal uses the same basic approach as present law but substitutes a flat \$60 exemption plus one-third of additional earnings for the present \$30 plus work expenses plus one-third of additional earnings. For families headed by fathers, the same earned income exemption would apply as for mothers; thus even if a father worked full-time he would continue to be eligible for a welfare payment if total family income is not too high. For example, a family of four is guaranteed a minimum income of \$2,400 annually; a family with earnings of \$4,320 will no longer be eligible for welfare benefits.

Kinds of employment.—Three kinds of employment would be envisioned:

1. Regular employment in the private sector or in jobs in public or nonprofit private agencies, with no subsidy;
2. Partially subsidized private or public employment; and
3. Newly developed jobs, with the Federal Government bearing the full cost of the salary.

Placement in regular employment.—Some participants with little or no preparation could be placed immediately in regular employment involving no Government subsidy. These jobs would all pay at least the minimum wage (currently \$1.60 an hour).

Work bonus for low-income workers.—Low-income workers in regular employment who head families would be eligible for a work bonus equal to 10 percent of their wages taxed under the social security (or railroad retirement) program, if the wage income of the husband and wife is \$4,000 or less. For families where the husband's and wife's wage income exceeds \$4,000, the work bonus would be equal to \$400 minus one-quarter of the amount by which this income exceeds \$4,000. Thus there would be no work bonus once income reached \$5,600 (\$5,600 exceeds \$4,000 by \$1,600; one-quarter of \$1,600 is \$400, which subtracted from \$400 equals zero).

The size of the work bonus is shown on the table below for selected examples:

<i>Annual earnings of family taxed under social security</i>	<i>Work bonus</i>
\$2,000.....	\$200
3,000.....	300
4,000.....	400
5,000.....	150
5,600.....	0

The Committee plan incorporates the features of (1) not varying benefits by family size, but only by income, providing no economic incentive for having additional children; and (2) having a gradual phaseout of the amount of the payment as income rises above \$4,000 so as not to create a work disincentive. The proposal would cost an estimated \$1.1 billion and would provide work bonus payments to 5¼ million families.

Subsidized public or private employment.—In this category would be jobs not covered by the Federal minimum wage law, in which the employer paid less than the minimum wage but at least three-quarters of the minimum wage (currently \$1.60 per hour and \$1.20 per hour, respectively). No subsidy would be paid if the employer reduced pay for the job because of the subsidy. Thus no jobs presently paying the minimum wage would be downgraded under the committee proposal, and the minimum wage itself would not be affected. Rather, the

proposal relates solely to those jobs not covered today under the minimum wage law. Some of these include:

Small retail stores:

Sales clerk
Cashier
Cleanup man

Small service establishments:

Beautician assistant
Waiter
Waitress
Busboy
Cashier
Cook
Porter
Chambermaid
Counterman

Domestic service:

Gardener
Handyman
Cook
Household aide
Child attendant
Attendant for aged or disabled person

Outside salesmen in any industry.

Public sector:

Recreation aide
Swimming pool attendant
Park service worker
Environmental control aide
Ecology aide
Sanitation aide
Library assistant
Police aide
Fire department assistant
Social welfare service aide
Family planning aide
Child care assistant
Consumer protection aide
Caretaker
Home for the aged employee

Agricultural labor:

Jobs picking, packing, sorting, and grading crops; spraying, fertilizing, and other preparatory work; milking cows; caring for livestock

For these jobs, the Federal Government would make a payment to any employee who is the head of a household equal to three quarters of the difference between what the employer pays him and the minimum wage, for up to 40 hours a week. Thus if an employer paid \$1.20 an hour the Federal subsidy would amount to 30 cents an hour (three-quarters of the 40-cent difference between \$1.20 and \$1.60).

*Federally funded jobs.*¹—For persons who could not be placed in either regular or subsidized public or private employment, jobs would be created which would pay at the rate of three-quarters of the minimum wage (that is, \$1.20 per hour). An individual could work up to 40 hours a week (an annual rate of about \$2,400), and would be paid on the basis of hours worked just as in any other job; special provision would be made for mothers whose children were in school and for whom no out-of-school child care was available to allow them to work part time (say 30 hours) and still receive a full salary.

For these individuals who cannot be placed immediately in regular employment at a rate of pay at least equal to the minimum wage, or in subsidized private employment, the major emphasis would be on having them perform useful work which can contribute to the betterment of the community. A large number of such activities are currently going undone because of the lack of individuals or funds to do them.

¹ During consideration of H. R. 1, the Chairman directed a telegram to the Governor of each State, requesting information as to the type of work opportunities that could be made available to welfare recipients. Thirty-four States (not including the big welfare States of New York, California and Massachusetts) responded, indicating that nearly 250,000 jobs could be made available in such fields as: clerical work, maintenance, teacher aides, library aides, recreation aides, park maintenance, sanitation, highway beautification, law enforcement, dispatchers, cashiers, timekeepers, tool clerks, meter maids, nursery school attendants, homemaking aides, school crossing guards, nurse aides, social work aides, child care aides, and community outreach workers.

With a large body of participants for whom useful work will have to be arranged, many of these community improvement activities could now be done. At the same time, it is recognized that safeguards are needed so that the program meets the goal of opening up new job opportunities and does not simply replace existing employees, whether in the public or private sector.

Any job in the regular economy paying \$1.20 per hour or more, even a part-time job, would yield a greater income than \$1.20-per-hour Government employment and it would be anticipated that this would serve as an incentive for participants to seek regular employment. In addition, the cost to the Government would be substantially less for an individual in regular employment.

Upgrading of skills through vocational training.—Participants in the employment program would be eligible to volunteer for training to improve their skills under the Work Incentive Program administered by the Department of Labor. Under the WIN program as it would be modified by the Committee amendment, the Labor Department would accept an individual for enrollment to the extent funds are available and only if they are satisfied that the individual is:

1. Capable of completing training; and
2. Able to become independent through employment at the end of the training and as a result of the training.

Employees under the employment program who wished to participate in training under the Work Incentive Program would be strongly motivated, for they would be paid only \$1.00 rather than \$1.20 for each hour of training. Following the successful completion of training (which could not exceed 1 year in duration), the trainee would receive a lump-sum bonus for having completed training.

Eligible for services.—Since the purpose of the proposal is to improve the quality of life for children and their families, any member of a family whose head participates in the work program could be provided services to strengthen family life or reduce dependency, to the extent funds are available to pay for the services. Open-ended funding would be provided for family planning and child care services. The agency administering the employment program would refer family members to other agencies in arranging for the provision of social and other services which they do not provide directly. For example, a disabled family member might be referred to the vocational rehabilitation agency, or a 16-year-old out-of-school youth might be referred to an appropriate work or training program, even though the cost of the services themselves would not be borne by the employment program.

Former participants in the work program would have access to free family planning services and to child care on a wholly or partly subsidized basis, depending on family income. Other services needed to continue in employment, including minor medical needs, could be provided by the agency administering the program.

State supplementary payments.—No State supplementation would be required nor would there be Federal matching if it were provided. However, in order to prevent the State welfare program from undermining the objectives of the Federal employment program the State would have to assume that individuals eligible for the State supplement who are also eligible to participate in the employment program (but no longer eligible for federally matched AFDC) are actually participating full time and thus receiving \$200 per month. A similar rule would apply to mothers with children under age 6 who volunteer.

Furthermore, the State would be required to disregard any earnings between \$200 a month and \$300 a month (the amount an employee would earn working 40 hours a week at the minimum wage) to ensure that the incentive system of the alternative plan is preserved. These earnings disregards would be a flat requirement; States would not be required to take into account work expenses. States would be free to treat income above \$300 monthly in any way they wished as long as the first \$300 earned is treated as though it were \$200. The effect of this requirement would be to give a participant in the work program a strong incentive to work full time (since earnings of \$200 will be attributed to him in any case), and it would not interfere with the strong incentives he would have to seek regular employment rather than working for the Government at \$1.20 per hour.

The table below shows how wages under the employment program would be treated for State welfare purposes:

Hours worked per week.....	None	20	40	40
Hourly wage.....		\$1.20	\$1.20	\$1.60
Approximate actual monthly income.....	0	\$100	\$200	\$300
Income deemed available for State welfare purposes.....	\$200	\$200	\$200	\$200

Ineligibility for food stamps.—Under H.R. 1, families eligible for welfare benefits would no longer be eligible to participate in the food stamp program. Under the Committee amendment, persons eligible to participate in the employment program would similarly not be eligible for food stamps, nor for surplus commodities. However, as in H.R. 1, States would be assured that there would be no additional expense to them if they adjust their supplementation levels to take into account loss of entitlement to food stamps.

Developing jobs in the private sector.—Under present law, an employer hiring a participant in the Work Incentive Program is eligible for a tax credit as a way of developing employment opportunities in the private sector. The tax credit equals 20 percent of the employee's wages during the first 12 months of employment, with a recapture of the credit if the employer does not retain the employee for at least 1 year in addition (unless the employee voluntarily leaves or is terminated for good cause).

The Committee will be exploring ways of stimulating new job opportunities in the private sector in order to make the guaranteed employment program more effective.