WELFARE REFORM PROPOSALS

HEARINGS

BEFORE THE

SUBCOMMITTEE ON PUBLIC ASSISTANCE

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-FIFTH CONGRESS

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PART 2 OF 5 PARTS

APPENDIXES

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APPENDIXES

APPENDIX A

QUESTIONS SUBMITTED BY MEMBERS OF THE COMMITTEE TO SECRETARY CALIFANO

QUESTIONS OF SENATOR MOYNIHAN

Question. a. "What is the data on family breakup and its relationship to public assistance over the past two decades? Have rates of divorce, separation and desertion been higher among families receiving welfare than in the population generally? What if you control for income, ethnicity, and other factors * * * ?

Answer. Relatively little is known about whether family breakup is more frequent among families on welfare than in the population at large. Under current program coverage, two-parent families receiving welfare payments comprise a small and special population. Their marital experiences are unlikely to be directly comparable to that of the general population. Such families are found either in the AFDC-UF program for two-parent families with an unemployed male head, or in the AFDC program in cases for which the father is incapacitated. There are also some AFDC cases in which the husband present is the stepfather of the recipient children. In early 1977 about 6 percent of the national welfare caseload consisted of two-parent families enrolled in the AFDC-UF program, while the most recent available tabulations on AFDC cases (1971) shows that 2.8 percent were "stepfather" cases, and 10.4 percent were two-parent families in which the father was incapacitated [19, 21].[1] Therefore, two-parent families comprise a small and non-representative subset of the welfare rolls.

Marital stability among two-parent families on welfare is virtually unstudied. Only one existing study permits any judgments on this question. The analysis of marital dissolution in the Seattle-Denver Income Maintenance Experiment included a control for previous AFDC income [4]. In the samples analyzed, about 16 percent of the families had received AFDC income in the year prior to the experiment. However, in some of these families, the beneficiary might have included an adult other than the husband or wife; also, the wife might have been single and receiving AFDC payments at some time in the year prior to the experiment. In any case, marital disruption due to divorce, desertion or separation was more likely in families who had been on welfare, although the difference was statistically significant only for Chicago families. These differences ranged from 15 percent for blacks, to 77 percent for Chicanos, relative to the average marital dissolution rates for these groups.

In addition to enthicity, this finding controls for income, education, age and family composition. However, it does not control for unemployment or disability, the factors which determine the eligibility for welfare in the population of two-parent families. It is essential that unemployment be incorporated into any analysis of the effect of welfare receipt upon marriage, since it is widely agreed that unemployment contributes heavily to family instability. Therefore, this finding can only be considered suggestive.

Question. b. "* * * Is family breakup more frequent in states with lenient welfare eligibility and high benefits than in other jurisdictions?"

Answer. Most of the research on AFDC and marital patterns has examined the effect of variations in benefit levels. These studies implicitly assume that the response to the economic incentive for family breakup, if such a response exists, will be proportional to the size of the incentive.

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[1] Numbers in parentheses correspond to reference works cited at the close of Answer #2. These reference works were made a part of the committee file.

Several studies have demonstrated that female-headed families are relatively more prevalent in areas where AFDC benefits are higher. This association is significant for whites and nonwhites in both 1960 and 1970 Census data for SMSAs [6, 7]. However, a study based upon 1970 Census data on low-income areas in cities found a significant relationship only for nonwhites [16]. In neither case is it clear whether AFDC influences the formation of one parent households, or the presence of one parent households influences state policies regarding AFDC.

There are, of course, factors besides marital dissolution which contribute to the prevalence of female-headed families. The studies cited above controlled for such factors as the proportion of widows and divorcees, and state-to-state differences in the difficulty of obtaining a divorce. Also, another study which used 1960 data on female-headed nonwhite families, in 87 central cities, controlled separately for subfamilies and found that the effect of AFDC remained significant [15].

These studies have not been controlled for illegitmacy; however, other researchers have found no systematic relationships between illegitimacy rates and AFDC benefit levels [2, 10, 14].

Recognizing the inherent limitations of the cross-sectional approach, some studies have used longitudinal observations on individual marital histories to examine the response to economic incentives. There are only a few data sources suitable for such analysis; of these, only the Panel Study of Income Dynamics (PSID), now in its tenth year, permits any general study of AFDC and marital patterns.

Analyses of PSID data to date have produced mixed results [5, 16]. However, the most recent study, which devoted considerable attention to the measurement of potential AFDC benefits, found that the generosity of AFDC does have an effect in encouraging marriages to end [23]. This effect was only marginally statistically significant, and refers only to blacks; the study did not examine other groups.

In sum, the weight of recent evidence seems to lend support to the hypothesis that the existing welfare system contributes to family breakup. On the other hand, it must be pointed out that the importance of AFDC benefit levels relative to other causes of family instability is not quantified. Therefore, the extent to which AFDC-induced marital dissolutions contributed to the recent increase in female-headed families is unknown.

It is also worthwhile considering the effect of the AFDC-UF program on marital patterns. As previously stated, there is no reason to expect the marriages of families on AFDC-UF to be as stable as in the general population, given the restriction on employment in the AFDC-UF program. Nevertheless, we might expect more marital stability in AFDC-UF states than in non-UF states, since family splitting would not be a prerequisite to welfare eligibility in AFDC-UF states. Unfortunately, since there are no AFDC-UF states in the South, it is difficult to separate regional effects from program effects when studying family patterns.

For whites, the incidence of female-headed families is considerably lower in AFDC-UF states (using 1970 data); for blacks, there appears to be no effect of AFDC-UF if we control for region [7, 16]. Aside from the UF/non-UF distinction, no other administrative features of the welfare system (such as leniency in applying eligibility rules) have been related to family stability [1, 13].

Question. c. "Do families that 'get off' welfare later reunite? Or do they reunite and then 'get off' welfare? Both? Or neither?"

Answer. There does not appear to have been any research on whether broken families on welfare get off welfare and then reunite. Such a study would demand detailed longitudinal data which are not currently available. For example, the PSID data do not distinguish reconciliations from remarriages or first marriages.

On the other hand, the return of absent spouses is known to be a cause of AFDC case closings. Quarterly statistics on the reasons for welfare case closings have been disseminated for several years. For example, in the first quarter of 1977, 4.6 percent of case closings were due to marital reconciliation or remarriage [20].

One study looked at state-to-state variations in case closing due to marriage or reconciliation in 1970, and found no appreciable effect of the size of AFDC payments [11]. However, rates of such case closings were nearly 100 percent higher in AFDC-UF states, suggesting that families may be much less likely to remain apart, and on welfare, when coverage is extended to two-parent families.

Question. d. "Is there longitudinal evidence on the relationship between the receipt of public assistance (not just AFDC, but all the programs marked for submersion into the Better Jobs and Income Program) and the condition of families?"

Answer. Aside from the few studies (discussed above) which deal with AFDC recipients, little longitudinal evidence has been generated on the relationship between the receipt of assistance—including the SSI and Food Stamp programs—and family status, marital status or living arrangements.

Data on household patterns among the elderly suggest that they prefer separate living arrangements to living with relatives or others [18].

In 1974, 90 percent of all men, and 80 percent of all women 65 years old or older, living in households, were either the head of household, or the spouse of the household head.

In 1974, 82 percent of the husband-wife families in this age group were two-person families.

Nevertheless, analysis of data from a survey of low-income aged and disabled persons has found that income increases due to SSI benefits had no apparent effect on the living arrangements of the recipient population [24]. Beyond this, the impact of the SSI component of public assistance on marital or family patterns has not been documented.

The Food Stamp program could be hypothesized to have impacts upon family patterns, but no direct evidence on this hypothesis has been presented to date. One cross-sectional study demonstrated that incorporating the net value of food stamps (and therefore more accurately measuring the potential public assistance "package") greatly increases the magnitude and significance level of the association between welfare and the incidence of female-headed families [7]. However, no longitudinal study has attempted to document the role of food stamps in the marital status decisions or family patterns exhibited by poor or near-poor families.

Question. e. "What is the evidence to support (or refute) the hypothesis that the receipt of public assistance funds tends to keep families from being formed . . . ?"

Answer. Research studies on AFDC and remarriage are new and few in number. The question has been posed in two ways. First, remarriage rates have been compared for women on and off of welfare. Second, the relationship between family formation and the generosity of AFDC—in other words, the potential welfare payment—has been studied. In each such study, reconciliation, first marriages, and remarriages have not been distinguished, due to data limitations.

Women on welfare have been found to be less likely to marry in subsequent years than women not on welfare, controlling for age, other income, the number and ages of children and other factors which might affect marital decisions [8, 17]. However, this finding does not prove that welfare is the cause of a lower marriage rate.

Women may be on welfare because they have been unsuccessful in their attempts to find a suitable spouse and remarry. Therefore welfare recipient status may be an effect rather than a cause of a lower remarriage rate. We have no evidence that the receipt of public assistance funds alters anyone's commitment to marriage or family life.

Furthermore, we do not know if women who have been previously married react to welfare differently than never-married women. Such information would shed some light on the effect of welfare on remarriage among those with a demonstrated commitment to marriage.

One study examined the effect of different welfare opportunities—measured by the size of AFDC guarantees—on remarriages, without distinguishing women who were on or off welfare [9]. Using 1970–1972 data, potential AFDC income had a significant inhibiting effect on remarriage. However, in 1968–1970 data, there was no such effect. These tests are more appropriate for establishing the causal importance of welfare in remarriage than the previously-cited studies. The inconsistency of findings for two different years of data, however, cast some doubt upon this causal relationship.

Question. "What is the evidence on the relationship between new income support schemes and family stability?" If it is true . . . that the Seattle-Denver experiments led to higher divorce and separation rates among test case families than among those in the control groups, then what is the implication for our assumption that a national income maintenance program will mend what current welfare programs have torn?"

Answer. The evidence on new income support schemes and family stability comes from the four income maintenance experiments conducted since 1968.

Studies of marital dissolution in these four experiments have produced inconsistent findings. In three experiments the impacts on marriage were small (or zero) and insignificant, or dismissed on methodological grounds. In the fourth, there were significant increases in marital dissolution for some groups, on some of the experimental plans.

Two independent analyses of the New Jersey-Pennsylvania experimental data found that the net marital breakup rate was somewhat higher for experimentals than controls [17, 22]. However, both studies contend that this is not a genuine treatment effect, but merely a consequence of the higher rate of leaving the experiment in the control group. This is known as the attrition problem.

In the Rural Income Maintenance Experiment there was no significant overall difference in marital stability between experimentals and controls [12].

In both the New Jersey-Pennsylvania and Rural Income Maintenance experiments, marital stability was directly related to the amount of cash transfer payments. This remains true when we control for race, age, education and other sources of income.

A preliminary analysis of marital stability among black families in the Gary, Indiana Experiment concludes that, for this population, there is no net impact of income maintenance on marital stability [23].

In the Seattle-Denver Experiments the rates of marital dissolution were generally higher among the treatment families than in control group families; for a majority of the support levels tested, these differences were significant [4].

Therefore, with the exception of the Seattle-Denver families, our experience with the income maintenance experiments seems to suggest that the experimental plans had little or no overall effect on marriage, but that within the experimental groups, stability of marriage was directly related to the amount of cash benefits received. The exceptional nature of the Seattle-Denver findings demands that they be scrutinized especially closely.

There are several important qualifications concerning the Seattle-Denver findings which should be noted.

These results are tentative, since they use only the first two years of what will ultimately be three-year marital histories for some of the families (75 percent) and five-year histories for the rest.

Research to date indicates that the marital dissolution effect declines somewhat over time. When the full results are in, we may see a further decline, perhaps to the small and insignificant responses found in some previous experiments.

These findings are subject to the problem of attrition mentioned earlier. The problem is that control group families drop out of the experiment more readily than treatment families, and people with broken marriages drop out more readily than others. Preliminary analyses indicate that the attrition problem may cause us to overstate the marital dissolution responses by 5 to as much as 44 percent.

Although the marital breakup rate was higher in most of the experimental plans, it was also found that the reconciliation rate among broken families was higher for experimentals than for controls. This offsets the dissolution rate by 20 percent in most experimental plans.

Consequently, we feel it is inappropriate to draw firm conclusions from the analysis of marital patterns thus far conducted using Seattle-Denver data, and furthermore, that the findings of the other experiments must also be considered.

If we think that the experiment may have raised the divorce and separation rate, then we must also attempt to understand the way this effect operated. Further research along these lines is currently being carried out. Many of these families were on welfare before the experiment began. They may have been experiencing marital problems already, and merely hastened to end a marriage that was sure to end anyway, once their financial situation became more secure.

Also, as the above qualifications point out, it is still too early to reach conclusions about the magnitude of marital status responses, whatever the direction of effects might be.

Furthermore, the overall effect of income maintenance on the population depends upon its impact on marriage and remarriage as well as divorce. The experiments tell us little or nothing about these other questions. In the experiments, an unmarried participant provided a guaranteed income to non-participating potential spouses. This leads to a "dowry" effect not present in a national program.

Finally, we have no evidence that income support schemes alter anyone's commitment to marriage, family life or the provision of a stable environment for children. Due to complex forces far beyond the realm of anti-poverty policy, the divorce rate is currently very high. However, the remarriage rate is also very high. Low income families are known to have a high incidence of marital problems. It may be that we observe in a brief income maintenance experiment is an increase in dissolutions among problem-ridden marriages, followed by remarriages with a higher likelihood of success.

The implications of the experimental findings for our welfare reform proposal are negligible because they refer to plans significantly different from the Program for Better Jobs and Income. These experiments provide some information on the consequences of changes in categorical eligibility rules for cash transfer programs. They also provide some evidence—as does some non-experimental research—that family patterns may respond to certain economic incentives, although the responses may be very small. They do not tell us what the consequences of a combined program of cash assistance and jobs will be. There is, however, some evidence of the importance of jobs, and particularly the importance of a husband's steady employment, for the stability of marriages.

An analysis of marital stability using a national sample found that unemployment problems greatly increased the likelihood of separation or divorce. In fact, among low-income blacks, a husband's annual earnings would have to drop nearly $10,000 for it to be as strong a predictor of marital disruption, on average, as the experience of serious unemployment during the previous three-year period [17].

A study of teenage childbearing found that young mothers are reluctant to marry the fathers of their children, if the fathers' job prospects are uncertain [3].

In both of these instances, the Better Jobs and Income Program, by providing jobs for principal earners in families with children, would reduce the marriage-disrupting influence of unemployment or poor job prospects.

As noted earlier, experimental data provide us with information on only a limited number of marital and family phenomena in the short run; such data are even less useful for long-run predictions. This is not surprising, as these experiments were primarily designed to test labor supply responses, which are more amenable to adjustment during a three-to-five year time period. However, undoubtedly the major shortcoming of these data for purposes of predicting the effects the Better Jobs and Income Program is the absence of a jobs component in the experiments.

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Question. (a) It seems to me essential that we delve deeply into the concept of dependency, what it means as a social policy issue, what we know about it, how current programs deepen or reduce it, and the analytical basis for assumptions made about the effect of the proposed reforms on it.

What is your Department's explanation for rising welfare caseloads since World War II? To what extent does this phenomenon remain if you control statistically for the increase in single-parent families, for the increase of out-of-wedlock births, and for other demographic shifts?

Answer. Over the past quarter of a century the incidence of welfare receipt has increased substantially. During 1952 about 1.2 percent of the U.S. population were AFDC recipients. There was no food benefit program for those not also receiving cash assistance. By 1977 the fraction of the population receiving AFDC had risen to 5.1 percent and an additional 4.1 percent received Food Stamp benefits only. Several studies have sought to determine the causes of this welfare expansion. They indicate that most of the caseload increase has been caused by changes in government policy that either directly increased the number of eligibles by changing eligibility criteria or increased the participation rate in existing programs by altering administrative practices.

Most of the expansion of the Food Stamp program clearly results mainly from policy liberalization: first, the recreation of the program in the early 1960s, its increased funding beginning in 1965, and, finally, the liberalization of the program in the 1970's. Some of the growth in the Food Stamp caseload during the 1970s has also been caused by the rise in food prices which, under the revised law had the effect of raising the maximum income eligibility level, and by the relatively high rate of unemployment, which also led to more eligibles [see 6].

The causes of the AFDC caseload expansion, on the other hand, are less obvious. Several studies have addressed this issue, however, and taken together they suggest quite strongly that the dominant causes of growth in the AFDC caseload during the 1960s and early 1970s was an increase in the participation rate of eligibles because of required changes in administrative practices that dramatically increased the accessibility of benefits, and statutory changes that increased the size of the eligible population (e.g., introduction of work incentive features that permit working welfare recipients to remain in the program, and the requirement that states bring their needs standards into line with rising prices).

The fraction of the population who were AFDC recipients rose from 1.6 percent in 1959 to 2.2 percent in 1966. About 17 percent of this caseload increase was caused by the increase in unemployed-father cases following the enactment of AFDC-UF in 1961. A study by Lurie indicates that virtually all (95 percent) of the remaining caseload growth was caused by a rise in the participation rate among female-headed AFDC eligibles from 43 to 62 percent. Another study by Boland found much the same thing for the period from 1967 to 1970. Over this period the number of recipients relative to the population rose from 2.4 to 3.8 percent with about 80 percent of this caseload increase occurring among female-headed cases. Boland's findings indicate that 60 percent of this increase in female-headed cases was caused by a rise in their participation rate from 63 to 91 percent, another 32 percent by an increase in the proportion of poor female-headed families who were eligible, and only 8 percent by a growth in the number of poor female-headed families. Again this study implies that the primary causes of caseload growth are changes in administrative practices and liberalized financial eligibility criteria, rather than any perverse financial incentives of the program. A more complete discussion of these two studies can be found in Holmer, "The Economic and Political Causes of the 'Welfare Crisis'," [3].

Welfare rolls were bound to rise if changes in the law made more of the poor eligible, if changes in administrative practices increase the rate of acceptance of applications, or if changes in personal attitudes toward welfare receipt among the non-participating eligibles increase the rate of application. An empirical study of the reasons for caseload growth from 1952 through 1972 tested some of these competing hypotheses while controlling for economic and demographic changes, and found that about 82 percent of the twenty-year caseload increase could be attributed to the direct and indirect effects of the rise in the acceptance rate. (Some of the increase may be attributed to pressures to end discriminatory practices that had barred eligible minority individuals from participation in the programs.) This is extremely strong evidence for the proposition that virtually all of the rise in the participation rate and most of the AFDC caseload expansion were caused by the increase in program accessibility that stemmed from changes in local administrative practices, the availability of legal services, and greater awareness of "welfare rights" [see 3].

* * * * * * *

This AFDC caseload dynamics model also sheds some light on the relationship between changes in unemployment and caseload fluctuations. An earlier examination of this relationship by Moynihan, "The Politics of a Guaranteed Income: The Nixon Administration and the Family Assistance Plan" (Random House, 1973), found that there was a strong direct correlation until the mid-1960s, but none during the late 1960s. The econometric estimation of the caseload dynamics model reveals that unemployment had a statistically significant effect on the rate of application for AFDC over the entire 1952–1972 period. And since 1972 even the simple correlation between unemployment and the AFDC caseload has reasserted itself to some extent. Also, a study of AFDC over the 1959–1971 period concludes that "conditions in the labor market are definitely linked to the demand for welfare payments" [see 1]. So, the link between labor market conditions and the welfare caseload was never broken, it was only obscured by the massive caseload growth caused mostly by statutory and administrative changes that increased program accessibility during the late 1960s and early 1970s.

Question. (b) What is known about dependency-over-time, and what is the evidence to support various hypotheses ranging from its intergenerational transfer, on the one hand, to the on-and-off-welfare-several-times-a-year explanation on the other? How is the current welfare population best sorted out in terms of dependency over time?

Answer. A number of recent studies have clarified some of the facts about receipt of welfare benefits over time. A concise summary of this research is contained in Lyon, "The Dynamics of Welfare Dependency: A Survey" (Ford Foundation, Spring 1977). [6] The basic finding of these studies is that there is a tremendous amount of movement on and off the welfare caseload even during periods when the total number of recipients is constant from month to month.

Evidence from New York City for 1972 suggests that a substantial fraction (from one-fourth to one-half) of AFDC case closings result from administrative actions not clearly related to changes in the family's eligibility status. As a result many AFDC case openings (about one-fifth in New York City during 1972) are simply reopenings of cases that were recently closed for spurious reasons.

While some part of total caseload turnover (often called "administrative churning") is then spurious turnover related to administrative practices, most AFDC case openings and closings are genuine and reflect changes in the eligibility status of families. This substantial amount of genuine turnover reflects the fact that the majority of women who have ever received welfare benefits have stayed on the program for relatively short periods of time. Analysis of a national longitudinal sample for the years 1967 through 1973 [see 8] shows that of those women who received AFDC sometime during that seven-year period, about 34 percent were on the program for one year or less, 28 percent were on from one to three years, and the other 38 percent were on more than three years. About two-thirds of those received welfare more than three years (that is, 26 percent of the total) relied on welfare benefits for less than half of their seven-year total income. This leaves a very small group—only 12 percent of those women who were ever on AFDC over the 1967–1973 period, or between one and two percent of all women between the ages of 18 and 54 in 1968—that could be characterized as members of a "welfare class," in that they received welfare for at least half the time and benefits provided more than half their seven-year income. Given this fairly broad definition of a "welfare class," it is interesting to note how relatively few members there are. And even among those families who are classified as members, about one-eighth of their income for years during which they were on AFDC, and three-fourths of their income for years when they were off AFDC, was derived from earnings.

These findings of relatively short stays on welfare, the dominance of earnings in total income over a long period of time even for those who did receive welfare during the period, and the small size of even a broadly defined "welfare class," are not particularly surprising even though they are in sharp conflict with public stereotypes of the welfare population. The turnover of the AFDC caseload simply reflects the extensive movement in and out of the poverty population, a phenomenon that is becoming increasingly well known. There is little reason to doubt that the non-public assistance portion of the Food Stamp caseload would exhibit the same characteristics over a long period of time.

The following picture of welfare programs emerges from this discussion.

The AFDC and Food Stamp programs serve as income-support programs for families in periods when they lose their earnings altogether, and as an income-supplement program for those whose earnings have dropped temporarily or are chronically low.

For most people these periods are relatively short; only a relatively small fraction of the population relies extensively on welfare for long periods of time.

While the adequacy of the income supports and supplements provided by these programs is challenged by some, it is clear that over the past decade or two, the adequacy of these programs has increased due mainly to the increase in AFDC eligibility and accessibility during the late 1960s and early 1970s and the resulting rise in participation rates, and to the reenactment in 1961 and the early 1970s expansion of the Food Stamp program.

The Program for Better Jobs and Income consolidates these past reforms in a uniform cash assistance program that targets benefits on those with the lowest incomes, and introduces new work incentives for those families that are expected to work and new job opportunities for all families with children. These work incentives and opportunities are intended to reduce the tendency of welfare recipients, to become "dependent" on welfare. As we have seen, the extent to which such a "dependent" welfare class exists today is not as great as many people believe. That does not gainsay, however, the importance of structuring our welfare programs to reduce rather than contribute to the dependency problem. And this is particularly important as we move to a cash assistance system characterized by universal coverage, including two-parent families. This was a very strong consideration in developing an integrated cash and job strategy.

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8. Martin Rein and Lee Rainwater," Patterns of Welfare Use," Working Paper No. 47, Joint Center for Urban Studies of MIT and Harvard University, November 1977.

Question. I hope you will be prepared to outline the Administration's current thinking on the broad subject of family policy, for it is obviously vital to have that context for welfare reform. To what extent does the Better Jobs and Income program embody a complete family policy? What pieces are missing? How should we articulate the goals of a Federal family policy, and what is our evidence for supposing that it will be an effective and salutary one? What can you tell us about the forthcoming White House Conference on the Family? Who is planning it, and what are they planning? Will welfare be among the subjects examined?

Answer. The Administration, to date, has established no formal, overall "family policy," but a great deal of attention has been focused on the interaction of programs and proposed legislation with an impact on families. We are trying to ensure that policy and operational decisions within HEW take into account important family-oriented values.

It is our belief that people are best served by programs that address their problems through their families whenever possible. Their potential and their problems are inextricably tied with those of their families. Their problems cannot be solved independent of their families.

Federal action should support families in assuming primary responsibility for the care of children and for family members' basic needs. Only as a very last resort—when a person's health or well-being is threatened and the family is unable to cope with the situation—should the government displace or substitute for the family's primary role in caring for individual members.

The Administration's program for Better Jobs and Income will assist families most in need of basic income and work so they can meet their own needs for the present AFDC program's "anti-family" incentives—in many States the food, shelter and the care of their children. Much has been written regarding father cannot be present if the mother and children are to receive benefits. The

Administration's proposal will eliminate this and other anti-family features by providing aid on the basis of income and need alone.

The Administration's program does not require single parents with children under 7 years old to work, and requires only part-time work (during school hours) of single parents with children aged 7–14. These provisions reflect our belief that raising children is valuable work which parents should be able to pursue. Nonetheless, many single parents will choose to work, as will both parents in many two-parent poor families. To help these families, the Administration's proposal permits a deduction from income of up to $150 per child up to a maximum of $300 per month for single parent families with children under 14.

But we remain concerned that the remaining costs will be hard for some to pay and that adequate market information and alternatives may not be available. Additionally, many who will not qualify for the Program for Better Jobs and Income still need assistance in obtaining adequate early childhood care. A number of other steps are underway: we have requested that Congress continue special provisions and funds in the Title XX Social Services program specifically for subsidized day care. Fifty percent will be targeted on those most in need and free information and referral will be provided. Also, the existing income tax credit for day care expenses is continued in the upcoming tax reform. With the new program for Better Jobs and Income the tax credit will benefit low-income families more than previously.

There are other elements to our evolving family policy, beyond the Program for Better Jobs and Income. Virtually any family, regardless of income, may need assistance in meeting extraordinary needs arising from serious disability, disease or catastrophe. Health insurance is a crucial element in our strategy for supporting families. The Administration's approach to protecting families from health costs is under development now. We expect to make a proposal to the Congress later this year.

Births to young teenagers present serious dangers to both mother and child, and adequate prenatal and peri-natal care are imperative. We have already proposed an expansion of Medicaid coverge for pregnant women who, in some States, cannot now obtain Medicaid services for prenatal care. We believe this is a humane and wise investment in families as they begin to form. Second, we have proposed new legislation that will enable projects to coordinate a broad range of services designed to prevent unwanted teenage pregnancy, to provide supportive services for teenagers who are already pregnant or already parents—that is, for families which are about to form—and to prevent unwanted repeat pregnancies (which, in the absence of services, will rapidly occur). We are also expanding our support for local education efforts on the moral implications and responsibilities of parenting.

We have also proposed changes to the present foster care and adoption system so that family values will be reflected rather than present institutional and foster care biases. The proposed initiative would increase funding to help States significantly improve the quality and scope of services they provide to families and develop strengthened safeguards for the rights of children and their parents. It would also establish a new program of Federal support for foster care and adoptions to help overcome the tendency to remove children from family and, instead, to work within the family context. The initiative provides for subsidized adoptions where all else fails, so children will not languish in institutions or temporary foster homes longer than necessary.

The President has announced that a White House Conference on Families will be held from December 9–13, 1979. Preliminary planning for that event is located in the Office of the Secretary of HEW so that it will benefit from the perspectives of health and education, as well as human services. We hope to announce the appointment of a Chairperson and Executive Director before very long. A skeleton staff is already in place, and will be expanded as the plans develop. It is expected that welfare-related issues will be among those examined by the Conference.

Question. As you know, during discussion of H.R. 7200 and of the recent Social Security amendments, considerable attention was paid to the "earned income disregard" in the present AFDC program. Mr. Cardwell indicated to me that he was not aware of any evidence showing that the current disregard has a positive impact on "work incentives." Is this the Department's conclusion? Could you summarize for us what research has been done and what has been learned on the subject of work incentives generally and the effect of earnings disregards in welfare programs particularly.

Answer. Many researchers inside and outside of HEW have studied the effects of "work incentives." One of the most consistent findings of these studies is the conclusion that low-income workers are responsive to the financial incentives to work that are implicit in any income support program. If the payoff from working is increased, the amount of work among the poor and dependent population will also increase. Poor people respond just as other people do when their earning opportunities are improved: they try to work more.

There are generally two types of evidence about the effects of income transfer programs on work effort. The first type of evidence comes from studies of the behavior of various groups in the population under the current system of income transfers. The second kind of evidence comes from studies of behavior under experimental income maintenance programs. There is a large number of studies using the first type of information. These studies have generally shown that income transfer programs like public assistance, Social Security, and Unemployment Insurance do affect the work effort of program beneficiaries. Researchers have generally found that prime-aged husbands are much less affected by transfer programs than are other groups. For example, wives, women who are heads of single-parent families, and elderly people of either sex often make fairly large reductions in work effort in response to transfer payment program.

Masters and Garfinkel produced estimates of the effect of differences in wage rates and unearned income on hours worked for twenty different age-sex groups. Their particular contribution was to test the reliability of their estimates by using two different large data sets and various estimating procedures. The hours worked of all the groups turned out to be sensitive to some degree. Some groups were, however, more sensitive to wage rate and unearned income differences than other groups. Married men aged 25–55 were least sensitive, while married women and women heading households were most sensitive. Married men aged 25–54 were found to reduce their work effort by about 3 percent in response to a transfer program with an income level support equal to the poverty level and a benefit reduction rate equal to 50 percent. Wives aged 25–54 and women who head their own households were both found to reduce their work effort by about 30 percent in response to this program. Thus disregards may be expected to have differential effects on the hours worked of different groups—but all groups will be affected to some extent.[1] Of course, there are other, nonmonetary factors which affect the work effort of members of the various demographic groups. The length of commuting time, the availability of adequate child care, and the satisfaction derived from one's job are all factors which help determine how much someone is likely to work. Since the poor are disadvantaged in some of these areas, a purely monetary explanation of their work behavior will never be entirely adequate.

Studies of data from the income maintenance experiments have yielded additional information about the amount of work response to income transfers. The Office of Economic Opportunity and Department of Health, Education, and Welfare have sponsored a number of experiments to measure the work incentives in a variety of income support plans. (These experiments have been conducted in New Jersey, Pennsylvania, rural Iowa and North Carolina, Gary, Indiana, and in Seattle and Denver). The various income support plans which were tested had a design that was similar to some existing programs. Families who had no other income were eligible to receive a basic benefit amount. As a family's income rose, its benefit was reduced by the tax rate or benefit reduction rate. That is, a one-dollar increase in earnings would cause a 50-cent decrease in program benefits if the tested tax rate were 50 percent. The research on these experiments has confirmed our reasonable expectations about work behavior of heads of households. As the tested tax rate on earnings rose, the amount of gainful employment in the covered population fell; as the basic benefit level was increased, the amount of work effort decreased.

Since the Seattle and Denver experiments were the largest and longest-lived, their findings are probably the most reliable. Eleven income support plans were

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[1] Irwin Garfinkel and Stanley Masters, "Estimating Labor Supply Effects of Income Maintenance Alternatives," The Institute for Research on Poverty, Madison, Wisconsin, Forthcoming. For summaries of other studies, see Irwin Garfinkel, "Income Transfer Programs and Work Effort: A Review," Joint Economic Committee, Paper No. 13, Studies in Public Welfare, 1974.

tested in Seattle and Denver, with basic benefit levels ranging from 90 percent to 135 percent of the poverty line and with benefit reduction rates ranging from 50 percent to about 70 percent. Researchers have found statistically significant labor supply reductions in response to the tested plans. In two-parent families, husbands reduced their hours of work by about 6 percent and wives reduced their work effort by about 17 percent. Women who are heads of single-parent families worked about 12 percent less under the experimental support plans.[1] (Of course, these estimates of the response to the experiment are sensitive to the number and type of variables that are controlled for in the analysis. However, they are presently, our best estimates of the effect of the experiment on work behavior.)

The Seattle and Denver experiments also tested income maintenance programs of differing duration. For most of the enrolled families, the experiment was limited to three years, but some of the families were enrolled for five years. It is possible that workers will exhibit different responses to a permanent program than to one that is expected to be temporary. By examining the response to a three-year and five-year experimental program, we hope to gain some insight into this question. Data that have recently become available suggest that for husbands and wives in two-parent families, there may be some differences between families participating in the three-year and the five-year programs. The wage earners participating in the five-year program appear to have reduced their work effort by more than earners in the three-year program, although the actual amount of the difference is difficult to determine and seems to vary over the course of the experiment. There appears to be no difference in the response among female heads of single-parent families. Since the number of families participating in the five-year program is too small to make reliable estimates of the pattern of work reductions, we have obtained our present estimates of the response by using information about all families—including those in the three-year program. Our present estimates of the work reductions are based on the average response among the participants in the three-year and the five-year programs; they are higher than the response among the three-year participants and lower than the response among the five-year participants. For female heads of single-parent households, of course, there were no apparent differences in response to the three-year and the five-year program, so the averaging of responses has no effect on the estimates.[2]

We mentioned earlier that workers in Seattle and Denver were found to be responsive both to the basic benefit level and to the tax rate on earnings. While it is not easy to summarize the complicated pattern of response among the different groups, it is possible to show the effects of different programs on a representative family. Consider, for example, a male head of household who works full time at the minimum wage and heads a family which has no other source of support besides his earnings. If his family becomes eligible for an income transfer, he will reduce the amount he works for two reasons: (1) his earnings will be supplemented by a transfer payment, so there will be less necessity to work and (2) his wage earnings will be subject to a higher tax rate, so there will be a smaller payoff from working. Table 1 below shows the estimated work reduction for different payment formulas, based on the Seattle-Denver results. The first column shows the work reduction when the basic benefit and the tax rate are both quite modest. In the second column, we show the response when the basic benefit rises by 40 percent, and the tax rate remains constant. The last two columns show the effect on work effort of raising the tax on earnings to 70 percent and then to 85 percent.

It is clear that both the basic benefit level and the tax rate have a substantial effect on the size of the work reduction. As the basic benefit rises from $2850 to $4000 per year, the amount of the work reduction rises by about 53 percent. As the tax rate rises from 50 percent to 85 percent, the amount of work reduction rises by nearly 72 percent. These work reductions cause a fall in family earnings that partly offsets the rise in family income that comes about

[1] DHEW, "The Seattle-Denver Income Maintenance Experiment: Midexperimental Labor Supply Results and a Generalization to the National Population," Washington, D.C., (Forthcoming).

[2] For earlier evidence on the effect of the five-year program, see Keeley, *et al.*, "The Labor Supply Effects and Costs of Alternative NIT Programs: Evidence from the Seattle and Denver Income Maintenance Experiments" (Part 1), SRI Res. Memo #38, Stanford Research Institute, Menlo Park, California, 1977, p. 23.

TABLE 1.—ESTIMATED EFFECTS OF ALTERNATIVE INCOME TRANSFER PROGRAMS ON A TYPICAL FATHER IN A 2-PARENT FAMILY[1]

Program characteristics—				
Tax rate on earnings (percent)	50	50	70	85
Basic benefit level (per year)	$2,850	$4,000	$4,000	$4,000
Reduction in work effort—				
In hours per year	97	149	158	256
As a percentage	6	9	9	15
Family's benefit (per year)—				
If there is no work reduction	$1,500	$2,649	$1,748	$1,072
After the work reduction	$1,629	$2,847	$2,041	$1,661
Increase in family's net income—				
If there is no work reduction	$1,500	$2,649	$1,748	$1,072
After the work reduction	$1,372	$2,452	$1,622	$983

[1] The father is assumed to work nearly full time (1,700 hours per year) and to earn a gross wage of $2.65 per hour and a net wage of about $2.10 per hour. There is no other family income besides the father's wage earnings. To determine this worker's hours reduction, we used a statistical estimation based upon all families participating in the Seattle and Denver experiments—including families participating in both the 3-yr and the 5-yr programs.

from the transfer payment. For example, the transfer payment plan that has a $4000 basic benefit and 85 percent benefit reduction rate would result in a payment (and a consequent rise in family income) equal to $1072 in the absence of any labor supply reduction. Because the father reduces his work effort by 15 percent (256 hours per year), the family's payment will go up to $1661 but net family income will rise by only $983. The labor-supply reductions among wives and female heads of single-parent families are larger than those for male heads of families. However, the pattern of response to different basic benefit levels and tax rates is similar to the response reported here for male heads.

In examining the overall impact of a program on work disincentives, it is important to consider the size of the affected population. The basic benefit level and tax rate of a program affect the size of the covered population by determining the breakeven level of income—the income cutoff where people lose their eligibility to receive program benefits. When the basic benefit level rises or the tax rate falls the breakeven level will rise, thus increasing the number of families who can receive benefits. As the number of people receiving benefits rises, the total amount of work reduction in the population will typically rise as well. Thus, the effect of a tax decrease on overall work incentives is complicated by the fact that it both increases the reward for work for those who already receive benefits and decreases the reward for work for those who become newly eligible for benefits. In fact, it is possible that aggregate work effort could be higher with a higher tax rate.

The Seattle and Denver results on work reductions have been applied to the entire U. S. population to determine the amount of work response that would be caused by a reform in the welfare system. These results are now being used in the DHEW simulation model that estimates the cost of the proposed Better Jobs and Income Program.

The results have also been used to estimate the costs of other income maintenance programs. It has been found, for example, that a national income maintenance program with a basic benefit equal to 75 percent of the poverty level and a benefit reduction rate of 50 percent would add $5.56 billion to present transfer program costs, even if there were no work reductions on the part of participants in the program. Because such reductions take place, however, the actual net costs rise by an additional one-third to $7.44 billion.[4]

When we turn to the evidence about work incentives in our existing public assistance programs, the findings are somewhat inconsistent and imprecise. However, the overall conclusions from the income maintenance experiments seem to be borne out. There is a variety of evidence about the work disincentive effects of Aid to Families with Dependent Children (AFDC). Part of the evidence is based upon studies of participant employment rates across states. There is a great deal of variability among states in the way AFDC grants are calculated. As a result, the "effective tax rates" imposed on earned income may

[4] DHEW, *op cit.*, p. 32.

vary between states. The "effective tax rate" is one rough measure of the amount of work disincentive in the AFDC program, and it is equal to the dollar amount by which a family's grant is reduced—on average—as its earnings rise by one dollar. If the "effective tax rate" is very high, there is very little incentive for someone collecting AFDC to go to work.

Researchers have found that in states with a high effective tax rate, other things being equal, there is a lower rate of employment among AFDC heads of households and a lower amount of self-support per family. Garfinkel and Orr examined employment rates prior to the implementation of the "$30-and-⅓" earnings disregard and found that the employment rate rose by about 1.4 percentage points for every 10 percent reduction in the tax rate.[5] Moreover, they also found that the employment rate rose by 1 percentage point for every $10 increase in the amount of "set-aside" or untaxed earnings. The implication of this study is that employment rates would rise by about 7½ percent among AFDC mothers as a result of the "$30-and-⅓" earnings disregard. Hausman, in a study of employment rates limited to three states, found a similar pattern.[6] Other researchers have also analyzed the response of AFDC participants to "effective tax rates" on earnings. These studies have generally found that participants in AFDC will work more if the tax on earnings is reduced.[7]

We must be careful in distinguishing two effects of improving a financial work incentive in an income support program. In AFDC, when we lower the effective tax rate on earnings we are generally giving a positive work incentive for those people who are already eligible. Studies such as those noted above indicate that this incentive causes some people to enter employment and others to increase their earnings. However, the lower tax rate also makes some new people eligible, because the breakeven level has gone up. These people—on average—reduce their earnings after they begin receiving benefits. One statistical study of AFDC suggests that those women who become newly eligible (because of the higher breakeven) reduce their work effort more than the amount of work increase of those who were already eligible.[8] We do not have enough evidence to be sure of this conclusion, however.

Now let us turn to the direct evidence about the effects of the "30-and-⅓" earnings disregard, introduced with the 1967 amendments to the Social Security Act. The specific intent of the disregard was to encourage self-support among AFDC families by encouraging employment. Several studies have examined the AFDC caserolls before and after the implementation of the disregard in order to determine its effects. In studies of Michigan and New York caserolls, it has been found that after implementation of the "30-and-⅓" rule there was a higher employment rate among AFDC recipients in spite of the fact that economy-wide employment rates declined.[9] Whereas the employment rate among AFDC mothers ranged from only 10 to 15 percent in the counties surveyed prior to the "30-and-⅓" rule, researchers found that this rate rose by 2½ to 4½ points after implementation of the rule. This suggests that the disregard did have a small but significant effect in encouraging employment and self-support. However, we should recall that the "30-and-⅓" rule also made it possible to remain eligible for AFDC at a higher earnings level. (This disregard was not applied in determining initial eligibility, but it was used to determine continued eligibility for those already on the rolls.) Thus, many women who became employed subsequent to introduction of the disregard and remained eligible for AFDC payments would not have been eligible for benefits without the disregard. This means the work incentive effect of the disregard may be exaggerated somewhat by considering only changes in the employment rate.

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[5] Irwin Garfinkel and Larry Orr, "Welfare Policy and the Employment Rate of AFDC Mothers," National Tax Journal, June 1974, p. 280.

[6] Leonard J. Hausman, "The Impact of Welfare on Work Effort of AFDC Mothers," The President's Commission on Income Maintenance Programs: Technical Studies, Washington, D.C., 1970.

[7] See Nicholas Barr and Robert Hall, "The Probability of Dependence on Public Assistance," Department of Economics Working Paper #131, Massachusetts Institute of Technology, Cambridge, Massachusetts, 1974; Daniel Saks, Public Assistance for Mothers in an Urban Labor Market, Industrial Relations Section, Princeton U., Princeton, N.J., 1975; and Robert G. Williams, Public Assistance and Work Effort: The Labor Supply of Low-Income Female Heads of Households, Industrial Relations Section, Princeton U., Princeton, N.J., 1975.

[8] Barr and Hall, *op cit.*, p. 8.

[9] For Michigan see Gary Appel and Robert Schlenker, "An Analysis of Michigan's Experience with Work Incentives," *Monthly Labor Review*, September 1971; and Vernon K. Smith, *The Employment and Earnings of AFDC Mothers: The First-Year Effect of the Earnings Exemption in Two Michigan Counties*, Doctoral Dissertation, Michigan State University, 1973; For New York see Gary Appel, *et al.*, *A Study of the Impact of the Income Disregard: Final Report*, Interstudy Minneapolis, Minnesota, 1975.

The effect of the AFDC disregard on program cost depends not only on its effects on work effort, but also on the fact that it increased the amount of payments made to families who already had earnings and whose earnings did not change, and that families who were initially eligible for AFDC and had an increase in earnings could continue to be eligible at higher earnings levels. Taking all these factors into account, it has been calculated that AFDC payments costs probably rose somewhat (by 4 to 7½ percent in two upstate New York counties) even though self-support among the previously dependent population increased.[10]

The rather modest effect of the disregard on encouraging work may be surprising. Part of the reason for this may be that for many states the "$30-and-⅓" disregard was imposed on top of a generous earnings exemption for work-related expenses. These work expenses were often calculated in such a way that some people covered by AFDC found it was advantageous to work, even though their net earnings were nominally taxed at a 100-percent rate through reductions in their AFDC grants. Even before the implementation of the "30-and-⅓" rule, about one in ten mothers covered by AFDC reported some amount of earnings.

Finally, we should mention that the calculation of AFDC grants varies a good deal from state to state; even within the same state there is a great deal of variation in the way a welfare grant is calculated. Two families of identical size with identical amounts of earned income may receive grants that differ substantially. This may be because they have differing levels of need or work expenses, or it may be because their caseworkers count needs and work expenses in different ways. Whatever the case, it is certain that the present system of calculating welfare benefits offers differing work incentives to people in roughly similar circumstances. When the "$30-and-⅓" disregard was introduced, work was generally encouraged among current recipients, but the amount of the added work incentive was very unequal for different families. Consequently, the pattern of response to the "$30-and-⅓" disregard is still not entirely understood. We are reasonably certain, however, that overall it encouraged work among the recipient population.

Question. As you well recall, the Administration's commitment to interim fiscal relief included not only the small 1978 installment now built into the Social Security legislation (and H.R. 7200), but also appropriate modification of the Administration's overall welfare reform bill to include (upon enactment of the bill) second and third installments in 1979 and 1980. I trust that at our hearings you will present us with the relevant legislative language and be ready to explain how these fiscal relief payments will work, the amounts per State that can be expected, and the relationship between interim relief and the fiscal relief you anticipate when the full program is finally in place.

Answer. During his testimony, Secretary Califano discussed with the Subcommittee the issues raised in question six. The attached table shows the estimated distribution of fiscal relief in fiscal year 1979 and 1980, under the assumption that H.R. 9030 passes and includes the provision for interim fiscal relief supported by the Administration. The data in the table were developed according to the following specifications:

Amount to be authorized: $500 million in FY 79 and $600 million in FY 80.

Allocation formula: In each year half of the total is to be allocated based on each State's share of total State and local welfare spending in the base year and the other half is to be allocated based on each State's share of total general revenue sharing payments in the base year. The base year will be FY 77. Current welfare expenditures will be defined as the sum of non-Federal expenditures for AFDC, SSI, IV-A Emergency Assistance, and General Assistance), plus the non-Federal share of AFDC administrative costs.

Limitation of fiscal relief payments: In order to insure that every State will get more fiscal relief after welfare reform is implemented, the payment to each State determined according to the above formula will be subject to the following constraint: its payment may not exceed 9 percent of the State's current welfare expenditures in the base year (FY 77) as defined above.

Quality control adjustment: To receive its full share of FY 79 and FY 80 fiscal relief payments, each State must have reached a payment error rate in the AFDC program of four percent or less as of the most recent quality control sampling period. States which have not reached a four percent-or-less payment error rate by that period could still receive some payment depending on the degree of their progress towards that rate since a base period. At State option,

[10] Appel, *et al., op. cit.*, p. VIII-32.

the base period could be either the July-December 1974 or January-June 1975 quality control sampling period. If, for example, a State had a ten percent error rate in the base period and had reduced that error rate to six percent as of the most recent quality control sampling period, the State would receive a payment equal to two-thirds of the fiscal relief payment it would otherwise have received since it had progressed two-thirds of the way towards the four percent goal).

Local pass-through: As a condition of receiving any fiscal relief payment, a State would have to pass through a proportionate amount of the State's fiscal relief payment to local jurisdictions participating in the cost of the AFDC program. H.R. 9030 requires that each State pass on to localities an amount based on the proportion of State matching funds that are contributed by the localities in the State. We recognize that the fiscal relief provision of the recently enacted Social Security law (P.L. 95-216) embodies a different approach (full pass-through to local governments) and that further discussion of the pass-through formula may be necessary.

TABLE I.—FISCAL RELIEF BEFORE IMPLEMENTATION OF WELFARE REFORM

State	Fiscal year 1978 [1]	Fiscal year 1979 [1]	Fiscal year 1980 [2]	Total [3]
Alabama	4.4	2.8	2.8	10.0
Alaska	.7	1.1	1.1	2.9
Arizona	2.6	2.0	2.0	6.5
Arkansas	2.7	1.5	1.5	5.7
California	50.5	81.5	97.8	229.8
Colorado	3.5	4.7	5.1	13.4
Connecticut	4.9	6.3	7.6	18.8
Delaware	1.0	1.3	1.3	3.6
District of Columbia	2.4	3.2	3.8	9.4
Florida	7.9	4.0	4.0	15.9
Georgia	5.9	4.5	4.5	14.9
Hawaii	2.3	2.9	3.5	8.6
Idaho	1.0	.9	.9	2.8
Illinois	23.2	31.8	38.1	93.1
Indiana	6.1	4.7	4.7	15.4
Iowa	3.9	4.5	4.5	12.8
Kansas	3.0	3.5	3.5	9.9
Kentucky	5.7	4.3	4.3	14.4
Louisiana	6.0	4.0	4.0	14.1
Maine	2.0	2.3	2.3	6.5
Maryland	6.5	8.5	9.1	24.1
Massachusetts	14.3	22.6	27.1	64.0
Michigan	21.0	26.9	32.3	80.3
Minnesota	6.4	8.4	9.0	23.8
Mississippi	3.3	.8	.8	4.9
Missouri	6.3	8.0	8.6	22.9
Montana	.9	.5	.5	2.0
Nebraska	1.6	1.5	1.5	4.6
Nevada	.6	.9	.9	2.4
New Hampshire	1.0	1.3	1.3	3.6
New Jersey	13.9	17.9	21.5	53.3
New Mexico	1.8	1.1	1.1	4.1
New York	52.9	76.7	92.0	221.6
North Carolina	7.0	5.1	5.1	17.2
North Dakota	.7	.5	.5	1.6
Ohio	15.6	18.9	22.7	57.2
Oklahoma	3.5	4.5	4.6	12.5
Oregon	4.4	4.8	5.4	14.7
Pennsylvania	22.5	31.0	37.2	90.7
Rhode Island	1.8	2.3	2.8	6.9
South Carolina	3.3	1.5	1.5	6.3
South Dakota	.9	.7	.7	2.4
Tennessee	4.9	3.0	3.0	10.9
Texas	11.6	4.7	4.7	21.0
Utah	1.7	1.3	1.3	4.3
Vermont	1.0	1.3	1.5	3.7
Virginia	6.3	6.9	6.9	20.1
Washington	5.5	7.7	9.3	22.4
West Virginia	2.7	1.8	1.8	6.2
Wisconsin	8.6	9.8	10.6	28.9
Wyoming	.4	.3	.3	1.0
Total	372.9	452.8	522.7	1,348.4

[1] One-half of fiscal year 1978 fiscal relief was enacted as part of the Social Security Amendments of 1977 (Public Law 95-216).
The other half will be considered as the Congress considers H.R. 7200.
[2] Fiscal year 1979 and fiscal year 1980 fiscal relief will be allocated based on States' fiscal year 1977 welfare expenditures. Data for fiscal year 1977 are not yet available, so these projections are based on 1975 welfare expenditures. When fiscal year 1977 data are used, the distribution of the fiscal relief among the States may change slightly.

Question. Much attention has been focused on fiscal relief calculations for fiscal year 1981, the first year of the proposed new plan. But is there not some reason to believe that we should be more concerned about later years when, as I understand it, there is little prospect of increased relief and much reason to expect amounts to diminish?

Answer. Forecasting fiscal relief in later years is a difficult and chancy undertaking since it involves estimates and guesses about a great many economic and demographic factors (e.g., rates of inflation and real growth; changes in the number of single parent households and in the number of disabled) and about State policies on the level of matching supplements to the basic Federal grant and on the amount of grandfather payments States would choose to make.

To understand our estimates of "out year" fiscal relief, it is necessary to recall that all of our published fiscal relief estimates have been for 1975, as if the Program for Better Jobs and Income had been in place in that year. That is because the data base that permits State-by-State estimates is for 1975 and we wanted to avoid estimates and guesses of the type discussed above on a State-by-State basis, as would be required for estimates of fiscal relief. In order to develop a relatively uncomplicated estimate of "out year" fiscal relief we assume that all of the factors that enter into initial year fiscal relief estimates remain the same, except that the number of grandfathered cases declines. We assume that the number of AFDC and SSI cases receiving grandfather payments declines as shown in the following table.

	Grandfather payments as percent of 1st yr grandfather payments	
	AFDC [1]	SSI [1]
Number of years under new program:		
1	100	100
2	77	60
3	62	40
4	51	30
5	43	22
6	36	21

[1] The rates of decline for AFDC are based on AFDC case closing rates and for SSI on actual experience with SSI mandaory supplements dating from the implementation of SSI in January 1974.

Naturally, the data in Table 7-1 show that over time fiscal relief would increase from $1.75 billion in year one to $2.62 billion in year six. There is, of course, a distribution of fiscal relief changes across the States. This results from the inevitable interstate differences in factors such as participation rates, pre-reform program expenditures, supplement levels and coverage, and degree of hold-harmless coverage. With respect to participation rates, which appear to be important in determining program outlays, it is important to note that the estimating method used assumes participation rates in the PBJI to be much in excess of those currently found in certain States. As a result, many more persons in a particular State are assumed to receive benefits that are now actually doing so. In fact, we believe our participation rates are probably overestimated for a number of States. In trying to use nationally uniform estimates that will minimize the risk of underestimating Federal costs, we have, we believe, erred on the other side for States that currently have low participation in current programs such as Food Stamps. Nationwide, we *assume* the participation rate in PBJI will be 86 percent. Comparable rates under the Food Stamp program can be found in the attached table reproduced from a recently published book on that subject.

These estimates for year six assume that the hold-harmless provision phases out after five years.

CHANGE 1. FISCAL RELIEF ESTIMATES

Estimates of fiscal relief have changed since Secretary Califano testified before the Subcommittee on Welfare Reform in September. Our estimate of total fiscal relief for the States as a group has dropped about $300 million, from $2.05 to $1.75 billion.

Changes in the fiscal relief estimates are due to: (1) changes in our assumptions about State behavior; (2) changes in the treatment of Emergency Needs funds for the purposes of estimating fiscal relief; and (3) improvements in our ability to simulate the program on the computer.

Changes in State behavior assumptions

Previous HEW estimates have assumed that States would not supplement basic Federal benefits for single persons and childless couples. After consulting with the staff of the Welfare Reform Subcommittee and various State welfare officials, we have decided to change this assumption for those States that now run GA programs that provide benefits comparable to those paid under AFDC. Therefore, our revised fiscal relief estimates now assume California, Illinois, Massachusetts, Michigan, New York, and Pennsylvania would provide supplements to singles and childless couples up to the limit of Federal subsidization of State supplements as provided in H.R. 9030.

Change in treatment of emergency needs funds

In previous estimates, we assumed that grandfathering costs shown by the computer simulation would in reality be reduced by payments made under the Emergency Needs program. We did not know exactly how much of EN funds would go to reduce grandfather costs, but in our original estimates we assumed 100 percent. This assumption was reflected in the fiscal relief calculation by simply not including the amount of the EN grant in post-reform State expenditures. This assumption was questioned by the States and members of Congress.

Clearly the actual cost of grandfathering will be less than the computer figures because of the existence of the EN program. How much less cannot be determined prior to program experience. In order to take account of this fact, we now assume that State grandfathering expenditures nationally will be reduced by one-half of total payments under the Emergency Needs program. This assumption reduces AFDC and SSI grandfathering nationally by about 12 percent, or $250 million (one-half of total EN).

Operationally, we have changed our treatment of EN by reducing the AFDC and SSI computer grandfathering estimates for each State by about 12 percent. We then include the full amount of the EN block grant in post-reform State expenditures for purposes of calculating hold harmless payments and fiscal relief. This has the effect of reducing our estimate of fiscal relief for the States as a group by about 50 percent of EN funds or approximately $250 million.

Improvements in Simulation

Changes in the labor supply model improvement in simulating the effect of the cumulative marginal benefit reduction rate on labor supply response; addition of labor supply response for grandfathered recipients.

Change in the assets test to reconcile assets reported on the SIE and those reported for SSI and AFDC eligibility.

TABLE 7-1.—FISCAL RELIEF

State	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Alabama	5.3	3.1	1.6	1.6	1.6	−.7
Alaska	1.4	1.2	.6	.6	.6	−1.2
Arizona	2.7	2.2	2.3	2.9	3.4	3.7
Arkansas	1.7	1.7	.8	.8	.8	.6
California	316.5	440.8	511.0	554.1	586.8	604.7
Colorado	5.7	8.9	12.4	14.6	16.2	17.3
Connecticut	9.7	9.7	4.8	4.8	4.8	5.5
Delaware	5.8	6.5	6.9	7.2	7.4	7.5
District of Columbia	34.0	36.9	38.8	40.1	41.1	41.9
Florida	10.7	8.3	5.6	5.8	7.2	8.4
Georgia	8.4	5.1	2.5	3.3	4.8	5.9
Hawaii	4.7	4.7	6.7	8.2	9.3	10.1
Idaho	1.2	1.0	.5	.5	.5	−6.5
Illinois	195.7	228.4	248.0	260.9	270.5	277.2
Indiana	5.2	5.2	2.6	3.5	4.9	6.1
Iowa	5.0	5.0	5.6	7.4	8.6	9.6
Kansas	3.9	3.9	4.6	5.9	6.9	7.7
Kentucky	4.8	4.8	2.4	2.4	2.4	−4.2
Louisiana	7.6	4.9	2.2	2.2	3.6	4.8
Maine	3.8	7.3	9.3	10.6	11.6	12.2
Maryland	44.9	50.0	53 1	55.4	57.0	58.3
Massachusetts	112.5	133.2	144.9	152 0	157.4	160.3
Michigan	98.8	129.2	147.4	159.6	168.7	175.1
Minnesota	10.0	16.7	21.4	24.7	27.1	28.9
Mississippi	1.8	1.3	.8	.7	1.0	1.3
Missouri	17.9	31.7	39.4	44.0	47.6	49.4
Montana	.8	.6	.3	.3	.3	.2
Nebraska	1.6	1.6	.8	.8	.8	−8.5
Nevada	1.7	1.6	2.1	2.5	2.7	2.9
New Hampshire	1.5	1.5	.7	1.1	1.5	1.6
New Jersey	66.6	84.1	94.5	101.5	106.7	110.3

TABLE 7-1.—FISCAL RELIEF—Continued

State	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
New Mexico	2.6	1.8	1.0	.6	.6	.3
New York	424.5	509.6	559.2	591.1	615.0	630.1
North Carolina	5.7	5.7	2.8	2.8	2.8	−5.1
North Dakota	.5	.5	.3	.3	.3	−1.9
Ohio	84.4	99.0	108.3	115.1	120.0	124.1
Oklahoma	7.8	5.1	2.5	2.5	2.5	−8.7
Oregon	7.6	6.0	3.0	3.0	4.3	5.2
Pennsylvania	145.4	178.6	198.2	211.1	220.6	227.0
Rhode Island	7.9	11.1	12.9	14.2	15.1	15.7
South Carolina	3.9	2.8	2.1	2.6	3.0	.33
South Dakota	1.4	.8	.4	.4	.4	−2.1
Tennessee	5.3	3.3	1.7	2.0	3.0	3.8
Texas	12.7	9.8	6.6	7.9	9.4	10.7
Utah	1.4	1.4	.7	.7	.7	−.5
Vermont	1.7	1.6	.8	.9	1.3	1.6
Virginia	7.7	7.7	3.8	3.8	3.8	−2.3
Washington	23.5	30.2	34.1	36.5	38.4	39.5
West Virginia	2.4	2.0	1.0	1.0	1.0	−9.5
Wisconsin	11.7	11.7	5.9	5.9	5.9	−6.2
Wyoming	.3	.3	.2	.2	.3	.3
Total	1,750.3	2,130.1	2,320.2	2,482.7	2,612.2	2,615.6

TABLE 7—2.—FROM MAURICE MacDONALD; FOOD, STAMPS AND INCOME PARTICIPATION RATES AND NEED (MAINTENANCE, ACADEMIC PRESS, 1977)

TABLE 6.1.—STATE FOOD STAMP PARTICIPATION RATES

State	Estimated number of persons eligible in 1974 (1)	Peak monthly number of participants January – September 1974 (2)	Estimated 1974 participation rate (3)=(2)÷(1)
	(1)	(2)	
Alabama	1,177,139	338,762	28.8
Alaska	71,968	21,769	30.2
Arizona	421,552	111,520	26.5
Arkansas	754,353	249,514	33.0
California	2,412,481	1,404,824	38.2
Colorado	411,554	138,567	33.6
Connecticut	291,513	145,313	49.8
Delaware	85,458	21,214	24.8
District of Columbia	150,783	117,830	78.1
Florida	1,713,309	514,847	30.0
Georgia	1,318,000	424,830	32.2
Hawaii	160,839	71,540	44.5
Idaho	161,812	33,794	20 9
Illinois	1,569,158	878,455	56.0
Indiana	771,298	194,791	25.5
Iowa	510,030	116,020	22.7
Kansas	425,533	53,107	12.5
Kentucky	1,053,952	401,992	38.1
Louisiana	1,269,096	530,589	41.8
Maine	212,394	96,133	45.3
Maryland	560,352	258,710	46.2
Massachusetts	612,749	284,966	46.5
Michigan	1,156,822	581,754	50.3
Minnesota	599,682	184,142	30.7
Mississippi	982,632	351,117	35.4
Missouri	1,074,852	290,932	27.1
Montana	147,786	33,393	22.2
Nebraska	299,628	50,447	16.8
Nevada	65,924	27,168	41.2
New Hampshire	102,000	32,000	31.3
New Jersey	833,394	435,187	52.2
New Mexico	351,627	149,831	42.6
New York	2,447,536	1,915,785	48.9
North Carolina	1,484,562	341,397	23.0
North Dakota	155,072	18,361	11.8
Ohio	1,517,712	750,774	49.5
Oklahoma	691,202	155,463	22.5
Oregon	346,542	163,617	47.2
Pennsylvania	1,814,010	744,896	41.1
Rhode Island	143,388	77,881	54.3
South Carolina	859,161	354,484	41.3
South Dakota	204,789	30,273	14.8
Tennessee	1,247,504	329,456	26.4
Texas	3,007,732	1,057,976	35.2

State	Estimated number of persons eligible in 1974 (1)	Peak monthly number of participants January – September 1974 (2)	Estimated 1974 participation rate (3)=(2)+(1)
Utah	188,742	39,829	21.1
Vermont	82,382	38,165	46.3
Virginia	1,030,544	215,338	20.9
Washington	475,084	228,898	48.2
West Virginia	543,888	213,774	39.3
Wisconsin	609,985	129,403	21.2
Wyoming	62,325	9,272	14.9
Total United States	38,623,810	14,411,501	37.5

Source: Bickel and MacDonald (1975).

QUESTIONS OF SENATOR CURTIS

Question. Please furnish this committee, in narrative form, all of the premises, hypotheses, equations, and assumptions that underlie your estimates and the program from which those estimates were derived. For example, I believe it is essential we explore in specific detail—

(a) *The data.* What data was used? This not only includes the basic data, the SIE survey in this instance, but parameters used to calculate the results. For example, what were the actual payment standards used for calculating State supplementation? What levels of State supplementation were assumed? How was the 1975 income data converted to 1978 data? Which CPI were used? What unemployment rates were used? What wage rates were used? What assumptions were used concerning the numbers and types of family members who would be working, and at what levels?

(b) The methodology and rationale for the assumptions. The model, obviously, contains specific rules and instructions for operating on the data. What were each of the assumptions? If the assumption has as its basis particular research and analysis, that should be cited. Also, methods of approximation may be used. What is the basis for each of these approximations? What aspects of the proposal are not covered by the model?

(c) Any sensitivity analysis done to judge the impact of possible variations in the assumptions. Has the model been run under a variety of situations related to jobs, wage rates, labor force participation rates, et cetera? What variations were used and what were the results? What interaction effects were present?

In short, it is essential that we have all of the assumptions—both those explicitly expressed and those implicit in the analysis methodology, by component. These must include, but not be limited to, such as: (1) The basic Federal program; (2) State supplementation; (3) State grandfathering of AFDC and SSI recipients; (4) Wage supplements; (5) The "hold harmless" computations; (6) Emergency assistance; (7) Public service jobs; (8) The earned income tax credit; (9) Federal administration; (10) State administration; (11) Cost of fraud and error; (12) Source and type of income data; (13) Payment standards; (14) Wage rates; (15) Participation rates; (16) Poverty levels; (17) Economic data; and (18) Unemployment rates.

Answer.

METHODOLOGY AND ASSUMPTIONS

Attached are a series of papers which explain many of the assumptions and the methodology used to develop the Program for Better Jobs and Income and the computerized microsimulation model. The first series of staff papers explain the assumptions and rationale behind major program components including: the filing unit, the benefit structure and computation, the work requirement, the Federal income tax reimbursement, the six-month accountable period, the job search period, the State maintenance of effort requirement, State supplementation of benefits, and the limitation of State fiscal liability. Following these papers is a set of State fact sheets which provide detailed estimates of the financial impact of the welfare reform program on States. The final item in this group of papers is a chart showing emergency needs allocations to States.

Following this group of papers explaining the assumptions and methodology used to develop the reform program is a paper which explains the basic structure and operation of the microsimulation model. The paper explaining the model was prepared by several HEW staff members and refers to the model as the "KGB model". This name comes from the names of those primarily responsible for the development of the model: R. Kasten, D. Greenberg, and D. Betson. Much of the economic framework upon which the procedures outlined in the paper rest appears in the following papers:

Beebout, H. "Microsimulation as a Policy Tool: The MATH Model," Policy Analysis Series No. 14, Mathematica Policy Research, February, 1977.

Beebout, H., ed. "MATH Technical Description," Mathematica Policy Research, July, 1976.

Beebout, H. and P. Bonina. "TRIM: A Micro-Simulation Model for Evaluating Income Policies," Working Paper 971-04, Urban Institute, January, 1973.

Greenberg, D. "Participation in Guaranteed Employment Programs: An Exploratory Simulation," in Public Service Employment, Supported Work, and Job Guarantees: Analytic Issues and Policy Implications. Edited by John Palmer, The Brookings Institute, Washington, D. C., forthcoming.

Greenberg, D. and M. Kosters. "Income Guarantees and the Working Poor: The Effects of Income Maintenance Programs on the Hours of Work of Male Family Heads," in Income Maintenance and Labor Supply. Edited by Glen C. Cain and Harold W. Watts, Institute for Research on Poverty Monograph Series, Markham, 1973.

Keeley, M., P. Robins, R. Spiegelman, and R. Wo[illegible]. "The Labor Supply Effects and Costs of Alternative Negative Income T[illegible] Programs: Evidence from the Seattle and Denver Income Maintenance Experiment, Part 1: The Labor Supply Response Function and Part 2: National Predictions Using the Labor Supply Response Function," Research Memoranda 38 and 39, Stanford Research Institute, May, 1977.

Maxfield, M. Jr. "Estimating the Impact of Labor Supply Adjustments on Transfer Program Costs: A Microsimulation Methodology," Mathematica Policy Research, March, 1977.

The following aspects of the proposal are not covered by the model:

The model cannot incorporate the proposed six-month accountable period because the data source contains income information for an entire calendar year. Out-of-computer adjustments to cost and caseload estimates are necessary to account for this difference. The adjustment factors were derived by special simulations largely based on monthly income data from the Denver Income Maintenance Experiment.

The institutionalized are not included in the model estimates because the data source includes no information on inmates of institutions. Separate estimates were derived based on program records and the Survey of Institutionalized Persons.

The model cannot accurately reflect the program's provisions for separate filing status for some children separated from their parents, referred to as informal foster care, because the data source does not identify familial relationships (that is, it cannot tell if children are living with parents or with other related adults). Separate estimates were constructed on the basis of experience with similar provisions in the AFDC program.

The model cannot estimate the costs of Federal SSI grandfathering because the data do not distinguish Federal and State portions of reported SSI benefits. An independent estimate was prepared using SSI program data. An additional amount was added to account for the elimination of provisions for certification of separate economic status.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE,
OFFICE OF THE SECRETARY,
Washington, D.C., October 3, 1977.

STAFF PAPERS ON THE BETTER JOBS AND INCOME ACT—H.R. 9030

1. Benefit structure and computation.
2. Filing (or-eligible) unit.
3. Six-month accountable period.

4. The work requirement.
5. State supplementation.
6. Limitation of fiscal liability of States (hold harmless protection).
7. Maintenance of effort.

Benefit Structure and Computation

The Better Jobs and Income Program proposes to employ a two-tier benefit structure that will provide higher (upper tier) benefits to families in which no adult is expected to work, and reduced (lower tier) benefits to families who are expected to derive most of their income from employment.

Aged, blind, or disabled persons and single parents with youngest child under 7 will not be expected to work. Single parents with no child under 14, two-parent families and singles and childless couples will be expected to work. Single parents with children aged 7 through 13 will be expected to work, but only part-time during school hours.

THE BASIC BENEFIT STRUCTURE

Cash benefits for aged, blind or disabled persons without income are set at $2,500 for a single individual and $3,750 for a couple.

These benefit levels protect the current Federal entitlement provided under Food Stamps and the Federal portion of SSI by providing benefits that exceed what a recipient can currently receive from the Federal portion of SSI and the bonus value of Food Stamps.

The upper tier benefits for families in which no adult is expected to work are: $3,000 for single parent and child, $3,600 for a family of three, $4,200 for a family of four, $4,800 for a family of five, $5,400 for a family of six, and $6,000 for a family of seven.

These benefit levels are designed to protect the current Federal entitlement under Food Stamps and, to the extent possible within budget constraints, to protect the current Federal share of AFDC payments. The basic benefit of $4,200 for a family of four, for instance, exceeds the cash value of Food Stamps plus the Federal share of AFDC in all but seven States.

Lower tier benefits are set at $2,300 for a family of four, and $1,700 for a family of three. But such families are placed on the upper tier if a job cannot be found for the principal earner after an eight-week job search.

The lower tier benefits are designed to protect the present Federal entitlements in Food Stamps which is available to all households whether or not they are able to work.

Unrelated, single individuals and couples without children will, if they have no other income, receive basic benefits of $1,100 and $2,200 respectively. Both amounts substantially exceed the current bonus value of Food Stamps.

Benefits under the basic Federal program equal about 65 percent of the poverty line for most families (more in the case of the aged, blind or disabled). Federal cost-sharing will permit and strongly encourage States to raise benefits to 75 percent of the poverty line.

THE "BUILDING BLOCKS" OF BASIC BENEFITS

The benefits availabe to different sized families can be constructed by reference to the individual components:

Household unit member:	*Annual benefit*
An adult who is aged, blind, or disabled	$1,600
Any other adult	1,100
A child who is blind or disabled	1,100
Any other child	600

In addition, household units are eligible for "increments" or bonus amounts that depend upon their composition:

If the "unit" consists of:	*Bonus*
One adult who is aged, blind, or disabled	$900
One individual and the individual's spouse, each of whom is aged, blind, or disabled	550
One adult and one or more children	1,300
Two or more adults and one or more children	800

NOTE: All benefit and bonus amounts are expressed here in annual totals. Section 2105 of H.R. 9030 expresses these benefit amounts in dollars per month.

The household bonuses are reduced, however, in instances where two or more units share the same household.

A unit which resides in the household of another unit, to which it is related, has its annual grant reduced by $800.

If two related units have ownership or household rights in a household, each has its annual grant reduced by $400.

The reduction in benefits is intended to reflect economies of scale implicit in the joint living arrangement.

In addition, no household can receive benefits for more than seven members.

Based on these individual and unit benefits it is possible to construct the total benefits for any household combinations:

For example: a family of five consisting of two adults (neither of whom can work) and three children would receive: $1,100+1,100+600+600+600+800 =$4,800.

For example: a family consisting of a mother and three children would receive: $1,100+600+600+600+1,300=$4,200.

For example: an aged grandmother, her daughter and the daughter's child reside together in the daughter's home. They constitute two household units.

the aged grandmother receives $1,600+900—800=$1,700.

the mother and daughter receives $1,100+600+1,300=$3,000.

All of the above examples are for families in which no adults are expected to work.

When a family member is expected to work, the unit drops from the upper tier in the following manner (§ 2105(d)):

the adult who is expected to work is dropped from the unit (ie. the unit no longer receives this adult's $1,100 benefit), and

$800 is subtracted from the household unit's increment or "bonus."

Thus, in the case of the family of five above, the grant would be reduced by $1,900 (down to $2,900) if an adult was expected to work.

Furthermore, if, in the third example above, we assume that the daughter's only child is 14 years old, the mother is expected to work. The total grant to this household would, therefore, be $1,200.

In the case of a household unit with a member expected to work, the lower tier benefit protects children and other dependents by continuing their benefits.

THE EARNED INCOME EXCLUSION

In order to encourage and reward work on the part of families where an adult is expected to work, the first $3,800 of earnings by the member dropped from the household unit is disregarded in determining the unit's benefits. Thus, a family of four eligible for $2,300 on the lower tier will continue to receive these benefits until the working member's income exceeds $3,800 on a monthly basis.

SINGLE INDIVIDUALS AND CHILDLESS COUPLES

Single individuals and childless couples are expected to work. They are eligible for cash benefits in the amount of $1,100 and $2,200 annually, but do not qualify for any household increments or "bonuses" or for the disregard. If a job is found for a single or childless couple, they are ineligible for any cash benefits.

THE BENEFIT REDUCTION RATE

Under the basic Federal program, benefits will decline by 50 cents for each additional dollar of income.

The rate at which benefits are reduced as income rises cannot be selected independently of other program features. This rate is directly related to the level of the basic benefit and the phase-out or "breakeven" point—the income level at which a family ceases to be eligible for benefits. A low benefit reduction rate implies a high phase-out rate, other things being equal.

The selection of a 50 percent benefit reduction rate, therefore, represents a reasonable compromise among the goals of preserving a return from work, limiting the phase-out point, and providing adequate basic benefits.

In addition, we did not wish to impose benefit reduction rates that were higher than those found under present programs. Present reduction rates range from 30 percent in Food Stamps to 60 percent or more for families that participate in AFDC and Food Stamps. Since most recipients benefit from more than one program, a 50 percent benefit reduction rate will improve the return from work for many families relative to the current system.

BENEFIT COMPUTATION

The actual benefit payable to a unit is calculated by reducing the basic benefit (referred to in the bill as "maximum payable amount (MPA)") by "available income" (§ 2104). Available income is defined (in § 2106) as:

50 percent of wage and salary income (if it exceeds an applicable disregard)
80 percent of non-employment income (e.g., interest, rent)
100 percent of Federal transfer payments.

For example, if a unit had annual earnings of $4000 it would have available income of $2000 (equals 50 percent of $4000). If that unit had a MPA of $4200 the annual payment to the unit would be:

Payment=MPA—available income
$2200=$4200—$2000

To take another example, suppose a two-parent, two child family had earnings of $2000. Such a family is eligible for the $3800 earned income exclusion and has a basic benefit (MPA) of $2300. Since its income is less than the earned income exclusion, available income is zero. Then the cash assistance payment would be $2300.

As a final example, consider a mother and 4 young children, with no earnings, but income of $1000 from rent. The unit's MPA equals $4800 and its available income is 80 percent of $1000, or $800. Thus:

Payment=MPA—Available Income
$4000=$4800—$800

FILING (OR ELIGIBLE) UNIT

A filing unit is a group of persons which jointly applies for and receives benefits. This group is considered to share economic resources and responsibilities, and hence is treated as a unit for the purpose of counting income and calculating benefits. The detailed specification of how this unit is formed, or who *may* be included and who *must* be included, has important implications for the treatment of specific types of individuals and thus for the nature of the program.

RATIONALE

The underlying premise of a filing unit is that relatives living together enjoy the benefits of economies of scale and generally share their resources in order to meet common economic needs. The logic of this premise suggests that the filing unit be defined as inclusively as possible, so that all relatives who are members of the same household are considered together. Thus, poor individuals who live with well-off relatives are presumed to benefit from that arrangement, and the resources of the entire group of relatives should be counted in determining their benefits. A broad definition also simplifies administration by keeping the number of recipient units small.

On the other hand, many situations arise in which relatives, though they may share living quarters, are not economically interdependent. A very broad filing unit definition may set up presumptions of sharing of resources and of mutual responsibility which are at variance with the facts in a large number of cases. Thus, a broad definition would be fair only if some procedure for certifying separate economic status were available to allow economically independent units to file separately. Such procedure is likely to be difficult to administer, and would probably counterbalance whatever administrative advantages come from a broad filing unit definition.

In addition, introduction of a broad filing unit definition would tend to disadvantage seriously several groups which society evidently wishes to protect. In particular, aged, blind or disabled individuals or couples living with relatives, and AFDC families living with relatives, would be treated less generously by a filing unit which included the entire household than they are by present programs.

DETAILS OF THE PROPOSED DEFINITION

A filing unit contained in the Better Jobs and Income Program represents a compromise between a broad and a very narrow definition. In general, the Program includes in the same filing unit only relatives who live together. Non-related individuals or groups who live together are treated separately, as are relatives who live apart.

A group of relatives living together, however, may comprise more than one filing unit. Any "nuclear family," i.e., a married couple with their minor children (if any), or a single parent and children, constitutes a filing unit. If more than one such family lives together, each family would be a separate filing unit.[1] This family-based filing unit definition reduces drastically any need for a separate economic status provision, and no such provision is included in the proposed legislation.

Individuals who are not members of such a nuclear family but live with one to which they are related may be included with the family's filing unit. This inclusion is voluntary; however, the individual cannot receive benefits except by filing with the family. If two or more related individuals live together with no nuclear family present these individuals jointly form a filing unit. An exception to these rules is an aged, blind or disabled individual, who always files separately for benefits.[2]

COMPARISON TO PRESENT PROGRAMS

The proposed filing unit is narrower than the present Food Stamp filing unit, which includes all household members who live together. This definition includes even non-relatives, such as boarders.

By comparison to SSI, the filing unit in the Program for Better Jobs and Income is broader. SSI includes only the aged, blind or disabled (ABD) persons themselves, but does not include non-ABD spouses or children (although the income of non-ABD spouses is included after certain disregards).

The bill's filing unit is close to but somewhat broader than that used in AFDC. AFDC units do not include any individual adult relatives who live with the unit. An additional difference is that the bill's definition includes stepfathers as part of the family unit. At present, a stepfather is not considered responsible for the unadopted children of his wife, so his income is not considered in setting their AFDC benefits.

EXAMPLES

Consider the following households or relatives (all illustrative benefits are without State supplementation and assume the unit to have zero income and resources):

1. Father, age 55; mother, 55; daughter, 25; grandchild, 5.

This extended family consists of two nuclear families and would form two filing units: (1) father and mother, and (2) daughter and her child. The second unit could be eligible for benefits regardless of the income or assets of the first. The first unit would receive $2200, and the second unit would also receive $2200 ($3000 less $800 deducted for living in another household).[3]

2. Husband, 35; wife, 35; child by wife's first marriage, not adopted by husband, 8.

This family would form a filing unit, including the husband. The present AFDC rules would not include the husband, nor count his income. The unit would receive $3600.

3. Grandfather, 70; father, 45; mother, 45.

This household forms two units, the father and mother together, and the grandfather separately. This treatment parallels that in SSI. (The grandfather would have his benefits reduced by virtue of sharing the household, another provision which is close to SSI's rules.) The father and mother, as a unit, would receive $2200. The grandfather would receive $1700 ($2500, the full single-aged benefit minus $800, the benefit reduction by virtue of sharing the household).

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[1] In such situations, the total payment to a family living in a home owned or rented by another family is reduced by $800 to take account of the economies of the joint living arrangement.

[2] However, if that unit lives with another family, the total benefit for an aged, blind or disabled individual or couple is reduced by $800.

[3] All examples assume no available jobs for adults required to work.

4. Father, 35; mother, 35; child, 8; father's brother, 33.

This household comprises one unit. The father's brother may or may not be included, but if he elects not to join the filing unit, he cannot then file for benefits separately as long as he lives with the family. The unit would receive $4700 if the brother elected to join the unit.

Welfare Reform: The Six-Month Accountable Period

Basic to any program that provides cash assistance to the needy is the question of how to determine who should be eligible and the payment amount to which they should be entitled. In the President's Program for Better Jobs and Income, the method proposed is a "six-month retrospective accountable period" for measuring income need and adjusting accordingly the amount of benefits to be paid.

The proposed accounting procedure represents a delicate balancing among many important objectives of welfare reform.

It will assure that tax dollars go to those most in need while preventing families with relatively high incomes from receiving benefits.

It will be more equitable and increase the likelihood that families with similar annual incomes will receive similar benefits.

It will avoid the costly errors inherent in the present system by measuring actual past income rather than estimating future income.

In short, the method proposed will impact greatly on the extent to which the program as a whole is perceived to be fair and rational both by those it will serve and by the public at large.

The six-month accountable period will target assistance to those with chronic need and lowest incomes. Only those with relatively high but fluctuating incomes and those families with earnings greater than the amount at which program benefits phase out ($8,400 for a family of four and slightly higher in states which supplement) may be adversely affected. To help those who suffer temporary need before becoming entitled to cash assistance, the Program for Better Jobs and Income contains $600 million to assist States in financing emergency needs programs.

Under the proposed accountable period, eligibility will be based on two criteria:

First, an individual's or family's countable income[4] for the second month preceding the month of application must be below the maximum monthly benefit ($350 for a family of four).

Second, total countable income over the next previous five months must also be below the maximum benefit, using a "carry-forward" accounting process. The carry-forward process, described below, is used rather than 6-month averaging in order to be more responsive to those with monthly fluctuations in income.

The carry-forward system for determining eligibility and payment for a family which applies in September works as follows:

1. The family would report income for the second proceeding month, i.e., July.
2. If the countable income in July is less than the maximum benefit payable under the program, the family's income over the previous five months—February, March, April, May, June—would then be reviewed.
3. Beginning with the earliest month of the five month calculation period (in this case, February) any countable income in excess of the maximum benefit amount would be carried forward to the next month, March. That February excess amount would be added to any countable income in March that was in excess of the maximum benefit. If the countable income in March was less than the maximum benefit, the amount by which it was less would offset the excess amount carried forward from February. The balance, after the March income

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[4] Countable income, referred to as available income in the proposed legislation, is the income that counts in determining eligibility. It includes 50 percent of wages from a job, 80 percent of non-employment income (from dividends, property, private pensions or social insurance programs), and 100 percent of income from federal means-tested assistance programs such as veterans pensions. Child care expenses, up to certain limits, are also deducted from earnings before determining countable income. Family composition on the last day of the last month of the accountable period determines whose income is counted.

has been adjusted to reflect the February income, would be carried forward in similar fashion to April and so forth through the month of July.

4. The balance of countable income, if any, at the end of this carry-over process would reduce the maximum benefit accordingly to arrive at a payment amount in September. However, if the balance is greater than the benefit, no payment would be made in September and eligibility would be redetermined automatically in October, based on the family's monthly income report for August.

ILLUSTRATION.—6 MONTH ACCOUNTABLE PERIOD

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1--------2--------3--------4--------5--------6--------/--------/
Feb.     Mar.     April    May      June     July     Aug.     Sept.

[            STEP 3                         ][ STEP 2 ]      [ STEP 1]
            (Prior 5 mos.                    (Income           (person
             income reviewed)                 reported)         applies)
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Example No. 1

Take the case of a woman with three children who applied in September. The woman's earnings history for the 6-month accountable period was as follows:

Month	Earnings	Countable income	Maximum benefit	Difference (excess/offset)	Cumulative carry-forward
February	$900	$450	$350	+$100	$100
March	500	250	350	−100	0
April	300	150	350	−200	0
May	600	300	350	−50	0
June	700	350	350	0	[1] 0
July	0				

[1] Less than $350; therefore eligible for full benefit.

Her countable income in July is zero so the previous five months are reviewed. In the first month, February, her countable income exceeds the maximum benefit by $100. That amount is carried forward to March where it is offset by countable income that was $100 less than the maximum benefit payable. The increase carried forward to April, is therefore, zero and as countable income in each of the remaining months (May and June) does not exceed $350, her income for purposes of measuring need is zero. Thus, she is entitled to the maximum allowable benefit for a family of four or a payment of $350 in the month of September when she applied.

Example No. 2

Consider a family which also applied in September, but had higher annual income, $10,800, and the following earnings history for the 6-month accountable period:

Month	Earnings	Countable income	Maximum benefit	Difference (excess/offset)	Cumulative carry-forward
February	$900	$450	$350	+$100	$100
March	900	450	350	+100	200
April	900	450	350	+100	300
May	900	450	350	+100	400
June	900	450	350	+100	[1] 500
July	6				

[1] Exceeds $350 benefit.

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In this case, no income is reported for July, but after the five previous months are reviewed the total countable income carried forward from February to June ($500) is in excess of the maximum benefit. The family would, therefore, not be entitled to a payment in the month of September.

Example No. 3

Take the same family, a month later, with no income for the second consecutive month:

Month	Earnings	Countable income	Maximum benefit	Difference (excess/offset)	Cumulative carry-forward
February	$900				
March	900	$450	$350	+$100	$100
April	900	450	350	+100	200
May	900	450	350	+100	300
June	900	450	350	+100	400
July	0	0	350	−350	[1] 50
August	0				

[1] Less than $350; benefit reduced by $50 in October.

Using the 6-month accountable period, a balance of $50 countable income is carried forward from March to August. As this amount is less than the maximum benefit, the family is now eligible for a payment in October. The payment amount would be $300 because the maximum benefit—$350 for a family of four with no income—would be reduced by the $50 income carried forward during the accountable period.

Example No. 4

If the same family continued to need assistance in November, the payment amount would be recalculated on the basis of the 6-month accountable period of April to September as follows:

Month	Earnings	Countable income	Maximum benefit	Difference (excess/offset)	Cumulative carry-forward
April	$900	$450	$350	+$100	$100
May	900	450	350	+100	200
June	900	450	350	+100	300
July	0	0	350	−350	−50(0)
August	0	0	350	−350	−400(0)
September	0				

In this example, the family reported no income for the third consecutive month, September. When the income of the prior five months is reviewed, the earlier months, (April, May, and June) countable income in excess of the maximum benefit is offset by the lack of income in July. As there was also no income in August, the amount of countable income carried forward to September is zero. The family would, therefore, receive a maximum benefit payment of $350 in November.

Thus, this family, with a higher income history than the family in the first example, would not immediately receive a cash payment, but would be eligible in a later month if they continued to suffer need.

The following table indicates the number of months that a family of four with no current income but previous earnings would have to wait.

Families earning up to $16,800 before a sudden drop in income may be entitled to cash assistance at some time within six months after they apply if their need continues. The state emergency needs program will aid those who, because of their circumstances, may require more immediate assistance.

It should be noted that under a shorter accountable period, such as 1-month, the same family that had earned $10,800 would have become immediately eligi-

WAITING PERIOD BEFORE ELIGIBLE FOR BENEFITS

	Eligible for benefits: Under AFDC current accountable period—	Under proposed 6-mo accountable period—
A person with no income when applying but with previous annual earnings of:		
$5,200 (minimum wage)	1st mo	1st mo.
$8,400 (proposed eligibility ceiling)	1st mo	1st mo.
$10,600 (average wage in manufacturing)	1st mo	2d mo.
$12,000 (city school teacher)	1st mo	3d mo.
$15,000 (construction worker)	1st mo	4th mo.

ble for the full benefit amount of $350. But to choose a shorter accountable period would require either increasing program costs to cover such higher income families who would be eligible or cutting benefits by some other means for all families—even those with the lowest income histories.

Use of a 1-month accountable period, for example, would increase the cost of the Administration proposal by more than $3 billion. The caseload would increase by 38 percent or 12.2 million persons, largely those with higher incomes. Even shortening the accountable period to three months would increase the cost by approximately 7 percent and add approximately 21 percent more recipients to the program.

The 6-month accountable period places priority on targeting dollars available for the new program to those in chronic need.

The Work Requirement

The Program for Better Jobs and Income imposes a work requirement on adults expected to work, as under the present system for AFDC and Food Stamps. In addition, the new program proposes to offer a work opportunity to each principal earner in a family with children. This will be done by providing up to 1.4 million special public employment opportunities, designed to serve as many as 2.5 million different people on a temporary basis during any year. A supported job search activity will also be provided for others who are eligible for cash assistance and are also capable of working. This latter group includes adult children still living at home with their parents, singles and childless couples.

Six major questions must be asked regarding any household's employment opportunities under Title XXI:

(a) What referral process is most appropriate?

(b) Are any individuals in the unit expected to work if a job is available?

(c) Must the principal earner in the unit undertake an intensive 8-week job search period?

(d) Does the unit qualify for a "safety net" if no job can be provided?

(e) Is a special public employment opportunity provided to the unit?

(f) Is there a reduction in cash assistance for refusal to take a job?

Table A provides an answer in chart form for each household unit listed below:

I. Units in which all adult members are aged, blind or disabled.

II. Units with only one adult member who is not aged, blind, or disabled that include at least one child under the age of 7 years.

III. Units with only one adult member who is not aged, blind, or disabled that include no child under 7 years old but at least one child under 14.

IV. Units with only one adult member who is not aged, blind, or disabled that includes at least one child, none of whom are younger than 14.

V. Units with at least two adult members, one of whom is available for employment, and at least one child.

VI. Units with at least two adult members, none of whom are available for employment, and at least one child.

VII. Units having one member or more, at least one of whom is not aged, blind, or disabled, or incapacitated and is available for employment, and no child.

REFERRAL PROCESS

Although all individuals will be informed of the job search and other employment services offered by DoL, only those expected to work will be referred formally.

EXPECTED TO WORK

Those who are formally referred to DoL are also expected to work if a job is available. Specific individuals are excluded as indicated in the chart. In addition, there are a number of specific exclusions from the work requirement:

A full-time student who is working at least 20 hours per week at the Federal minimum wage OR who is the only adult in a household which includes a child over 6 years old and under 14.

One adult (other than the principal earner) if there is at least one child in the household unit.

An adult required in the home to care for a child under 7 years old or to provide regular or full-time care to another individual because of the latter's age, blindness, disability, or incapacity.

An 18–21 year old who is a full-time student in an elementary or secondary school.

PROVISION OF SAFETY NET AFTER JOB SEARCH

Two categories of household units—two-parent families and single-parent families where the youngest child is 14 or over—will participate in job search at a reduced cash assistance level (reduced by excluding the benefit of the individual doing the job search from the family benefit computation). This amounts to a $1900 reduction in the basic Federal benefit. After the 8-week period, this reduction would be restored, creating a "safety net" for those to whom no job could be made available.

ELIGIBILITY FOR SPECIAL PUBLIC EMPLOYMENT OPPORTUNITIES

All household units containing a child are eligible for special public employment opportunities. Those with custodial responsibilities for children under 7 years old or for aged, blind, disabled, or incapacitated individuals are given the choice of fulfilling their custodial duties or volunteering for work and making other arrangements for their custodial duties.

REDUCTION FOR JOB REFUSAL

Those expected to work will have their portion of the family benefit withdrawn if they refuse a bona fide job offer without good cause, as determined by DoL.

TABLE A

Questions	Units: I — Aged, blind, disabled	II — 1 adult, child under 7	III — 1 adult, child 7 to 13	IV — 1 adult, child over 14	V — 2-parent family	VI — (1)	VII — Singles, childless couples
(a) Referral requirement	Inform	Inform	Refer	Refer	Refer	Inform	Refer.
(b) Expected to work?	No	No	Part time	Yes	Yes	No	Yes.
(c) Intensive search required?	No	No	Yes	Yes	Yes	No	Yes.
(d) Safety net applicable?	No	No	No	Yes	Yes	No	No.
(e) Eligible for special public job?	No	Yes	Yes	Yes	Yes	Yes	No.
(f) Reduction for refusal?	No	No	Yes	Yes	Yes	No	Yes.

[1] Families with children but no adult required to work.

STATE SUPPLEMENTATION

This paper describes the provisions concerning state supplementation of cash benefits and special public job wages contained in the Better Jobs and Income Act.

OBJECTIVES OF THE STATE SUPPLEMENT PROVISIONS

Because of the current substantial disparities among State welfare benefits, it is impractical to move at once to a Federal benefit level that is greater than or is equal to current benefit levels in all States. Federal policy, therefore, should encourage States to adopt supplementation policies that maintain or improve existing benefit levels—and do so in a way that is consistent with the administration of the new Federal program. The Program for Better Jobs and Income is structured to achieve these goals.

The Better Jobs and Income Act encourages States to adopt in their State supplement programs the eligibility rules (household unit definition, income definition, accountable period, assets test, etc.) used in the basic Federal cash benefit program. Adoption of such matching State supplement programs would establish for the first time a cash assistance system that is uniform nationwide. In comparison to the present jumble of programs (AFDC, SSI, Food Stamps, General Assistance, etc.) such a system would be simpler to administer and easier to understand. The bill provides substantial financial incentives for a state to adopt a matching supplement program. A State with matching supplements will be eligible for partial Federal subsidization of the cost of supplement benefits up to certain levels. Moreover, such matching supplements will be administered along with the basic Federal program; and if the State elects to retain the intake and eligibility determination functions, it will be reimbursed by the Federal government for 90 to 110% of its administrative costs. On the other hand, a State that adopts a supplement program that is *not* congruent with the basic Federal program will have to administer it, and such nonmatching supplements would be ineligible for Federal subsidy or reimbursement for administrative costs.[1]

The second major objective of the State supplement provisions is to increase the Federal share of total benefit costs so that States can maintain their present benefit levels and also experience substantial fiscal relief. This is accomplished through the bill's Federal cost sharing rules. The basic benefit, at least 90 percent of the costs of which will be financed by the Federal government, is larger than the Federal share of cash assistance plus the bonus value of Food Stamps in nearly all of the States. In addition, 75 percent of part and 25 percent of most of the rest of State supplement costs will be Federally financed. The size of the 75 percent subsidy portion of the supplement is designed so that States have a strong incentive to guarantee household units with no other income a benefit that equals approximately three-fourths of the unit's poverty line income (for example, about $4700 for a family of four). The size of the 25 percent subsidy portion of the supplement is designed so that States will have some incentive to guarantee a household unit with no other income a benefit that approximately equals the unit's poverty-line income.[2] The Federal government will not subsidize, however, any portion of the cost of a supplement paid to a unit whose earnings net of the child-care deduction exceeds 108 percent of the amount at which Federal benefits phase out (approximately $9100 for a family of four). This insures that the Federal government will not be paying even in part for assistance to families with incomes it deems too high to receive benefits. It also permits States to establish subsidized benefit levels up to the poverty line for those not expected to work and approximately three-fourths of the poverty line for those expected to work.

A third objective of the bill's State supplement provisions is to limit the adverse work incentives of State supplements by establishing a maximum benefit reduction rate on earned income. For expected-to-work household units the maximum rate is 52 percent, while 70 percent is the highest rate allowed for the not-expected-to-work units. Section 2140 of the bill provides fiscal sanctions against States that exceed these limits.

A final objective of the State supplement rules is to insure some rough equity in supplementation between not-expected-to-work and expected-to-work household units. This is achieved by requiring States that supplement substantially

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[1] Nonmatching supplements are not forbidden. Indeed, through the maintenance-of-effort and hold-harmless provisions, States are encouraged ot adopt one category of nonmatching supplements—those that grandfather existing SSI and AFDC beneficiaries—during a transition period.

[2] Supplements for aged, blind, or disabled individuals or couples will be subsidized only at the 25 percent rate because the maximum payable amount for aged, blind, or disabled units is considerably greater than three-fourths of their poverty-line incomes.

the cash benefits of not-expected-to-work families to supplement the wage rate payable to those who take a special public job.

MECHANICS OF MATCHING STATE SUPPLEMENTATION

The rules concerning State supplementation are described in this section and illustrated in detail in the following section.

If a State adopts a matching supplement program, it can change only two elements of the basic Federal cash assistance program. One is the maximum payable amount to an eligible household unit with no other income, and the other is the benefit reduction rate applicable to earned income. The amount of the increase in a unit's maximum payable amount is called in the bill (Section 2122(1)) the supplementation percentage. A closely related concept is the supplementation ratio, a household unit's maximum payable amount including the supplement divided by its maximum payable amount in the basic program, which is simple 100 plus the supplementation percentage. For example, if a State supplements the maximum payable amount of a not-expected-to-work family of four by $500 per year, its supplementation ratio would be 1.119, which equals $4700 divided by $4200. A State can choose different supplementation ratios and benefit reduction rates for different household units, but the ratio and rate must be the same for all units within each of several categories to be specified by the Secretary of HEW (Section 2122).[3]

Once a State has selected a ration and rate for each category, a household unit's actual benefit is calculated in exactly the same manner as its basic benefit is calculated. The basic benefit (with no State supplementation) is calculated according to Section 2104. The actual benefit is calculated using the same procedure, except that the unit's maximum payable amount is equal to its supplementation ratio multiplied by its maximum payable amount in the basic program (that is, the new, supplement-inclusive maximum payable amount is used in the calculation). The unit's benefit reduction rate is different and its earned income exclusion may be different from that in the basic program. In the basic program household units eligible for an earned income exclusion receive an exclusion of $3800, which is calculated by dividing the "tier differential" of $1900 by the benefit reduction rate of 50 percent.[4] If a State supplements, the new "tier differential" is $1900 multiplied by the supplementation ratio and the new exclusion is the new "tier differential" divided by the new benefit reduction rate (Section 2124). The actual benefit for a household unit in a State with a matching supplement is simply the actual benefit calculated using the new maximum payable amount, the new earned income exclusion and the new benefit reduction rate.

A household unit's supplement benefit is eligible for Federal subsidy (Section 2125). In order to calculate the Federal share of a supplement benefit, it is necessary to define the concept of the maximum benefit eligible for subsidy. In every State a not-expected-to-work household unit's maximum benefit eligible for subsidy is calculated using a supplementation ratio of 151.2 percent, a 70 percent benefit reduction rate, and an earned income exclusion of $4104. And an expected-to-work unit's maximum benefit eligible for subsidy is computed using 112.32 percent, 52 percent, and $4104, respectively.[5] The Federal share of a household unit's actual supplement benefit is the sum of three-fourths of the 75 percent portion of the supplement benefit and one-fourth of the 25 percent portion. The 75 percent portion of the unit's supplement equals the smaller of two numbers, one of which is the unit's actual supplement benefit, the other of which is the product obtained by multiplying the unit's basic benefit by a fraction that is 12.32 percent. The 12.32 percent figure was chosen, again, with a view toward strongly encouraging supplementation up to approximately three-fourths of the poverty-line (approximately $4700

[3] For each category a State may select any supplementation ratio that is 100 percent or larger and any benefit reduction rate that is 50 percent or larger, so long as the quotient obtained by dividing the supplementation ratio by the benefit reduction rate is no less than two. This final condition insures that the breakeven earnings level under State supplementation is no less than the breakeven in the basic Federal program.

[4] The "tier differential" is the portion of the maximum payable amount that is attributable to the head of the family.

[5] In Alaska and Hawaii these 151.2 and 112.32 percent supplementation ratios are multiplied by the ratio of the State's poverty-line income to the poverty-line income for the continental United States.

for a family of four). And the 25 percent portion equals the smaller of two numbers, one of which is the unit's actual supplement benefit minus its 75 percent portion, and the other of which is the unit's maximum supplement eligible for subsidy minus its 75 percent portion.[6]

EXAMPLE OF HOW THE STATE SUPPLEMENTATION RULES WORK

Assume a State that before the reform had an AFDC-plus-Food-Stamps benefit level of $5,800 (1978 dollars, family of four).

After the reform, the State decides to maintain $5,800 as the maximum payable amount for Income Support tier families. In order to maximize Federal reimbursement for its supplementation program, the State establishes a phase-out level of $9,072. (108 percent of the Federal phase-out point).

The maximum payable amount of $5,800 means that the supplementation ratio for the Income Support tier will be 138 percent (5800 ÷ 4200).

The maximum payable amount of $5,800 and the $9,072 phase-out point means that the benefit reduction rate for households on the Income Support tier will be 64 percent (5800 ÷ 9072).

The maximum payable amount of $5,800 on the Income Support tier requires that the State supplement wages in its special public job programs the maximum 10 percent (5800 ÷ 4700 exceeds 1.1, so the State must use 10 percent maximum).

Observing the Federal rule on benefit reduction rates for the Work Support tier, the State sets the rate at the maximum of 52 percent.

The State wishes to maintain the same breakeven for families on both tiers ($9,072). The $9,072 breakeven and the 52 percent benefit reduction rate mean that the maximum payable amount for families on the Work Support tier will be $4,717 (9072 × .52). This is the amount of benefits that would be paid on this tier to a family of four with no earnings, if at the end of eight weeks of job search, there was no job available.

The maximum payable amount of $4,717 means that the supplementation ratio on the lower tier would be 112.3 percent.

A lower-tier family in this State would receive benefits at the annual rate of $2,583 during the first eight weeks on the cash program (4717—(1900 × 1.123)).

The earned income exclusion for families on the lower tier would be $4,104 ((1900 × 1.123) ÷ .52).

The parameters of the State supplementation program having been set, consider a household with two parents and two children. The husband had worked until recently at a factory job slightly above the minimum wage and had earnings of an annual rate of $6,000. Neither adult is currently employed.

At the outset, the family receives a cash benefit of $215/month (2300 — 12 × 1.1232) and the husband, who was, in this case, the primary earner in the last tax year, is referred to the Employment Service.

The Employment Service is unable to refer the man to a full-time, minimum wage job; he is, however, able to find sporadic, part-time employment at the minimum wage. In the first month, he earns $300 at this job.

The family's cash benefit in the second month of the program will still be $215. The monthly earned income exclusion on the lower tier on the supplement program is $342 (4104 ÷ 12), and thus the full amount of the man's earnings ($300) is disregarded.

The $215 in cash benefits is shared between the State and Federal Government as follows:

Benefit in basic Federal program equals $192 (2300 ÷ 12), Federal Government pays $173 and the State pays 10 percent, or $19.

Total benefit equals $215, and State supplement equals $23 (215 — 192).

Because the State supplement program for the Work Support tier in this example has been constructed to maximize Federal financial participation (supplementation ratio is no greater than 112.32 percent, benefit reduction rate is no greater than 52 percent, and the phase-out point established by the State is no greater than 108% of the Federal phase-out point), the entire State sup-

[6] As noted earlier, in the case of aged, blind, or disabled individuals and couples, there is only a 25 percent subsidy range.

plement is eligible for Federal subsidy. Federal participation in the State supplement equals $18 (.75 (192 × .1232) + .25 (23 — (192 × .1232)). State pays $5 of supplement.

Thus, of the total $215 benefit payment, the Federal Government pays $191 (173 + 18), and the State pays $24 (19 + 5).

Assume then that the man is offered and takes a special public service job at 10 percent above the Federal minimum wage (assume $2.65/hour, plus 10 percent). In a month on this job, he earns $505 (6063 ÷ 12)).

The family's cash benefit for the month following the man's first month in this job will be $130 (215 — .52 (505 — 342)).

The cost of $130 cash benefit will be shared between the State and Federal Government as follows:

Benefit in the basic Federal program is: $98 (192 — .5 (505 (3800 ÷12)); Federal Government pays $88, and State pays $10 or 10 percent (for purposes of example, all numbers rounded to nearest dollar).

Total benefit equals $130, and State supplement equals $32 (130 — 98).

Federal participation in the State supplement equals $14 (.75(98 × .1232) + .25(32 —(98 × .1232)); State pays $18.

Thus, of the total $130 cash benefit, the Federal Government pays $102 (88 + 14), and the State pays $28 (10 + 18).

In this State, a family of four on the Income Support tier with earnings of $505, e.g., a mother with three children who volunteers for a special public service job, would receive a monthly benefit of $160 ((4200 × 1.38) ÷ 12 —(.64 × 505)). (Recall that 1.38 is the supplementation ratio for upper tier households, and 64 percent is the benefit reduction rate).

The cash benefit of $160 would be shared between the State and the Federal Government as follows:

Benefit in the basic Federal program equals $97 ((4200 ÷ 12) — (.5 × 505)); Federal Government pays $87, and State pays $10.

Total benefits equals $160, State supplement equals $63 (160 — 97).

Because of the design of the State Supplement program for the Income Support tier in this example (supplementation ratio is no greater than 151.2 percent, benefit reduction rate is no greater than 70 percent, and the phase-out point established by the State is no greater than 108% of the Federal phase-out point), the full supplement is eligible for Federal subsidy. Federal participation in the State supplement equals $22 (.75(97 × .1232) + .25(63 — (97 × .1232)); State pays $41.

Thus, of the total $160 benefit payment, the Federal Government pays $109 (87 + 22), and the State pays $51 (10 + 41).

In the alternative, assume the State decides to provide the same basic benefit ($5,800) to families on the Work Support tier that it provides to families on the Income Support Tier when no job is available.

Assume also that the State will continue to observe the 52 percent benefit reduction rate for the Work Support tier, and thus that the breakeven for this tier will be $11,154 or 133 percent of the Federal breakeven. This means that the Federal Government will not participate at all in supplements to Work Support tier families with available income in excess of $9,072.

Under this set of assumptions, the cash benefit paid to a four-person family on the Work Support tier with monthly earnings from a special public service job of $505 would be $220 (5800 ÷ 12 — .52 ×505).

The cash benefit of $220 would be shared between the State and the Federal Government as follows:

Benefit in the basic Federal program is $98; Federal Government pays $88, and State pays $10.

Total benefit equals $220, and State supplement equals $122 (220 — 98).

Because of the design of the State supplement program for the Work Support tier in this example (supplementation ratio *is* greater than 112.32 and the phase-out point established by the State is greater than 108 percent), Federal participation in the supplement is limited to the maximum benefit eligible for subsidy. Federal participation in the State supplement equals $14 (.75(98 × .1232) + .25(32 — (98 × .1232)). In this computation the supplement has been limited to the maximum eligible for supplementation, i.e., $32. State pays $108.

Thus, of the total cash benefit, the Federal Government pays $102 (88 + 14), and the State pays $118 (10 + 108). The State pays this relatively high proportion of benefits because its supplement for the lower tier exceeds substantially the maximum benefit eligible for subsidy.

Limitation of Fiscal Liability of States (Hold Harmless Protection)

A. Purpose

The purpose of the hold harmless provisions in §2127 of the Better Jobs and Income Act is to protect the States, during a five-year transition period, against increased costs resulting from the new program and to insure a minimum amount of fiscal relief to every State. In addition, the presence of this fiscal protection for States will free them from the risk of taking whatever steps are necessary to maintain the benefit levels of recipients.

One of the primary goals of the Better Jobs and Income Program is to ease the fiscal burden and fiscal uncertainty of welfare expenditures on State and local governments. If any State were to suffer increased fiscal burdens during the transition period because the new program abruptly reduced benefits and left needs which the State felt required to meet, this goal would have been sacrificed. To prevent this from happening, the new program offers hold harmless protection to the States. In turn, in order to receive this protection, States must pass along any savings to local government units sharing in the non-Federal cost of the protected expenditures.

B. Description of the Provisions as They Apply to the Initial Year of the New Program

There are actually two hold harmless provisions in §2127. Under the first, the Federal government will pay to each State the excess of that State's post-reform expenditures in certain specified categories over a prescribed percentage (90 percent in the first year) of its current (1977) welfare expenditures (indexed to the year of implementation). Under the second provision, the Federal government will make any additional payment necessary to assure the State at least a specified percentage (10 percent for the first year) of fiscal relief.

1. First layer of hold harmless protection

The hold harmless payment equals the excess of allowable post-reform expenditures, A, over a current effort base, B. The allowable expenditures, A, are the sum of:

The State's contribution toward the basic Federal program in that State,

State expenditures for Federally administered matching supplement payments up to the benefit levels that were in effect in AFDC, SSI, General Assistance (plus the bonus value of Food Stamps) the month before the new program became applicable, adjusted for use in that fiscal year.

State payments for wage supplements under Section 956 of the new Title IX of CETA;

State supplements to grandfather the payments of the aged, blind and disabled who received payments under Title XVI for the last month of the SSI Program;

Seventy-five percent of State payments to grandfather AFDC units who received payment under Title IV for the last month of the AFDC Program;

State expenditures for emergency needs under Part B of Title XX, up to the amount of the State's allotment under that section;

Whenever the sum of allowable expenditures, A, exceeds current effort base, B, then the State receives a hold harmless payment equal to the excess, or A minus B.

The current effort base, B, equals (in the first year) 90 percent of the States current effort plus the State's Emergency Needs allotment under Part B of Title XX. Current effort is the "primary maintenance of effort amount" (as in the maintenance of effort provision) which is defined to include all non-Federal expenditures in fiscal year 1977 for payments in AFDC, SSI State supplements, Emergency Assistance under Title IV–A, and General Assistance. No administrative costs are included in current effort. The amount is always adjusted from 1977 to the fiscal year of application, by the Consumer Price Index.

2. Guaranteed Fiscal Relief (second layer of hold harmless protection)

In order to insure a minimum amount of fiscal relief to State and local governments, the program guarantees at least 10 percent fiscal relief in the first year.

State and local governments will realize fiscal relief from the substantially increased Federal funding for the administration of welfare payments as well as the cost of the payments themselves. Thus, in measuring fiscal relief, AFDC administrative costs for fiscal year 1977, adjusted for use in the year of application, are considered.[1]

Many States will get at least 10 percent fiscal relief without qualifying for any payment under the first layer of hold harmless protection described above. Of the States eligible for a payment under the first layer of protection, some would realize at least 10 percent fiscal relief while others would not. The reason for this difference is that the first layer of hold harmless protection considers only 75 percent of State expenditures to grandfather AFDC recipients, while the measure of fiscal relief considers 100 percent of what States must spend on these supplements. Thus, a second hold harmless provision is necessary to assure States the prescribed percentage of fiscal relief.

Under the second provision, the Federal government will pay to the State the excess of the allowable expenditures A, this time including the full cost of AFDC grandfather supplements, over the base B, this time including the prescribed percentage of AFDC administrative costs (90 percent in the first year since guaranteed fiscal relief equals 10 percent).

C. PHASE-OUT OF HOLD HARMLESS PROVISIONS

The schedule for the phase-out of the first "hold harmless" provision is as follows. In the first year, each State will be held harmless for expenditures in excess of 90 percent of its current effort (plus its emergency needs allotment); in the second year, for expenditures in excess of 100 percent of current effort; in the third year, for expenditures in excess of 110 percent of current effort; in the fourth year, for expenditures in excess of 130 percent of current effort; and in the fifth year, for expenditures in excess of 150 percent of current effort (always plus the State's emergency needs allotment).

The schedule for the phase-out of the second "hold harmless" provision is as follows. In the first and second years, each State will be paid an amount sufficient to guarantee it at least 10 percent fiscal relief and in the third, fourth and fifth years, an amount sufficient to guarantee it at least 5 percent fiscal relief.

Example of How Hold-Harmless Works

Kentucky.—This example shows how the hold-harmless provision would have worked in Kentucky if the reform proposal had been in effect in 1975.[2]

In 1975, Kentucky spent $34 million on AFDC, $.2 million on Emergency Assistance, $9 million on SSI, and nothing on General Assistance, for a total of $43.2 million.

Based on these expenditures, Kentucky would receive in the first year of the reform program an Emergency Needs block grant of $3.2 million.

HEW estimates indicate that if under the reform proposal Kentucky, in addition to the required state share of basic benefits, undertook to provide matching supplements that maintained pre-reform benefit levels in AFDC and SSI, wage supplements, and full SSI and AFDC grandfather supplements, the cost would be:

	Million
State share of basic benefits	$29.4
matching supplements	10
wage supplements	3.9
SSI grandfather supplements	9.0
AFDC grandfather suppleemnts	26.6

[1] Only AFDC administrative costs are considered because State and local government administrative costs for SSI State supplements and General Assistance programs are relatively small and would be difficult to accurately determine (since these administrative costs are not currently subject to Federal reimbursement).

[2] For purposes of illustration, Kentucky's welfare expenditures for 1975 will be used to establish the hold-harmless base rather than 1977 expenditures as specified in the bill. The figures on post-reform cost in Kentucky come from HEW simulation of the Better Jobs and Income Program using 1975 data collected by the Census Bureau in the Survey of Income and Education. The figures are consistent with Secretary Califano's September 19 testimony before the House Welfare Reform Subcommittee.

The hold-harmless provision specifies that if a State would be required to spend more than the sum of 90 percent of its pre-reform welfare expenditures for AFDC, SSI, EA and GA plus its Emergency Needs block grant in order to finance the State share of basic benefits, matching and wage supplements, SSI grandfathering and 75 percent of the cost of its AFDC grandfather, the Federal government will hold the State harmless for the excess.

Thus, Kentucky's hold-harmless payment would be calculated as follows (figures in millions):

($29.4 + 10 + 3.9 + 9 + .75 (26.6)) — (.9 (43.2) + 3.2), or ($72.2) — (42.1) = $30.1 million

The "second layer" hold-harmless provision also guarantees that States will receive 10 percent fiscal relief in the first year of the program. Kentucky's 1975 cost for AFDC administration was $5.1 million, which when added to pre-reform benefit costs for AFDC, EA, SSI, and GA gives a total for pre-reform welfare spending of $48.3 million.

Kentucky would be eligible for a second hold-harmless payment to bring its fiscal relief to 10 percent. This payment would be calculated as follows (figures in millions of dollars):

.1(43.2 + 5.1) — (48.3 — (29.4 + 10 +3.9 + 9 + 26.6 — 30.1) + 3.2), or 4.8 — 2.7 = $2.1 million

Thus, Kentucky would receive total hold-harmless payments of:

30.1 + 2.1 = $32.2 million

Kentucky's fiscal relief would be:

48.3 — (29.4 + 10 + 3.9 + 9 + 26.6 — 32.2) + 3.2, or 48.3 — 46.7 + 3.2 = $4.8 million

Maintenance of Effort

The Better Jobs and Income Act contains a maintenance-of-effort provision (§2126) that requires States to continue spending a certain portion of their pre-reform expenditures for welfare.

We recognize that States contribute substantially to the funding of the current income maintenance system; the maintenance-of-effort requirements in the bill are intended to insure that States continue to participate in funding of the post-reform welfare system. There are two distinct requirements in Section 2126.

I. The 10% State Share of the Basic Federal Program

First, as a permanent feature of the new system, each State is required to pay to the Federal Government 10% of the cost of the new basic Federal cash assistance program in the State—up to a maximum of 90% of the State's current (1977) expenditures (indexed to the relevant year) on SSI, AFDC, Emergency Assistance and General Assistance. (Thus, if a family receives $4,200 under the basic program, $420 of that amount will, in effect, be financed by the State.) This requirement is designed to ensure that each State maintains a financial stake in the new system even if its elects not to supplement the basic Federal payment. This is particularly important in those cases where the State elects to perform the intake function.

II. The Transitional Maintenance-of-Effort Requirement

The second requirement of Section 2126 is that each State maintain a substantial portion of its current welfare expenditures over a three-year transition period.

Difference between maintenance of effort and hold harmless

The maintenance-of-effort requirement defines the basic minimum or "bottom line" on State financial effort after the reform. The hold-harmless provision in the bill (§2127) establishes a maximum or "ceiling" on post-reform State financial effort by guaranteeing that the States will not incur additional costs under the new system and indeed that they will be assured a minimum of fiscal relief. It is important to keep the distinction between the two concepts clearly in mind:

Maintenance of effort establishes the *minimum* States may do;

Hold harmless establishes a ceiling on what States will have to spend.

Definition of maintenance of effort

States may choose between two approaches for meeting the maintenance-of-effort requirement during the transition period.

The basic approach requires States to spend a fixed amount of money, but allows them considerable latitude in how funds are spent.

The "alternate" approach does not require expenditure of a fixed sum, but rather requires States to undertake certain responsibilities without specific reference to their cost.

This section will first define the basic approach and then the alternate approach.

The basic approach.—1. Maintenance of effort is defined by two amounts:

a. A Spending Requirement, and

b. A Set of Permissible Post-Reform Expenditures.

The spending requirement (under the basic approach to the maintenance-of-effort) is that a State must in the first year of the reform program continue to spend a sum of money equal to 90 percent of its pre-reform welfare spending plus the amount of its Emergency Needs block grant [§2126 (1) (A)].

Pre-reform welfare spending, termed in the bill "primary maintenance of effort amount," includes fiscal year 1977 State expenditures (indexed to the year in which the requirement is applied) for:

AFDC;

SSI supplements (minus Federal hold-harmless payments);

Emergency Assistance under Title IV-A; and

General Assistance.

Expenditures that may be counted toward meeting the maintenance-of-effort requirement.—Once a State has determined how much it is required to spend under the basic approach, its first and only obligatory expenditure is the State share of the basic benefit (described in Part I above). The bill permits considerable flexibility with regard to how the balance of the maintenance-of-effort amount is spent.

A State may spend any or all of the balance on:

State share of matching supplements and related wage supplements for special public service jobs.

State-administered and financed, means-tested programs, in particular non-matching SSI and AFDC grandfather supplements;

Increases in State expenditures for day care programs under Title XX-A;

Emergency Needs expenditures.[1]

State costs for administering either increases in expenditures for day care or its Emergency Needs program.

Phase-Out of Maintenance-of-Effort Requirement.—The maintenance-of-effort requirement (other than the State share of basic benefits) phases out after three years. The percentage of pre-reform (1977) spending required in the first year is 90 percent; in the second year, 75 percent; in the third year 65 percent; and in the fourth year, zero. In order to guarantee that during the transition period States maintain their effort in real dollars, i.e., that their effort not be eroded by the effect of inflation, where appropriate pre-reform spending is indexed to the relevant year by the change in the Consumer Price Index.

The alternate approach

Projections indicate that it will cost some States with high current welfare expenditures less than the fixed percentage of pre-reform spending to finance the complete catalogue of post-reform activities that the Federal government wishes to encourage States to undertake. For that reason, an alternate maintenance-of-effort requirement was included in the bill [§2126(b)(1)(c)]. Given the extent of their current effort, it was felt that it would be unfair to require these States to continue spending the same percentage of pre-reform costs as States with less substantial current effort. The choice between maintenance-of-effort requirements is left to State option in each of the three transition years.

Under the alternate approach, States are not required to spend a certain amount of money, but rather are required to fulfill a given list of responsibilities:

Reimburse the Federal government for 10 percent of basic benefits;

Provide matching supplements to families with children and to the aged, blind and disabled that maintain pre-reform AFDC and SSI benefit level;[2]

[1] The Emergency Needs Block Grant is included in the maintenance-of effort base and all spending for Emergency Needs, including Federal dollars, is counted toward fulfilling the requirement.

[2] The bill through an oversight fails to state the Administration's policy that matching supplements must maintain not only pre-reform cash benefit levels, but also Food Stamp benefit levels for recipients of AFDC and SSI.

Provide wage supplements as dictated by supplementation levels;
Grandfather current SSI recipients; and
Grandfather 75 percent of pre-reform AFDC households.

Examples Using Several States.—The following examples use figures generated by HEW simulation of the reform proposal using 1975 data collected by the Census Bureau in the Survey of Income and Education (SIE). The HEW simulation is designed to show the effect of the program had it been in operation in 1975. These figures are consistent with the figures included in Secretary Califano's September 19 testimony before the House Welfare Reform Subcommittee. (The examples assume that 1977 spending is the same as 1975, and do not take account of the fact that the figures would be indexed to the year in which the maintenance-of-effort requirement applies.)

Basic Approach.—Texas

In 1975, Texas spent $39 million on AFDC, $0 on Emergency Assistance, and $0 on General Assistance, for a total of $39 million.

Based on its expenditures for these categories of assistance, Texas would in the first year of the reform program receive an Emergency Needs block grant of $2.9 million.

Under the basic approach to maintenance of effort, Texas would in the first year of the reform program be required to continue spending at least: .9 ($39 million) + $2.9 million = $38 million.

Simulation estimates show that $914.3 million in basic benefits would be paid out by the Federal government under the reform proposal.

Texas' State share of basic benefits would be 10 percent ~~of~~ $914.3 million or $91.4 million were it not for the constraint that the State share may not exceed 90 percent of pre-reform spending. Because of this constraint, the State share of basic benefits in Texas is limited to $35.1 million.

The maintenance-of-effort provision requires Texas to spend $38 million in the first year of the program; the State would be required to spend $35.1 million to reimburse the Federal government for its share of basic benefits; the balance of its maintenance-of-effort requirement or $2.9 million, which represents its Emergency Needs block grant, would be spent on the State's Emergency Needs program.

If Texas wished to make grandfather payments to former AFDC and SSI recipients, it could do so and be "held harmless" for expenditures in excess of 90 percent of current effort plus Emergency Needs block grant.

Indiana.—In 1975, Indiana spent $46 million on AFDC, $0 on Emergency Assistance, $1 million on SSI, and $0 million on General Assistance, for a total of $47 million.

Based on its expenditures for these categories of assistance, Indiana would in the first year of the reform program receive an Emergency Needs block grant of $3.5 million.

Under the basic approach to maintenance of effort, Indiana would in the first year of the reform program be required to continue spending at least: .9 ($47 million) + $3.5 million = $45.8 million.

Simulation estimates show that $204.18 million in basic benefits would be paid out by the Federal government under the reform proposal.

Indiana's State share of basic benefits would be 10 percent of $204.18 million or $20.4 million. Since this figure is less than 90 percent of the State's pre-reform spending (.9 × $47 million = $42.3 million), Indiana would pay its full 10 percent share.

After payment of the State share, the balance of Indiana's maintenance-of-effort amount would be $25.4 million ($45.5 million — $20.4 million). Part of the balance or $3.5 million would be committed to the State's Emergency Needs Program. How to spend the remaining $21.9 million would be a matter left to the discretion of the State. It could spend the balance on any of the listed permissible categories of post-reform activities: matching supplements and related wage supplements; SSI and AFDC grandfather-supplements; increments to State expenditures for day care under Title XX-A; Emergency Needs above the block grant; or administrative costs for day care or Emergency Needs programs.

The Alternate Approach.—*Washington:*

In 1975, the State of Washington spent $76 million on AFDC, $1.3 million on Emergency Assistance, $16 million on SSI, and $18 million on General Assistance, for a total of $111.3 million.

Based on its expenditures for these categories of assistance, Washington would in the first year of the reform program receive an Emergency Needs block grant of $8.2 million.

Under the basic approach to maintenance-of-effort, Washington would in the first year of the reform program be required to continue spending at least: .9 ($111.3 million) + $8.2 million = $108.37 million.

Simulation estimates indicate, however, that Washington State could finance the complete catalogue of activities required under the alternate approach to maintenance of effort for less than $108.37:

	Million
State share of basic benefit	$15.8
Matching supplements that maintain benefit level	45.3
Wage supplements	6.8
SSI grandfather	8.1
AFDC grandfather	15.0
Emergency needs program	8.2
Total	99.2

FEDERAL INCOME TAX REIMBURSEMENT

This paper describes the provisions concerning the reimbursement of Federal income taxes contained in the Better Jobs and Income Act.

OBJECTIVE OF THE TAX REIMBURSEMENT PROVISIONS

The aim of the bill's tax reimbursement provisions is to eliminate adverse work incentives that arise when a household unit incurs a Federal income tax liability while still receiving cash benefits. Such an overlap of the cash assistance and Federal income tax systems produces a high total tax rate that may discourage work effort. The high total tax rates for household units in such an overlap situation are reduced by 20 percentage points by the bill's tax reimbursement provisions. Even if a unit's earnings are large enough to reduce its benefit to zero, the unit may receive a tax reimbursement payment. The bill specifies this gradual phasing-out of the payment so that a household unit does not experience a "notch," that is, a sudden decline in income caused by the total elimination of the payment when earnings exceed a certain limit.

As a general principle, responsibility for financing these tax reimbursement payments will rest primarily with the government unit whose policy causes the overlap. To the extent the tax reimbursement payment to a household unit is necessary because of an overlap between the basic Federal cash assistance program and the Federal income tax system, the Federal government will pay 100 percent of the cost. If a matching State supplement program increases the unit's phase-out earnings level, and thus its tax reimbursement payment, then the State government will pay 75 percent of the cost in excess of the payment required if the State did not supplement. And, as in the case of State supplements, there is a limit beyond which there is no 25 percent Federal matching of the tax reimbursement payment.

MECHANICS OF TAX REIMBURSEMENT

The bill requires the Secretary of HEW to issue regulations that specifying the tax threshold for different household units (SSA XXI, Section 2104(b)(1)). Given a unit's tax threshold, its tax reimbursement payment is calculated using a formula that includes the unit's "breakeven" earnings. The breakeven is the level of earnings that reduce the cash benefit to zero. It is determined by the maximum payable amount, income other than earnings, the benefit reduction rates, the earned income exclusion, and the child-care deduction.

A household unit's breakeven earnings equals the sum of its earned income exclusion, its child-care deduction, and a third number calculated by subtracting 80 percent of the unit's nonemployment income and 100 percent of its Federal assistance income from the unit's maximum payable amount, and then dividing the resulting number by the unit's benefit reduction rate on earned income. It should be noted that if the household unit lives in a State that has adopted a matching State supplement program, the unit's maximum payable amount, earned income exclusion, and benefit reduction rate on earnings may differ from the corresponding amounts for the unit in the basic Federal program.

Once a household unit's tax threshold is known and its breakeven earnings level has been calculated, the computation of its tax reimbursement payment is straightforward.

If the unit's gross earnings—that is, earned income before the subtraction of the cash assistance program's child-care deduction—are less than the unit's tax threshold, then the household receives no tax reimbursement payment.

If its gross earnings are greater than its tax threshold, but less than its breakeven earnings, then the household unit's tax reimbursement payment is 20 percent of the difference obtained by subtracting the tax threshold from gross earnings.

Finally, if a unit's gross earnings are in excess of its breakeven earnings, and its cash benefit is thus zero, then the household's tax reimbursement payment is computed by subtracting a second number from a first number. The first number is 20 percent of the difference obtained by subtracting the unit's tax threshold from its breakeven earnings, while the second number is 20 percent of the difference obtained when the household's breakeven earnings are subtracted from its gross earnings.

Once a household unit's tax reimbursement payment has been determined, it is possible to compute the Federal share of its payment. To do this it is necessary to calculate three breakevens for the household unit: the basic breakeven, the actual breakeven, and the maximum breakeven. The difference between the three stems not from the method of computation, since the procedure for breakeven calculation described above is used in all three cases, but from differing values for the unit's basic parameters: the maximum payable amount, earned income exclusion, and benefit reduction rate on earnings. In calculating the basic breakeven, the unit's parameters are those of the basic Federal program, namely its maximum payable amount in the basic Federal cash assistance program, the $316.67 per month earned income exclusion if eligible (zero if not), and the 50 percent benefit reduction rate. The actual breakeven is calculated using the unit's actual parameters as modified by a matching State supplement program. And the maximum breakeven is computed using a maximum payable amount equal to 112.32 percent of the basic Federal program's if the unit includes an expected-to-work adult (151.2 percent if not), an earned income exclusion $342 per month if eligible (zero if not), and a benefit reduction rate of 52 percent if expected to work (70 percent if not).

Using these three breakevens, the household unit's tax threshold, its gross earnings, and the method described above, three tax reimbursement payments are calculated: the basic payment using the basic breakeven, the actual payment using the actual breakeven, and the maximum payment using the maximum breakeven. The Federal share of the actual tax reimbursement payment is the sum of the basic payment and 25 percent of the subsidized portion of the payment. The subsidized portion equals the smaller of two numbers, one of which is the difference obtained by subtracting the basic payment from the actual payment, and the other of which is the difference obtained by subtracting the basic payment from the maximum payment.

AN EXAMPLE OF TAX REIMBURSEMENT

Consider a family that consists of a husband, wife, and two children who live in a State that has adopted a supplementation program that assigns the family a supplementation ratio of 112.32 percent and a benefit reduction rate of 52 percent. The family's earned income exclusion is $4,104 per year, or $342 per month, instead of the $3,800 and $316.67 in the basic Federal program. Assume the family receives $900 earned income and $10 unearned income per month, and that the HEW Secretary has determined its tax threshold to be $425 per month. (This is the family's tax threshold under current law.) This family's actual breakeven is $((191.67 \times 1.1232 - 0.80 \times 10.00)/0.52) + 342.00$, or $740.62 per month. Its tax reimbursement payment is, therefore, $0.20 \times (740.62 - 425.00) - 0.20 \times (900.00 - 740.62)$, or $31.24 per month.

To calculate the Federal share of this payment, the basic payment and maximum payment must be computed. Since the basic breakeven for this family is $((191.67 - 0.80 \times 10.00)/0.50) + 316.67$, or $684.01 per month, the family's basic tax reimbursement payment is $0.20 \times (684.01 - 425.00) - 0.20 \times (900.00 - 684.01)$, which works out to $8.60 per month. The Federal share of the $31.24 payment is $8.60 + 0.25 \times (31.24 - 8.60)$, or $14.36, since in this example the maximum breakeven equals the actual breakeven, and hence, the maximum and actual tax reimbursement payments are the same.

H.R. 9030 EMERGENCY NEEDS GRANTS

Section 2011(a) of H.R. 9030 authorizes appropriations for a program to enable each State to furnish assistance to meet the living expenses of needy families and individuals not met under the reform program. Section 2011(b) authorizes additional appropriations of $20 million for meeting the living expenses of special categories of needy families and individuals not adequately met under the basic program.

It is proposed that $600 million be set aside for the fifty States and the District of Columbia each year for Emergency Needs block grants. The allocation for the first year would be based on the States pre-reform effort. Pre-reform effort is defined in Section 2126(b)(1)(B) as the State share of the transfer costs in AFDC, SSI, and General Assistance in calendar year 1975. The State share of AFDC includes the State share of any emergency assistance payments. The SSI number is the net of any Federal SSI hold harmless payments made to the State.

In each successive year, the allocation attributable to current effort drops by 25 percent and an allocation is made of that portion of the appropriation, on the basis of population, until all amounts are allocated on the basis of population for the fifth year of the program. The same allocation formula distributes $10 million among Puerto Rico, the Northern Marianas, Guam, and the Virgin Islands.

The following table shows Emergency Needs block grant allocations to States in the first five years of the program.

EMERGENCY NEEDS BLOCK GRANTS ALLOCATIONS TO THE STATES

State	Year 1	Year 2	Year 3	Year 4	Year 5
Alabama	2.4	4.3	6.3	8.3	10.2
Alaska	1.0	1.0	1.1	1.1	1.2
Arizona	1.8	3.0	4.2	5.4	6.6
Arkansas	1.3	2.5	3.7	4.8	6.0
California	130.1	112.6	95.1	77.7	60.2
Colorado	4.8	5.4	6.0	6.6	7.2
Connecticut	8.2	8.4	8.6	8.8	9.0
Delaware	1.2	1.4	1.5	1.7	1.8
District of Columbia	5.3	4.4	3.5	2.4	1.8
Florida	2.9	8.1	13.2	18.3	23.5
Georgia	3.7	6.2	8.8	11.3	13.8
Hawaii	4.1	3.7	3.2	2.8	2.4
Idaho	.8	1.2	1.5	2.0	2.4
Illinois	45.8	42.2	38.6	34.9	31.3
Indiana	4.2	6.9	9.6	12.3	15.0
Iowa	4.2	5.1	6.0	6.9	7.8
Kansas	3.2	4.0	4.9	5.8	6.6
Kentucky	3.8	5.3	6.7	8.2	9.6
Louisiana	3.3	5.2	7.1	8.9	10.8
Maine	2.1	2.3	2.6	2.8	3.0
Maryland	8.4	9.2	9.9	10.7	11.4
Massachusetts	35.9	31.0	26.1	21.2	16.2
Michigan	41.3	37.3	33.3	29.3	25.3
Minnesota	8.3	8.9	9.6	10.2	10.8
Mississippi	.6	2.1	3.6	5.1	6.6
Missouri	7.7	9.1	10.5	11.9	13.2
Montana	.4	.9	1.4	1.9	2.4
Nebraska	1.3	2.1	2.8	3.5	4.2
Nevada	.7	1.0	1.3	1.5	1.8
New Hampshire	1.2	1.5	1.8	2.1	2.4
New Jersey	24.2	23.3	22.4	21.4	20.5
New Mexico	.9	1.4	1.9	2.5	3.0
New York	114.0	98.1	82.3	66.4	50.6
North Carolina	4.7	7.3	9.9	12.5	15.0
North Dakota	.4	.8	1.1	1.5	1.8
Ohio	21.7	23.8	25.9	28.0	30.1
Oklahoma	4.0	4.9	5.9	6.9	7.8
Oregon	4.9	5.3	5.7	6.2	6.6
Pennsylvania	43.8	41.1	38.5	35.8	33.1
Rhode Island	3.3	3.1	2.8	2.6	2.4
South Carolina	1.1	2.8	4.5	6.2	7.8
South Dakota	.6	.9	1.2	1.5	1.8
Tennessee	2.5	4.9	7.3	9.6	12.0
Texas	3.4	11.3	19.2	27.0	34.9
Utah	1.1	1.8	2.4	3.0	3.6
Vermont	1.4	1.3	1.3	1.2	1.2
Virginia	6.3	8.2	10.1	12.0	13.8
Washington	9.8	9.9	10.0	10.1	10.2
West Virginia	1.5	2.3	3.1	4.0	4.8
Wisconsin	10.0	10.7	11.3	12.0	12.6
Wyoming	.3	.5	.7	1.0	1.2
Total	600.0	600.0	600.0	600.0	600.0

I. INTRODUCTION

This paper describes and illustrates some of the applications of a microsimulation model that is being used by the Department of Health, Education, and Welfare, the Department of Labor, and the Congressional Budget Office to estimate the costs and effects of proposed alternatives to the existing welfare system. The model, which has become known as the KGB model, was developed in the Office of Income Security Policy, within the Department of Health, Education, and Welfare, and can be used to simulate welfare reform proposals that would result in substantial changes in both cash assistance programs and in the positive tax system, and that would guarantee jobs for certain subsets of the population. Various interactions among income maintenance programs, positive taxes, jobs programs, and labor supply adjustments have been incorporated into the model. As might be imagined, the model is quite large and complex, requiring over eight thousand individual steps.

The actual operation of the KGB model requires survey data on the hours and incomes of individuals and households. Although several different available surveys could potentially be used, and indeed have been, the 1975 Survey of Income and Education (SIE) provides the best data base by far. The SIE sample consists of nearly 200,000 households. The data, which were collected by the Census Bureau, are relatively recent and contain comparatively good measures of many of key variables upon which simulations conducted with the model rest, including wage rates, household income by source, and hours. Moreover, the SIE provides statistically reliable samples for individual states. This is particularly important because of concern over the fiscal impact that various welfare reform alternatives will have on individual states and interest in the state by state distribution of the demand for public employment job slots.

II. STRUCTURE OF THE MODEL

Simulation of proposed alternatives to the existing tax and transfer system proceeds in four major steps. First, the pre-reform economic status of a representative sample of the nation's families is characterized. Some characteristics, such as hours, earnings, and unearned income, can be read directly from the input data. Others, such as taxes paid and tax rates, are derived from schedules. Still others, including tax rates in current transfer programs and unemployment compensation amounts, are determined from predictive equations.

Second, the values of net wage rates and disposable income are adjusted to what they would be were the simulated reform measure implemented, but desired hours of work and earnings remained unchanged. The preliminary part of this step is to determine the filing unit for the cash assistance component of the program. For workers who are eligible for a public service employment (PSE) job, it is necessary to compute what the values of the variables would be if: (1) the worker leaves the conventional labor market to take a public employment job (which we characterize as the "pure strategy"), (2) he remains attached to the conventional job sector and takes a public employment job only when he is unemployed (the "mixed strategy"), or (3) he does not participate in public employment at all (the "private strategy").

The third step consists of adjusting the values of the post-reform variables to account for labor supply responses to changes in net wage rates and disposable income under each public employment strategy. Given the estimates of the hours family members would work, disposable income under each strategy is then recomputed by using the appropriate tax and transfer schedules.

The final step of the simulation involves determining whether an individual will choose to take a public service job whenever he is in the labor force, only when he is unemployed, or not at all. It is assumed that an individual chooses the strategy that maximizes the expected value of his family's stream of future disposable income after all labor supply adjustments have taken place.

Characterizing the pre-reform position of families

The KGB model can utilize most data files that contain income and labor supply information of the type collected each March by the Current Population Survey. As indicated in the Introduction, simulation estimates that are reported in this paper are based on the Survey of Income and Education (SIE). For purposes of the model, the SIE has been processed so that an individual, his spouse, and their minor children form one record. The model uses this nuclear family as the behavioral unit, although it allows for the possibility that transfer receipts and job eligibility may also depend on the characteristics of family members outside the nuclear unit.

Since transfer payments that are reported on the SIE file fall short of actual state outlays, it is necessary to use predicted amounts of AFDC and SSI for some families in order to reach control totals. Reported transfers are used whenever they are positive and and a fraction of those who reported none are chosen randomly and assigned an imputed amount. AFDC tax rates are derived from regressions that have been estimated by Mathematica for individual states.[1] The SSI benefit reduction rates were derived from schedules implied in the law.

The model has the capability of not only simulating the Food Stamps provisions that were in effect prior to 1977 but also the revisions in the program recently enacted by Congress. The payment schedules in the appropriate law are used to determine Food Stamps receipts and benefit reduction rates.

Unemployment compensation amounts are derived from three regression equations that were estimated at the Urban Institute specifically for use in the KGB model. These regressions predict the probability of receiving payments when unemployed, the length of eligibility, and the weekly payment. Individuals are chosen randomly to receive payments on the basis of the probability estimates, and then the predicted length and predicted weekly payment are used to compute their total payments.

It was pointed out above that the model assumes that an individual will choose the public employment strategy that yields the highest future stream of disposable income for his family. If he continues to work in the private sector, however, his future income will depend on how much unemployment he would incur, something he cannot know with certainty. For purposes of the model, we assume that he would make his choice on the basis of expected unemployment. Two equations from the Urban Institute Dynasim model, which predict the probability and length of spells of unemployment, are used to determine the fraction of a worker's time in the labor force that he expects to be unemployed.

Market wage rates for workers are computed directly from the data by dividing annual hours worked into earnings. Those for non-workers are imputed from regressions estimated on data from the Panel Survey on Income Dynamics. Each imputed wage includes a random error that maintains consistency with the actual distribution of wages. Desired hours, the number of hours of labor workers are willing to supply at their market wage rate, is calculated by summing actual hours worked and reported unemployment.

Social Security and Federal and state income taxes are determined by using the appropriate schedules. We assume that the income tax filing unit is the nuclear family and that everyone uses the standard deduction. These assumptions result in overestimates of total taxes paid, but should provide reasonably accurate estimates for most low income families—that is, for those families who will receive cash assistance or take PSE jobs—since these households seldom itemize in completing their tax returns.

After all these calculations are completed, pre-reform net wage rates and disposable income can be calculated. The net wage rate is defined as the product of the gross wage rate and the cumulative tax rate. Cumulative tax rates are computed as the sum of the marginal tax rates, except in cases when one program taxes another and interaction terms are allowed for.

Changes in net wage rates and disposable income

In order to compute what a family's disposable income and net wage rates would be under a welfare reform proposal, it is first necessary to use the proposal's provisions to determine the family's post-reform transfer payments, benefit reduction rates, and gross wage rates. The post-reform net wage rate under the private strategy and the pure strategy is computed in the same manner as the pre-reform net wage rate, except that in the case of the pure strategy the program wage rate is used in place of the market wage.

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[1] Douglas Bendt, *The Effects of Changes in the AFDC Program on Effective Benefit Reduction Rates and the Probability of Working*, Mathematica Policy Research Project Report Series 76–13.

The procedure for deriving the net wage rate under the mixed strategy is somewhat different. For people eligible for unemployment insurance (UI), each week in public service employment involves the loss of a week of benefits. Thus, an unemployed worker who would lose more in UI than he would gain in earnings by accepting a public employment job would not follow the mixed strategy. Since the loss in UI benefits results directly from accepting a public employment job, rather than depending on the size of earnings, the UI program does not have a marginal tax rate in the usual sense. In order to calculate the net public employment wage rate under the mixed strategy, we calculate disposable income, including UI, at two points: (1) actual hours worked and (2) where public employment hours completely replace unemployed hours. The difference in disposable income between these two points is then divided by the public employment hours to obtain the net mixed strategy public employment wage rate.

The model has the capability of adjusting the cash estimates for non-participation. Some families who are eligible for assistance under current transfer programs do not participate and many eligible families probably would also not participate in the new program. In the model, we attempt to account for non-participation by first assuming that all participants in current cash program will also participate in new programs, if they are eligible. The model then computes probabilities of participating for families who do not receive payments under current cash programs on the basis of the ratio of their potential cash payments if they were following the private strategy, to their total pre-tax incomes. There is a separate set of probabilities for each demographic group that have been defined so that families who do not receive benefits now, but are in demographic groups covered by current cash assistance programs, are the least likely to participate in the new program. If a family is chosen to participate in the cash program under the private strategy, it is assumed to participate under the mixed and pure strategies also.

Calculation of hours under each strategy

As noted in Section I, labor supply parameters that were estimated from data collected in the Seattle and Denver Income Maintenance Experiments are used to determine how desired hours would be adjusted in response to the changes in net wage rates and disposable income that would occur upon implementation of the welfare reform measures. These changes in disposable income and net wage rates are evaluated at pre-reform desired hours of employment, which are calculated by multiplying the sum of reported weeks worked and reported weeks of unemployment by the hours worked per week while working. Adjustments in desired hours that result from the welfare reform must be calculated three times for those who are eligible for public employment jobs—once for each of the alternative strategies.

The characteristics of particular proposals simulated with the KGB model have led to modifications in the methodology that has been used in previous simulations conducted with the Seattle-Denver labor supply parameters. One such modification attempts to take into account the very sharp kink in household budget constraints that may result from an earnings disregard.[8] It is assumed that no one who responds to the low tax rates below a disregard or the high rates above a disregard will change his hours and earnings by enough to cross the disregard. In addition, the labor supply response equation has been re-estimated in a nonlinear form that assures that individuals cease working at a tax rate of 100 percent. This specification and the resulting coefficients appear in the upper panel of Table I.

The estimates of welfare reform induced changes in desired hours are used to compute the post-reform hours that would be worked under each of the three strategies. Hours under the private sector employment strategy are calculated in three steps. First, desired hours are computed as the sum of pre-reform desired hours and the change in desired hours. This sum is then multiplied by the proportion of their desired hours that individuals expect to be unemployed. (Computation of this fraction was described earlier.) The resulting product is then subtracted from desired hours. The remainder provides an estimate of the number of hours individuals expect to work, if they do not participate in public employment.

[8] Such a disregard is a feature of the Program for Better Jobs and Income.

TABLE I.—LABOR SUPPLY PARAMETERS

[Standard errors are in parentheses]

	Husbands	Wives	Female heads
Change in hours equations (Tobit):			
[1 ÷ new net wage rate] − [1 ÷ old net wage rate]	−178.06	−145.54	−129.18
	(69.14)	(69.63)	(57.74)
Change in disposable income (in thousands)	−45.92	−156.10	−111.15
	(24.76)	(41.07)	(37.16)
Labor force participation equations (Logit):			
Change in net wage rate	0.1535	0.3337	0.1821
Change in disposable income (in $1,000's)	−.1746	−.2595	−.2123

The hours that individuals who are following the mixed strategy would work is the sum of the hours they expect to work for regular employers—the calculation of which was just described—and the public employment hours they would work while unemployed. Computation of the latter quantity depends on the mixed strategy net wage rate, and hence, allows for losses in unemployment compensation that result from accepting a public employment job and differences between market wages and the program wage—for most mixed participants the latter is likely to be smaller. The simulation also ensures that mixed strategy hours conform to the limits on the number of public employment hours that may be worked each week and restrictions on the number of weeks that unemployed individuals may participate in public employment.

The hours that individuals would work under the pure strategy are estimated by first summing pre-reform desired hours and the adjustment in desired hours that would occur for pure participants. This sum is then compared to the maximum hours public employment participants are allowed to work—as determined by program regulations concerning initial waiting periods, annual furloughs and hours that may be worked per week—and the smaller of these two quantities is denoted as program hours worked.

The simulation allows for the possibility that some non-workers will enter the labor force as a result of changes in their wage rates, tax rates, and disposable incomes. For each non-worker, a probability of participating in the labor force is calculated for both the pre-reform and post-reform periods. The coefficients of the key variables that are used are shown in the lower panel of Table I. For a non-working individual, the probability of entering the labor force is computed as the difference in his pre- and post-reform probabilities of participating divided by his pre-reform probability of *not* participating.[3] Based on their estimated probabilities of entering the labor force, a random number generator is used to reassign some non-workers to a worker status. Desired hours of those chosen as new entrants are asumed to be the predicted changes for persons with their characteristics.

Choice of strategy

After desired hours for each strategy are determined, tax and transfer schedules are used to re-evaluate disposable income. In order to determine the choice of strategy, a calculation is made of the present discounted value of the disposable income that individuals would expect to receive over the next ten years, under each of the three strategies. All future years are assumed to be the same as the first, except for an initial program waiting period, which for pure participants occurs only once.

If the present value of pure strategy income is higher than the other two present values, the individual is assumed to give up work at regular jobs and work only in public employment. However, the model has the capability of letting private sector employers raise wage rates and thereby, retain some fraction of their workers who would otherwise choose the pure strategy.[4]

Those who reject the pure strategy are then faced with the decision of whether or not to follow the mixed strategy when they are unemployed. Since this is a decision that needs to be made only when a spell of unemployment actually

[3] This procedure adjusts for differences among demographic groups in pre-reform labor force participation rates.

[4] See Greenberg (forthcoming) for an explanation.

occurs, mixed strategy hours are redetermined, using each individual's reported, rather than his expected, weeks of unemployment. Those with positive hours are tested as mixed participants.

Question. The Data?

Answer. The material on cost estimates included elsewhere in this package details many of the parameters used to calculate cost estimates for FY82. Additional information concerning the data and estimation is presented as follows:

Which CPI were used?

CPI values are taken from published sources or, for future periods, from Administration projections. The CY75 value is 161.2. The FY78 value used in September was 189.28. The values used for the Budget estimates were 189.39 for FY78 and 234.72 for FY82.

What unemployment rates were used?

The 1978 estimates assumed an annual average rate of 5.6%. This rate, as is noted above, is below the actual rate in FY78, but was intended to represent a likely rate for a hypothetical first year of operation. The 1982 estimates assumed a rate of 4.7%.

What wage rates were used?

For simulating the number of jobs required, the minimum wage in CY75 ($2.10) was employed. For preparing cost estimates, the minimum expected in the year of the estimate was used: $2.65 in FY78 and $3.35 in FY82.

Wage supplements

The basic hourly wage for subsidized jobs and training slots under H.R. 9030 is the Federal minimum wage with the following exceptions:

In States with higher minimum wage, the State rate will apply.

Prime sponsors are allowed to pay wages higher than the prevailing minimum wage to work leaders who may constitute not more than 15 percent of the subsidized workers. The ceiling on these wages is 25 percent above the prevailing minimum wage.

The minimum wage will be supplemented in those States which supplement cash assistance benefits beyond the basic Federal benefit. These States will be required to supplement wages in a way that is proportional to their supplementation of the basic benefit, but not to exceed 10 percent of the Federal minimum wage.

The minimum wage requirement is designed to assure that subsidized jobs will be used only when a regular, non-subsidized job cannot be found. Paying the minimum wage will also increase the number of workers whom the program can serve.

Permitting prime sponsors to pay higher wages to 15 percent of all subsidized workers will allow some flexibility in the pay system to provide incentives for good performance. Requiring States that supplement cash benefits to also supplement the minimum wage is necessary to maintain the proper relationship between the Jobs program and cash assistance.

The enclosed State fact sheets which detail State by State fiscal relief also show the cost of wage supplements in each State.

How was the 1975 income data converted to 1978 data?

The procedure parallels the one described in the "Annotated Cost Estimate" mentioned above, which refers to 1982. The values used for the original FY78 estimate published in September 1977 were as follows:

Item		Billions
Basic Federal program: [1]		
Computer estimate		$17.08
Underreporting	×0.95	16.23
Accountable period	×1.02	16.55
Inflation	×1.172	19.40
Unemployment rate	−1.6	17.80
Participation rate	×0.86	15.31
Institutionalized	+0.47	15.78
Informal foster care	+0.2	15.98
Error rate	×1.04	16.61
Too frequent $800 reduction	+0.1	16.71
Vocational rehabilitation	+0.03	16.74
SSI grandfathering	+0.23	16.97
Administration	+2.2	19.17
Total, basic Federal program		19.17

See footnote at end of table.

Item		Billions
Federal share of State supplements:		
Computer estimate		1.43
Underreporting	×0.95	1.35
Accountable period	×1.02	1.38
Inflation	×1.172	1.62
Participation rate	×0.86	1.39
Institutionalized and informal foster care	×1.03	1.43
Error rate	×1.04	1.49
Total, State supplements		1.49

[1] "×" means that the preceding dollar amount is multiplied by the number following the sign to obtain the entry in that row (e.g., 16.23×0.95 (17.08)). "+" and "−" show addition and subtraction of an amount of dollars in billions.

The unemployment rate adjustment shown here assumes an unemployment rate of 5.6%. This is below the actual rate for FY78, but does correspond more closely to the rate likely to prevail during a hypothetical first year of implementation in the early 1980's.

What are the actual payment standards used for calculating State supplementation? What levels of State supplementation were assumed?

The fiscal relief that a State will realize depends on several factors. Chief among these, of course, is the type and level of supplemental benefits that the State elects to provide. Since we do not know what States will do after reform, we had to base our estimates on a set of behavioral assumptions concerning State supplement decisions.

We assumed that States will supplement the basic national benefit up to existing benefit levels in AFDC and SSI, plus the bonus value of Food Stamps and, in addition, that States will ensure that no current AFDC or SSI recipient loses benefits as a result of the reform (i.e., current recipients are "grandfathered").

Thus, estimated post-reform spending by States (which is compared with pre-reform spending to estimate fiscal relief) would be the sum of the following items:

The State's share of the cost of the basic national program in that State (limited to 90 percent of current expenditures);

The State share of the cost of matching supplements* to bring benefit levels for the aged, blind, and disabled up to current State SSI levels and to bring benefit levels for families with children up to current AFDC levels (except as constrained by the maximum benefit reduction rate of 52 percent allowed for two-parent families and single parent families with no children younger than age 14). The bonus value of Food Stamps is included in both cases in determining "current benefit levels;"

The cost of any wage supplements required as a result of benefit levels in matching supplements;

The cost of protecting all current SSI recipients against benefit losses;

The cost of protecting all current AFDC recipients against benefit losses.

We have enclosed the current fiscal relief estimates for States under H.R. 9030. These estimates include State by State fact sheets which detail the assumptions and calculations used to estimate fiscal relief. In addition, the attached table compares projected benefit levels (Federal plus State supplement) after reform with benefit levels in current programs (AFDC plus Food Stamps). In preparing the table, we have assumed that States will supplement to maintain current benefit levels, but not above the limits of Federal subsidization.

To fully protect current AFDC recipients from benefit loss, however, States will need to pay "non-matching" grandfather supplements to some current recipients. Such supplements are necessary because even though a State were to maintain current benefit levels in its matching supplements, some recipients would lose benefits due to changes in eligibility and income rules. Grandfather supplements will protect these recipients.

COMPARISON OF PROJECTED BASIC PLUS STATE SUPPLEMENT BENEFIT AND PROJECTED AFDC PLUS FOOD STAMP BENEFIT BY STATE FOR 1978, ASSUMING NO OTHER SOURCE OF INCOME FOR A FAMILY OF 4, NOT EXPECTED TO WORK

State	Fiscal year 1978 projection of— AFDC plus food stamp benefit	Basic Federal plus State supplement benefit
Alabama	$3,850	$4,200
Alaska	7,220	7,220
Arizona	4,460	4,460
Arkansas	3,900	4,200
California	5,960	5,960
Colorado	5,180	5,180
Connecticut	6,490	6,350
Delaware	5,060	5,060
District of Columbia	5,450	5,450
Florida	4,200	4,200
Georgia	4,030	4,200
Hawaii	8,080	7,300
Idaho	5,910	5,910
Illinois	5,640	5,640
Indiana	4,980	4,980
Iowa	6,030	6,030
Kansas	6,000	6,000
Kentucky	4,840	4,840
Louisiana	4,080	4,200
Maine	4,680	4,680
Maryland	4,910	4,910
Massachusetts	6,160	6,160
Michigan	6,540	6,350
Minnesota	6,180	6,180
Mississippi	3,070	4,200
Missouri	4,000	4,200
Montana	4,760	4,760
Nebraska	4,930	4,930
Nevada	4,790	4,790
New Hampshire	5,930	5,930
New Jersey	6,030	6,030
New Mexico	4,550	4,550
New York	6,720	6,350
North Carolina	4,490	4,490
North Dakota	5,940	5,940
Ohio	5,020	5,020
Oklahoma	5,120	5,120
Oregon	6,590	6,350
Pennsylvania	5,960	5,960
Rhode Island	5,660	5,660
South Carolina	3,670	4,200
South Dakota	5,720	5,720
Tennessee	3,820	4,200
Texas	3,900	4,200
Utah	5,530	5,530
Vermont	6,140	6,140
Virginia	5,580	5,580
Washington	6,160	6,160
West Virginia	4,970	4,970
Wisconsin	6,490	6,350
Wyoming	4,980	4,980

Question. Sensitivity Analysis: Has the model been run under a variety of situations related to jobs, wage rates, labor force participation rates, etc.? What variations were used and what were the results? What interaction effects were present?

Enclosed is a sensitivity analysis of H.R. 9030 entitled "The Program for Better Jobs and Income: An Analysis of Costs and Distributional Effects". The study, commissioned by the Joint Economic Committee, focuses on the budgetary costs and the distributional effects of varying elements of the Administration's welfare reform proposal including cash benefits, the earned income tax credit, wage rates, job availability, and the federal share of State supplementation of benefits.

95th Congress } JOINT COMMITTEE PRINT
2d Session

THE PROGRAM FOR BETTER JOBS AND INCOME: AN ANALYSIS OF COSTS AND DISTRIBUTIONAL EFFECTS

A STUDY

PREPARED FOR THE USE OF THE

JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

FEBRUARY 3, 1978

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LETTERS OF TRANSMITTAL

JANUARY 31, 1978.

To the Members of the Joint Economic Committee:

Transmitted herewith for use of the members of the Joint Economic Committee and other Members of Congress is a study entitled "The Program for Better Jobs and Income: An Analysis of Costs and Distributional Effects."

This is one of three studies commissioned by the Joint Economic Committee on the subject of welfare reform. These studies are intended to provide information and analysis to the Congress on this important issue. This study, prepared by Professors Robert Haveman and Eugene Smolensky, University of Wisconsin, focuses on the budgetary costs and distributional effects of varying certain basic elements in the Administration's welfare reform proposal.

The views expressed in this study are those of its authors and should not be interpreted as representing the views or recommendations of the Joint Economic Committee or any of its members.

RICHARD BOLLING,
Chairman, Joint Economic Committee.

JANUARY 27, 1978.

Hon. RICHARD BOLLING,
Chairman, Joint Economic Committee,
U.S. Congress, Washington, D.C.

DEAR MR. CHAIRMAN: Transmitted herewith is a study entitled "The Program for Better Jobs and Income: An Analysis of Costs and Distributional Effects," prepared by Professors Robert Haveman and Eugene Smolensky, University of Wisconsin.

This study is the third Committee study on welfare reform intended to provide information and analysis on important aspects of the welfare reform proposal, including a review of its macroeconomic effects and an analysis of its budgetary costs and distributional effects.

Drs. Haveman and Smolensky have evaluated the cost and benefit effects of various revisions of the Administration's proposals.

The Committee is grateful for the cooperation and assistance of the U.S. Department of Health, Education, and Welfare in the preparation of this study. This study was reviewed by Deborah Norelli Matz and Tom Cator of the Committee staff.

Sincerely,

JOHN R. STARK,
Executive Director,
Joint Economic Committee.

CONTENTS

THE PROGRAM FOR BETTER JOBS AND INCOME: AN ANALYSIS OF COSTS AND DISTRIBUTIONAL EFFECTS

By ROBERT HAVEMAN AND EUGENE SMOLENSKY*

The program for better jobs and income (PBJI) would change the pattern of income flows to a large number of the nation's families and would change both the incentives and the opportunities to work. In a previous report, we presented a critique of the entire plan. Here, we focus on two aspects of the proposal in more detail—its cost and its distributional consequences.

In sections I and II, we briefly review what is now known about the program's costs and distributional effects. This review is based largely on recent estimates by the Congressional Budget Office (CBO) and serves as background for some additional calculations made by the Department of Health, Education, and Welfare (DHEW), and supplied to us by the Joint Economic Committee. In these calculations, several aspects of the program were altered and the resulting changes in costs and distributional effects estimated. These particular changes were chosen because they appeared to be characteristics of the PBJI most likely to prove contentious during the legislative process. The results of these calculations are presented in section III. Finally, in section IV, we characterize what it is the administration is buying with the incremental expenditures required for PBJI, and summarize some of the findings from the simulations reported in section III.

It should be emphasized that the data in this report were estimated by DHEW with the same basic microdata simulation model as was employed by the administration in their original description of the consequences of enacting PBJI. Our analysis is aimed at examining some of the effects of changing various aspects of PBJI; it does not challenge the accuracy or adequacy of the procedures by which DHEW predicts costs and benefits.[1]

I. THE BUDGETARY COSTS OF PBJI

The administration presented cost estimates at the time the details of the program were released. Table 1 presents the details of these estimates. The two main components of outlays are the cash benefits of $19.2 billion and the public service jobs of $8.8 billion. Offsetting these expenses are, primarily, the phaseout of three existing transfer programs which accounts for $17.6 billion and the reduction which is possible in manpower training and other public employment programs

*The authors are professors of economics and staff members of the Institute for Research on Poverty, University of Wisconsin, Madison, Wis.

[1] The administration's cost and benefit estimates have been scrutinized in: Danziger, Sheldon; Haveman, Robert; and Smolensky, Eugene, "The Program for Better Jobs and Income—A Guide and a Critique," Joint Economic Committee Print, U.S. Congress, October 17, 1977; Hausman, Leonard J. and Friedman, Barry L., "Work, Welfare, and the Program for Better Jobs and Income," Joint Economic Committee Print, U.S. Congress, October 14, 1977; U.S. Congress, Congressional Budget Office, letter on cost estimates for Representative James C. Corman, November 29, 1977; and Storey, James R., et al., "The Better Jobs and Income Plan: A Guide to President Carter's Welfare Reform Proposal and Major Issues," the Urban Institute, mimeo, January 5, 1978.

because of PBJI, which accounts for $6.9 billion. Considering both pluses and minuses, the net drain on the Federal budget in 1978 is estimated to be $2.8 billion.

TABLE 1.—*Administration estimate of the costs of PBJI, and the components of costs ($1,978 billions)*

Basic Federal income supplement program	$19.17
Cash grants to all eligibles	(17.08)
Cash grants to participants	(15.31)
Cash grants to participants plus adjustments	16.97
Administration	2.20
Federal costs for matching State supplements	1.49
Adjustments for hold harmless, State share calculation, and Puerto Rico	-.49
Earned income tax credit	[1] 1.50
Emergency assistance	.61
Employment program	8.80
Full-time jobs	7.88
Part-time jobs	.52
Administration	.40
Total outlays	31.08
Savings from reductions in expenditure on other programs or increases in taxes	28.30
Abolition of AFDC	6.40
Abolition of SSI	5.70
Abolition of food stamps	5.50
Reductions in EITC from additional earnings	1.10
Reductions in CETA, Win, and UI	6.90
Reduction in housing programs	.30
Increased payroll taxes	.70
Reduction in fraud	.40
Wellhead tax	1.30
Net cost of PBJI	2.78

[1] Tax benefits of $8,000,000,000 for those who will not receive income supplements are not considered by the administration to be a cost of the welfare program.

The administration's cost estimate, in particular, the use of energy tax revenues and fraud elimination to offset program costs, and the neglect of additional tax reduction benefits given to middle income groups have been questioned.[3] However, they serve as a useful starting point for the analyses to be undertaken in part III. They were calculated using the same computer model and are therefore consistent with and directly comparable to the numbers presented there.

[3] See Danziger, Haveman, and Smolensky, ibid.; U.S. Congress, Congressional Budget Office, ibid.; and Storey et al., ibid.

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II. The Effects of PBJI on Various Groups of People

One objective of the PBJI proposal is to integrate and improve the administration of and incentives created by the existing melange of income transfer programs. A second objective is to increase the opportunities for, and necessity of, work for many who now are unemployed or underemployed. A third objective is to reduce the level of income poverty in the United States. For this reason, estimates of the effect of various program characteristics on groups of beneficiaries are relevant in the policy debate.

Here we summarize some estimates of the distributional effects of PBJI, as produced by the Congressional Budget Office, employing a computer model very similar to that used by DHEW. These figures are to serve as a backdrop to our sensitivity-type analysis in part III in the same manner as the base estimates of program costs presented in the previous section.

Tables 2, 3, and 4 display the CBO estimates of the antipoverty and income distributional effects which PBJI would have achieved if it were in effect in 1975. The story which these figures tell can be summarized as follows:

While two-thirds of welfare recipients had annual income below $5,000 in the current system, only 41 percent of assistance recipients would be below $5,000 under PBJI, a reduction of one-half million families.

The current system eliminates $12.7 billion of the poverty gap, which is about 54 percent of the prewelfare gap. PBJI reduces the gap by $16.1 billion, or 68 percent.

Under current welfare programs, 11.2 percent of all families are left in poverty, PBJI reduces this to 9 percent, a reduction of about 20 percent.

PBJI appears to reduce poverty for most demographic groups—the aged, single parent families, intact families, families with disabled members, working poor families, and Southern families. It fails to raise the ratio of black to white incomes.

While about one-fourth of poor families would be made worse off under PBJI, 43 percent would experience an improvement in their financial status. Nearly all aged families would remain at least as well off. About 50 percent of single-parent families would be benefitted and very few left worse off. Over one-third of all black families are gainers, relative to about one-fifth of white families.

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TABLE 2.—DISTRIBUTION OF FAMILIES AND BENEFITS BY PREWELFARE INCOME CLASSES UNDER CURRENT POLICY AND ADMINISTRATION'S WELFARE REFORM PROPOSAL, 1975.

Program	Less than $5,000	$5,000 to $9,999	$10,000 to $14,999	$15,000 to $24,999	$25,000 and over	Total
Distribution (thousands of families):						
All families	16,738	16,310	14,652	18,327	8,548	74,576
Current policy:						
Welfare programs [1]	8,614	2,317	925	691	168	12,715
Earned income tax credit	2,426	3,131	509	360	56	6,483
Total	9,058	4,257	1,267	934	211	15,727
Administration's welfare reform proposal:						
Cash assistance	9,382	3,934	2,426	1,351	257	17,351
Public service jobs	1,292	905	294	251	45	2,787
Earned income tax credit	2,037	4,783	4,741	1,432	134	13,129
All components	9,507	5,794	5,373	2,348	348	23,371
Benefits (billions of dollars):						
All families						
Current policy:						
Welfare Programs [1]	15.0	2.9	1.2	0.9	0.3	20.4
Earned income tax credit	.5	.5	[2] 0	[2] 0	[2]	1.2
Total	15.5	3.4	1.[illegible]	.9	.3	21.6
Administration's welfare reform proposal:						
Cash assistance	17.1	4.7	2.1	1.2	.2	25.5
Public service jobs	3.3	1.8	0.6	.4	.1	6.1
Earned income tax credit	.4	1.8	1.3	.4	[2] 0	3.9
All components	20.8	8.4	4.0	2.0	.3	35.6

[1] Includes aid to families with dependent children, supplemental security income, state general assistance, and food stamps.

[2] Rounds to zero.

Note: Preliminary estimated, Oct. 12, 1977.

Source: Statement of Robert D. Reischauer, "Preliminary Analysis of the Distributional Impact of the Administration's Welfare Reform Proposal," Task Force on Distributive Impacts of Budget and Economic Policy Committee of the Budget, U.S. Congress, Oct. 13, 1977.

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TABLE 3.—NUMBER OF FAMILIES IN POSTTAX, POSTTRANSFER POVERTY BY TYPE OF FAMILY AND REGION OF RESIDENCE UNDER CURRENT POLICY AND ADMINISTRATION REFORM PROPOSAL, 1978

[Families in thousands]

Characteristics of families	Post cash social insurance income	Posttax, posttransfer income: Current policy	Posttax, posttransfer income: Administration's reform proposal
All families	10,840	8,339	6,713
Age of head:			
65 and over	2,916	2,047	1,444
Under 65	7,924	6,292	5,269
Family type:			
Single parent with children	2,577	1,565	1,172
Youngest child under 6	1,235	855	551
Youngest child 6 to 13	1,058	541	454
Youngest child 14 and over	284	169	166
2 parents with children	1,676	1,213	523
Other	6,587	5,560	5,017
Health status:			
Disabled member	1,425	887	721
Nondisabled member	9,415	7,452	5,992
Employment status of head:			
Working full time	2,305	1,989	1,525
Working part time	1,607	1,200	1,012
Unemployed	912	738	587
Not in labor force	6,016	4,412	3,589
Race of head:			
White	8,039	6,248	4,854
Nonwhite	2,801	2,091	1,859
Region of residence:			
South	4,250	3,608	2,935
West	1,928	1,307	1,077
Northeast	2,207	1,480	1,064
North central	2,454	1,944	1,637

Note: Preliminary estimates, Oct. 12, 1977.

Source: See table 3.

TABLE 4.—NUMBER OF FAMILIES GAINING OR LOSING BENEFITS, BY FAMILY TYPE, UNDER ADMINISTRATION WELFARE REFORM PROPOSAL, 1978

Current policy posttax, posttransfer income status	Amount of income lost: $500 or more	Amount of income lost: $100 to $499	Total families losing	Families with no change	Total families gaining	Amount of income gained: $100 to $499	Amount of income gained: $500 or more
Poverty status:							
Below poverty	761	1,040	1,801	2,011	2,902	1,303	1,599
Above poverty	1,423	1,462	2,885	50,610	14,368	6,729	7,639
Welfare status:							
Cash assistance only	204	946	1,150	556	1,229	5,3	716
Food stamps only [1]	1,492	1,077	2,569	779	2,462	1,388	1,074
Cash assistance and food stamps [1]	486	423	909	531	2,530	1,034	1,496
No cash assistance or food stamps	2	55	57	52,621	11,048	5,097	5,951
Age of head:							
65 and over	487	741	1,228	10,915	3,312	2,008	1,304
Under 65	1,697	1,760	3,457	41,706	13,958	6,024	7,934
Family type:							
Single parent with children	548	522	1,070	2,321	3,691	1,492	2,198
Youngest child under 6	157	141	298	385	1,594	710	884
Youngest child 6 to 13	266	241	507	1,107	1,652	614	1,038
Youngest child 14 and over	126	139	264	829	445	168	276
2 parents with children	553	320	873	16,608	9,029	4,000	5,028
Other	1,083	1,659	2,742	33,691	4,550	2,540	2,010
Health status:							
Disabled member	651	463	1,114	1,123	1,261	540	721
Nondisabled member	1,533	2,039	3,571	51,498	16,009	7,492	8,517
Employment status of head:							
Working full time	519	683	1,202	30,350	8,165	3,615	4,514
Working part time	361	433	794	7,358	2,235	1,054	1,181
Unemployed	99	189	288	1,515	1,071	387	684
Not in labor force	1,205	1,197	2,401	13,368	5,798	2,976	2,858
Race of head:							
White	1,629	1,977	3,606	47,787	13,981	6,641	7,340
Nonwhite	555	524	1,079	4,834	3,289	1,391	1,897
Region of residence:							
South	531	1,017	1,548	15,686	6,388	3,348	3,040
West	591	401	991	10,260	2,677	1,189	1,488
Northeast	608	427	1,035	11,989	3,899	1,618	2,281
North central	453	657	1,110	14,686	4,306	1,877	2,429
All families	2,184	2,501	4,685	52,621	17,269	8,032	9,237

[1] The Survey of Income and Education underestimates the amount of food stamp benefits provided in 1975. Therefore, these preliminary estimates may overstate the number of gainers and understate the number of losers for those who receive food stamp benefits under the current program.

Note: Preliminary estimates, Oct. 12, 1977

Source: See table 3.

III. The Cost and Distributional Effects of Changing Some PBJI Characteristics

Sections I and II serve as background for a supplemental set of calculations requested by the Joint Economic Committee and supplied by DHEW. The purpose of these calculations is to analyze the effect on both program costs and distributional impacts of changes in a limited number of key program parameters. The analysis focusses on those parameters likely to be questioned during legislative deliberations on the proposal. In this section, we describe the parameter changes and summarize their cost and distributive impacts.

1. *Elimination of Two Tiers in the Cash Benefit Portion of the Federal Program and Movement to a Single Tier Negative Income Tax With a Guarantee of $4,200*

This change is equivalent to raising the guarantee and eliminating the $3,800 disregard when calculating cash supplements for those expected to work. It is a simplification of the plan. Some judge that this change will make the task of getting people to seek jobs more difficult by reducing one of the penalties for not working. Cash transfers and jobs could easily become two quite separate programs if this change were made.

The effects of this change in the structure of PBJI are shown in table 5. The implications of this change are very modest—while cash benefits rise by 4 percent, the cost of the jobs program falls by 5 percent, leaving a net increase in program costs of $0.4 billion. If the impact of the two-tier provision on employment and work effort is as insubstantial as these simulations show, the program simplification achieved by this change should be seriously considered. In addition, estimates of the effect of the change indicate that the number of existing welfare recipients made worse off will not increase. Indeed, given the nature of the change, the increase in costs is likely to yield some increased poverty reduction as well as simplifying the proposal.

TABLE 5.—THE EFFECT OF PARAMETER CHANGE 1 ON SELECTED COST AND DISTRIBUTIONAL INDICATORS

	Proposed PBJI	Modified PBJI
Federal cash benefits (billions)	$19.2	$20
Number of job slots (millions)	1.175	1.116
Cost of jobs program (billions)	$8.8	$4.8
Cost of EITC (billions)	$4.5	(1)
Number of current AFDC recipients made worse off (millions)	3.8	(1)
Number of current SSI recipients made worse off (millions)	1	(1)

[1] Indicates no change from the proposed PBJI.

2. *Retention of the Existing Earned Income Tax Credit (EITC) or Completely Eliminating It*

The current EITC simultaneously reduces the benefit reduction rate for low earnings (largely, part-time) workers and adds 10 points to the benefit reduction rate for workers who earn from $4,000–$8,000 per year. As a result, work incentives are increased for the former group, and decreased for the latter group. And, because of the shape of the distribution of earnings, the latter group is relatively larger than the former, very low earnings group. Two alternatives are available for reducing the disincentives problem for the higher income group. They are: (1) Increase the kink-point to the break-even income level, or (2) eliminate the EITC altogether. The choice made by the administration (to shift out the kink-point) reduces the share of total PBJI benefits going to the poor although their total benefits are increased. Table 6 indicates what is gained and at what cost. If the EITC is eliminated, the incentive for individuals to seek private rather than special public service employment is lost. The implication of this change on the demand for public service jobs and the characteristics of those who would hold them is shown by the simulation.

TABLE 6.—THE EFFECT OF PARAMETER CHANGE 2 ON SELECTED COST AND DISTRIBUTIONAL INDICATORS

	Proposed PBJI	PBJI with existing EITC	PBJI with no EITC
Federal cash benefits (billions)	$19.2	(1)	(1)
Number of job slots (millions)	1.175	1.199	1.257
Cost of jobs program (billions)	$8.8	$8.98	$9.4
Cost of EITC (billions)	$4.5	$0.5	0
Number of current AFDC recipients made worse off (millions)	3.8	4.1	4.4
Number of current SSI recipients made worse off (million)	1	(1)	(1)

[1] Indicates no change from the proposed PBJI.

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Table 6 shows the impact of both changes in PBJI on some important cost and distribution variables. If expansion of the EITC were rejected in favor of maintaining the existing tax credit, the demand for public jobs would be expanded as individuals would find private sector employment less attractive. However, this expansion is small—25,000 jobs—implying a 2-percent increase in the costs of the public jobs program. The costs of the EITC would fall by about 90 percent, a reduction of $4 billion in the budgetary costs of the program. Overall, a budget cost saving of $3.8 billion would be experienced. The effects of this budget cut are: to increase the demand for title IX special public service jobs, and some increase in the benefit reduction rate at earnings levels between $4,000 and $15,000.

Complete elimination of the EITC would have similar, but larger, effects. The demand for special public service jobs would increase by 82,000 and the budgetary cost of the jobs component would increase by $0.6 billion, or 7 percent. The budgetary cost of the total program would decrease by $3.9 billion, approximately the same amount as simply retaining the existing EITC. Moving from retention of the existing EITC to its elimination appears to yield very limited gains: trivial budget savings are experienced, an additional 60,000 jobs must be provided, and any gain in work incentives in the $4,000–$8,000 range are offset by reductions in the income range below $4,000. Neither of the changes analyzed have much effect on the status of the existing welfare population although in both cases the number of current AFDC recipients made worse off increases somewhat. By the nature of the changes, the target efficiency of the program would be increased as the primary reduction in costs is from reduced benefits accruing to nonpoverty families. Retaining the existing EITC results in greater poverty reduction than eliminating the EITC altogether. The expanded EITC reduces poverty even more than does the existing EITC.

3. *Increasing the Incentive To Take a Regular Public or Private Sector Rather Than a Special (Title IX) Public Sector Job*

In the original PBJI, incentives to seek private sector employment rather than a public job came from two sources—the EITC paid on only private earnings and a lower cash benefit schedule for those on special purpose jobs.[3] When the program was finally unveiled, the full burden of inducing private sector job search fell entirely on the EITC. The effect of this reduction in inducement for regular employment is shown in Table 7. Substitution of the earlier, larger private sector inducement would reduce the costs of both the cash benefits and the jobs components of PBJI. Taken together, a cost saving of $1.6 billion would be experienced. Moreover, the number of new title IX jobs which would have to be created by the administration would be reduced by 153,000, as this number of workers would choose private or regular public sector jobs. The primary gain from the $1.6 billion cost increase associated with this change is a reduction in the complexity of calculating cash benefits. Because the small reduction in cash benefits (from $19.2 to $18.7 billion) reflects reduced payments to workers taking regular employment, the change will have little, if any, effect on the status of existing welfare recipients.

[3] In the earlier benefit schedule the earnings disregard on public service jobs was $1,900.

TABLE 7.—THE EFFECT OF PARAMETER CHANGE 3 ON SELECTED COST AND DISTRIBUTIONAL INDICATORS

	Proposed PBJI	Modified PBJI
Federal Cash Benefits (billions)	$19.2	$18.7
Number of Job Slots (millions)	1.175	1.022
Cost of Jobs Program (billions)	$8.8	$7.7
Cost of EITC (billions)	$4.5	$4.6
Number of Current AFDC recipients made worse off (millions)	3.8	(1)
Number of current SSI recipients made worse off (million)	1	(1)

[1] Indicates no change from the proposed PBJI.

4. *Increasing the Wage Rate in the Special Public Service (Title IX) Jobs From the Minimum Wage to $3.00 ($4.00) Per Hour*

As the wage rate on the public service jobs rises, demand for them increases, particularly among those individuals now currently employed full time, full year in the private sector. If the $8.8 billion cap on expenditures is maintained, total expenditures for cash assistance would probably rise. There are two partially offsetting effects at work. On the one hand, many more public service jobholders would receive no cash assistance at all. On the other hand, many more families would receive the maximum guarantee of the upper tier, if the expenditure cap limits the number of jobs available.

Currently, there is mounting pressure for an increase in the wage rate paid for title IX jobs. The concern is that payment of the minimum wage would tag these jobs as second class, and perhaps more importantly, payment of the minimum wage would tend to under cut the prevailing wage rate in some labor markets. While these points have merit, increasing the wage payment has the potential for greatly increasing the demand for special public jobs and increasing the total cost of the program. Table 9 presents the implications of increasing the wage rate to $3 and to $4 per hour, under the assumption that the total demand for special public jobs will be met.

The results in table 8 are most revealing. The modest wage rate increase from $2.65 per hour to $3 per hour increases the demand for title IX jobs by 340,000, and increases the costs of the jobs component of PBJI by $3.5 billion. The increase in the total cost of PBJI is a smaller $2.6 billion because of reductions in cash benefits and the EITC. As the wage rate is moved up to $4 per hour, the changes in costs become much larger. The number of workers now preferring a special title IX job is increased from 1.175 million to 2.491 million—an increase of 1.316 million jobs. Without a cap the budget cost of the jobs component more than triples—from $8.8 billion to $26.9 billion—and the total cost of the program increases by $15.3 billion. The gains from an increase in the wage rate are real. They include avoidance of a stigma placed on the public jobs and the potential erosion of prevailing wage rates. However, the budgetary costs of increasing the wage rate to the $3 level and beyond are substantial. Although this change primarily affects the balance of workers between private and public sectors, there is some improvement in the economic status of existing AFDC recipients.

TABLE 8.—THE EFFECT OF PARAMETER CHANGE 4 ON SELECTED COST AND DISTRIBUTIONAL INDICATORS

	Proposed PBJI	Modified PBJI ($3.00)	Modified PBJI ($4.00)
Federal cash benefits (billions)	$19.2	$18.5	$17.4
Number of job slots (millions)	1.175	1.516	2.491
Cost of jobs program (billions)	$8.8	$12.3	$26.9
Cost of EITC (billions)	$4.5	$4.3	$3.5
Number of current AFDC recipients made worse off (millions)	3.8	3.4	3
Number of current SSI recipients made worse off (million)	1	(1)	(1)

[1] Indicates no change from the proposed PBJI.

5. *Make a Title IX Public Service Job Available to the Primary Earner in All Household Units*

PBJI guarantees a public service job to the primary earner in all household units with children: couples and unrelated individuals are excluded from participating in the jobs component of the program. It would seem to be only a matter of time before these households are brought more fully into the system. Because unrelated individuals are concentrated at the low end of the earnings distribution, bringing them fully into the system could greatly increase the demand for public service jogs. One factor moderating the demand for jogs is that a large part of this population is disabled and/or institutionalized.

Table 9 illustrates the effect of this parameter change. As expected, the increase in the demand for public service jobs is substantial—an increase of 460 percent. The budgetary costs of the jobs component rise from $8.8 billion to over $45 billion. The total cost of PBJI with this modification is $37 billion greater than the administration's proposal. While expanding the coverage of the jobs program to include unrelated individuals and childless couples would increase the horizontal equity of the program, it entails large increases in budgetary costs.

TABLE 9.—THE EFFECT OF PARAMETER CHANGE 5 ON SELECTED COST AND DISTRIBUTIONAL INDICATORS

	Proposed PBJI	Modified PBJI
Federal cash benefits (billions)	$19.2	$18.3
Number of job slots (millions)	1.175	6.580
Cost of jobs program (billions)	$8.8	$47.1
Cost of EITC (billions)	$4.5	$4.5
Number of current AFDC recipients made worse off (millions)	3.8	(1)
Number of current SSI recipients made worse off (million)	1	.9

[1] Indicates no change from the proposed PBJI.

6. *Capping the Jobs Component of PBJI by Imposing a Ceiling of 800,000 New Jobs*

The creation of new jobs on a mass basis is a difficult undertaking. As we stated in our earlier study:

The mass creation of public service jobs for low wage-low skill workers is something with which this country has no previous experience. The effort is analogous to a private firm's promise to introduce a new product, the manufacture of which requires a technology which has not yet been developed. In all such cases, the

effort is fraught with uncertainty, and the possibility of an ineffective and unproductive program must not be neglected.[4]

Given the difficulties of locating qualified contractor-sponsors and arranging productive work arrangements, it would not be surprising if the full complement of 1.4 million jobs could not be created during the first few years of the program. The number of jobs could also be constrained below the administration proposal, since for budgetary reasons, a lid may be placed on the number of jobs to be funded.

Because of the structure of PBJI, limiting the number of jobs made available will not result in proportional reduction of total program costs. While some of the workers who would have received a public job will find alternative private sector employment, some will remain unemployed and fall back on the benefits from the cash transfer component of the program.

Table 10 presents the cost consequences of limiting the number of job slots to 800,000. As expected, the budgetary costs of the jobs component is reduced—from $8.8 to $6.2 billion, a savings of $2.6 billion. However, some of this saving is offset by a $0.5 billion increase in cash benefits and a $0.1 billion increase in the EITC. The net saving is $2 billion. Accompanying this saving, however, are the undesired side effects of increasing the discretion of program administrators, "cream-skimming" in the selection of applicants, and horizontal inequities in the allocation of jobs.

TABLE 10.—THE EFFECT OF PARAMETER CHANGE 6 ON SELECTED COST AND DISTRIBUTIONAL INDICATORS

	Proposed PBJI	Modified PBJI
Federal cash benefits (billions)	$19.2	$19.7
Number of job slots (millions)	1.175	.8
Cost of jobs program (billions)	$8.8	$6.2
Cost of EITC (billions)	$4.5	$4.6
Number of current AFDC recipients made worse off (millions)	3.8	4.1
Number of current SSI recipients made worse off (million)	1	(1)

[1] Indicates no change from the proposed PBJI.

7. *Eliminate Federal Sharing of State Supplementation Costs and Use the Budgetary Savings To Increase the Guarantee on Both Tiers of PBJI*

Federal incentives to encourage State supplementation of benefits significantly complicate the structure of PBJI, compromising the administration's claims that the system has been made simpler and that horizontal equity has been increased. The accompanying restrictions on the States also strain traditional intergovernmental relations. To the extent that the objective is to relieve the fiscal burden on the States, fiscal relief could also be obtained if the financial incentives for State supplementation were dropped and the Federal funds were put into higher guarantee levels. Were that done, and if States failed to supplement benefits on their own, many current recipients would be made worse off and the fiscal relief provided would be concentrated in the States now providing relatively low benefits. The effects on several relevant variables of simplifying the plan in this way are illustrated in table 11.

[4] Sheldon Danziger, Robert Haveman, and Eugene Smolensky, op. cit.

TABLE 11.—THE EFFECT OF PARAMETER CHANGE 7 ON SELECTED COST AND DISTRIBUTIONAL INDICATORS

	Proposed PBJI	Modified PBJI
Federal cash benefits (billions)	$19.2	$20.9
Number of job slots (millions)	1.175	1.21
Cost of jobs program (billions)	$8.6	$9.1
Cost of EITC (billions)	$4.5	$5
Number of current AFDC recipients made worse off (millions)	3.8	5.4
Number of current SSI recipients made worse off (millions)	1	1.24

In this simulation, costs of the Federal cash benefits portion of the bill were allowed to rise by $0.8 billion. Nevertheless, both the costs of the jobs program and the costs of the EITC also rise by a total of $0.8 billion. Despite the greater cost, the number of current AFDC recipients made worse off increases by 42 percent, and the number of SSI recipients made worse off increases by 24 percent. Hence, simplifying the State supplements portion of the bill in this way has significant adverse distributional effects. And while some fiscal relief is provided to State governments by this modification, its level is substantially reduced from that in the PBJI.

IV. Summary and Conclusion

The program for better jobs and income directly addresses the judgment of many observers of the current welfare system that those who cannot meet their basic needs through earnings should have cash assistance, but that those who can be provided the incentive and the opportunity to earn their way. Drafting a program to accomplish this objective is technically difficult. Providing cash assistance creates an incentive to some to reduce their work effort, and it is difficult to confine this work disincentive only to those who are judged unable to generate sufficient income through work. There are only two viable alternatives for minimizing the disincentive effects of cash transfers. One is to enforce a work test through tough administration. This requires a large bureaucracy and considerable intrusion into the privacy of cash assistance recipients. The other alternative is to create effective opportunities for and financial incentives to work, or at least to reduce the substantial disincentives present in existing programs. In the main, PBJI opts for this alternative. When work is refused by those expected to work, not only are earnings sacrificed, but the family sacrifices $1,900 per year in cash assistance. However, reliance is not entirely on opportunities and incentives, since the decision of who is and who is not expected to work is made by program administrators.

PBJI could have relied on the $155 per month penalty to send those who can work into the private job market. However, recognizing the hardships that might thereby be created, a special public service jobs program is created. To keep the costs of the jobs program down, wages were based on the minimum wage laws, not at prevailing market levels. Because the market wage of a large number of PBJI beneficiaries is this minimum wage, the special public service jobs would be attractive. However, these special jobs are intended to temporarily supplement private sector jobs. They are not intended to substitute for private sector jobs. PBJI participants could be moved out of the public and into the private sector by administrative procedures, but consistent with the general approach, financial incentives are brought to bear. Through the EITC, work in the private sector or in a regular public sector job is given a financial bonus.

Providing cash assistance, financial work incentives, work opportunities, financial incentives to seek private sector employment, and maintaining budgetary restraint make for a complicated program. In addition, PBJI seeks to grant fiscal relief to the States and to sustain current benefit levels for the vast majority of current welfare recipients in a way that will not jeopardize other objectives, and thus, the program becomes even more complicated. The technical problem of balancing all these objectives involves a multiplicity of tradeoffs. How the framers of PBJI chose to trade off among these objectives has been illustrated in the preceding tables.

Holding the wage on special public service jobs to the minimum wage is clearly an effective check on the demand for those jobs and on total program costs. (See table 8.) It does, however, constrain the attractiveness of the work opportunities provided. Restricting public service jobs to families with children also substantially reduces the demand for those jobs and hence controls program costs. (See table 9.) Again, however, there is a cost. The work opportunities provided are limited to one group in the population, creating some horizontal inequities. The program is designed to grant all eligible persons a job. This decision entails higher budgetary costs than a more restricted and less equitable (though perhaps more realistic) jobs program. (See table 10.)

The complications associated with the two-tier cash assistance benefit schedule also stem from concern with work incentives. This concern may be exaggerated, as the elimination of the two-tier structure increases cash benefits by only 5 percent and reduces the demand for special purpose jobs by 5 percent. (See table 5.) The expanded EITC in the program is also designed to increase the reward to work—in this case work in regular employment. The budgetary costs of PBJI are increased substantially by this provision, which modestly affects the demand for special public service jobs and increases work incentives to those in the $4,000–$15,000 range. (See table 6.) Paradoxically, a simplification of the benefit schedule made before PBJI reached the Congress significantly increased the demand for public service jobs and total program costs. (See table 7.)

Finally, while Federal incentives to encourage State supplementation greatly complicate the PBJI, they effectively hold down Federal budgetary costs and forestall a substantial loss of benefits among current welfare beneficiaries. An alternative arrangement—raising Federal benefits by the amount of the Federal supplementation cost—increases the relative position of recipients in States with low current benefit levels, grants less fiscal relief to current high benefit States, and leaves many current recipients in high benefit States worse off (unless, of course, States would supplement the Federal benefit level in the absence of a financial inducement). (See table 11.)

These simulations indicate the sensitivity of cost and distributional effects to changes in various characteristics of PBJI. The changes which we have analyzed are in no sense exhaustive, and numerous questions remain to be answered. Among them are the following: (1) Do all people in equal need receive equal treatment? (2) Are the incomes of some beneficiaries raised above the incomes of some non-beneficiary taxpayers? (3) Is DHEW the most appropriate agency to administer the proposed cash assistance program? (4) What would be the cost and distributional effects of PBJI if the unemployment rate is above or below the 1981 unemployment rate (5.6 percent) projected by the administration?

FILING (OR ELIGIBLE) UNIT

A filing unit is a group of persons which jointly applies for and receives benefits. This group is considered to share economic resources and responsibilities, and hence is treated as a unit for the purpose of counting income and calculating benefits. The detailed specification of how this unit is formed, or who *may* be included and who *must* be included, has important implications for the treatment of specific types of individuals and thus for the nature of the program.

RATIONALE

The underlying premise of a filing unit is that relatives living together enjoy the benefits of economies of scale and generally share their resources in order to meet common economic needs. The logic of this premise suggests that the filing unit be defined as inclusively as possible, so that all relatives who are members of the same household are considered together. Thus, poor individuals who live with well-off relatives are presumed to benefit from that arrangement, and the resources of the entire group of relatives should be counted in determining their benefits. A broad definition also simplifies administration by keeping the number of recipient units small.

On the other hand, many situations arise in which relatives, though they may share living quarters, are not economically interdependent. A very broad filing unit definition may set up presumptions of sharing of resources and of mutual responsibility which are at variance with the facts in a large number of cases. Thus, a broad definition would be fair only if some procedure for certifying separate economic status were available to allow economically independent units to file separately. Such procedure is likely to be difficult to administer, and would probably counterbalance whatever administrative advantages come from a broad filing unit definition.

In addition, introduction of a broad filing unit definition would tend to disadvantage seriously several groups which society evidently wishes to protect. In particular, aged, blind or disabled individuals or couples living with relatives, and AFDC families living with relatives, would be treated less generously by a filing unit which included the entire household than they are by present programs.

DETAILS OF THE PROPOSED DEFINITION

A filing unit contained in the Better Jobs and Income Program represents a compromise between a broad and a very narrow definition. In general, the Program includes in the same filing unit only relatives who live together. Non-related individuals or groups who live together are treated separately, as are relatives who live apart.

A group of relatives living together, however, may comprise more than one filing unit. Any "nuclear family," i.e., a married couple with their minor children (if any), or a single parent and children, constitutes a filing unit. If more than one such family lives together, each family would be a separate filing unit.[1] This family-based filing unit definition reduces drastically any need for a separate economic status provision, and no such provision is included in the proposed legislation.

Individuals who are *not* members of such a nuclear family but live with one to which they are related may be included with the family's filing unit. This inclusion is voluntary; however, the individual cannot receive benefits except by filing with the family. If two or more related individuals live together with no nuclear family present, these individuals jointly form a filing unit. An exception to these rules is an aged, blind or disabled individual, who always files separately for benefits.[2]

COMPARISON TO PRESENT PROGRAMS

The proposed filing unit is narrower than the present Food Stamp filing unit, which includes all household members who live together. This definition includes even non-relatives, such as boarders.

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[1] In such situations, the total payment to a family living in a home owned or rented by another family is reduced by $800 to take account of the economies of the joint living arrangement.

[2] However, if that unit lives with another family, the total benefit for an aged, blind or disabled individual or couple is reduced by $800.

By comparison to SSI, the filing unit in the Program for Better Jobs and Income is broader. SSI includes only the aged, blind or disabled (ABD) persons themselves, but does not include non-ABD spouses or children (although the income of non-ABD spouses is included after certain disregards).

The bill's filing unit is close to but somewhat broader than that used in AFDC. AFDC units do not include any individual adult relatives who live with the unit. An additional difference is that the bill's definition includes stepfathers as part of the family unit. At present, a stepfather is not considered responsible for the unadopted children of his wife, so his income is not considered in setting their AFDC benefits.

EXAMPLES

Consider the following households or relatives (all illustrative benefits are without State supplementation and assume the unit to have zero income and resources):

1. Father, age 55; mother, 55; daughter, 25; grandchild, 5.

This extended family consists of two nuclear families and would form two filing units: (1) father and mother, and (2) daughter and her child. The second unit could be eligible for benefits regardless of the income or assets of the first. The first unit would receive $2200, and the second unit would also receive $2200 ($3000 less $800 deducted for living in another household).*

2. Husband, 35; wife, 35; child by wife's first marriage, not adopted by husband, 8.

This family would form a filing unit, including the husband. The present AFDC rules would not include the husband, nor count his income. The unit would receive $3600.*

3. Grandfather, 70; father, 45; mother, 45.

This household forms two units, the father and mother together, and the grandfather separately. This treatment parallels that in SSI. (The grandfather would have his benefits reduced by virtue of sharing the household, another provision which is close to SSI's rules.) The father and mother, as a unit, would receive $2200.* The grandfather would receive $1700 ($2500, the full single-aged benefit minus $800, the benefit reduction by virtue of sharing the household).

4. Father, 35; mother, 35; child, 8; father's brother, 33.

This household comprises one unit. The father's brother may or may not be included, but if he elects not to joint the filing unit, he cannot then file for benefits separately as long as he lives with the family. The unit would receive $4700 if the brother elected to join the unit.*

BENEFIT STRUCTURE AND COMPUTATION

The Better Jobs and Income Program proposes to employ a two-tier benefit structure that will provide higher (upper tier) benefits to families in which no adult is expected to work, and reduced (lower tier) benefits to families who are expected to derive most of their income from employment.

Aged, blind, or disabled persons and single parents with youngest child under 7 will not be expected to work. Single parents with no child under 14, two-parent families and singles and childless couples will be expected to work. Single parents with children aged 7 through 13 will be expected to work, but only part-time during school hours.

THE BASIC BENEFIT STRUCTURE

Cash benefits for aged, blind or disabled persons without income are set at $2,500 for a single individual and $3,750 for a couple.

These benefit levels protect the current Federal entitlement provided under Food Stamps and the Federal portion of SSI by providing benefits that exceed what a recipient can currently receive from the Federal portion of SSI and the bonus value of Food Stamps.

The upper tier benefits for families in which no adult is expected to work are: $3,000 for single parent and child, $3,600 for a family of three, $4,200 for a

* All examples assume no available jobs for adults required to work.

family of four, $4,800 for a family of five, $5,400 for a family of six, and $6,000 for a family of seven.

These benefit levels are designed to protect the current Federal entitlement under Food Stamps and, to the extent possible within budget constraints, to protect the current Federal share of AFDC payments. The basic benefit of $4,200 for a family of four, for instance, exceeds the cash value of Food Stamps plus the Federal share of AFDC in all but seven States.

Lower tier benefits are set at $2,300 for a family of four, and $1,700 for a family of three. But such families are placed on the upper tier if a job cannot be found for the principal earner after an eight-week job search.

The lower tier benefits are designed to protect the present Federal entitlements in Food Stamps which is available to all households whether or not they are able to work.

Unrelated, single individuals and couples without children will, if they have no other income, receive basic benefits of $1,100 and $2,000 respectively. Both amounts substantially exceed the current bonus value of Food Stamps.

Benefits under the basic Federal program equal about 65 percent of the poverty line for most families (more in the case of the aged, blind or disabled). Federal cost-sharing will permit and strongly encourage States to raise benefits to 75 percent of the poverty line.

THE "BUILDING BLOCKS" OF BASIC BENEFITS

The benefits available to different sized families can also be constructed by reference to the individual components:

Household unit member:	*Annual benefit*
An adult who is aged, blind, or disabled	$1,600
Any other adult	1,100
A child who is blind or disabled	1,100
Any other child	600

In addition, household units are eligible for "increments" or bonus amounts that depend upon their composition:

If the "unit" consists of:	*Bonus*
One adult who is aged, blind, or disabled	$900
One individual and the individual's spouse, each of whom is aged, blind, or disabled	550
One adult and one or more children	1,300
Two or more adults and one or more children	800

NOTE.—All benefit and bonus amounts are expressed here in annual totals. Section 2105 of H.R. 9030 expresses these benefit amounts in dollars per month.

The household bonuses are reduced, however, in instances where two or more units share the same household.

A unit which resides in the household of another unit, to which it is related, has its annual grant reduced by $800.

If two related units have ownership or household rights in a household, each has its annual grant reduced by $400.

The reduction in benefits is intended to reflect economies of scale implicit in the joint living arrangement.

In addition, no household can receive benefits for more than seven members.

Based on these individual and unit benefits it is possible to construct the total benefits for any household combinations:

For example.—a family of five consisting of two adults (neither of whom can work) and three children would receive: $1,100+1,100+600+600+600+800=$4,800.

For example.—a family consisting of a mother and three children would receive: $1.100+600+600+600+1,300=$4,200.

For example.—an aged grandmother, her daughter and the daughter's child reside together in the daughter's home. They constitute two household units.

the aged grandmother receives $1,600+900−800=$1,700.

the mother and daughter receive $1.100+600+1,300=$3,000.

All of the above examples are for families in which no adults are expected to work.

When a family member is expected to work.—The unit drops from the upper tier in the following manner (§ 2105 (ed)):

the adult who is expected to work is dropped from the unit (i.e. the unit no longer receives this adult's $1,100 benefit), and

$800 is subtracted from the household unit's increment or "bonus."

Thus, in the case of the family of five above, the grant would be reduced by $1,900 (down to $2,900) if an adult was expected to work.

Furthermore, if, in the third example above, we assume that the daughter's only child is 14 years old, the mother is expected to work. The total grant to this household would, therefore, be $1,200.

In the case of a household unit with a member expected to work, the lower tier benefit protects children and other dependents by continuing their benefits.

THE EARNED INCOME EXCLUSION

In order to encourage and reward work on the part of families where an adult is expected to work, the first $3,800 of earnings by the member dropped from the household unit is disregarded in determining the unit's benefits. Thus, a family of four eligible for $2,300 on the lower tier will continue to receive these benefits until the working member's income exceeds $3,800 on a monthly basis.

SINGLE INDIVIDUALS AND CHILDLESS COUPLES

Single individuals and childless couples are expected to work. They are eligible for cash benefits in the amount of $1,100 and $2,200 annually, but do not qualify for any household increments or "bonuses" or for the disregard. If a job is found for a single or childless couple, they are ineligible for any cash benefits.

THE BENEFIT REDUCTION RATE

Under the basic Federal program, benefits will decline by 50 cents for each additional dollar of income.

The rate at which benefits are reduced as income rises cannot be selected independently of other program features. This rate is directly related to the level of the basic benefit and the phase-out or "breakeven" point—the income level at which a family ceases to be eligible for benefits. A low benefit reduction rate implies a high phase-out rate, other things being equal.

The selection of a 50 percent benefit reduction rate, therefore, represents a reasonable compromise among the goals of preserving a return from work, limiting the phase-out point, and providing adequate basic benefits.

In addition, we did not wish to impose benefit reduction rates that were higher than those found under present programs. Present reduction rates range from 30 percent in Food Stamps to 60 percent or more for families that participate in AFDC and Food Stamps. Since most recipients benefit from more than one program, a 50 percent benefit reduction rate will improve the return from work for many families relative to the current system.

BENEFIT COMPUTATION

The actual benefit payable to a unit is calculated by reducing the basic benefit (referred to in the bill as "maximum payable amount (MPA)") by "available income" (§ 2104). Available income is defined (in § 2106) as:

50 percent of wage and salary income (if it exceeds an applicable disregard),

80 percent of non-employment income (e.g., interest, rent),

100 percent of Federal transfer payments.

For example, if a unit had annual earnings of $4000 it would have available income of $2000 (= 50% of $4000). If that unit had a MPA of $4200 the annual payment to the unit would be:

Payment=MPA−Available Income

$2200=$4200−$2000

To take another example, suppose a two-parent, two child family had earnings of $2000. Such a family is eligible for the $3800 earned income exclusion and has a basic benefit (MPA) of $2300. Since its income is less than the earned income exclusion, available income is zero. Then the cash assistance payment would be $2300.

As a final example, consider a mother and 4 young children, with no earnings, but income of $1000 from rent. The unit's MPA equals $4800 and its available income is 80 percent of $1000, or $800. Thus:

Payment = MPA − Available Income

$4000 = $4800 − $800

WELFARE REFORM: THE SIX-MONTH ACCOUNTABLE PERIOD

Basic to any program that provides cash assistance to the needy is the question of how to determine who should be eligible and the payment amount to which they should be entitled. In the President's Program for Better Jobs and Income, the method proposed is a "six-month retrospective accountable period" for measuring income need and adjusting accordingly the amount of benefits to be paid.

The proposed accounting procedure represents a delicate balancing among many important objectives of welfare reform.

It will assure that tax dollars go to those most in need while preventing families with relatively high incomes from receiving benefits.

It will be more equitable and increase the likelihood that families with similar annual incomes will receive similar benefits.

It will avoid the costly errors inherent in the present system by measuring actual past income rather than estimating future income.

In short, the method proposed will impact greatly on the extent to which the program as a whole is perceived to be fair and rational both by those it will serve and by the public at large.

The six-month accountable period will target assistance to those with chronic need and lowest incomes. Only those with relatively high but fluctuating incomes and those families with earnings greater than the amount at which program benefits phase out ($8,400 for a family of four and slightly higher in states which supplement) may be adversely affected. To help those who suffer temporary need before becoming entitled to cash assistance, the Program for Better Jobs and Income contains $600 million to assist States in financing emergency needs programs.

Under the proposed accountable period, eligibility will be based on two criteria:

First, an individual's or family's countable income[1] for the second month preceding the month of application must be below the maximum monthly benefit ($350 for a family of four).

Second, total countable income over the next previous five months must also be below the maximum benefit, using a "carry-forward" accounting process. The carry-forward process, described below, is used rather than 6-month averaging in order to be more responsive to those with monthly fluctuations in income.

The carry-forward system for determining eligibility and payment for a family which applies in September works as follows:

1. The family would report income for the second preceding month, i.e., July.
2. If the countable income in July is less than the maximum benefit payable under the program, the family's income over the previous five months—February, March, April, May, June—would then be reviewed.
3. Beginning with the earliest month of the five month calculation period (in this case, February) any countable income in excess of the maximum benefit amount would be carried forward to the next month, March. That February excess amount would be added to any countable income in March that was in excess of the maximum benefit. If the countable income in March was less than the maximum benefit, the amount by which it was less would offset the excess amount carried forward from February. The balance, after the March income has been adjusted to reflect the February income, would be carried forward in similar fashion to April and so forth through the month of July.
4. The balance of countable income, if any, at the end of this carry-over process would reduce the maximum benefit accordingly to arrive at a payment amount in September. However, if the balance is greater than the benefit, no

[1] Countable income, referred to as available income in the proposed legislation, is the income that counts in determining eligibility. It includes 50 percent of wages from a job, 80 percent of non-employment income (from dividends, property, private pensions or social insurance programs), and 100 percent of income from federal means-tested assistance programs such as veterans pensions. Child care expenses, up to certain limits, are also deducted from earnings before determining countable income. Family composition on the last day of the last month of the accountable period determines whose income is counted.

payment would be made in September and eligibility would be redetermined automatically in October, based on the family's monthly income report for August.

The hold-harmless provision specifies that if a State would be required to spend more than the sum of 90 percent of its pre-reform welfare expenditures for AFDC, SSI, EA and GA plus its Emergency Needs block grant in order to finance the State share of basic benefits, matching and wage supplements, SSI grandfathering and 75 percent of the cost of its AFDC grandfather, the Federal government will hold the State harmless for the excess.

Thus, Kentucky's hold-harmless payment would be calculated as follows (figures in millions):

($29.4+10+3.9+9+.75 (26.6))—(.9(43.2)+3.2), or
($29.4+10+3.9+9+.75(26.6))—(.9(43.2)+3.2), or
($72.2)—(42.1)=$30.1 million

The "second layer" hold-harmless provision also guarantees that States will receive 10 percent fiscal relief in the first year of the program. Kentucky's 1975 cost for AFDC administration was $5.1 million, which when added to pre-reform benefit costs for AFDC, EA, SSI, and GA gives a total for pre-reform welfare spending of $48.3 million.

Kentucky would be eligible for a second hold-harmless payment to bring its fiscal relief to 10 percent. This payment would be calculated as follows (figures in millions of dollars):

.1(43.2+5.1)—(48.3—(29.4+10+3.9+9+26.6—30.1)+3.2),
or 4.8—2.7=$2.1 million

Thus, Kentucky would receive total hold-harmless payments of:

30.1+2.1=$32.2 million

Kentucky's fiscal relief would be:

48.3—(29.4+10+3.9+9+26.6—32.2)+3.2, or
48.3—46.7+3.2=$4.8 million

Question. Please furnish for the record a table showing the Federal reimbursement each State would receive under your latest estimates, in the Administration's welfare reform proposal, using the same assumptions regarding State supplementation that have been used to estimate the overall costs of the bill.

Answer. Enclosed are the current fiscal relief estimates for States under H.R. 9030. These estimates include State by State fact sheets which detail the assumptions and calculations used to estimate fiscal relief. The same State supplementation assumptions were used in preparing these estimates that have been used to prepare the estimates of the overall cost of the bill. We have assumed that States will supplement the basic national benefit up to existing benefit levels (including the bonus value of Food Stamps) in SSI and up to existing benefit levels or the limits of Federal subsidization whichever is less for all other groups and that States will ensure that no current AFDC or SSI recipient loses benefits as a result of the reform.

Revised Fiscal Relief Estimates of the Program for Better Jobs and Income Prepared by the Department of Health, Education, and Welfare

The attached sheets represent revised estimates of the fiscal relief resulting from the implementation of the Program for Better Jobs and Income as proposed by President Carter. The first set of estimates was released in October 1977 and corresponded to Secretary Califano's September 19, 1977 testimony to the House Subcommittee on Welfare Reform. The current set of estimates are a result of changes in estimating methods, and assumptions several of which were made at the urging of State and local officials, e.g., supplements in some States for single persons and childless couples, and a change in the treatment of Emergency Needs in the fiscal relief calculation. (For a complete explanation of these changes, see attached papers.)

Included in this current package are the following items:

A brief explanation of the reasons for the changes from the September estimates to the current estimates.

An explanation of the line items included in State Fact Sheet No. 1 and the assumptions underlying the estimates.

A set of State Fact Sheets. These sheets include information on current program costs, post-reform program costs, and the resultant Fiscal Relief for each State expressed in 1975 dollars.

The Department will shortly release a set of State Fact Sheets No. 2 which will give details on the corresponding revised estimates of the flow of Federal funds to each State resulting from the implementation of the Program for Better Jobs and Income (No. 1: fiscal relief; No. 2: flow of Federal Funds.) Similar sets of both Fact Sheets will also be released shortly to correspond to the final changes made by the House Subcommittee on Welfare Reform.

CHANGES IN FISCAL RELIEF ESTIMATES

Estimates of fiscal relief have changed since Secretary Califano testified before the Subcommittee on Welfare Reform in September. Our estimate of total fiscal relief for the States as a group has dropped about $300 million, from $2.05 to $1.75 billion.

Changes in the fiscal relief estimates are due to: (1) changes in our assumptions about State behavior; (2) changes in the treatment of Emergency Needs funds for the purposes of estimating fiscal relief; and (3) improvements in our ability to simulate the program on the computer.

Changes in State Behavior Assumptions

Previous HEW estimates have assumed that States would not supplement basic Federal benefits for single persons and childless couples. After consulting with the staff of the Welfare Reform Subcommittee and various State welfare officials, we have decided to change this assumption for those States that now run GA programs that provide benefits comparable to those paid under AFDC. Therefore, our revised fiscal relief estimates now assume California, Illinois, Massachusetts, Michigan, New York, and Pennsylvania would provide supplements to singles and childless couples up to the limit of Federal subsidization of State supplements as provided in H.R. 9030.

Change in Treatment of Emergency Needs Funds

In previous estimates, we assumed that grandfathering costs shown by the computer simulation would in reality be reduced by payments made under the Emergency Needs program. We did not know exactly how much of EN funds would go to reduce grandfather costs, but in our original estimates we assumed 100 percent. This assumption was reflected in the fiscal relief calculation by simply not including the amount of the EN grant in post-reform State expenditures. This assumption was questioned by the States and members of Congress.

Clearly the actual cost of grandfathering will be less than the computer figures because of the existence of the EN program. How much less cannot be determined prior to program experience. In order to take account of this fact, we now assume that State grandfathering expenditures nationally will be reduced by one-half of total payments under the Emergency Needs program. This assumption reduces AFDC and SSI grandfathering nationally by about 12 percent, or $250 million (one-half of total EN).

Operationally, we have changed our treatment of EN by reducing the AFDC and SSI computer grandfathering estimates for each State by about 12 percent. We then include the full amount of the EN block grant in post-reform State expenditures for purposes of calculating hold harmless payments and fiscal relief. This has the effect of reducing our estimate of fiscal relief for the States as a group by about 50 percent of EN funds or approximately $250 million.

Improvements in Simulation

Changes in the labor supply model:

Improvements in simulating the effect of the cumulative marginal benefit reduction rate on labor supply response

Addition of labor supply response for grandfathered recipients

Change in the assets test to reconcile assets reported on the SIE and those reported for SSI and AFDC eligibility.

NOTES: STATE FACT SHEETS COVERING THE BETTER JOBS AND INCOME PROGRAM

The attached Fact Sheets provide detailed State estimates of the financial impact of the Better Jobs and Income Program.

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State Fact Sheet 1 gives the assumptions and calculations used to estimate State fiscal relief. All figures are expressed in millions of 1975 dollars.

Current Effort in 1975 Dollars

Current effort is stated in terms of State shares of the transfer costs in AFDC, SSI and General Assistance in calendar year 1975. The AFDC number includes the State share of any emergency assistance payments. The SSI number is net of any Federal SSI hold harmless payments made to the State. Total transfers is the sum of the State shares of AFDC, SSI, and GA. The final line shows State payments for AFDC administration in calendar year 1975.

Emergency Needs Block Grant

This shows the State share of total emergency assistance block grant. The total, in 1975 dollars, for the 50 States and the District of Columbia is $502 million.

1975 State Expenditures for the State Share and Supplements

The estimates in this section have been derived by a micro-simulation modeling procedure using the Survey of Income and Education. The first line estimates the 10 percent State share of basic benefits charged to the State for the basic Federal program. In some States, the share is restricted to less than 10 percent because no State will be required to spend more than 90 percent of its current effort for the share. State shares of wage and matching supplements (including tax reimbursement costs) are listed in the next two rows. The last two rows in this section give the total expenditures necessary to 'grandfather' all SSI and AFDC recipients in the State.

Federal Hold Harmless Payment

This has been calculated by adding the State share, the wage and matching supplements, the SSI grandfathering cost, 75 percent of the AFDC grandfathering and the emergency need block grant minus the emergency needs block grant, minus 90 percent of total transfers under current effort. A hold harmless payment is made only where this calculation yields a positive number.

Hold Harmless—Plus State share, plus Wage supplements, plus Matching supplements, plus SSI grandfather, plus .75 × AFDC grandfather, plus Emergency needs block grant, minus Emergency needs block grant, minus .90 Total transfers.

See below for calculation of second hold harmless to guarantee 10 percent fiscal relief.

Fiscal Relief

Fiscal relief has been calculated by computing total state current effort (including AFDC administrative costs) and subtracting State expenditures after the reform.

Fiscal Relief—Plus Total pre-reform transfers, plus AFDC administration, plus Emergency Needs Block Grant, plus Hold Harmless, minus State share, minus Wage supplements, minus Matching supplements, minus SSI grandfather, minus AFDC grandfather, minus Emergency needs block grant.

The Better Jobs and Income Program assures that fiscal relief in the first year will equal at least 10 percent of current effort. When fiscal relief as calculated is less than 10 percent of total transfers plus AFDC administration, hold harmless payments are increased to bring fiscal relief to 10 percent.

1975 State Supplement Guarantees

The first line shows the annual guarantee for a four-person family with children in 1975 and was used in calculating matching State supplements. In most States, it equals the sum of AFDC and Food Stamp payments in 1975 to a four-person AFDC family with no other income. In six states, this guarantee was set at the income level where Federal subsidization ceases (approximately the poverty level). Where the number falls below $3584 (the basic Federal guarantee in 1975 dollars), no matching supplements were estimated for families with children. The SSI couple and individual lines show annual guarantees for aged, blind, or disabled singles and couples in 1975 (plus, where appropriate, Food Stamp bonus values), and are used to estimate matching State supplements for these groups.

State factsheet 1: Program for better jobs and income

Alabama:	
Current effort in 1975 dollars (millions):	
Current AFDC	14.0
Current SSI	12.0
Current general assistance	1.0
Total transfers	27.0
AFDC administration	4.1
Total prereform costs	31.1
Emergency needs block grant	2.0
Subtotal	33.1
Federal hold-harmless payment	18.2
Subtotal	+51.3
1975 State expenditures on the State share and other supplements:	
State share	24.3
Wage supplements	0
Matching supplements	3.0
SSI grandfathering	10.6
AFDC grandfathering	6.1
Emergency needs	2.0
Total postreform costs	−46.0
Fiscal relief	5.3
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	3,286
SSI couples	3,366
SSI individuals	2,097
Alaska:	
Current effort in 1975 dollars (millions):	
Current AFDC	7.0
Current SSI	3.0
Current general assistance	1.0
Total transfers	11.0
AFDC administration	.9
Total prereform costs	11.9
Emergency needs block grant	.8
Subtotal	12.7
Federal hold-harmless payment	5.6
Subtotal	+18.3
1975 State expenditures on the State share and other supplements:	
State share	1.4
Wage supplements	.6
Matching supplements	9.8
SSI grandfathering	1.8
AFDC grandfathering	2.5
Emergency needs	.8
Total postreform costs	−17.0
Fiscal relief	1.4
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	6,160
SSI couples	4,882
SSI individuals	3,322

State factsheet 1: Program for better jobs and income—Continued

Arizona:	
Current effort in 1975 dollars (millions):	
Current AFDC	14.0
Current SSI	2.0
Current general assistance	4.0
Total transfers	20.0
AFDC administration	1.8
Total prereform costs	21.8
Emergency needs block grant	1.5
Subtotal	23.3
Federal hold-harmless payment	3.1
Subtotal	+26.4
1975 State expenditures on the State share and other supplements:	
State share	14.3
Wage supplements	0
Matching supplements	1.8
SSI grandfathering	1.8
AFDC grandfathering	4.3
Emergency needs	1.5
Total postreform costs	−23.7
Fiscal relief	2.7
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	3,807
SSI couples	3,215
SSI individuals	2,097
Arkansas:	
Current effort in 1975 dollars (millions):	
Current AFDC	13.0
Current SSI	2.0
Current general assistance	0
Total transfers	15.0
AFDC administration	1.7
Total prereform costs	16.7
Emergency needs block grant	1.1
Subtotal	17.8
Federal hold-harmless payment	6.6
Subtotal	+24.4
1975 State expenditures on the State share and other supplements:	
State share	13.5
Wage supplements	0
Matching supplements	0
SSI grandfathering	1.8
AFDC grandfathering	6.3
Emergency needs	1.1
Total postreform costs	−22.7
Fiscal relief	1.7
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	3,328
SSI couples	3,215
SSI individuals	2,097

State factsheet 1: Program for better jobs and income—Continued

California:	
Current effort in 1975 dollars (millions):	
Current AFDC	733.0
Current SSI	674.7
Current general assistance	65.0
Total transfers	1,472.7
AFDC administration	98.3
Total prereform costs	1,571.0
Emergency needs block grant	108.9
Subtotal	1,679.9
Federal hold-harmless payment	.0
Subtotal	+1,679.9
1975 State expenditures on the State share and other supplements:	
State share	142.7
Wage supplements	49.1
Matching supplements	654.2
SSI grandfathering	178.4
AFDC grandfathering	230.0
Emergency needs	108.9
Total postreform costs	−1,363.4
Fiscal relief	316.5
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	5,084
SSI couples	5,568
SSI individuals	2,964
Colorado:	
Current effort in 1975 dollars (millions):	
Current AFDC	35.0
Current SSI	15.0
Current general assistance	4.0
Total transfers	54.0
AFDC administration	3.0
Total prereform costs	57.0
Emergency needs block grant	4.0
Subtotal	61.0
Federal hold-harmless payment	2.6
Subtotal	+63.6
1975 State expenditures on the State share and other supplements:	
State share	10.3
Wage supplements	5.1
Matching supplements	17.9
SSI grandfathering	6.4
AFDC grandfathering	14.3
Emergency needs	4.0
Total postreform costs	−57.9
Fiscal relief	5.7
1975 State supplement guarantees (dollars) assumed in simulation:	
families with children	4,420
SSI couples	4,452
SSI individuals	2,374

State factsheet 1: Program for better jobs and income—Continued

Connecticut:	
Current effort in 1975 dollars (millions):	
Current AFDC	69.4
Current SSI	9.0
Current general assistance	15.0
Total transfers	93.4
AFDC administration	3.4
Total prereform costs	96.8
Emergency needs block grant	6.9
Subtotal	103.7
Federal hold-harmless payment	19.9
Subtotal	+123.6
1975 State expenditures on the State share and other supplements:	
State share	13.3
Wage supplements	6.2
Matching supplements	64.3
SSI grandfathering	5.6
AFDC grandfathering	17.6
Emergency needs	6.9
Total postreform costs	−113.9
Fiscal relief	9.7
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	5,418
SSI couples	3,778
SSI individuals	2,928
Delaware:	
Current effort in 1975 dollars (millions):	
Current AFDC	11.0
Current SSI	1.0
Current general assistance	2.0
Total transfers	14.0
AFDC administration	.8
Total prereform costs	14.8
Emergency needs block grant	1.0
Subtotal	15.9
Federal hold-harmless payment	0
Subtotal	+15.9
1975 State expenditures on the State share and other supplements:	
State share	3.2
Wage supplements	1.3
Matching supplements	2.2
SSI grandfathering	.9
AFDC grandfathering	1.5
Emergency needs	1.0
Total postreform costs	−10.1
Fiscal relief	5.8
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	4,319
SSI couples	3,215
SSI individuals	2,097

State factsheet 1: Program for better jobs and income—Continued

District of Columbia:	
Current effort in 1975 dollars (millions):	
Current AFDC	47.6
Current SSI	1.0
Current general assistance	11.0
Total transfers	59.6
AFDC administration	3.7
Total prereform costs	63.3
Emergency needs block grant	4.4
Subtotal	67.7
Federal hold-harmless payment	0
Subtotal	+67.7
1975 State expenditures on the State share and other supplements:	
State share	6.9
Wage supplements	1.8
Matching supplements	8.5
SSI grandfathering	.9
AFDC grandfathering	11.2
Emergency needs	4.4
Total postreform costs	−33.7
Fiscal relief	34.0
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	4,647
SSI couples	3,215
SSI individuals	2,097
Florida:	
Current effort in 1975 dollars (millions):	
Current AFDC	24.0
Current SSI	3.0
Current general assistance	6.0
Total transfers	33.0
AFDC administration	11.3
Total prereform costs	44.3
Emergency needs block grant	2.4
Subtotal	46.7
Federal hold-harmless payment	14.5
Subtotal	+61.2
1975 State expenditures on the State share and other supplements:	
State share	29.7
Wage supplements	0
Matching supplements	0
SSI grandfathering	2.6
AFDC grandfathering	15.7
Emergency needs	2.4
Total postreform costs	−50.5
Fiscal relief	10.7
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	3,580
SSI couples	3,215
SSI individuals	2,097

State factsheet 1: Program for better jobs and income—Continued

Georgia:	
Current effort in 1975 dollars (millions):	
Current AFDC	36.0
Current SSI	4.0
Current general assistance	2.0
Total transfers	42.0
AFDC administration	8.1
Total prereform costs	50.1
Emergency needs block grant	3.1
Subtotal	53.2
Federal hold-harmless payment	15.2
Subtotal	+68.4
1975 State expenditures on the State share and other supplements:	
State share	37.8
Wage supplements	0
Matching supplements	0
SSI grandfathering	3.5
AFDC grandfathering	15.6
Emergency needs	3.1
Total postreform costs	−60.0
Fiscal relief	8.4
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	3,437
SSI couples	3,215
SSI individuals	2,097
Hawaii:	
Current effort in 1975 dollars (millions):	
Current AFDC	29.0
Current SSI	3.3
Current general assistance	14.0
Total transfers	46.3
AFDC administration	1.2
Total prereform costs	47.5
Emergency needs block grant	3.4
Subtotal	50.9
Federal hold-harmless payment	3.7
Subtotal	+54.6
1975 State expenditures on the State share and other supplements:	
State share	4.6
Wage supplements	1.9
Matching supplements	26.3
SSI grandfathering	2.0
AFDC grandfathering	11.7
Emergency needs	3.4
Total postreform costs	−49.9
Fiscal relief	4.7
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	6,236
SSI couples	3,797
SSI individuals	2,462

State factsheet 1: Program for better jobs and income—Continued

Idaho:	
Current effort in 1975 dollars (millions):	
Current AFDC	6.0
Current SSI	2.0
Current general assistance	1.0
Total transfers	9.0
AFDC administration	1.1
Total prereform costs	10.1
Emergency needs block grant	.7
Subtotal	10.8
Federal hold-harmless payment	10.9
Subtotal	+21.7
1975 State expenditures on the State share and other supplements:	
State share	3.9
Wage supplements	2.1
Matching supplements	9.2
SSI grandfathering	1.7
AFDC grandfathering	3.0
Emergency needs	.7
Total postreform costs	−20.5
Fiscal relief	1.2
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	5,042
SSI couples	3,492
SSI individuals	2,559
Illinois:	
Current effort in 1975 dollars (millions):	
Current AFDC	373.1
Current SSI	34.0
Current general assistance	112.0
Total transfers	519.1
AFDC administration	37.0
Total prereform costs	556.1
Emergency needs block grant	38.4
Subtotal	594.6
Federal hold-harmless payment	0
Subtotal	+594.6
1975 State expenditures on the State share and other supplements:	
State share	76.2
Wage supplements	21.0
Matching supplements	143.0
SSI grandfathering	30.0
AFDC grandfathering	90.3
Emergency needs	38.4
Total postreformc osts	−398.9
Fiscal relief	195.7
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	4,815
SSI couples	3,618
SSI individuals	2,298

State factsheet 1: Program for better jobs and income—Continued

Indiana:	
Current effort in 1975 dollars (millions):	
Current AFDC	46.0
Current SSI	1.0
Current general assistance	.0
Total transfers	47.0
AFDC administration	4.7
Total prereform costs	51.7
Emergency needs block grant	3.5
Subtotal	55.2
Federal hold-harmless payment	10.6
Subtotal	+65.7
1975 State expenditures on the State share and other supplements:	
State share	20.8
Wage supplements	7.7
Matching supplements	10.9
SSI grandfathering	.9
AFDC grandfathering	16.8
Emergency needs	3.5
Total postreform costs	−60.5
Fiscal relief	5.2
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	4,252
SSI couples	3,215
SSI individuals	2,097
Iowa:	
Current effort in 1975 dollars (millions):	
Current AFDC	41.0
Current SSI	2.0
Current general assistance	4.0
Total transfers	47.0
AFDC administration	2.7
Total prereform costs	49.7
Emergency needs block grant	3.5
Subtotal	53.2
Federal hold-harmless payment	5.7
Subtotal	+58.9
1975 State expenditures on the State share and other supplements:	
State share	11.2
Wage supplements	6.6
Matching supplements	16.9
SSI grandfathering	1.8
AFDC grandfathering	14.0
Emergency needs	3.5
Total postreform costs	−53.9
Fiscal relief	5.0
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	5,142
SSI couples	3,215
SSI individuals	2,097

State factsheet 1: Program for better jobs and income—Continued

Kansas:	
Current effort in 1975 dollars (millions):	
Current AFDC	27.2
Current SSI	1.0
Current general assistance	8.0
Total transfers	36.2
AFDC administration	2.4
Total prereform costs	38.6
Emergency needs block grant	2.7
Subtotal	41.2
Federal hold-harmless payment	4.2
Subtotal	+45.4
1975 State expenditures on the State share and other supplements:	
State share	8.5
Wage supplements	4.8
Matching supplements	13.3
SSI grandfathering	.9
AFDC grandfathering	11.4
Emergency needs	2.7
Total post-reform costs	−41.5
Fiscal relief	3.9
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	5,117
SSI couples	3,215
SSI individuals	2,097
Kentucky:	
Current effort in 1975 dollars (millions):	
Current AFDC	34.2
Current SSI	9.0
Current general assistance	0
Total transfers	43.2
AFDC administration	5.1
Total prereform costs	48.3
Emergency needs block grant	3.2
Subtotal	51.5
Federal hold-harmless payment	29.0
Subtotal	+80.5
1975 State expenditures on the State share and other supplements:	
State share	29.7
Wage supplements	3.6
Matching supplements	9.8
SSI grandfathering	7.9
AFDC grandfatheing	21.5
Emergency needs	3.2
Total postreform costs	−75.7
Fiscal relief	4.8
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	4,126
SSI couples	3,215
SSI individuals	2,097

State factsheet 1: Program for better jobs and income—Continued

Louisiana:	
Current effort in 1975 dollars (millions):	
Current AFDC	27.0
Current SSI	6.0
Current general assisance	4.0
Total transfers	37.0
AFDC Administration	7.9
Total prereform costs	44.9
Emergency needs block grant	2.7
Subtotal	47.6
Federal hold-harmless payment	17.1
Subtotal	+64.8
1975 State expenditures on the State share and other supplements:	
State share	33.3
Wage supplements	0
Matching supplements	0
SSI grandfathering	5.3
AFDC grandfathering	15.8
Emergency needs	2.7
Total postreform costs	−57.1
Fiscal relief	7.6
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	3,479
SSI couples	3,215
SSI individuals	2,097
Maine:	
Current effort in 1975 dollars (millions):	
Current AFDC	15.0
Current SSI	7.0
Current general assistance	2.0
Total transfers	24.0
AFDC administration	1.2
Total prereform costs	25.2
Emergency needs block grant	1.8
Subtotal	27.0
Federal hold-harmless payment	0
Subtotal	+27.0
1975 State expenditures on the State share and other supplements:	
State share	6.6
Wage supplements	0
Matching supplements	2.6
SSI grandfathering	3.6
AFDC grandfathering	8.7
Emergency needs	1.8
Total postreform costs	−23.1
Fical relief	3.8
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	3,992
SSI couples	3,341
SSI individuals	2,181

State factsheet 1: Program for better jobs and income—Continued

Maryland:	
Current effort in 1975 dollars (millions):	
Current AFDC	75.3
Current SSI	2.0
Current general assistance	18.0
Total transfers	95.3
AFDC administration	5.8
Total prereform costs	101.1
Emergency needs block grant	7.1
Subtotal	108.1
Federal hold-harmless payment	0
Subtotal	+108.1
1975 State expenditures on the State share and other supplements:	
State share	21.7
Wage supplements	3.1
Matching supplements	10.9
SSI grandfathering	1.8
AFDC grandfathering	18.7
Emergency needs	7.1
Total postreform costs	−63.2
Fiscal relief	44.9
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	4,185
SSI couples	3,215
SSI individuals	2,097
Massachusetts:	
Current effort in 1975 dollars (millions):	
Current AFDC	227.9
Current SSI	110.7
Current general assistance	68.0
Total transfers	406.6
AFDC administration	12.4
Total prereform costs	419.0
Emergency needs block grant	30.1
Subtotal	449.1
Federal hold-harmless payment	0
Subtotal	+449.1
1975 State expenditures on the State share and other supplements:	
State share	+32.3
Wage supplements	12.5
Matching supplements	194.1
SSI grandfathering	30.6
AFDC grandfathering	36.9
Emergency needs	30.1
Total post-reform costs	−336.6
Fiscal relief	112.5
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	5,252
SSI couples	4,920
SSI individuals	3,228

State factsheet 1: Program for better jobs and income—Continued

Michigan:	
Current effort in 1975 dollars (millions):	
Current AFDC	345.2
Current SSI	56.0
Current general assistance	66.0
Total transfers	467.2
AFDC administration	20.5
Total prereform costs	487.7
Emergency needs block grant	34.6
Subtotal	522.2
Federal hold-harmless payment	0
Subtotal	+522.2
1975 State expenditures on the State share and other supplements:	
State share	57.2
Wage supplements	30.3
Matching supplements	188.1
SSI grandfathering	25.2
AFDC grandfathering	88.2
Emergency needs	34.6
Total postreform costs	−423.4
Fiscal relief	98.8
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	5,418
SSI couples	3,442
SSI individuals	2,248
Minnesota:	
Current effort in 1975 dollars (millions):	
Current AFDC	71.1
Current SSI	5.0
Current general assistance	18.0
Total transfers	94.1
AFDC administration	5.5
Total prereform costs	99.6
Emergency needs block grant	7.0
Subtotal	106.6
Federal hold-harmless payment	1.0
Subtotal	+107.6
1975 State expenditures on the State share and other supplements:	
State share	17.4
Wage supplements	8.2
Matching supplements	34.9
SSI grandfathering	4.4
AFDC grandfathering	25.7
Emergency needs	7.0
Total postreform costs	−97.6
Fiscal relief	10.0
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	5,273
SSI couples	3,215
SSI individuals	2,097

State factsheet 1: Program for better jobs and income—Continued

Mississippi:	
Current effort in 1975 dollars (millions):	
Current AFDC	5.0
Current SSI	1.0
Current general assistance	1.0
Total transfers	7.0
AFDC administration	2.0
Total prereform costs	9.0
Emergency needs block grant	.5
Subtotal	9.5
Federal hold-harmless payment	3.5
Subtotal	+13.0
1975 State expenditures on the State share and other supplements:	
State share	6.3
Wage supplements	0
Matching supplements	0
SSI grandfathering	.9
AFDC grandfathering	3.5
Emergency needs	.5
Total postreform costs	−11.2
Fiscal relief	1.8
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	2,616
SSI couples	3,215
SSI individuals	2,007
Missouri:	
Current effort in 1975 dollars (millions):	
Current AFDC	54.0
Current SSI	25.0
Current general assistance	8.0
Total transfers	87.0
AFDC administration	8.4
Total prereform costs	95.4
Emergency needs block grant	6.4
Subtotal	+101.8
Federal hold-harmless payment	0
Subtotal	+101.8
1975 State expenditures on the State share and other supplements:	
State share	33.2
Wage supplements	0
Matching supplements	0
SSI grandfathering	21.0
AFDC grandfathering	23.3
Emergency needs	6.4
Total postreform costs	−83.9
Fiscal relief	17.9
1975 State supplement guarantees (dollars) assumed in simulation:	
Familes with children	3,412
SSI couples	3,215
SSI individuals	2,097

State factsheet 1: Program for better jobs and income—Continued

Montana:	
Current effort in 1975 dollars (millions):	
Current AFDC	4.0
Current SSI	0
Current general assistance	1.0
Total transfers	5.0
AFDC administration	.9
Total prereform costs	5.9
Emergency needs block grant	.4
Subtotal	6.3
Federal hold-harmless payment	2.1
Subtotal	−8.4
1975 State expenditures on the State share and other supplements:	
State share	3.7
Wage supplements	.2
Matching supplements	1.0
SSI grandfathering	0
AFDC grandfathering	2.3
Emergency needs	.4
Total postreform costs	−7.6
Fiscal relief	.8
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	4,059
SSI couples	3,215
SSI individuals	2,097
Nebraska:	
Current effort in 1975 dollars (millions):	
Current FDC	12.2
Current SSI	3.0
Current general assistance	0
Total transfers	15.2
AFDC administration	1.2
Total prereform costs	16.4
Emergency needs block grant	1.1
Subtotal	17.5
Federal hold-harmless payment	15.2
Subtotal	+32.7
1975 State expenditures on the State share and other supplements:	
State share	6.8
Wage supplements	1.6
Matching supplements	14.2
SSI grandfathering	2.6
AFDC grandfathering	4.7
Emergency needs	1.1
Total postreform costs	−31.1
Fiscal relief	1.6
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	4,210
SSI couples	3,786
SSI individuals	2,651

State factsheet 1: Program for better jobs and income—Continued

New Hampshire:	
Current effort in 1975 dollars (millions):	
Current AFDC	9.0
Current SSI	2.0
Current general assistance	3.0
Total transfers	14.0
AFDC administration	.7
Total prereform costs	14.7
Emergency needs block grant	1.0
Subtotal	15.7
Federal hold-harmless payment	2.4
Subtotal	+18.2
1975, State expenditures on the State share and other supplements:	
State share	3.2
Wage supplements	1.6
Matching supplements	7.1
SSI grandfathering	1.2
AFDC grandfathering	2.6
Emergency needs	1.0
Total postreform costs	−16.7
Fiscal relief	1.5
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	5,058
SSI couples	3,274
SSI individuals	2,248
Nevada:	
Current effort in 1975 dollars (millions):	
Current AFDC	5.0
Current SSI	1.4
Current general assistance	2.0
Total transfers	8.4
AFDC administration	1.3
Total prereform costs	9.7
Emergency needs block grant	.6
Subtotal	10.3
Federal hold-harmless payment	1.0
Subtotal	+11.3
1975 State expenditures on the State share and other supplements:	
State share	2.6
Wage supplements	.2
Matching supplements	3.0
SSI grandfathering	1.2
AFDC grandfathering	1.9
Emergency needs	.6
Total postreform costs	−9.6
Fiscal relief	1.7
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	4,084
SSI couples	3,996
SSI individuals	2,492

State factsheet 1: Program for better jobs and income—Continued

New Jersey:	
Current effort in 1975 dollars (millions):	
Current AFDC	208.5
Current SSI	24.0
Current general assistance	42.0
Total transfers	274.5
AFDC administration	15.0
Total prereform costs	289.5
Emergency needs block grant	20.3
Subtotal	309.9
Federal hold-harmless payment	0
Subtotal	+309.9
1975 State expenditures on the State share and other supplements:	
State share	40.9
Wage supplements	17.1
Matching supplements	100.1
SSI grandfathering	15.2
AFDC grandfathering	49.6
Emergency needs	20.3
Total postreform costs	−243.3
Fiscal relief	66.6
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	5,142
SSI couples	3,400
SSI individuals	2,349
New Mexico:	
Current effort in 1975 dollars (millions):	
Current AFDC	9.0
Current SSI	0
Current general assistance	1.0
Total transfers	10.0
AFDC administration	2.6
Total prereform costs	12.6
Emergency needs block grant	.7
Subtotal	13.3
Federal hold-harmless payment	4.8
Subtotal	+18.2
1975 State expenditures on the State share and other supplements:	
State share	9.0
Wate supplements	0
Matching supplements	1.8
SSI grandfathering	0
AFDC grandfathering	4.0
Emergency needs	.7
Total postreform costs	−15.6
Fiscal relief	2.6
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	3,882
SSI couples	3,215
SSI individuals	2,097

State factsheet 1: Program for better jobs and income—Continued

New York:	
Current effort in 1975 dollars (millions):	
Current AFDC	832.7
Current SSI	194.6
Current general assistance	263.0
Total transfers	1,290.3
AFDC administration	125.4
Total prereform costs	1,415.7
Emergency needs block grant	95.5
Subtotal	1,511.1
Federal hold-harmless payment	0
Subtotal	+1,511.1
1975 State expenditures on the State share and other supplements:	
State share	138.2
Wage supplements	44.7
Matching supplements	509.6
SSI grandfathering	96.2
AFDC grandfathering	202.5
Emergency needs	95.5
Total postreform costs	−1,086.6
Fiscal relief	424.5
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	5,418
SSI couples	3,854
SSI individuals	2,609
North Carolina:	
Current effort in 1975 dollars (millions):	
Current AFDC	37.0
Current SSI	14.0
Current general assistance	2.0
Total transfers	53.0
AFDC administration	3.8
Total prereform costs	56.8
Emergency needs block grant	3.9
Subtotal	60.7
Federal hold-harmless payment	32.5
Subtotal	+93.2
1975 State expenditures on the State share and other supplements:	
State share	47.3
Wage supplements	0
Matching supplements	5.4
SSI grandfathering	12.3
AFDC grandfathering	18.6
Emergency needs	3.9
Total postreform costs	−87.5
Fiscal relief	5.7
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	3,832
SSI couples	3,215
SSI individuals	2,097

State factsheet 1: Program for better jobs and income—Continued

North Dakota:	
Current effort in 1975 dollars (millions):	
Current AFDC	4.0
Current SSI	0
Current general assistance	1.0
Total transfers	5.0
AFDC administration	.4
Total prereform costs	5.4
Emergency needs block grant	.4
Subtotal	5.8
Federal hold harmless payment	3.9
Subtotal	+9.6
1975 State expenditures on the State share and other supplements:	
State share	2.5
Wage supplements	1.6
Matching supplements	2.4
SSI grandfathering	0
AFDC grandfathering	2.3
Emergency needs	.4
Total postreform costs	−9.1
Fiscal relief	.5
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	5,067
SSI couples	3,215
SSI individuals	2,097
Ohio:	
Current effort in 1975 dollars (millions):	
Current AFDC	200.6
Current SSI	3.0
Current general assistance	42.0
Total transfers	245.6
AFDC administration	15.0
Total prereform costs	260.6
Emergency needs block grant	18.2
Subtotal	278.8
Federal hold-harmless payment	0
Subtotal	+278.8
1975 State expenditures on the State share and other supplements:	
State share	59.1
Wage supplements	19.5
Matching supplements	36.1
SSI grandfathering	2.6
AFDC grandfathering	58.9
Emergency needs	18.2
Total postreform costs	−194.4
Fiscal relief	84.4
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	4,286
SSI couples	3,215
SSI individuals	2,097

State factsheet 1: Program for better jobs and income—Continued

Oklahoma:	
Current effort in 1975 dollars (millions):	
Current AFDC	22.1
Current SSI	22.0
Current general assistance	1.0
Total transfers	45.1
AFDC administration	5.7
Total prereform costs	50.8
Emergency needs block grant	3.3
Subtotal	54.2
Federal hold-harmless payment	34.7
Subtotal	+88.9
1975 State expenditures on the State share and other supplements:	
State share	19.4
Wage supplements	8.5
Matching supplements	25.0
SSI grandfathering	15.3
AFDC grandfathering	9.6
Emergency needs	3.3
Total postreform costs	−81.1
Fiscal relief	7.8
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	4,370
SSI couples	3,593
SSI individuals	2,357
Oregon:	
Current effort in 1975 dollars (millions):	
Current AFDC	44.3
Current SSI	6.0
Current general assistance	5.0
Total transfers	55.3
AFDC administration	5.1
Total prereform costs	60.4
Emergency needs block grant	4.1
Subtotal	64.4
Federal hold-harmless payment	14.4
Subtotal	+78.8
1975 State expenditures on the State share and other supplements:	
State share	11.0
Wage supplements	5.8
Matching supplements	32.9
SSI grandfathering	5.3
AFDC grandfathering	12.2
Emergency needs	4.1
Total postreform costs	−71.3
Fiscal relief	7.6
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	5,418
SSI couples	3,400
SSI individuals	2,265

State factsheet 1: Program for better jobs and income—Continued

Pennsylvania:	
Current effort in 1975 dollars (millions)	
Current AFDC	272.1
Current SSI	38.0
Current general assistance	186.0
Total transfers	496.1
AFDC administration	37.8
Total prereform costs	533.9
Emergency needs block grant	36.7
Subtotal	570.6
Federal hold-harmless payment	0
Subtotal	+570.6
1975 State expenditures on the State share and other supplements:	
State share	75.6
Wage supplements	25.3
Matching supplements	168.0
SSI grandfathering	33.5
AFDC grandfathering	86.1
Emergency needs	36.7
Total postreform costs	−425.1
Fiscal relief	145.4
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	5,084
SSI couples	3,467
SSI individuals	2,265
Rhode Island:	
Current effort in 1975 dollars (millions):	
Current AFDC	22.0
Current SSI	7.0
Current general assistance	8.0
Total transfers	37.0
AFDC administration	1.6
Total prereform costs	38.6
Emergency needs block grant	2.7
Subtotal	41.3
Federal hold harmless payment	0
Subtotal	+41.3
1975 State expenditures on the State share and other supplements:	
State share	5.2
Wage supplements	2.5
Matching supplements	11.6
SSI grandfathering	3.5
AFDC grandfathering	7.9
Emergency needs	2.7
Total postreform costs	−33.5
Fiscal relief	7.9
1975 State supplement guarantees (dollars) assumed in simulation:	
Familes with children	4,832
SSI couples	3,753
SSI individuals	2,382

State factsheet 1: Program for better jobs and income—Continued

South Carolina:	
Current effort in 1975 dollars (millions):	
Current AFDC	11.0
Current SSI	1.0
Current general assistance	1.0
Total transfers	13.0
AFDC administration	3.6
Total prereform costs	16.6
Emergency needs block grant	1.0
Subtotal	17.6
Federal hold-harmless payment	3.9
Subtotal	+21.4
1975 State expenditures on the State share and other supplements:	
State share	11.7
Wage supplements	0
Matching supplements	0
SSI grandfathering	.9
AFDC grandfathering	4.0
Emergency needs	1.0
Total postreform costs	−17.5
Fiscal relief	.3.9
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	3,135
SSI couples	3,215
SSI individuals	2,097
South Dakota:	
Current effort in 1975 dollars (millions):	
Current AFDC	6.0
Current SSI	0
Current general assistance	1.0
Total transfers	7.0
AFDC administration	1.2
Total prereform costs	8.2
Emergency needs block grant	.5
Subtotal	8.7
Federal Hold-harmless payment	4.8
Subtotal	+13.5
1975 State expenditures on the State share and other supplements:	
State share	3.6
Wage supplements	2.5
Matching supplements	3.6
SSI grandfathering	0
AFDC grandfathering	2.0
Emergency needs	.5
Total postreform costs	−12.1
Fiscal relief	1.4
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	4,916
SSI couples	3,215
SSI individuals	2,097

State factsheet 1: Program for better jobs and income—Continued

Tennessee:	
Current effort in 1975 dollars (millions):	
Current AFDC	23.0
Current SSI	1.0
Current general assistance	4.0
Total transfers	28.0
AFDC administration	5.3
Total prereform costs	33.3
Emergency needs block grant	2.1
Subtotal	35.4
Federal hold harmless payment	9.4
Subtotal	+44.8
1975 State expenditures on the State share and other supplements:	
State share	25.2
Wage supplements	0
Matching supplements	0
SSI grandfathering	.9
AFDC grandfathering	11.4
Emergency needs	2.1
Total postreform costs	−39.5
Fiscal relief	5.3
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	3,261
SSI couples	3,315
SSI individuals	2,097
Texas:	
Current effort in 1975 dollars (millions):	
Current AFDC	39.0
Current SSI	0
Current general assistance	0
Total transfers	39.0
AFDC administration	13.3
Total prereform costs	52.3
Emergency needs block grant	2.9
Subtotal	55.2
Federal hold-harmless payment	13.5
Subtotal	+68.8
1975 State expenditures on the State share and other supplements:	
State share	35.1
Wage supplements	0
Matching supplements	0
SSI grandfathering	0
AFDC grandfathering	18.2
Emergency needs	2.9
Total postreform costs	−56.1
Fiscal relief	12.7
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	3,328
SSI couples	3,215
SSI individuals	2,097

State factsheet 1: Program for better jobs and income—Continued

Utah:	
Current effort in 1975 dollars (millions):	
Current AFDC	10.0
Current SSI	0
Current general assistance	3.0
Total transfers	13.0
AFDC administration	1.2
Total prereform costs	14.2
Emergency needs bloc grant	1.0
Subtotal	15.2
Federal hold-harmless payment	5.5
Subtotal	+20.6
1975 State expenditures on the State share and other supplements:	
State share	4.8
Wage supplements	2.2
Matching supplements	5.7
SSI grandfathering	0
AFDC grandfathering	5.5
Emergency needs	1.0
Total postreform costs	−19.2
Fiscal relief	1.4
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	4,722
SSI couples	3,215
SSI individuals	2,097
Vermont:	
Current effort in 1975 dollars (millions):	
Current AFDC	8.3
Current SSI	5.0
Current general assistance	2.0
Total transfers	15.3
AFDC administration	.9
Total prereform costs	16.2
Emergency needs bloc grant	1.1
Subtotal	17.3
Federal hold-harmless payment	3.8
Subtotal	+21.2
1975 State expenditures on the State share and other supplements:	
State share	3.2
Wage supplements	2.0
Matching supplements	8.0
SSI grandfathering	2.4
AFDC grandfathering	2.8
Emergency needs	1.1
Total postreform costs	−19.4
Fiscal relief	1.7
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	5,235
SSI couples	3,753
SSI individuals	2,340

State factsheet 1: Program for better jobs and income—Continued

Virginia:	
Current effort in 1975 dollars (millions):	
Current AFDC	59.7
Current SSI	1.0
Current general assistance	11.0
Total transfers	71.7
AFDC administration	5.0
Total prereform costs	76.7
Emergency needs block grant	5.3
Subtotal	82.0
Federal hold harmless payment	23.9
Subtotal	+105.9
1975 State expenditures on the State share and other supplements:	
State share	28.9
Wage supplements	12.0
Matching supplements	30.4
SSI grandfathering	.9
AFDC grandfathering	20.7
Emergency needs	5.3
Total postreform costs	−98.2
Fiscal relief	7.7
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	4,764
SSI couples	3,215
SSI individuals	2,097
Washington:	
Current effort in 1975 dollars (millions):	
Current AFDC	77.3
Current SSI	16.0
Current general assistance	18.0
Total transfers	111.3
AFDC administration	4.8
Total prereform costs	116.1
Emergency needs block grant	8.2
Subtotal	124.4
Federal hold harmless payment	0
Subtotal	+124.4
1975 State expenditures on the State share and other supplements:	
State share	16.5
Wage supplements	7.4
Matching supplements	45.7
SSI grandfathering	8.4
AFDC grandfathering	14.7
Emergency needs	8.2
Total postreform costs	−100.9
Fiscal relief	23.5
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	5,260
SSI couples	3,526
SSI individuals	2,374

State factsheet 1: Program for better jobs and income—Continued

West Virginia:	
Current effort in 1975 dollars (millions):	
Current AFDC	14.5
Current SSI	.0
Current general assistance	2.0
Total transfers	16.5
AFDC administration	3.2
Total prereform costs	19.7
Emergency needs block grant	1.2
Subtotal	21.0
Federal hold-harmless payment	18.2
Subtotal	+39.2
1975 State expenditures on the State share and other supplements:	
State share	14.9
Wage supplements	2.6
Matching supplements	8.2
SSI grandfathering	.0
AFDC grandfathering	9.8
Emergency needs	1.2
Total postreform costs	−36.8
Fiscal relief	2.4
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	4,244
SSI couples	3,215
SSI individuals	2,097
Wisconsin:	
Current effort in 1975 dollars (millions):	
Current AFDC	80.8
Current SSI	22.8
Current general assistance	10.0
Total transfers	113.6
AFDC administration	3.7
Total prereform costs	117.3
Emergency needs block grant	8.4
Subtotal	125.8
Federal hold-harmless payment	47.3
Subtotal	+173.1
1975 State expenditures on the State share and other supplements:	
State share	18.9
Wage supplements	10.1
Matching supplements	81.2
SSI grandfathering	13.8
AFDC grandfathering	28.9
Emergency needs	8.4
Total postreform costs	−161.3
Fiscal relief	11.7
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	5,418
SSI couples	4,173
SSI individuals	2,736

State factsheet 1: Program for better jobs and income—Continued

Wyoming:	
Current effort in 1975 dollars (millions):	
Current AFDC	2.1
Current SSI	0
Current general assistance	1.0
Total transfers	3.1
AFDC administration	.2
Total prereform costs	3.3
Emergency needs block grant	.2
Subtotal	3.5
Federal hold harmless payment	.7
Subtotal	+4.2
1975 State expenditures on the State share and other supplements:	
State share	1.3
Wage supplements	.5
Matching supplements	.6
SSI grandfathering	0
AFDC grandfathering	1.1
Emergency needs	.2
Total postreform costs	−3.8
Fiscal relief	.3
1975 State supplement guarantees (dollars) assumed in simulation:	
Families with children	4,252
SSI couples	3,215
SSI individuals	2,097
All States:	
Current effort in 1975 dollars (millions):	
Current AFDC	4,395.3
Current SSI	1,353.5
Current general assistance	1,045.0
Total transfers	6,793.8
AFDC administration	513.9
Total prereform costs	7,307.7
Emergency needs block grant	502.6
Subtotal	7,810.3
Federal hold harmless payment	413.5
Subtotal	+8,223.8
1975 State expenditures on the State share and other supplements:	
State share	1,248.8
Wage supplements	333.9
Matching supplements	2,523.2
SSI grandfathering	568.3
AFDC grandfathering	1,296.6
Emergency needs	502.6
Total postreform costs	−6,473.4
Fiscal relief	1,750.3

Question. The Welfare reform proposal by the Administration has been estimated to cost $17 billion. If it is enacted, how do you intend to meet the goal of a balanced budget in 1982 which has been so often enunciated by the President?

Answer. HEW has not estimated the cost of the Administration's welfare reform proposal to cost $17 billion. HEW's initial estimate of the proposal was $2.8 billion. This estimate compared projected outlays in FY78 at an unemployment rate of 5.6 percent to the expenditures we expected to actually take place in FY78. The President's FY79 budget contains a net federal cost for FY82 assuming implementation of H.R. 9030 on July 1, 1981. This FY82 amount, about $7.5 billion, is higher because of the inflation in benefit levels and the projected increase in the minimum wage. This estimate also employs a lower offset for existing CETA jobs ($3.9 billion vs. $5.5 billion used in our FY78 estimate) consistent with the Administration's proposal for CETA re-authorization.

The Congressional Budget Office has estimated the costs of the proposal to be about $17 billion. The principal differences in the estimates is in the offset assumptions. Attached is a detailed reconciliation of our FY82 estimates and those prepared by CBO.

The projected FY82 budget contained in the President's FY79 budget submission demonstrates that a modest increase in assistance for the low income population, principally in the form of more money for jobs, is consistent with the President's macro-economic policy. While the Administration did not support several of the changes made by the House Subcommittee on Welfare Reform including some which raised costs, we have not set any arbitrary maximum on acceptable program costs. We hope to work together with the House and the Senate to improve the legislation and achieve a program that meets the President's goals consistent with the Administration's overall budget objectives.

A COMPARISON OF BUDGET AND CBO FISCAL YEAR 1982 COST ESTIMATES OF THE PROGRAM FOR BETTER JOBS AND INCOME

The table below provides a line by line breakdown of the differences in Fiscal Year 1982 cost estimates of the Program for Better Jobs and Income included in the President's Fiscal Year 1979 Budget and those delivered to the House Subcommittee on Welfare Reform by the Congressional Budget Office on January 25, 1978. A detailed explanation is provided in the paper that follows.

ESTIMATES OF THE COSTS OF THE PROGRAM FOR BETTER JOBS AND INCOME IN FISCAL YEAR 1982

[In billions of dollars]

	Budget	CBO	Difference
Gross costs:			
Cash	25.95	28.11	+2.16
Jobs	9.90	11.51	+1.61
EITC	[1] 2.95	[1] 2.63	-.32
Present EITC	(1.03)	0	(-1.03)
New EITC for those eligible for cash assistance	(.62)	(1.12)	(+.50)
New EITC for those ineligible for cash assistance	(1.31)	(1.51)	(+.20)
Total, gross costs	[1] 38.81	[1] 42.25	+3.44
Total gross cost, excluding the EITC for those ineligible for cash assistance	(37.50)	(40.74)	(+3.24)
Offsets	30.04	24.89	-5.15
Net costs	[1] 8.77	[1] 17.36	+8.59
Net costs, excluding the EITC for those ineligible for cash assistance	(7.46)	(15.85)	(+8.39)

[1] Both the Budget and CBO include in their net costs the amount of EITC benefits paid to persons ineligible for cash assistance benefits. HEW has not included these costs as part of welfare reform in previous estimates.

Note: Totals may not add due to rounding.

I. DIFFERENCES IN CASH PROGRAM ESTIMATES

CBO has estimated the cash portion of the Program for Better Jobs and Income for FY 1982 at a cost which is $2.16 billion higher than the estimates submitted in the President's FY 1979 Budget. This difference is due to numerous different assumptions about both the state of the economy in FY 1982 and about the operation of the program in that year. Additionally, there are some significant differences in both the estimating techniques and the data bases used. These complex differences can be summarized as follows.

A. Data Base Differences

CBO used as its data base the 1974 Current Population Survey. Budget estimates are based on the 1975 Survey of Income and Education. CBO adjusts the survey data base to 1982 on the basis of economic and population projections and then prepares estimates using the adjusted data base. The Budget estimates are made on an unadjusted data base and the results are then modified to reflect FY 1982 economic and population projections. There appear to be significant differences in the proportion of low income single-parent families and single persons estimated by these methods. An HEW analysis has shown that non-aged, non-disabled single parent families constitute 40% of CBO's recipient population as compared with 33% of the Budget recipient population. This same analysis shows that non-aged, non-disabled single persons constitute 10% of CBO's recipients and are only 4% of the Budget recipient estimate.

This difference in the make-up of the recipient population has significant impacts on Federal cash costs and on hold harmless costs since average payments per person for these groups are higher than for others eligible for the program. HEW has estimated that these differences increased CBO cash cost estimates by $1.82 billion over the Budget estimate.

Budget analysts believe that the Administration's estimates are more accurate for the following reasons:

(1) The Survey of Income and Education, three times larger than the Current Population Survey used by CBO (150,000 households vs. 50,000), was taken specifically to count the number of families with children in poverty. The larger sample size was used to count precisely the kinds of families for which CBO estimates exceed the Budget's.

(2) CBO bases its projection of single parent families on recent growth rates of that demographic group. While such projections are always subject to uncertainty, it is fair to say that a consensus of estimates believes that in the future, while this group will continue to grow, its growth will be concentrated among higher income families that would not be eligible for cash assistance.

Additionally, the CBO data base contains lower asset levels than the data base used in the Budget estimates. By including specific questions concerning assets, the Survey of Income and Education provides a more complete picture of the asset holdings of families eligible for PBJI. CBO estimates that the assets test will save $850 million less than the Budget estimate and, accordingly, projects greater outlays for cash assistance.

B. Program Assumptions

CBO has made several assumptions about the operation of the program which differ from the Budget assumptions. First, CBO has assumed that program eligibles would participate at a higher rate: an overall participation rate of 89 percent (on a dollar basis) rather than the 86 percent assumed by the Budget. The participation rates on a person basis are 89% for CBO and 84% in the Budget estimate. This increases CBO estimates by $700 million. Program participation rates (i.e., the percent of eligible persons who receive benefits) under current program provide the only hard evidence on which to base a projection of such rates in the future. Estimates of participation in the existing Food Stamp program, which is open to all low-income persons, ranges from 50 percent to 60 percent. The aged show a 53 percent participation in the Supplemental Security Income program. Single parent families (in AFDC) and the disabled (in SSI) show high participation rates, 91 percent and 81 percent, respectively. However, only an estimated 20–25 percent of two parent families who are eligible for AFDC-UF in 26 states actually claim benefits. Both CBO and the Budget analysts believe overall participation will rise from that in current programs. CBO believes it will rise to a greater extent.

Second, CBO has assumed that the income tax laws which existed in 1977 would prevail through 1982. The Budget has assumed that tax thresholds (i.e., the income levels where tax liabilities begin) would be adjusted upward over time, as they have been in the past. This dramatically affects the cost of the tax reimbursement provision of PBJI which provides for tax reimbursement to cash eligibles whose net earnings have been reduced by income taxes. This tax assumption increases CBO cost estimates by $810 million.

Third, CBO has assumed the program would be implemented in April 1981. The Budget assumption is that the program would not be implemented until July of 1981. Thus the benefits in the first quarter of fiscal year 1982 (October-December 1981) have been adjusted for one more quarter of Consumer Price Index change in the Budget estimate. In addition, the Budget assumes that benefits would be readjusted as of January 1, 1982 for another six months of inflation. Thus the Budget estimates assume benefit levels for the last three quarters of fiscal year 1982 that have been adjusted for three more quarters of Consumer Price Index change. This difference along with differences in assumed level of increases in the Consumer Price Index acts to lower CBO cost estimates relative to the Budget by $1370 million.

C. Economic Assumptions

CBO has a generally more optimistic set of economic assumptions for 1982 than the Budget. General inflation assumptions are fairly similar (averaging 6.1% from FY 1978–FY 1982 for CBO and 6.0% over the same period for the Budget). This increases CBO costs by $30 million for items that are separately estimated such as administrative costs. CBO, however, assumes a slightly lower unemployment rate (4.5% v. 4.7%). This decreases CBO cost estimates by $120 million.

Additionally, CBO assumes a significantly higher rate of real growth in the economy. This decreases CBO costs by $440 million.

D. Other Cash Differences

1. *Puerto Rico costs.*—CBO has estimated that the cost of the cash program in Puerto Rico would be $380 million higher than the Budget estimate. The CBO estimate is based on data from the 1970 Census. The Budget estimate is based on data from the 1975 Food Stamp survey. Both estimates have been adjusted to FY 1982. Budget analysts believe the Budget estimates based on the later Food Stamp Survey are more reliable since the Food Stamp Survey covered roughly the same population as would be eligible for PBJI and has the advantage of being significantly more current.

2. *Administrative costs.*—While CBO has a higher participation rate and a different mix of recipients than the Budget, it projects a smaller eligible population. This reduces its administrative cost estimates by $330 million.

3. *Emergency needs.*—CBO has not adjusted the Emergency Needs block grant for inflation from 1978 to the date of implementation. While H.R. 9030 does not specifically provide for such indexing, the Budget estimates have assumed it would be indexed. This decreases their estimates by $100 million.

4. *Start-up costs.*—The Budget includes $70 million for non-recurring program start-up costs in FY 1982. CBO does not. This decreases CBO cost estimates by $70 million. (CBO assumes that the program is in full operation in 1982 and thus projects no start-up costs by FY 1982.)

E. Summary of CBO and Budget Differences in Cash Estimates

	Billions
CBO estimate	$28.11
Budget estimate	25.95
Difference	2.16
Reconciliation ("+" indicates CBO greater than Budget):	
Data Base Differences:	
Demographic structure of recipient population	+$1.82
Assets information	+.85
Program Assumptions:	
Participation rate	+.70
Current tax system unchanged	+.81
Implementation date and level of indexing	−1.37
Economic Assumptions	
Inflation rate	+.03
Unemployment rate	−.12
Real growth rate	−.44

E. Summary of CBO and Budget Differences in Cash Estimates—Continued

Other expenses:	*Billions*
Puerto Rico costs	+$0.38
Administrative costs	−.33
Non-indexing of Emergency Needs	−.10
Start-up costs	−.07
Total	+2.16

II. DIFFERENCES IN JOBS PROGRAM ESTIMATES

CBO has estimated the costs of the jobs portion of the Program for Better Jobs and Income at $1.61 billion more than the Budget estimate. The difference stems largely from implementation assumptions.

A. Phase-In Assumptions

CBO has assumed that during FY 1982, the jobs portion of PBJI would be fully operating. The Budget cost estimate has assumed that the program would be phased-in over the course of FY 1982 as public jobs in the countercyclical CETA program decline to sustaining levels. This increases CBO cost estimates by $1.24 billion.

B. Different Slot Estimate

CBO has additionally estimated that the total number of jobs slots necessary when the program is fully implemented is 40,000 more than the Budget estimate. This difference is apparently due to the same kind of differences in the make-up of the recipient population discussed in the cash section. This increases CBO cost estimate by $370 million.

C. Summary of CBO and Budget Estimates of Jobs Program

	Billions
CBO estimate	$11.51
Budget estimate	9.90
Difference	+1.61
Reconciliation:	
Phase-in assumptions	+1.24
Different slot estimate	+.37
Total	+$1.61

III. DIFFERENCES IN ESTIMATES OF THE EARNED INCOME TAX CREDIT

CBO has estimated its total EITC costs (i.e., benefits to those whose incomes are below and those whose incomes are above the cash assistance eligibility ceiling) at a level $320 million lower than the Budget estimate. This total difference is the result of several accounting and estimating differences.

A. Accounting Practices

The PBJI changes the method of paying the EITC benefits. Under present rules, eligible persons file for an EITC on their tax return, after the end of the tax year. Under the new EITC, Federal withholding taxes will be reduced during the tax year to provide EITC benefits on a continuing basis during, not after, the tax year.

The Budget estimates are based on projected actual Treasury payments during FY 1982. Some of these expenditures are tax refunds made during CY 1982 for claims filed on 1981 tax returns, under the old EITC Program. The CBO estimates assume that there is no carryover of refunds into the following calendar year under the old EITC rules (i.e., prior to the change in method of payment) and reflect only the costs of the new EITC.

The Budget estimate can be broken down as follows:

Outlays from old EITC in FY 1982	1.03
Outlays from new EITC in FY 1982:	
To persons eligible for cash assistance	.62
To persons not eligible for cash assistance	1.31
Total	[1] 2.95

[1] Total does not add due to rounding.

The differences between the Budget and CBO estimates can be summarized as follows:

	Billions
Budget	$2.95
CBO	2.63
Difference	.32
Inclusion of old EITC costs Use of outlays rather than obligations	+1.03
To persons eligible for cash assistance	—.50
To persons not eligible for cash assistance	—.20
Difference	[1].33

[1] Total does not add due to rounding.

B. *Comparison to Prior Administration EITC Estimates*

Two further points should be made about these estimates. First, previous estimates have not included EITC payments made to persons not eligible for cash assistance in the costs of welfare reform. Such payments were and are viewed as desirable but separate tax reductions. Both the CBO and the Budget estimates are therefore higher than prior estimates.

Second, the CBO EITC estimates assumes an implementation date prior to FY 1982. The Administration assumes an EITC implementation date of January 1, 1982. This means that in the Budget estimate, new EITC program costs are incurred for only three-fourths of FY 1982. Since CBO has assumed, as noted earlier that the program will be in full operation in 1982, it has no phase-in of the various program components.

IV. DIFFERENCES IN OFFSETS

The CBO estimate of offsets is $5.15 billion lower than the Budget offsets. This is the result of a series of estimating differences and varying decisions concerning inclusion of items as offsets. These differences can be classified into three categories: differences in estimates of included offsets, offsets included in the Budget which are not included by CBO, and offsets included by CBO but not included in the Budget. Details of these differences are shown in the attached table.

A. *Differing Estimates of Included Offsets*

Both the Budget cost analysis and the CBO analysis agree that PBJI will eliminate five programs (AFDC, SSI, Food Stamps, the Work Incentive Program, and the existing EITC), cause decreased outlays in two programs (Regular Unemployment Insurance, and Housing Assistance), and increase revenues in one other (FICA taxes). There are many relatively minor differences in these estimates and four major ones. CBO's AFDC and Food Stamp estimates are $1.36 billion and $640 million greater, respectively, primarily due to higher CBO forecasts of the number of single-parent families in poverty. CBO's SSI estimates are $990 million lower due to an apparently lower estimate of the aged and disabled recipient population. CBO's EITC estimate is lower than the Budget's by $470 million due both to the accounting differences discussed earlier and CBO's generally higher estimates of wages. Net differences: + $890 million.

B. *Offsets Included in the Budget but not by CBO*

There are four offsets taken in the Budget but not taken by CBO.

The Budget assumes that the existence of the public jobs program in PBJI will eliminate the need for an extended unemployment insurance program. CBO has assumed that the extended program will not be continued by the Congress through FY 1982 even without PBJI. CBO has similarly assumed that the CETA Title VI Program would expire by FY 1982 without PBJI and has not included that cost as an offset. The Budget counts CETA Title VI program costs as an offset because it represents a reduction Federal expenditures in a related area that would no longer be necessary in 1982 as a consequence of welfare reform.

The Budget assumes that the passage of wellhead tax legislation and the subsequent distribution of those tax revenues to PBJI eligibles through the cash guarantee will be a further offset to costs. Finally, the Budget assumes that savings which are realized through reduced fraud in the Medicaid program will be applied to PBJI costs. Net difference: — $6.5 billion.

C. Offsets Included by CBO but not in the Budget

CBO includes two offsets and one additional cost not included in the Budget. The single largest element is a $650 million increase in Federal income tax revenues. These increased revenues appear again to be due to CBO's higher assumptions on wage growth.

CBO additionally includes a *negative* offset which is due to increased administrative costs in Medicaid. These costs are assumed to occur because of added complexities in integrating PBJI with the existing Medicaid Program. The Budget has assumed the Administration will propose health insurance reforms which will eliminate these costs. Net difference: + $460 million.

[In billions of dollars]

SUMMARY OF OFFSET DIFFERENCES

	Budget	CBO	Difference
AFDC	7.61	8.97	+1.36
SSI	7.08	6.09	−.99
Food stamps	6.05	6.69	+.64
EITC	1.03	.56	−.47
Work incentive program	.37	.48	+.11
Increase in FICA taxes	.50	.48	−.02
Regular unemployment insurance	.30	.44	+.14
HUD	.60	.72	+.12
Included by the budget but not by CBO:			
Extended unemployment insurance	.60		−.60
CETA public sector jobs	3.90		−3.90
Reduced fraud in medicaid	.50		−.50
Wellhead tax revenues	1.50		−1.50
Included by CBO but not by the Budget:			
Increased Federal income tax		.65	+.65
Child nutrition		.06	+.06
Medicaid		−.25	−.25
Total	30.04	24.89	−5.15

DETAILED SUMMARY OF BUDGET AND CBO DIFFERENCES IN CASH AND JOBS PORTIONS

	Budget	CBO	Difference
Cash program detail:			
Basic Federal program (including State fee and Puerto Rico)	22.60	24.36	+1.76
Federal share of State supplements	1.99	2.04	+.05
Hold harmless	.56	1.08	+.52
Emergency needs	.73	.63	−.10
Start up costs	.07		−.07
Total	25.95	28.11	+2.16
Jobs program detail:			
Wages and overhead	9.40	11.01	+1.61
Administration	.50	.50	
Total	9.90	11.51	+1.9

Question. The Administration said prior to the enactment of the SSI program, it would have sufficient time to implement it when the Federal government took over the administration of the program. Do you still believe that the amount of time you have allowed for the Federal takeover under your proposal is sufficient—now that you are realizing the magnitude of the problem and given the history of Federal takeover and administration of SSI—or how much additional time do you believe will be necessary?

Answer. The implementation period provided in H.R. 9030 is 36 months after enactment. Given the substance of this bill, the required implementation tasks and the prior SSI experience, we believe that a 36 month period provides sufficient time for implementation.

While any specific time frames to implement the major reforms contained in H.R. 9030 are somewhat judgmental, our best planning efforts, which have enumerated the various tasks required, would indicate that this 36 month period is adequate to establish, test and implement the provisions of H.R. 9030. While not minimizing the problems with the implementation of the SSI program, there are some advantages we hope to have which we didn't for SSI. First, the SSI law, passed in October of 1972, required implementation in 14 months, whereas H.R. 9030 allows a full 36 months for implementation. Second, the implementation process for the SSI program was complicated by subsequent SSI legislation (P.L. 93–66) passed in July of 1973 which required major mid-stream modifications in SSI policy development, systems establishment and conversion of State records. Third, the experience gained with the SSI implementation in terms of planning, establishing priorities, time required to accomplish specific tasks and development of specific systems will make implementation of H.R. 9030 less difficult.

Question. In the Federal Register, Vol. 43, No. 12 of Wednesday, January 18, 1978, you granted temporary exemptions for case and dollar errors in the AFDC quality control system for the calendar year 1977. To quote from the Federal Register, your section on temporary exemptions was as follows:

"The term 'case error' shall not, for the purpose of this section, and through the period ending December 31, 1977, include errors which result solely from State's:

"(1) Failure to apply, or improper or incomplete application of the following provisions of the following sections of this chapter:

"(i) 45 CFR 232.10 Furnishing of Social Security numbers;

"(ii) 45 CFR 232.11 Assignment of rights to support;

"(iii) 45 CFR 232.12 Cooperation in obtaining support;

"(iv) 45 CFR 232.20(a)(3), regarding treatment of unemployed fathers; or

"(v) 45 CFR 232.100(a)(5)(ii), regarding application for, and acceptance of, unemployment compensation.

"(2) Treatment of child support collected and distributed under the State IV-D plan and support or contribution income received directly from a legally liable individual by the AFDC family after the recipient has assigned support rights to the State agency."

Your recent press release on AFDC quality control showed that for the period January through June 1977, there was an increase in payment errors from 8.5 percent to 8.6 percent, amounting to $440 million misspent in that period. Please furnish me a table showing, by State, the additional amount of dollars misspent because of each of the temporary exemptions.

Also, furnish for the record the total amount of dollars misspent by States if there had been no exemptions. The temporary exemptions for child support and AFDC applied to a law that was enacted in the 93rd Congress (P.L. 93–647)—over four years ago—and the other exemption on unemployment compensation applies to P.L. 94–566, enacted over a year ago, and regulations were issued by you in March of 1977 on this latter statute. What is the necessity for the exemption? Why were they issued now with a retroactive effect of a year or more?

Answer. The Quality Control (QC) waiver of errors associated with the implementation of Title IV-D Child Support Enforcement Program and related eligibility requirements encompassed five review periods beginning July-December 1975 and ending July-December 1977. The purpose of this waiver was to provide States sufficient time to fully implement the new requirements without incurring disallowances associated with the QC program. (Disallowance regulation was revoked March 1977). This waiver in no way exempted States from implementing the statutory and regulatory program requirements.

The IV-D program was a major Federal/State undertaking which affected many aspects of the eligibility and grant determination process for a large portion of the Aid to Families with Dependent Children (AFDC) caseload. It was a complex law which required legislative changes in many States. It was not possible to issue final regulations until a few days before the effective date, thus imposing unrealistic time frames for States to develop and issue policies, operational procedures and provide staff training. The following examples illustrate the many aspects of State income maintenance operations that were affected by the new IV-D provisions.

The law required that all adults and children in the AFDC program obtain social security numbers. This required establishment of detailed enumeration procedures with the Social Security Administration including contractual arrangements. As a condition of eligibility each applicant or assistance recipient was required to assign support rights to the State agency. This necessitated changes in State laws so States could accept assignments; convert support orders; screen caseloads for compliance; etc. Child support collection and disbursement procedures needed to be established and coordinated with the IV-D agencies. Additionally, throughout the first two years, as the State and Federal government gained experience with the program, policies and operating procedures were significantly modified.

In recognition of these operation difficulties, Congress provided a grace period until January 1, 1977 for States making a good faith effort to implement the IV-D program and thereby not subjecting States to the five percent penalty provided in the statute for failure to have an effective program. The QC waiver initially provided for a comparable grace period. It was later extended through December 1977 because States continued to experience operational problems. In addition, major policies impacting uniform program implementation remained unresolved, e.g., good cause for failure to cooperate in support activities, (regulation on this issued in Federal Register January 16, 1978) and protection against decrease in grants because of State collection of support payments.

The Quality Control waiver of errors associated with the implementation of P.L. 94-566, which added new requirements to the Aid to Families with Dependent Children of Unemployed Fathers (AFDC-UF) program encompassed two report periods; January-June 1977 and July-December 1977. The purpose of this waiver was to provide States time to implement these new provisions. While the disallowance provisions of QC had been revoked, higher error rates were anticipated in those States with AFDC-UF programs had the waiver not been provided. This would have unfairly reflected on the ability of States to manage their AFDC program. This waiver in no way exempted States from implementing the statutory and regulatory requirements.

The new AFDC-UF requirements were effective immediately, providing insufficient lead time for States to develop and issue policies and operational procedures, train staff, screen caseloads for compliance and negotiate with State Employment Service Agencies to perform clearance activities. The Department alerted States immediately of the statutory changes but implementing regulations were not issued until several months later.

We are unable to say what the amount of additional dollars QC would have reported as being misspent if there had been no exemptions. This is so because such data was not entered into the system. We did canvas the States to ascertain whether such information may be available.

The following 19 States had such data for the July-December 1977 period.

State	Cases	Payment
Rhode Island	22	$2,314
Vermont	3	148
New York	82	16,562
Virgin Islands	10	743
Delaware	10	450
Alabama	0	0
Florida	6	453
Georgia	16	1,405
Kentucky	0	0
Tennessee	7	730
Minnesota	4	566
Ohio	86	5,038
Louisiana	101	4,622
Oklahoma	0	0
Texas	134	1,576
Kansas	8	748
Missouri	6	802
Nebraska	4	308
Nevada	0	0

This data has not been verified by Federal re-review. Therefore, we cannot speak to the degree of consistency that existed in the application of IV-D policy among these States.

The Touche Ross report "Evaluation of AFDC-QC Corrective Action", which involved an intensive study of 15 States, estimates that 8 percent of the payment error decrease between April 1973 and June 1976 for these States was attributable to the Federal waiver of QC error associated with the implementation of IV-D of the Social Security Act. Again, these States were not selected as being representative of the nation, which limits the applicability of the finding to the 15 States studied including: Arizona, California, Florida, Illinois, Kentucky, Louisiana, Michigan, Nebraska, New Jersey, Oklahoma, Oregon, Pennsylvania, Tennessee, Utah and Washington.

Question. Please furnish for the record a list of States that were unable to implement those provisions to which each of the exemptions apply prior to January 1, 1977; June 30, 1977; January 1, 1978; by each of the exemption provisions.

If there are any States which have not implemented the requisite programs, by January 1, 1978, do you plan to have further exemptions?

Answer. We have not maintained records as to State implementation for each of the cited provisions by the dates set forth in your letter. The following comments on each of the provisions, however, should be of assistance.

The term "State implementation" raises some question as to its intended meaning. As you know, the State agency is required to submit plan amendments to cover new legislative provisions and regulation changes. It is well recognized that States need additional time to make change in the State plan fully operative. Depending upon the nature of the amendment, the additional time required for such a change may be six months or more. The time required depends upon whether procedural changes are necessary, whether systems changes are required and upon staff time required to implement changes on a case by case basis.

With respect to enumeration, a schedule was worked out between the States and the Social Security Administration to achieve an orderly completion of the workload generated by the enumeration requirement in the States and, more significantly, in the Baltimore office. Plans were made to train State staff in taking applications for social security numbers on the appropriate application form and in making verifications in accordance with Federal evidentiary requirements. Some States had staffing problems and required more time for implementation than others.

As of January 1, 1978, the job was completed, except for pending cases and court injunctions in several States. We expect that this will delay the compilation of numbers pertaining to children. We have no plans to initiate further exemptions. We are making plans to pursue vigorously the continuous enumeration process and to monitor State activities in this area.

With respect to sections 45 CFR 232.11 and 12, all States have Federally approved State plans in operation. However, full implementation of all provisions depended in part on the issuance of supplemental regulations. The regulation covering "good cause" was released only last month. Furthermore, States needed time to work out coordination between the organizational units covering Titles IV-A and IV-D. The same applied to the coordination necessary under the program for the treatment of child support collected and distributed under the State IV-D plan. States have implemented the provisions requiring unemployed fathers to apply for unemployment compensation.

Question. For what period, cumulatively, have each of these exemptions been in effect? Why have they been allowed to continue for so long without the provisions of the applicable statutes being implemented and without counting them as quality control errors?

Answer. The IV-D Quality Control waiver encompassed five review periods between July-December 1975 and July-December 1977. The unemployed parent program QC waiver encompassed the two six month review periods between January-June 1977 and July-December 1977. We explained our justification for the waiver in our response to question 4 above. It should be made clear, however, that the waivers apply only to the QC monitoring system, not to the statutory requirements. Statutory requirements cannot be waived by administrative regulations. Management systems that are established by regulation, however, can be modified or abolished by regulation as was done when we revoked the QC disallowance provision in March 1977 (CFR 205.41). For

QC to cite errors before a State has had adequate lead time to implement a program is not compatible with the purpose of this management system.

Question. Please furnish for the record a list of the AFDC caseload by States, with the numbers of recipients broken down by adults and children, and showing how many of each have Social Security numbers—by number and percent.

Answer. Attached are tables providing the information we received from most States regarding the number of AFDC recipients with social security numbers. While the report does not include all States, it does cover almost 100 percent of the AFDC cases.

TABLE 1.—NUMBERS OF AFDC CASES AND NUMBERS OF CASES IN WHICH NO RECIPIENT HAS A SOCIAL SECURITY NUMBER, BY STATE, DECEMBER 1977

State	AFDC cases	Cases in which no recipient has social security number
Alabama	56,770	[1] 2,554
Alaska	4,642	([2])
Arizona	17,939	0
Arkansas	29,832	500
California	498,399	([2])
Colorado	30,922	2,767
Connecticut	44,650	0
Delaware	10,856	217
District of Columbia	31,884	([2])
Florida	84,680	([2])
Georgia	81,457	([2])
Guam [3]	1,304	([2])
Hawaii	18,196	([2])
Idaho	6,878	0
Illinois	217,807	0
Indiana	52,748	0
Iowa	32,095	[1] 3,200
Kansas	27,231	[1] 5,400
Kentucky	61,185	([2])
Louisiana	64,007	9,000
Maine	19,918	[1] 300
Maryland	72,487	[1] 32,400
Massachusetts	123,101	1,000
Michigan	198 943	0
Minnesota	47,412	0
Mississippi	52,233	0
Missouri	73,103	([2])
Montana	6,116	33
Nebraska	12,004	[1] 150
Nevada	3,906	0
New Hampshire	7,815	0
New Jersey [4]	143,020	[5] 69,078
New Mexico	16,633	1,500
New York [6]	369,976	0
North Carolina	73,775	([2])
North Dakota	4,806	0
Ohio		
Oklahoma	28,580	0
Oregon	44,053	700
Pennsylvania	207,530	([1]) 881
Puerto Rico	43,470	([4])
Rhode Island	16,951	2,600
South Carolina	49,121	([2])
South Dakota	7,363	[1] 368
Tennessee	59,926	([2])
Texas	97,736	1,125
Utah	13,078	0
Vermont	6,297	0
Virgin Islands	1,148	0
Virginia	58,795	[7] 32,763
Washinton	[1] 49,527	[1] 2,476
West Virginia	21,667	([2])
Wisconsin	68,254	0
Wyoming	2,378	[1] 65

[1] Estimated.
[2] Not reporting.
[3] Data as of October 1977.
[4] Data as ff November 1977.
[5] Number of recipients.
[6] Data as of September 1977.
[7] Number of recipients, as of June 1977.

Source: DHEW regional offices. SSA/OFA, Division of Planning, Evaluation, anc Statistival Analysis.

TABLE 2.—NUMBERS OF AFDC ADULT RECIPIENTS AND NUMBERS OF ADULT RECIPIENTS WITH NO SOCIAL SECURITY NUMBER, BY STATE, DECEMBER 1977

State	Adult recipients	Adult recipients with no social security number
Alabama	45,944	2,067
Alaska	(2)	(2)
Arizona	13,645	(2)
Arkansas	23,464	500
California	460,152	(2)
Colorado	26,223	2,880
Connecticut	39,799	0
Delaware	9,102	22
District of Columbia	28,123	4,152
Florida	65,167	[1] 5,213
Georgia	56,307	(2)
Guam [3]	1,205	(2)
Hawaii	18,999	(2)
Idaho	6,589	0
Illinois	211,018	(2)
Indiana	43,684	(2)
Iowa	30,941	(2)
Kansas	20,160	(2)
Kentucky	49,763	[1] 25,000
Louisiana	53,175	7,900
Maine	18,976	[1] 300
Maryland	63,134	(2)
Massachusetts	118,803	[1] 1,000
Michigan	190,561	(2)
Minnesota	41,270	(2)
Mississippi	40,347	0
Missouri	61,710	[1] 200
Montana	5,182	28
Nebraska	10,262	(2)
Nevada	3,102	[1] 300
New Hampshire	7,185	0
New Jersey [4]	139,249	(2)
New Mexico	14,966	1,250
New York [5]	370,418	0
North Carolina	53,712	(2)
North Dakota	4,016	0
Ohio	163,175	(2)
Oklahoma	22,709	0
Oregon	[1] 42,964	0
Pennsylvania	206,772	(2)
Puerto Rico	51,149	0
Rhode Island	15,681	[1] 2,500
South Carolina	39,209	(2)
South Dakota	5,979	[1] 299
Tennessee	45,455	(2)
Texas	78,437	750
Utah	10,306	[1] 103
Vermont	6,474	0
Virgin Islands	705	0
Virginia	47,535	(2)
Washington	[1] 51,678	(2)
West Virginia	16,677	(2)
Wisconsin	59,768	(2)
Wyoming	1,705	0

[1] Estimated.
[2] Not reporting.
[3] Data as of October 1977.
[4] Data as of November 1977.
[5] Data as of September 1977.

Source: DHEW regional offices. SSA/OFA, Division of Planning, Evaluation, and Statistical Analysis.

TABLE 3.—NUMBERS AFDC CHILD RECIPIENTS AND NUMBERS OF CHILD RECIPIENTS WITH NO SOCIAL SECURITY NUMBER BY STATE, DECEMBER 1977

State	Child recipients	Child recipients with no social security number
Alabama	123,420	[1] 5,554
Alaska	(2)	(2)
Arizona	39,954	(2)
Arkansas	67,162	12,000

TABLE 3.—NUMBERS AFDC CHILD RECIPIENTS AND NUMBERS OF CHILD RECIPIENTS WITH NO SOCIAL SECURITY NUMBER BY STATE, DECEMBER 1977—Continued

State	Child recipients	Child recipients with no social security number
California	963,143	[2]
Colorado	61,738	6,430
Connecticut	95,997	
Delaware	22,434	195
District of Columbia	67,126	[1] 48,340
Florida	180,317	[1] 14,425
Georgia	162,542	[2]
Guam [4]	3,592	[2]
Hawaii	39,369	[2]
Idaho	13,920	0
Illinois	518,557	[2]
Indiana	113,476	[2]
Iowa	63,536	[2]
Kansas	52,092	[2]
Kentucky	123,145	[1] 18,500
Louisiana	157,435	23,000
Maine	40,961	[1] 4,000
Maryland	145,683	[2]
Massachusetts	249,010	[1] 52,000
Michigan	432,002	[2]
Minnesota	90,618	[2]
Mississippi	127,857	0
Missouri	155,433	[1] 1,500
Montana	12,257	5
Nebraska	25,014	[2]
Nevada	7,748	[1] 350
New Hampshire	15,439	0
New Jersey [5]	324,422	[2]
New Mexico	36,786	2,750
New York [6]	824,137	0
North Carolina	142,005	[2]
North Dakota	9,618	[1] 300
Ohio	360,941	[2]
Oklahoma	65,000	65,007
Oregon	[1] 79,503	[1] 15,900
Pennsylvania	438,204	[2]
Puerto Rico	132,033	0
Rhode Island	35,604	[1] 5,400
South Carolina	102,330	[2]
South Dakota	15,869	[1] 793
Tennessee	123,053	[2]
Texas	228,578	25,861
Utah	27,721	[1] 277
Vermont	12,838	0
Virgin Islands	2,996	0
Virginia	118,766	[2]
Washington	[1] 91,125	[2]
West Virginia	45,363	[2]
Wisconsin	137,240	[2]
Wyoming	4,553	[1] 150

[1] Estimated.
[2] Not reporting.
[3] Data as of June 30, 1977.
[4] Data as of October 1977.
[5] Data as of November 1977.
[6] Data as of September 1977.

Source: DHEW regional officers. SSA/OFA, Division of Planning, Evaluation, and Statistical Analysis.

TABLE 4.

A. States which use social security number as an AFDC case identifier:

Arizona, Idaho, Maine, Massachusetts, Montana, Nebraska, Utah, Vermont, Wisconsin, and Wyoming.

B. States which do not use social security number as an AFDC case identifier number, but which can access a case with the social security number:

Arkansas, Colorado, Hawaii, Illinois, Iowa, Kansas, Kentucky, Maryland, Michigan, Minnesota, New Jersey, New Mexico, New York, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Dakota, Texas, Virginia, Washington, and West Virginia.

Question. The attachment to your statement of February 7, 1978 provides a description of the Program for Better Jobs and Income. On page 2 of the attachment, you state, and I quote:

> Under the President's proposal, 36 million people would be eligible for jobs and cash benefits, 4 million fewer than are eligible under present law.
>
> Of those 4 million no longer eligible for cash assistance, some 1 million are AFDC recipients who now have high income—many at twice the poverty level—but who manage to stay on welfare because of its present rules.

For these 1 million AFDC recipients, please furnish for the record the number of such recipient by State, broken down by the rules which permit them now to qualify.

Please furnish for the record what changes in the rules should be made, and if necessary, what legislation should be modified, to remove these 1 million high income recipients from the rolls.

What additional recommendations have you submitted to Congress, or proposed for regulatory revision, to deal with this problem? (I am aware you have submitted a proposed revision in the earned income disregard; it continues, however, to enable high income persons to qualify, and Departmental opposition to my proposal on this subject-adopted by the Senate Finance Committee on two previous occasions—was central in its being removed from legislation last year.)

Answer. Attached is a table showing the estimated number of household units receiving AFDC who would become ineligible for benefits under the Program for Better Jobs and Income broken out by State. We do not know how each provision of the proposal affects this population. We obtain our data from the Survey of Income and Education which contains information on cash assistance received by each respondent in 1975. It contains no information on how the benefits received were calculated at that time. Similarly, our simulations of the impact of the proposal on the recipient population do not show incremental changes. Generally, the H.R. 9030 provisions which cause the major portion of this population to become ineligible are the Jobs program and the six month accountable period.

HEW has recently submitted several program revisions to Congress to address the problem of high income welfare recipients. In addition to supporting a revision in the earned income disregard for AFDC recipients, the Administration proposed a change in income eligibility for Food Stamps. Prior to the recently enacted Amendments to the Food Stamp Act, all recipients of public assistance were categorically eligible for Food Stamps. Under the Food Stamp Act Amendments, categorical eligibility has been eliminated. All public assistance recipients now obtain Food Stamp eligibility based on an income determination. In addition, the new Food Stamp Amendments lowered the eligibility cut-off to net income at the poverty level.

AFDC Recipients Ineligible for Federal Benefits Under H.R. 9030

State:	*Number of recipients (thousands of persons)*
Alabama	11.8
Alaska	1.4
Arizona	3.2
Arkansas	15.0
California	182.4
Colorado	16.8
Connecticut	10.0
Delaware	2.9
District of Columbia	7.1
Florida	18.9
Georgia	15.7
Hawaii	4.6
Idaho	2.9
Illinois	64.6
Indiana	16.4
Iowa	10.7

AFDC Recipients Ineligible for Federal Benefits Under H.R. 9030—Continued

State—Continued	*Number of recipients (thousands of persons)*
Kansas	12. 1
Kentucky	13. 2
Louisiana	4. 3
Maine	7. 1
Maryland	17. 5
Massachusetts	34. 3
Michigan	57. 8
Minnesota	13. 9
Mississippi	4. 6
Missouri	29. 6
Montana	2. 9
Nebraska	3. 2
Nevada	1. 4
New Hampshire	2. 5
New Jersey	33. 6
New Mexico	6. 1
New York	100. 7
North Carolina	15. 0
North Dakota	2. 1
Ohio	58. 9
Oklahoma	6. 8
Oregon	13. 2
Pennsylvania	53. 2
Rhode Island	5. 4
South Carolina	6. 4
South Dakota	2. 9
Tennessee	7. 5
Texas	23. 2
Utah	7. 1
Vermont	1. 8
Virginia	23. 2
Washington	22. 1
West Virginia	5. 4
Wisconsin	26. 1
Wyoming	1. 1
U.S. total	1, 010. 6

Question. What constitutes the other 3 million; what are the reasons in the new proposal that will make these 3 million ineligible (show by each of the provisions how many it will make ineligible); and what steps can you *now* take to end their eligibility?

Between now and the effective date of PBJI, how much will retention of these 4 million people (or a higher number, per year, if it is an annual figure based upon 1978 levels) on the rolls cost? What is the reasons why you cannot act now to resolve the problem described in this question and the previous one?

Answer. Under H.R. 9030, approximately 3 million persons now eligible for Food Stamps will not be eligible for benefits. Of these three million, approximately one million currently participate. The major reasons for this loss of eligibility are the longer accountable period and the higher tax rate on unearned income relative to that in the Food Stamp Program. The other two million who would become ineligible do not currently participate in the Food Stamp program.

We have calculated that the cost of current Federal benefits to the one million AFDC participants discussed above and the one million Food Stamp participants is approximately $700 million per year in 1978 dollars. We have assumed that the two million persons eligible for but not participating in the Food Stamp program will not participate between now and the time of implementation. If this is correct, there would be no cost associated with this population.

Question. You mentioned in your testimony that, by comparing Social Security numbers between States, operation MATCH had uncovered 13,584 cases found to be receiving welfare in more than one State, and that this is something the new plan can do but the present one cannot. In operating your MATCH program, how many cases per State did you find with duplicate Social Security numbers within the State itself, and how many between the States? Please furnish us with a list by State.

Answer. We have completed the computer comparison of the 26 welfare tapes received from the States for Project MATCH. In comparing these tapes, 13,584 cases which were originally matched indicated that duplicate payments may be involved. In reviewing the printouts from this first computer run, we found approximately 3,500 cases which had already been closed by the States. The final list which we are now passing on to the jurisdictions involved numbers 18,319 payments to approximately 9,150 individuals.

These cases must be investigated by each jurisdiction to determine with certainty those cases where duplicate payments are involved. The data is useful to the States in that it points out possible areas of program abuse.

We plan to accomplish an intra-jurisdictional comparison of State rolls in the near future. Duplicate records on an individual State tape may indicate that individuals are receiving duplicate payments from within the State—possibly from different counties. This information will also be forwarded to the States for their handling.

The listing of States and the total number of payments for each State where duplicate cases seem to be present is presented below for your information.

Analysis of inter-jurisdictional hits by State

State:	*Number*
Arkansas	256
California	1, 607
Colorado	165
Delaware	800
District of Columbia	600
Florida	1, 343
Georgia	1, 094
Illinois	603
Indiana	335
Kansas	1, 004
Kentucky	780
Louisiana	183
Maryland	1, 870
Massachusetts	353
Michigan	505
Minnesota	109
Missouri	473
New Jersey	1, 019
New York City	511
North Carolina	1, 261
Ohio	1, 302
Pennsylvania	1, 547
Rhode Island	61
Texas	90
Virginia	245
Washington	203
Total	18, 319

Question. Would you furnish for the record what IDEX is and how many States are using it? Why is it this system cannot be used as an ongoing feature of the present program to do what operation MATCH has done?

Answer. The Interjurisdictional Data Exchange System (IDEX) is a series of computer programs and administrative procedures which provide the State welfare agency with an increased capability to compare, via computer, the State welfare rolls with other automated systems such as Unemployment Compensation payment rolls, State or Federal earnings rolls, and welfare rolls from other jurisdictions. The system consists of a series of 10 separate processing modules which may be used by the state regardless of the organization of the welfare system (centralized or county administered system), and without requiring that the welfare files be totally automated.[1] For your information, a copy of the IDEX manual is attached. This document consists of 3 parts: an administrative guide which addresses the system's origin, development, scope, benefits, user requirements, and general design; a technical guide which sets forth the information necessary for the administrative and technical operation of the system; and a training guide which contains material sufficient to form the basis of a training course on the system.

Two States and the District of Columbia have indicated that they are using the IDEX system. However, 32 states have indicated that they are using one or more facets of the IDEX concept, and simply calling the new system by some other name. These states are using computer systems and the matching of computer files to verify income and uncover duplicate payments. While these states may not actually be using the IDEX system, they are nonetheless achieving the same results. We are now completing our analysis of the wage/income verification data exchange systems the States are using. We will be pleased to forward this analysis to you for your information.

The ability of the States to perform a match with Federal civilian and military employees such as was accomplished in Project MATCH is not dependent so much on their technical ability with computers as it is in gaining access to the personnel files from the Civil Service Commission and the military. Even those States which process their AFDC cases against their own State Unemployment Compensation rolls will not be able to match Federal or State employees. These categories of employees are not generally covered by State unemployment insurance and do not have wages reported through these State systems. However, data exchange systems such as IDEX can be productively used by the States to expand income verification into the private sector. The recent Social Security Amendments (P.L. 95–216) provide that States be given wage data from both State Unemployment Compensation agencies as well as the Social Security Administration. This increased ability of the States will, we feel, greatly aid in their fight against fraud and abuse in the welfare system.

Question. Please furnish us a list of the States in which operation MATCH was conducted. Why wasn't it conducted in all the States? What are plans for making this a permanent, integral part of the present welfare system?

Answer. Project MATCH was designed to be implemented in two phases. The first phase was to consist of those states (or jurisdictions) which had large population groups of Federal employees and welfare recipients. In addition, a few states requested that they be included in the first phase of the project. The states (and jurisdictions) included in the first phase of the Project MATCH are as follows:

Arkansas
California
Colorado
Delaware
District of Columbia
Florida
Georgia
Illinois
Indiana
Kansas
Kentucky
Louisiana
Maryland
Massachusetts
Michigan
Minnesota
Missouri
New Jersey
New York (New York City only)
North Carolina
Ohio
Pennsylvania
Rhode Island
Texas
Virginia (Northern Virginia and Norfolk counties)
Washington

[1] This was made a part of the official files of the Committee.

The states listed above constitute over 78 percent of the AFDC population and 72 percent of the Federal civilian employee population. The project was divided into two phases to allow for a reliable sample of cases without straining Federal agency and state resources. Secretary Califano has announced that the remaining states will be included in Project MATCH within 90 days.

The present plans for developing a national data base for AFDC would allow for future computer matching projects such as Operation MATCH. With the new system it would not be necessary to request State AFDC tapes, information on all AFDC cases would be available on file at the national level. Plans to make this project a permanent feature of the present welfare system will be based on a full evaluation of Project MATCH.

Question. How were asset limits established in the Program for Better Jobs and Income?

Answer. The asset test in the Program for Better Jobs and Income is designed to assure that persons with low income but substantial assets, such as a bank account, do not receive a benefit. The basic asset limitation was developed to prohibit household units whose non-business assets exceed $5,000 from receiving benefit payments. The following items are excluded from non-business assets:

The home, if it is the unit's place of residence.

Household goods and personal effects (including vehicles and tools and similar items necessary for employment) up to limits prescribed by the Secretary.

Burial plots, or savings for burial expenses within limits to be defined by the Secretary.

In addition, the unit's monthly income is increased by 1.25 percent of the value of its non-business assets over $500, and by .83 percent of the value of its business assets (the annual imputation rates being 15 and 10 percent, respectively). In order to avoid double counting, amounts of imputed income are reduced by income actually derived from those assets. The value of non-business assets is measured by market value.

The limits on business assets prohibits benefit payments to a household unit whose business assets exceeds a limit to be set by the Secretary. The value of business assets is measured by equity (i.e., market value minus encumberances).

If a member of a unit disposes of an asset, the value received is considered an asset and is not treated as income. If an excluded asset (other than burial expense saving) or a business asset is disposed of, the proceeds will not be treated as income or assets for six months in the case of a home, or for one month in the case of other assets. This will allow the unit to purchase another home or car without having its payments interrupted. After six months, the Secretary is to apply the usual asset limits and exclusions to determine whether the household unit continues to meet the assets test.

The imputation method was chosen because it has a more gradual impact. It effects families with less than $5000 of assets and phases benefits down, up to $5000 of assets. Thus, a system where benefits drop off suddenly for families above a certain asset limit is avoided.

Question. The Congress has been concerned over the years that HEW regional offices gave different interpretations of current law and regulations pertaining to the welfare programs. The Social and Rehabilitative Service under the prior Administration established a corrective action system to eliminate these regional variances. The system required that when any region made an inquiry concerning the meaning of any rule, regulation, or law, or concerning the effect of a proposed or current State plan provision, a determination was made as to its character as a possible precedent and whether it affected more than one State. If it did so, it became a Policy Interpretation Question, commonly referred to as a PIQ, and the reply was sent to all regions for notification to all States. It is my understanding this system has been suspended and has not been in effect ever since the sudden transfer of SRS to SSA last spring.

What methods have you used in the interim, and what do you plan to use in the future, so that regional variations will not recur, posing possible continuing legal problems for HEW in AFDC?

Answer. The PIQ system was not continued by the Office of Family Assistance after dissolution of the Social and Rehabilitative Service because it was found to be unwieldly and did not provide a uniform system to advise the States. Policy questions of a routine or trivial nature were introduced into the system so that it included some unnecessary information. Under this system, States and other interested persons did not automatically receive the interpretations and the Regions made use of the information as they considered appropriate. Efforts to systematize the PIQ's were not successful enough to provide assurances that the same question might not be answered differently in different regions.

Now when a new interpretation is given which is not previously contained in an official issuance, we develop a "Program Instruction" which is cleared by the Office of the General Counsel for its legal correctness and the interpretation is sent to all States, Regions, and other constituents. In this way, policy interpretations are given directly to all interested parties in a systematic way that can be tracked. We believe that this new method of giving policy interpretations is more effective and useful to the public than the prior PIQ system and does not sacrifice any essential program information.

Question. Please furnish for the record copies of all correspondence that you have used to date in view of the PIQ system (other than Action Transmittals and Information Memoranda), as well as the numbers, dates, and titles of the Action Transmittals and Information Memoranda affecting the AFDC program since the date of the last PIQ.

Answer.

Hon. CARL T. CURTIS,
U. S. Senate, Washington, D.C.

DEAR SENATOR CURTIS: In your letter to Secretary Califano of February 16, requesting information concerning the Administration's welfare reform proposal, you asked that HEW furnish for the record copies of all correspondence that we have used to date in lieu of the PIQ system (other than Action Transmittals and Information Memoranda). You also asked for the numbers, dates, and titles of the Action Transmittals and Information Memoranda affecting the AFDC program since the date of the last PIQ.

As I indicated in my April 11 response to your letter, the PIQ system was discontinued by the Office of Family Assistance because it did not provide a uniform system to advise the States. We also found that the system contained a great deal of unnecessary information, making it unwieldly. Now when a new interpretation is given which is not previously contained in an official issuance, a "Program Instruction" is sent out to all States, regions, and other interested parties.

Attached, per your request, is a list of Action Transmittals (Attachment A) and a list of Information Memoranda (Attachment B) issued by the Office of Family Assistance. Attachment C is a copy of the only Program Instruction which has been issued since the last PIQ.

I am sorry for the delay in responding to this question. If you have any further questions or comments, please do not hesitate to contact me.

Sincerely,

HENRY AARON,
Assistant Secretary for Planning and Evaluation.

ACTION TRANSMITTAL—TABLE OF CONTENTS

Issuance No.	Subject	Date
AT-77-60(APA)	AFDC-Foster Care	July 12, 1977
AT-77-53(APA)	Emergency Jobs Program Extension Act of 1976 implications for AFDC applicants and recipients and public assistance agencies.	May 16, 1977
AT-77-55(APA)	Adjustment of Federal claims to exclude individual overpayments and payment to ineligibles.	May 17, 1797
AT-77-59(APA)	Disregard of judgment payments to Ottawas; housing payments to public assistance recipients.	May 24, 1977
AT-77-1	Extension of the earned income credit under the Tax Reduction and Simplification Act of 1977.	July 12, 1977
AT-77-2	AFDC quality control—Review of certain basic program elements for purposes of QC error determination.	July 26, 1977
AT-77-3	Quality control review of negative case actions—Titles I, IV-A, XIV, and XVI (AABD).	Aug 4, 1977
AT-77-4	Special crisis intervention program implications for AFDC applicants/recipients and public assistance agencies.	Aug 5, 1977

ACTION TRANSMITTAL—TABLE OF CONTENTS—Continued

Issuance No.	Subject	Date
AT-77-5	English language and employment services for adult Indochinese refugees: Change in guidelines for existing projects.	Aug 12, 1977
AT-77-6	State employment security agencies to supply data to assist in the administration AFDC and child support programs.	Sept 27, 1977
AT-77-7	AFDC quality control—Changes in section 3 of the Quality Control Manual to conform to the regulation.	Sept 16, 1977
AT-77-8	Change of mailing address	Nov 1, 1977
AT-77-9	AFDC-Foster Care: Federal reimbursable cost items for AFDC-FC children in private nonprofit child care institutions.	Nov 4, 1977 Dec 15, 1977
AT-77-10	Disregard of income under title III, pt. C, of the Comprehensive Employment and Training Act of 1973, Public Law 93-203, youth employment demonstration program.	Nov 29, 1977
AT-77-11	Indochinese refugee assistance program, program changes under Public Law 950145.	Dec 2, 1977
AT-77-12	AFDC quality control—Manual changes	Dec 7, 1977 Dec 22, 1977
AT-77-13	AFDC quality control: Form SRS-QC 341.3A, table 3A. AFDC quality control total number of error cases and error payments by primary element in error and type of error.	Do.
AT-78-1	AFDC quality control—Revision of the quality dontrol review cycle; termination of the temporary exemptions for IV-D and unemployed father related errors.	Jan 18, 1978
AT-78-2	Good cause for refusing to cooperate in child support enforcement program	Feb 1, 1978
AT-78-3	Action transmittal 77-9, dated Nov. 4, 1977—AFDC-Foster Care: Federal reimbursable cost items for AFDC-FC children in private nonprofit child care institutions.	Do.
AT-78-4	AFDC quality control—Modification in sampling procedures	Do.
AT-78-5	Dissemination of information on public assistance	Mar 2, 1978
AT-78-6	Cuban refugee program—Program changes under phasedown	Mar 14, 1978
AT-78-7	Reconsideration of disallowances	Mar 6, 1978
AT-78-8	Federal financial reimbursement for activities in investigation of alleged welfare fraud.	Mar 16, 1978
AT-78-9	Waiver, for good cause, of requirement that applicant or recipient cooperate in establishing paternity and securing support for a child for whom AFDC is claimed.	Mar 23, 1978
AT-78-10	National immunization program	Mar 27, 1978
AT-78-11	Emergency energy assistance program (EEAP) implications for AFDC—Applicants, recipients, and public assistance agencies.	Apr 3, 1978
AT-78-12	English language and employment services for Indochinese refugees: Availability of funding.	Mar 22, 1978
AT-78-13	Good cause for refusing to cooperate	Apr 5, 1978
OFA-77-1	Characteristics of State plans for aid to families with dependent children under the Social Security Act, Title IV-A: Need, Eligibility, Administration: 1976 Edition (publication).	Sept 6, 1977

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE,
SOCIAL AND REHABILITATIVE SERVICE,
Washington, D.C., January 3, 1977.

INFORMATION MEMORANDUM SRS-IM-77-1

To: State administrators and other interested organizations and agencies.
Subject: Availability of Films, Update—"Essential Elements of Interviewing."
Content: As part of its efforts to provide technical assistance to the States toward the improvement of program management, the Assistance Payments Administration, with the assistance of Blackside Inc., has developed a series of films on interviewing for eligibility determination. The purpose of the films is to provide a basis for discussion in training sessions of interviewing skills to achieve more effective communications with applicants and recipients. These films were first made available through SRS IM 75-13 dated August 5, 1976.

We have now added a film on child support so that there are now seven color reels varying in length from eight to 22 minutes, illustrating interviewing scenes with applicants and centered around problems of continued absence, incapacity, availability of other resources, child support and of language barriers. A brief description of each scene is given on the attached sheets. Different interviewing techniques are portrayed in diverse situations. These portrayals are designed to assist trainers in training programs for income maintenance staff.

The goal of the films is to make interviewers become aware of how interviewing techniques affect whether or not they get the information required to correctly determine an applicant's eligibility.

A training guide and a supplementary guide for film #7, "My Husband Stopped Support Payments" have been prepared to accompany the series of films. The guides contain information about the films, the use of the Guide, a general discussion of interviewing and of the script, and a set of suggested questions related to each film. It is recommended that the films not be used separately, but as an integrated series since they, along with the Guide, complement each other in illustrating different interviewing situations.

Trainers planning to use the films may find it advantageous to utilize the recently issued APA publication, "Interviewing for Eligibility Determination" (SRS 75-21229) as an additional reference source on interviewing to supplement techniques highlighted in the film series.

The 16 mm color film package is available for purchase or loan from the National Audio-Visual Center. The purchase price is $461.13 for the complete set of seven films. This cost is matchable as training costs. Rental of the films involves no charge.

The films can be purchased or loaned by addressing the completed order form attached to: Order Section, National Audio-Visual Center, National Archives GSA, Washington, D.C. 20409.

The publication "Interviewing for Eligibility Determination" (SRS 75-21229) is available from: SRS Publications, Distribution Center.

Supersedes: SRS-IM 75-13, APA dated August 5, 1975.

Inquiries to: SRS Regional Commissioners.

NICHOLAS NORTON,
Commissioner, Assistance Payments Administration.

ORDER FORM

"ESSENTIAL ELEMENTS OF INTERVIEWING"
16 mm Color Sound Films

For Free Loan

Preferred showing date: ______________________________

Alternate date: ______________________________

1st available date (check)______________________________.
(NOTE: Please allow at least 2 weeks for delivery of film)

For Purchase

No. of Prints______ @ $461.13 for the 7 reel package.

(This represents a 10% discount from the total price of $501.25 if the seven reels are ordered individually. The price includes shipping cartons and postage in U.S.)

Total cost $ Form of payment enclosed__________

(NOTE: Allow 1 month for delivery)

Make purchase order, check, or money order payable to:GSA-NAVC

Name :______________________________

Organization: ______________________________

Address :______________________________

Phone No.(Area Code)______________

Mail to:

ORDER SECTION
NATIONAL AUDIO-VISUAL CENTER, GSA
WASHINGTON, D.C. 20409

U.S. DEPARTMENT OF HEALTH, EDUCATION AND WELFARE
Social and Rehabilitation Service
Assistance Payments Administration

Interview #1—"My Husband Left Out On Us." (22 min. 33 sec.)

Anderson-Nelson

The Anderson-Nelson interview is concerned with the determination of whether desertion has actually occurred. Mrs. Anderson is a woman in her mid-thirties, who has six children, and whose husband has left the family several times before.

What Ms. Nelson has to determine is whether Mr. Anderson has left the family for good this time. She also needs to determine even if desertion has occurred, whether Mrs. Anderson is eligible for benefits.

The purpose of this interview is to determine if desertion has occurred.

Interview #2—"It Was A Freak Accident During A Break At Work." (10 min. 30 sec.)

Schoenberg-Tracy

The interview between Mr. Schoeberg and Mr. Tracy concerns itself with a man who has suffered an injury while playing football during a break at work.

He has come to the agency to apply for assistance for himself and his family during his incapacity.

The eligibility worker has the responsibility of getting sufficient information to determine the applicant's eligibility based on incapacitation.

The purpose of this interview is to obtain sufficient information to determine applicant's eligibility based on incapacity.

Interview #3—"IN SEARCH OF HELP: WELFARE OR SURVIVORS' BENEFITS." (11 min. 55 sec.)

Deverre-James

The interview, which deals with the determination of alternative financial resources available to an applicant, shows a woman, recently widowed, who has come to apply for aid. Her deceased husband had been employed as a brick-layer and was a union employee. Mrs. James, the applicant, has received an insurance settlement and owns real estate.

The purpose of the interview is to determine if there are supplementary financial resources and if they are available to the applicant.

Interview #4—"I JUST WANT TO LIVE WITH MY KIDS LIKE I USED TO" (10 min. 11 sec.)

Schoenberg-Clifton

The Schoenberg-Clifton interview focuses on determining if desertion has occurred. It also deals with a special circumstance. Mrs. Clifton is a woman in her mid-thirties, with six children. Her husband left the family three weeks prior to her applying to welfare. She expressed some fear of her husband's temper and is apprehensive about his having to be notified that she has applied for aid.

The purpose of this interview is to determine if desertion has occurred and to refer situation to the location and support unit.

Interview #5—"I'M SORRY I NEED YOUR BROTHER'S ANSWER SO COULD YOU TRANSLATE?" (18 min.)

Nelson-Ortiz

Although there are two aims in the interview between Ms. Nelson and Mr. Ortiz, determination of other resources to which the applicant might have access and determination of eligibility for AFDC benefits, the underlying theme of this interview is the language barrier which exists between the worker and the man applying for aid.

The suggested questions for discussion after the film deal with this problem along with the eligibility questions. It might be useful if the instructor spent more time on the language question, because of its possible relevance to determining eligibility in any of the high risk areas.

The purpose of this interview is to determine Mr. Ortiz' eligibility for financial assistance and whether he has other resources available. However, the underlying theme is the language barrier and how it affects the interview and the family. Values of non-verbal communication and of observation during interview are stressed.

Interview #6—"EVERY STATE IS DIFFERENT: CHILD SUPPORT OFF AND ON" (16 min. 30 sec.)

Deverre-Morris

A divorced woman, who has been on welfare in another State is applying for assistance. She is receiving sporadic support from her ex-husband and she has five children. Her 16 year-old son has dropped out of school.

There are subtle implications in this film that Mrs. Morris may be employed. She also seems to be somewhat hostile. Participants should be encouraged to think about how to deal with hostility; a suspicion of information being withheld determining the ex-husband's payments and referral procedures.

The purpose of this interview is to determine if Mrs. Morris's income is such that she is eligible for financial assistance.

Interview #7—BAKER-BOWER (21 min. 18 sec.)

Baker-Bower

Tee Baker-Bower interview focuses on the welfare regulations that deal with the area of child support and highlights the responsibility of the clients and the agency.

Mrs. Bower is a woman with six children whose husband has left the family for the first time. She is applying for assistance. Mrs. Baker, the intake worker is responsible for obtaining from Mrs. Bower the information which is used to determine whether the family is eligible for assistance. Mrs. Baker also must make sure that Mr. Bower understands the regulations governing assistance that are applicable in her case.

The purpose of the interview is to obtain eligibility information from the applicant and explain agency regulations particularly in reference to the eligibility requirements related to child support enforcement.

Question. Supply for the record your best estimates of the cost of the changes in H.R. 9030 made by the House Subcommittee on Welfare Reform.

Answer. In Fiscal Year 1982, we estimate the net cost of H.R. 10950, including EITC benefits to non-recipients of cash assistance, to be $14.44 billion. The comparable cost of H.R. 9030 is $12.89 billion, for a difference of $1.58 billion. (The comparable figures excluding EITC benefits to non-recipients of cash assistance would be $13.3 billion, $9.11 billion, and $4.19 billion respectively.) These numbers differ from the FY82 costs of H.R. 9030 that appear in the President's FY79 Budget. The Budget indicates a net cost of $8.77 billion which reflects less-than-full implementation of the jobs program and a different way of accounting for the Earned Income Tax Credit (which is included in the Budget on a disbursed basis).

During January of 1978, before the mark-up of the jobs portion of H.H. 9030 and before final amendments to the cash portion, HEW developed estimates of the costs of many of the individual changes made by the Subcommittee. These are no longer fully accurate because of subsequent changes made by the Subcommittee on Welfare Reform. Nevertheless, they provide some information on the incremental costs of various Subcommittee actions and have been attached for your information.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
OFFICE OF THE SECRETARY
Washington, D.C., January 24, 1978.

COST SHEETS FOR DECISIONS OF THE SUBCOMMITTEE ON WELFARE

On December 16, 1978, the Welfare Reform Subcommittee completed preliminary decision-making on the basic concepts in the cash component of the Administration's Welfare Reform Proposal—H.R. 9030, The Better Jobs and Income Act. The attached sheets provide estimates of the cost and caseload effects of the decisions of the Welfare Reform Subcommittee.

COST SHEETS

Subject

Notes: Cost Sheets for Decisions of the Subcommittee on Welfare Reform
Single Individuals under 25
Coverage of Residents of Public Institutions with Fewer than 16 Beds
Household Benefit Increments—$800 Reduction
Limit on Family Size
Child and Student Earnings
Earned Income Deduction for Aged, Blind, and Disabled
Accountable Period
Assets Test
Benefits to the Disabled
State Supplements
Permanent Hold Harmless
Grandfathering of General Assistance Recipients
State Administrative Costs for Grandfathering
Medicaid Administrative Costs in Hold Harmless
Administrative Cost Implications: Federal Retention of Administration for the Aged, Blind, and Disabled; State Option for Full Administration
Administrative Implications of Subcommittee Actions
Treatment of Food Stamp Bonus Value by In-Kind Programs
EITC
Taxation of Benefits and Elimination of Reimbursement
Administrative Cost Implications: Medicaid
FY78 Net Federal Costs of Subcommittee Bill

NOTES: COST SHEETS FOR DECISIONS OF THE SUBCOMMITTEE ON WELFARE REFORM

The attached sheets provide estimates of the cost and caseload effects of the decisions of the Welfare Reform Subcommittee, through December 16, 1977. The analyses are based upon Subcommittee actions reported in Welfare Reform Subcommittee, Summary of Decisions as of December 16, 1977.

The format of the sheets is as follows:

A brief statement of the Subcommittee provision, with citation to Summary of Decisions.

A brief statement of the relevant provision or position of H.R. 9030, with a citation to H.R. 9030.

Cost and caseload estimate, with explanation following. Federal costs include Federal benefit payments plus Federal subsidy of State supplements plus Federal hold harmless payments to States. Wherever appropriate, costs to States are provided separately. In general, the State costs are developed in the same manner as the Federal costs, and no separate explanation is needed.

The following points regarding these estimates should be noted:

Cost and caseload changes refer to fiscal year 1978.

Each sheet(s) refers to a separate Subcommittee action and should be interpreted as the difference between the cost of H.R. 9030 as submitted by the Administration and that of H.R. 9030 with that one feature changed. The final sheet will present estimates for the entire Subcommittee version of H.R. 9030. The effect on net Federal costs of the Committee bill differs from the sum of the individual changes because of the interaction of the various changes.

We have assumed that the Food Stamp program is terminated. If a Food Stamp program were to remain for those ineligible for H.R. 9030, several of the cost impacts would be changed. For example, the savings of denying eligibility to single individuals under 25 would be reduced to a fraction of the savings we have estimated.

No account is taken of the impact of the Subcommittee's changes on the demand for special jobs and training slots. Raising benefit reduction rates will affect the demand for subsidized jobs and training slots. On the one hand, the higher rates affect the total amount of work effort supplied by recipients of cash assistance. Higher benefit reduction rates may also affect the demand for PSE jobs by decreasing the economic rewards from changing one's job status. In other words, workers may need a certain minimum change in disposable income to induce any change in job status. Increasing benefit reduction rates reduces the difference in net income between two jobs with different wage rates. The higher the benefit reduction rates, the smaller the difference in net income that results from a given wage increase. For example, to achieve a $10 increase in earnings after taxes, a worker must earn $20.83 before taxes if the tax rate is 52%. To achieve the same increase in after-tax earnings with an 82% tax rate, a worker must earn $55 before taxes. An increase in the benefit reduction rates affects the demand for job and training slots in two ways. First, fewer people are estimated to leave their private jobs to take a special public job. Second, few PSE job holders will leave PSE to take private sector jobs with higher wages. As more and more workers experience a spell of unemployment, the second effect—the longer stay in the PSE job—will predominate. As high benefit States move towards 70% benefit reduction rates for all families, the ultimate effect, assuming all workers eventually experience a spell of unemployment, would be an increase of about 200,000 to 250,000 slots if workers require $10 per week additional income to induce them to change jobs. This would add about $1.4–$1.8 billion to the cost of the jobs program. How soon this cost impact would be felt is not known, but could take several years and is the subject of further study.

Several of the individual changes made by the Subcommittee reduce work effort—and, as a result, increase program cost—and are, to an extent, already included in the cost estimates. For example, we estimate that aggregate hours worked could be as much as 480 million less under the Subcommittee's State supplement provision than under the Administration proposal. As a result of the consequent earnings decline, Federal cash assistance increases by $300M. Because of the decrease in earnings, the increase in disposable income is only 70% of the increase in cash assistance outlays.

However, some possibly substantial affects are not taken into account. For example, because of limitation in knowledge and time we have not been able to take account of work effort reductions resulting from a shorter accountable period (which makes more persons eligible). Nor have we been able to account for persons with incomes above program eligibility ceilings who reduce earnings to attain eligibility. This latter effect, always present, is exacerbated by the Subcommittee actions that raise program benefits and benefit reduction rates (e.g., the provisions providing Federal subsidy of higher State supplements and permitting States to set benefit reduction rates up to 70 percent). In addition, high benefit reduction rates create greater incentives to under-report income. The estimates of increased costs presented here would therefore be higher if the above-mentioned factors were taken into account.

Certain Subcommittee actions have the effect of increasing work effort. For example, the change in the EITC reduces the number of recipients with income above the cash assistance eligibility limits and, as a result, the number of persons who might reduce work effort as a result of receiving the EITC. The Subcommittee changes in the asset test have a similar effect.

Since, as explained above, we have not estimated the effects of many Subcommittee actions that reduce work effort, it is not possible to develop a final balance. However, it is fair to conclude that the overall impact of the Subcommittee changes would be to reduce substantially work effort.

SINGLE INDIVIDUALS UNDER 25

Subcommittee Provision.—Requires single individuals under 25 to file with their parents in order to receive benefits. [Welfare Reform Subcommittee "Summary of Decisions as of December 16, 1977" Item II 1(d)].

H.R. 9030 Provision.—Allows single individuals who do not live with their parents or other relatives to file separately for benefits. (Sec. 2101).

Cost change.—Savings of $400 to $500 million, Federal Benefits. State savings: $38 to $48 million.

Caseload change.—Reduction of 650,000 to 850,000.

Explanation.—If all single individuals under the age of 25 were to be excluded from receiving benefits because they did not file with their parents, the cost of Federal cash benefits would decrease approximately $630 million and caseloads decrease by 1.06 million. Two factors would reduce the number of single individuals made ineligible by this provision: (1) those that file separately due to death or institutionalization of both parents; and (2) those who would choose to file with their parents. Because we estimate a cost change in the range of $400 million to $500 million due to 650,000 to 850,000 singles under 25 not filing for benefits with their families would be required to do so.

COVERAGE OF RESIDENTS OF PUBLIC INSTITUTIONS WITH FEWER THAN 16 BEDS

Subcommittee provision.—Allow the payment of benefits to aged, blind, or disabled persons residing in public group homes with less than 16 beds as provided under the present Supplemental Security Income program. [Welfare Reform Subcommittee "Summary of Decisions as of December 16, 1977, Item II. 2(a)].

H.R. 9030 provision.—No comparable provision exists.

Cost change.—+ $8.7 million Federal; + $0.5 million State.

Caseload change.—+ 4,950 people.

Explanation.—The purpose of this provision is to provide cash assistance to aged, blind, or disabled persons in public institutions who are not eligible for benefits under Medicaid. Estimates indicate that in 1976, there were roughly 4,950 residents of public institutions with less than 16 beds who were not receiving Medicaid. Assuming: (1) no significant growth in this population; and (2) all such residents would be eligible for benefits, this estimate yields an estimated caseload increase of 4,950. Multiplying this number by an estimated average benefit of $1750 yields a total Federal cost of roughly $8.7 million, and assuming an estimate of increased State costs of roughly $500,000.

HOUSEHOLD BENEFIT INCREMENTS—$800 REDUCTION

Subcommittee Provision.—Eliminate any reduction in benefits when one eligible unit (family with children or aged, blind, or disabled unit) shares a household with another eligible unit. Reduce benefits by $800 in the case of one eligible unit sharing a household with an ineligible unit even if the units are not related, unless the eligible unit pays rent or a pro rata share of the cost of maintaining a household. [Subcommittee on Welfare Reform "Summary of Decision as of December 16, 1977" item III 2(d)].

H.R. 9030 Provision.—Reduce benefits by $800 in the case of two related eligible units sharing a household. Where two related eligible units share ownership or household rights in a household, reduce the annual benefit to each by $400. (Sec. 2105(c)).

[Dollar amounts in millions]

	Federal cost	State cost
Cost change:		
Remove the relationship test	−$170	−$70
Add back eligibility test	+220	+100
Subcommittee provision	+50	+30
Certification of economic status	150–250	
Total	+200–300	

Caseload Change.—Negligible.

Explanation.—Estimating the cost of this provision involved three steps. The first step was to remove the relationship test in the reduction of benefits under H.R. 9030. This would increase the number of recipients whose benefits would be reduced due to sharing a household and decrease the cost of Federal cash benefits by $170.0 million.

The second step involved adding back an eligibility test (i.e., reducing benefits only where the household head is not eligible), decreasing the number of persons sharing households whose benefits would be reduced. This test would increase the cost of Federal cash benefits over H.R. 9030 by $220 million. The net result of these two steps is an increase in Federal cash benefits of $50 million.

The final step was to include a provision for certification that rent or a pro rata share of household expenses has been paid (in which case there would be no reduction). If all individuals sharing households were to be so certified, the cost of Federal cash benefits could increase $1.36 billion over H.R. 9030 or $1.29 billion over the net increase shown above. However, it is highly unlikely that all persons sharing households would successfully certify that they were paying a pro rata share of expenses.

Unfortunately, the only program with such a provision, SSI, does not keep data on the number of recipients who successfully certify separate economic status. Our computer simulations indicate that 15% of SSI eligibles live in the household of another, thus supplying an upper bound to the one-third benefit reductions in SSI. SSI program experience, however, is that 10% of recipients have a one-third reduction made in their benefit. This suggests that the maximum impact of the certification of separate economic status in SSI is to reduce the savings of the ⅓ reduction by 33 percent. This would indicate a maximum cost of adding this provision to H.R. 9030 of .33× 1.3B = $430M. The other 5%, however, is a combination of successful certification and a variety of other explanations such as non-participation. Our judgment is that this provision would increase Federal cash benefits by $150M—$250M.

LIMIT OF FAMILY SIZE

Subcommittee Provision.—No limit on family size for the purpose of determining basic benefit levels (benefits at zero income). [Welfare Reform Subcommittee "Summary of Decisions as of December 16, 1977 item II. 2.(c)]

H.R. 9030 Provision.—Limit of seven persons in determining a family's basic benefit level. (Sec. 2105 (c) (2)).

[Dollar amounts in millions]

	Federal cost	State cost
Cost change:		
Basical benefits	+$260	$30
State supplements		30
Total	+260	60
	Units	People
Caseload change	+40,000	+400,000

Explanation.—About 220,000 families receiving H.R. 9030 benefits receive less as a result of the limit on family size than they would if there was no such limit. In addition about 40,000 units are made ineligible. Since the average size of these affected units is just under nine, the benefit loss is about $1,000 unit. Thus the total cost of removing the limit is about 260,000 units×$100 per unit=$260 million.

Reducing the benefit level above the seventh person to $300 per year would cut the additional costs of this change in half—i.e., to approximately $130 million.

JANUARY 19, 1978.

CHILD AND STUDENT EARNINGS

Subcommittee provisions.—Within a family unit, exclude earned income of children under the age of 14 and earnings of students between 14 and 18, and earnings actually applied to the cost of education for full or part-time students between 18 and 25 years of age. [Welfare Reform Subcommittee "Summary of decisions as of December 16, 1977" item VII 2.]

H.R. 9030 provision.—Include all earned income of a family unit in the determination benefits. (Sec. 2106).

[Dollar amounts in millions]

	Federal cost	State cos
Cost change:		
Federal benefits	$210	$30
State supplements	20	20
Total	230	50

Caseload Change.—300 thousand people.

Explanation.—Because of limitations in the available data, these cost and caseload estimates are based on the assumption that all individuals between the ages of 14 and 18 are students and all individuals between the ages 18 and 25 are not students. Under these assumptions, earnings of some individuals, 14–18, who are employed full-time will be disregarded. On the other hand, no account is taken of earnings of students, 18–25 years old. We believe that the over- and underestimates may about balance. Since the student's earnings in the 18–25 age bracket are limited by actual education expenses, we think $230 million is more likely to be an overestimate of the additional costs of this provision.

EARNED INCOME DEDUCTION FOR AGED, BLIND, AND DISABLED

Subcommittee Provision.—Allow an earned income deduction for the aged, and disabled excluding the first $65 and 50 percent of remaining monthly earnings from earned income. [Welfare Reform Subcommittee "Summary of Decisions as of December 16, 1977" item VII.1.(a)]

H.R. 9030 Provision.—Exclude 50 percent of all earned income in the determination of benefits, to an eligible household (Sec. 2106)

[Dollar amounts in millions]

	Federal cost	State cost
Cost change:		
Basic benefits	+$160	+$10
State supplements	+10	<10
Total	+170	+10

Caseload change.—150,000.

Explanation.—An earnings exclusion of $65 per month for the aged, blind, and disabled ($780 per year) has the effect of increasing benefits to the recipient, and consequently costs, by about $400 per year. This is because the earnings that would be totally disregarded under the H.R. 9030. That is, H.R. 9030 "taxed" earnings by 50 cents of each dollar. Estimates indicate that approximately 400,000 aged, blind, and disabled persons who have earnings would receive the $65 earnings exclusion. The total increase in Federal cash benefit costs, then, is 400,000 × 400 = $160 million. The 150,000 increase in caseload indicates that 250,000 of those affected by this provision would already have been receiving some benefits under H.R. 9030 before this provision. Additionally, there will be a modest increase in State supplementation.

ACCOUNTABLE PERIOD

Subcommittee provision.—Eligibility and benefit computation would be based on a unit's income, resources, status, and size at the end of each calendar month, using only the income received in that month. Hence, the accountable period in the cash benefit program would be one month in length. The Subcommittee did decide to retain the H.R. 9030 proposal to shift to monthly retrospective reporting and adjustment (also known as prior month budgeting). [Welfare Reform Subcommittee "Summary of Decisions as of December 16, 1977," item V 1.]

H.R. 9030 provision.—Eligibility and benefit computation would be based on a unit's income, resources, status and size at the end of each calendar month, using not only the income received in that month but also income in excess of the monthly eligibility ceiling (or "breakeven") received in the previous five months (Section 2108). This is often termed a six-month accountable period which incorporates a five-month "carry-forward," along with monthly retrospective reporting and adjustment.

Cost change.—Total increase in Federal costs: $1.31 billion. Total increase in state costs: $.21 billion.

Caseload Change (annual number of participants).—Federal only: 3.22 million units (26 percent increase). Federal and State Supplements: 3.34 million units (25 percent increase).

Distribution of changes.—Since the six-month retrospective accounting system proposed in H.R. 9030 only affects applicants with previous monthly incomes above the eligibility ceiling, most of the increase in costs and caseloads occurs in families with annual incomes above $8400 (family of four).

About 90% of the change in costs is in families with a member expected to work and singles and childless couples who are not aged of disabled. For example, the number of two-parent families eligible for benefits increases by 126% while the number of single-parent families increases by only 5%.

Qualifications.—Possible biases are:

The model used for these estimates does not take account of changes in work effort induced by the program. The work effort response will be greater under a one-month accounting period, both because benefits are higher and because families can qualify for benefits if they reduce their earnings for short periods. Thus, this bias results in underestimates of costs and caseloads under a one-month accounting period. We hope to correct for this bias by incorporating the accounting period simulation capability into our basic cost estimating model.

The data base does not include a representative sample of aged, blind and disabled individuals, couples, or units with children headed by such individuals.

We believe, however, that the effect of shortening the accountable period on that portion of the caseload would be minimal, on the order of that which we observe for single-parent families. On the other hand, we believe that the income volatility of the other group not represented in the data base—single individuals and childless couples, none of whom are aged blind and disabled (ABD)—is at least as great as that we observe for two-parent families with children. To make our aggregate adjustments for the accountable period, we have used the single-parent factors for the aged, blind and disabled caseload, and used the two-parent factor for non-ABD singles and childless couples.

The sample is not representative of rural areas and smaller urban areas. It is generally believed that income is more volatile in these areas than in SMSA's. This bias thus understates costs and caseloads under a one-month period.

The accountable period simulation was done on a model that does not take into account the jobs program. The presence of that program could lead to more income stability in some cases, and less in others. Until more work is done on this issue, we are uncertain about the overall bias because of this factor. We are now attempting to incorporate an accountable period simulation capability into our basic cost estimating model, which, of course, contains a job component.

Methodology for estimating participation.—The data base consists of 1,987 families in the years 1973 and 1974 enrolled in the Seattle-Denver Income Maintenance Experiment. Both controls and experimental families are included. The data was then projected to national totals for families with children in 1974 in large urban areas.

The estimates presented here have been adjusted for nonparticipation of some eligibles, using a set of assumed participation rates that vary with income, size of monthly benefit, number of months eligible, and family type. We assumed higher participation rates for single-parent families, low-income families, families receiving larger benefits, and families receiving benefits for longer periods of time. The attached tables show the participation rates that were assumed for various combinations of these characteristics; the full set of participation rates is available on request.

The resulting overall participation rate for all eligible single-parent families is 90 percent under the one-month accountable period and 92 percent under the six-month accountable period. For two-parent families, the participation rate is 55 percent under the one-month accountable period and 75 percent under the six-month accountable period. Participation rates are lower under the shorter accountable period, because many of the families made eligible by the change have high incomes and are eligible for only small benefits or for only a few months out of the year.

Among those families added to the eligible population by moving from a six to a one month accountable period, the participation rate is 39 percent for two-parent families and 53 percent for single-parent families.

It is, of course, very difficult to predict participation rates for a new program, especially for families who may be eligible for benefits in only a few months out of the year. We believe, however, that the participation rates assumed here seem reasonable, and conservative. Certainly, in the long run, as individuals and institutions adjust to the availability of cash transfers for short periods of income loss, it is quite likely that even high-income families will participate at higher rates than those assumed here.

ILLUSTRATIVE PARTICIPATION RATES

TABLE 1.—HUSBAND-WIFE FAMILIES: ANNUAL INCOME EQUALS 0.5 to 1.5 POVERTY LINE

Monthly benefit	Months eligible			
	3	6	9	12
$50 to $75	0.69	0.71	0.73	0.75
$100 to $125	.73	.75	.78	.80
$150 to $175	.77	.80	.82	.84
$200 to $265	.81	.84	.86	.88
$250 to $275	.85	.88	.90	.93

TABLE 2.—HUSBAND-WIFE FAMILIES: ANNUAL INCOME >1.5 POVERTY LINE

Monthly benefit	Months eligible			
	3	6	9	12
$50 to $75	0.38	0.51	0.63	0.75
$100 to $125	.41	.54	.67	.80
$150 to $175	.43	.57	.70	.84
$200 to $265	.45	.60	.74	.88
$250 to $275	.47	.62	.78	.93

TABLE 3.—SINGLE-PARENT FAMILIES: ANNUAL INCOME EQUALS 0.5 to 1.5 POVERTY LINE

Monthly benefit	Months eligible			
	3	6	9	21
$50 to $75	0.81	0.83	0.86	0.88
$100 to $125	.83	.86	.88	.91
$150 to $175	.86	.88	.91	.93
$200 to $225	.88	.90	.93	.96
$250 to $275	.90	.93	.95	.98

TABLE 4.—SINGLE-PARENT FAMILIES: ANNUAL INCOME >1.5 POVERTY LINE

Monthly benefit	Months eligible			
	3	6	9	12
$50 to $75	0.30	0.50	0.69	0.88
$100 to $125	.31	.51	.71	.91
$150 to $175	.32	.52	.73	.93
$200 to $225	.33	.54	.75	.96
$250 to $275	.34	.55	.77	.98

ASSETS TEST

Subcommittee provision.—Disqualify for cash assistance single member filing units with assets above $1500 and larger filing units with assets above $2250. Eliminate imputation to the filing units income of a percentage of non-excluded, non-business assets. [Subcommittee for Welfare Reform "Summary of Decisions as of December 16, 1977" Item VII 5]

H.R. 9030 provisions.—Disqualify for cash assistance individuals or families with non-business assets above $5000 and impute annually to the filing units income 15 percent of the value of non-excluded, non-business assets over $500. (Sec. 2109)

[Dollar amounts in millions]

	Federal costs (total)	State costs (total)
Cost change:		
Lower assets test	−$761	−$258
Eliminate imputation	+206	+30
Total change	−555	−228
Adjusted for participation [1]	−450	−183

[1] No change in participation rates.

Caseload Change.—— 2.3 million persons.

Adjusted for change in participation rates.—— 1.8 million persons.

Explanation.—Limiting the assets test to $1500 for singles and $2250 for larger filing units and maintaining the imputation provision in H.R. 9030 would decrease Federal costs by $761 million and State costs by $258 million, assuming no change in participation rates. Elimination of the H.R. 9030 provision to impute a percentage of nonexcluded, non-business assets to a filing unit's income would, in turn, increase Federal benefits and State supplements by a total of $236 million. The net decrease in Federal and State benefits under this Subcommittee provision is $783 million. Adjusted for participation, however, it is estimated that the total decrease in benefits would be approximately $633 million (of which $450 million represents the Federal share) because the participation rates of those made ineligible would be lower than average.

Estimates also show that this provision would decrease the number of persons eligible for cash assistance by 2.3 million. Those persons affected by this provision, however, generally have higher income and would receive lower benefits under H.R. 9030; as a result this group has lower program participation rates. Therefore, the estimated impact of the Subcommittee provision on estimated program participants would be to decrease the number of approximately 1.8 million persons.

BENEFITS TO THE DISABLED

Subcommittee provision.—Add a provision modifying the SSI substantial gainful activity test to provide eligibility for disabled individuals until earnings reach $480 per month, the annual equivalent of the eligibility ceiling including the $65 earned income exclusion voted by the Subcommittee [Welfare Reform Subcommittee "Decision Summary of Decisions as of December 16, 1977" Item XII].

H.R. 9030 provision.—Provide benefits to disabled individuals based on substantial gainful activity level specified in SSI regulations (currently $200 per month) (Sec. 2111).

Cost change.—+ $45 Million Federal Costs. Negligible State Costs.

Caseload change.—+ 75,000 people.

Explanation.—Under Title XVI of the Social Security Act, the definition of disability requires that an individual have an impairment so severe that he is unable to engage in substantial gainful activity. Under current SSI regulations, earnings from work greater than $200 per month ordinarily demonstrate an individual's ability to engage in substantial gainful activity.

The earnings guides for determining substantial gainful activity are modified periodically in order to take account of changes in general earnings levels. The last change occurred in 1974. The proposed level for 1976 which is soon to be final is $230 per month. It is estimated that in 1978, earnings greater than $260 per month ($3120 annually) will demonstrate an individual's ability to engage in substantial gainful activity.

The Welfare Reform Subcommittee voted to add a provision to H.R. 9030 regarding benefits to disabled recipients. The provision would modify the substantial gainful activity test in H.R. 9030 to provide eligibility for disabled individuals until earnings reach the level otherwise allowed under the basic benefit schedule (i.e., the annual equivalent of the eligibility ceiling including the $65 earned income exclusion). Disabled individuals, then, could maintain eligibility until monthly earnings reach $480 (annually $5,780), rather than $200 under the present SSI regulation or the estimated $260 in 1978.

The cost of increasing the substantial gainful activity dollar cutoff in the Program for Better Jobs and Income to $480 per month would be approximately $45 million in 1978. This is the result of paying benefits to 100,000 people with impairment or work limitations who are earning between $3,120 per year (our estimate of the likely 1978 SGA level) and $5,780 per year (the 1978 SGA level under the proposal). Of these, approximately 75,000 would be net additions to the welfare caseload, and 25,000 would receive higher benefits.

STATE SUPPLEMENTS

Subcommittee provisions.—Benefit Reduction Rates: Permit States to impose a benefit reduction rate between 50 and 70 percent on any expected-to-work or not-expected-to-work household under a matching supplement program.

Benefit Level Eligible for Subsidy: Increased State supplement benefit levels that the Federal government will subsidize.

Up to present AFDC plus Food Stamp benefit levels or the poverty line, whichever is higher, for expected-to-work and not-expected-to-work families with children.

Up to present SSI plus Food Stamp benefit levels, or the poverty level, whichever is higher for aged, blind, and disabled persons.

Up to present GA plus Food Stamp benefit levels, or up to the amount equal to the same percentage increase över basic Federal benefits that is provided to families with children, whichever is higher, to single persons and childless couples.

Income eligibility ceilings.—These changes imply that the Federal government will subsidize supplements in a few States to singles and childless couples, to families with children, and to aged, blind, and disabled persons whose countable income exceeds 108 percent of the Federal breakeven (the point at which the unit is no longer eligible for benefits).

(Subcommittee on Welfare Reform "Summary of Decisions as of December 16, 1977" Item IV. 2).

H.R. 9030 provisions.—Benefit Reduction Rates: Limit the maximum benefit reduction rate for expected-to-work households to 52 percent.

Benefit levels eligible for subsidy:

Constrain Federal subsidies for State supplements for expected-to-work families with children to a four-person benefit level of $4717. Limit Federally subsidized supplements for not-expected-to-work households at the poverty line.

Federal subsidies are provided up to 1.512 × Federal benefit for the aged, blind, and disabled.

Federal subsidies are limited to supplements bringing the total payments to paying $1236 to single individuals and $2471 to childless couples.

Income Eligibility Ceilings: Limit Federal costsharing of supplements to households whose countable income is less than 108 percent of the Federal breakeven.

Cost changes:

Federal cash costs and fiscal relief under administration's and subcommittee's State supplement rules

Assumption 1		*Assumption 2*	
States limit benefit levels to those subsidized by Federal Government		*States always choose high benefit option*	
Federal cash cost	14,646	Federal cost cost	15,157
Basic benefits	12,851	Basic benefits	13,084
Matching supps	1,382	Matching supps	1,473
Hold harmless	413	Hold harmless	600
H.R. 9030			
Fiscal relief	[1] 1,746	Fiscal relief	2,442
State cash cost:		State cash cost:	
State share of basic benefits	1,228	State share of basic benefits	1,243
Matching supps	2,495	Matching supps	7,192
SSI grandfather	570	SSI grandfather	533
AFDC grandfather	1,355	AFDC grandfather	1,051
Wage supps	327	Wage supps	331
Federal cash cost	16,152	Federal cash cost	16,152
Basic benefits	13,180	Basic benefits	13,180
Matching supps	1,934	Matching supps	1,934
Hold harmless	1,038	Hold harmless	1,038

See footnotes at end of table.

Subcommittee Revision

State limit benefit levels to those subsidized by Federal Government		*States always choose high benefit option*	
Fiscal relief	1,108	Fiscal relief	1,108
State cash cost:		State cash cost:	
State share of basic benefits	1,253	State share of basic benefits	1,253
Matching supps	3,960	Matching supps	3,960
SSI grandfather	540	SSI grandfather	540
AFDC grandfather	1,161	AFDC grandfather	1,161
Wage supps	323	Wage supps	323

Assumes reform proposal in effect in 1975, figures in millions of 1975 dollars, based on HEW micro-simulation.

[1] Change in fiscal relief estimate: The estimate for fiscal relief shown in the table ($1746M) differs from the previous estimates ($2058M) because of changes in estimating procedures made after consultation with state and local government representatives. The most important changes are the addition of supplements to singles and childless couple up to federal subsidy limits, and changes to 50% our estimate of the overlap between grandfather supplement estimates and emergency needs expenditures.

ASSUMPTIONS UNDERLYING ANALYSIS

Any analysis of alternative Federal policies toward state supplements requires that assumptions about states behavior—benefit levels and benefit reduction rates States select under different Federal subsidy policies—be clearly delineated. The attached tables show the impact of Administration and subcommittee changes under two distinct assumptions about how states will respond to Federal policy on supplementation of benefits.

The first option we considered is that states will set basic benefits at the maximum level subsidied by the Federal government or at current AFDC, SSI or GA, plus Food Stamp levels, *whichever is lower*. Under this assumption, moderate and high payment states respond to Federal subsidy rules by setting benefit levels at the level of AFDC plus Food Stamps for all expected to work units only if the Federal government subsidizes the added costs.

The second assumption is that States choose to provide AFDC plus food stamp benefit levels to all expected to work families regardless of Federal supplement rules. Under this assumption, States would extend AFDC-UF plus food stamp benefit levels to all working two-parent families. It is assumed throughout the analysis that States choose the highest benefit reduction rates possible in order to phase-out their supplements as rapidly as possible. Expected-to-work benefit reduction rates would be 52 percent under H.R. 9030, but 70 percent under the subcommittee changes.

BENEFIT STRUCTURE WHEN STATES LIMIT SUPPLEMENTS TO LEVEL OF FEDERAL SUBSIDY (ASSUMPTION 1)

Under this assumption and the subsidy rules of H.R. 9030, States would choose basic benefit levels equal to AFDC (or SSI, or GR) plus food stamps or the maximum level subsidized by the Federal government, whichever is lower. For not-expected-to-work family units, this would mean basic benefit levels at or near current benefit levels. For expected-to-work units, benefit levels would equal or exceed current benefits for many recipients, although basic benefits would be less than current levels in some states for one-parent families whose youngest child is between 14 and 18, for AFDC-UF recipients, for singles and childless couples, and for some two-parent families under GA programs. However, total income available to—including income from public service jobs—to all expected to work families with children would far exceed basic benefit levels.

Under the subcommittee's subsidy rules and this assumption, States would respond by providing higher supplements, with the highest increases going to expected to work family units. Basic benefits for expected-to-work family units would rise to between $5900 and $6400 in certain States. Not expected-to-work units would not be substantially affected by this change.

COST CHANGE (ASSUMPTION 1)

The figures in the left hand column of the attached table permit a comparison of Federal costs and State fiscal relief under H.R. 9030 and the subcommittee rules on State supplementation. The shift to the Subcommittee rules would add $1.5 billion to Federal cash costs. Federal costs for the basic benefit would rise by $229 million, due to reductions in earnings caused by high benefit reduction rates. The Federal cost of sharing in higher supplements would be $552 million.

Federal hold harmless costs would increase substantially (from $413 million to $1.04 billion). A further increase in Federal costs would come about because of the impact of the higher benefit reduction rates on the jobs program. High benefit reduction rates would slow the outflow from PSE jobs to private sector jobs because the net return from increased wages is low. This effect would tend eventually to increase the demand for full-year slots. The rate at which it would do so is uncertain and requires further analysis. However, preliminary study suggests that after all the effects of the higher benefit reduction rate on the size of the jobs program have occurred, the increase in job slots required could total 200,000 to 250,000. The Federal cost of such an increase in the size of the program would be between $1.4 and $1.8 billion.

The effect of the Subcommittee's changes on States, under this assumption, would be to decrease fiscal relief by $638 million. The major element in the increased State costs is the rise in State supplement expenditures.

STATES ALWAYS CHOOSE THE HIGH BENEFITS OPTION (ASSUMPTION 2)

In this case, the States' basic benefit levels would be the same for all groups under H.R. 9030 or under the Subcommittee's supplementation rules. All expected-to-work units would become eligible for basic benefits at the AFDC plus food stamp levels in all States. The main difference in benefit structure between the two sets of supplementation rules is that H.R. 9030 would limit benefit reduction rates to 52% for expected-to-work units while the subcommittee version would permit 70% benefit reduction rates for all units. The numbers below show the shift to the Subcommittee rules, given the assumption that States use the maximum allowable benefit reduction rate.

COST CHANGE (ASSUMPTION 2)

The figures in the right column of the attached table are the cost estimates for the H.R. 9030 and Subcommittee rules. State costs are lower (and fiscal relief) higher under the Subcommittee's rules for two reasons. One is that the Subcommittee provides Federal subsidy of supplements up to levels higher than those mandated in H.R. 9030. The second is that the Subcommittee would permit States to raise benefit reduction rates from 52 percent to 70 percent. At a constant basic benefit level, the higher benefit reduction rates lower payments over the most of the income range and reduce the number of recipients.

The total increase in fiscal relief would be $3.6 billion. Federal costs would rise by about $1 billion as a result of the shift to the subcommittee supplementation rules. Increases in the cost of sharing in State supplements would be $461 million increases in hold harmless costs would be $438 million and increase in cost associated with the higher demand for job slots would be about $1.4 to $1.8 billion.

Income Eligibility Ceilings

The implication of the Subcommittee's rules permitting Federal cost-sharing up to current benefit levels and in supplement programs with benefit reduction rates up to 70 percent is, however, that the Federal government will subsidize supplements in a few States to single persons and childless couples whose countable income exceeds 108 percent of the Federal breakeven. This is true because the proposed Federal basic benefits for these groups are substantially lower than current GR levels in these States. In addition, in several States that currently pay relatively high AFDC and SSI benefits, the Subcommittee's changes mean that the Federal government will subsidize supplements to families with children and to aged, blind and disabled persons whose countable income exceeds 108 percent of the Federal breakeven.

GRANDFATHERING OF GENERAL ASSISTANCE RECIPIENTS

Subcommittee provision.—Hold States harmless for the costs of "grandfathering" General Assistance as well as AFDC and SSI recipients. [Subcommittee on Welfare Reform "Summary of Decisions as of December 16, 1977" Item VIII 2(b)].

H.R. 9030 provision.—Hold States harmless for the costs of "grandfathering" AFDC and SSI recipients but not GA recipients. (Sec. 2127).

[Dollar amounts in millions]

	Federal hold harmless costs	Net cost to States
Cost change: Additional costs for GA grandfathering (assuming all existing GA recipients are grandfathered)	[1] $93.1	[1] $300.5

[1] The estimates are in 1975 dollars. If inflated to 1978, Federal hold harmless costs would be $109,400,000 and the cost to the States would be $353,100,000.

Explanation.—HEW estimates have assumed that States would not grandfather existing GA recipients. Under that assumption, the Committee change would not alter State or Federal costs. If all States were to grandfather all existing GA recipients, the cost would be $393.6 million which would be divided into $93.1 million of additional Federal hold harmless costs and $300.5 million of additional costs to the States. This distribution of the total cost ($393.6 M) reflects the fact that some of the expenditures on GA grandfather supplements would not be offset by increased hold harmless payments because some states would still have post-reform expenditures less than 90% of pre-reform expenditures. There would be no caseload effect in the basic Federal program.

These estimates include no adjustment for Labor supply effects. If GA recipients respond to the higher benefit levels and higher benefit reduction rates by cutting back work hours, the costs would rise.

PERMANENT HOLD HARMLESS

Subcommittee provision.—Make the hold harmless provision permanent so that States will be guaranteed that they will not have to spend more on welfare expenditures in the sixth year after implementation and all subsequent years than they spend in the base year. The Subcommittee provision would guarantee States 10 percent fiscal relief in the first two years of the new program, 5 percent fiscal relief for the next three years, and no fiscal relief thereafter, but a guarantee that State costs would not increase over the base year.

H.R. 9030 provision.—Hold harmless protection phased out over five years as in the Subcommittee version, but ceased entirely after five years.

[Dollar amounts in millions]

	Federal hold harmless costs	Savings to the States
Cost change: Annual impact (beginning in 6th yr of new program) of making hold harmless permanent	[1] $36.7	[1] $36.7

[1] The estimates are in 1975 dollars. If inflated to 1978, additional Federal costs (or State savings) would be $43,100,000.

Explanation.—State post-reform expenditures were projected for six years using an estimated case closing rate for grandfathered cases. These expenditure estimates were then used to compute the hold harmless payments authorized by the Subcommittee provision. The estimates show that eleven States would get payments totaling $36.7 million.

STATE ADMINISTRATIVE COSTS FOR GRANDFATHERING

Subcommittee provision.—Hold States harmless for any reasonable costs attributable to "grandfathering" that are in excess of pre-reform administrative costs. [Subcommittee on Welfare Reform "Summary of Decisions as of December 16, 1977" Item VIII 2(b)].

H.R. 9030 provision.—States are not held harmless for additional administrative costs.

[Dollar amounts in millions]

	Federal hold harmless costs	Savings for the States
Cost change: Additional administrative costs for AFDC and SSI grandfathering	[1] $8.0	[1] $8.0

[1] The estimates are in 1975 dollars. If inflated to 1978, additional Federal costs (or State savings) would be $9,400,000.

Explanation.—Pre-reform State administration cost, not including AFDC administration, is $414 million. This equals the sum of 1975 State expenditures for Food Stamp administration ($233.0 million). General Assistance administration ($156.7 million), and SSI administration ($24.3 million).[1] The costs of AFDC administration are already included in the base of the second hold harmless (the guaranteed fiscal relief provision). The cost of administering AFDC and SSI grandfather programs is estimated to be $388.3 million (20 percent of the estimated grandfather benefits). Because the pre-reform expenditures for administration exceed the post-refrom grandfathering administrative costs in all but 15 states, we project only a small addition to Federal hold harmless costs of $8.0 million as a result of this provision. Administration estimates of fiscal relief have not taken grandfathering administrative costs into account. Doing so would, on balance, increase our estimates of fiscal relief.

MEDICAID ADMINISTRATIVE COSTS IN HOLD HARMLESS

Subcommittee provision.—Hold States harmless for any additional Medicaid eligibility determination costs resulting from implementation of the cash assistance program. (Otherwise Subcommittee adopted Section 105 of H.R. 9030.) [Welfare Reform Subcommittee "Summary of Decision as of December 16, 1977" item VIII.2.b.]

H.R. 9030 position.—Eligibility for Medicaid would be determined according to State plan Medicaid standards and definitions for categories, income and assets, etc., in effect one month prior to implementation of H.R. 9030 and would differ from the standards and definitions used in the cash assistance program. States would be reimbursed for Medicaid administrative costs at current matching rates ranging from 50 percent for general administrative costs, up to 90 percent for computer system design and implementation, and 100 percent for certain facility inspection activities. However, States would not be held harmless for increases in Medicaid administrative costs. (Section 105)

[Dollar amounts in millions]

	Federal hold harmless costs	Savings to States
Cost change: Additional administrative cost of administering medicaid eligibility:		
(i) If sec. 105 of H.R. 9030 never becomes effective (superseded by National Health Insurance)	0	0
(ii) If sec. 105 becomes operative	[1] $26–$117	[1] $26–117

[1] The estimates are in 1975 dollars. If inflated to 1978, the range of Federal costs (or State savings) would be $30,000,000 to $137,000,000.

Explanation.—It is expected that Section 105 will never become operative, since the present Medicaid program would likely be superseded as part of National Health Insurance. For this reason, possible increases in Medicaid eligibility costs if Section 105 were to become effective were not included in cost estimates and impact analyses of the Administration's H.R. 9030. As shown in the above table, the Committee's extension of hold harmless protection to cover increased Medicaid eligibility costs would have no effect given the assumption that Section 105 does not become effective.

[1] Food Stamp administration is based on actual expenditures. GA and SSI administration are estimated to be 15 percent of state expenditures for benefits in each program.

ADMINISTRATIVE COST IMPLICATIONS: FEDERAL RETENTION OF ADMINISTRATION FOR THE AGED, BLIND AND DISABLED; STATE OPTION FOR FULL STATE ADMINISTRATION

Subcommittee provision.—Retain the current administrative arrangements for the aged, blind and disabled. States would be allowed to elect to administer the program for all other household units (Ref. IX, 1).

H.R. 9030 provision.—Administrative responsibility for intake for the entire caseload would be consolidated at either the Federal, or if a State so elected, at the State level.

Cost change (structure).—Administrative costs of cash assistance would increase between $200 million and $300 million relative to the model specified in H.R. 9030.

Explanation.—Under the subcommittee provision, the Federal government would retain responsibility for administering the program for the aged, blind, and disabled caseload. States, in addition to performing the intake function and determining the factors of eligibility as they could choose to do under H.R. 9030, could elect to make benefit computations and issue payments and notices, subject to Federal standards and supervision. There are several factors which contribute to additional cost under the subcommittee provision:

A multiplicity of systems and computer equipment would need to be modified or purchased.

Duplication of overhead staffs at the Federal, State and local level.

More complex audit and oversight would be needed to provide statistically valid results and to ensure proper program administration.

More sophisticated and complex referral networks, would need to be established with the Department of Labor, Vocational Rehabilitation agencies and other services in order to deal with two governmental entities performing the same function. This is particularly true where the same "family" consists of two units each of which are under separate administrative arrangements.

The Federal program for the aged, blind and disabled would be made more complex by the addition of family-related functions such as child support enforcement which it does not now handle.

Procedures would be needed to facilitate the transfer of household units and records back and forth from one administrating entity to the other as their status changes.

The cost of the subcommittee provision depends on the choices States make regarding administration. However, the Subcommittee's action requiring continued Federal administration of the program for the aged, blind and disabled would, in any event, require administrative duplication and thus additional costs in those States that opt for state administration. Depending on the current level of systems development within a State, the incremental cost for implementing the subcommittee provision would range from about 8%–13% more than H.R. 9030, a range of about $200–$300 million.

ADMINISTRATIVE IMPLICATIONS OF SUBCOMMITTEE ACTIONS

Subcommittee provisions.—Major changes set the accountable period at one month; eliminated separate filing status for certain 18–25 year olds.

H.R. 9030 provisions.—Set the accountable period at 6 months; allowed 18–25 year olds to file separately.

Cost change.—Increased workload under the subcommittee provisions will result in $180–$220 million increased cost.

Explanation.—The provisions adopted by the Subcommittee have influenced the costs of administering the system in two ways. A number of provisions have influenced the requirements that will be placed on the administering system. Other subcommittee provisions have introduced new ways in which the administrative system could be organized. These structural choices also influence overall system costs even though they do not alter the client-generated demands. Other subcommittee provisions affect the complexity of each case.

In terms of the administrative workload alone, i.e., the number of actions which need to be processed, the provisions adopted by the Subcommittee resulted in an 8–10 percent increase in administrative costs over H.R. 9030. The key components of this increase were an approximately 7 percent increase in the number of periodic reports, and a 26 percent increase in transactions relating to applications, reapplications and reinstatements. Both of these are attributable to the substantially increased caseload resulting from adoption of a one-month accountable period.

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In terms of case-by-case complexity, i.e., the time it takes to process a given action, the subcommittee changes cut both ways and produced no anticipated net change. The 8–10 percent increase thus incorporates the effects of all subcommittee provisions relating to such factors as filing unit definitions, the treatment of income and assets and other eligibility factors (including the one month accountable period).

Two other important provisions adopted by the Subcommittee—the full State administration option and the retention of Federal administration for the aged, blind, or disabled—affect costs relative to our H.R. 9030 estimates because they alter structural relationships. In addition, a State's selection from among the different administrative options open to it for cash assistance will have an impact of the costs of the administration of the Medicaid program. The following pages examine these issues in more detail.

Suppose, however, that Section 105 becomes effective and that an unchanged Medicaid program operates side-by-side with a reformed cash assistance program. We then estimate that total Federal and State/local claimed Medicaid administrative costs could increase between $166 and $784 million annually, depending on the extent to which States are able to capitalize on the H.R. 9030 eligibility determination process and thereby avoid or minimize the cost of maintaining a separate Medicaid eligibility determination process. The lower estimate ($166 million) assumes that all States would choose to operate both cash and Medicaid eligibility processes and achieve coordination between them. The higher estimate ($784 million) assumes that in all States the Federal government would operate the cash assistance eligibility process, and that the State would operate a separate Medicaid eligibility process, with considerable duplication of administrative effort. Absent the Committee's extension of hold harmless protection to cover increased Medicaid administrative costs, State and local governments would pay for about half of the total increase: i.e., about an additional $83 million given the lower estimate and about an additional $392 million given the higher estimate.

If the additional Medicaid administrative costs were the only additional factor entering into State hold harmless computations (and if Section 105 were to become effective), the Welfare Reform Subcommittee's provision would cost the Federal government between $26 and $117 million depending on the degree of coordination between Medicaid and cash assistance eligibility processes.

Estimation procedure.—Since States are reimbursed at the same 50 percent matching rate for Medicaid and cash assistance administrative costs, States have not had a financial or management incentive to allocate costs precisely between these programs at the State level. In some instances, Medicaid eligibility costs are charged to cash assistance administrative costs, and in other instances the reverse is true. As a result, State Medicaid eligibility costs before reform (i.e., "base" of the hold harmless) had to be estimated, and were assumed to be equal to a percentage of all administrative costs now charged against the Medicaid program (40 percent for States with SSI Section 1634 agreements and 50 percent for all other States), plus 30 percent of each State's AFDC administrative charges. The pre-H.R. 9030 Medicaid eligibility cost estimate is an estimate of the cost of determining eligibility for individuals receiving Medicaid, but not cash assistance. Because Medicaid eligibility is automatically conferred on all AFDC recipients, there currently is no additional Medicaid eligibility cost for these recipients.

Post-H.R. 9030 Medicaid eligibility costs were estimated by referencing current State-by-State AFDC administrative charges. Under the low-cost administrative model (where States determine both cash assistance and Medicaid eligibility), the incremental cost of determining Medicaid eligibility is assumed to be: (1) 25 percent of the State's average AFDC administrative cost for those household units meeting Medicaid categorical requirements and also requiring on-going income and family composition eligibility checks, and (2) about 5 percent for those households not requiring such frequent Medicaid eligibility verification. Under the more duplicative administrative model (Federal government determines cash eligibility, States determine Medicaid eligibility), the incremental cost of determining Medicaid eligibility is assumed to be: (1) 65 percent of the State's average AFDC administrative cost for those households meeting Medicaid categorical requirements and requiring more frequent Medicaid eligibility verifications, and (2) about 15 percent for other households.

The total estimated Medicaid administrative cost increase for each State was computed by adding together the estimated post-H.R. 9030 eligibility cost for that State and its on-going Medicaid fixed administrative cost (e.g., negotiating provider arrangements), and subtracting from that amount the State's pre-H.R. 9030 actual Medicaid administrative cost. Since most Medicaid administrative costs are matched at 50 percent, one-half of the estimated total cost increase in each State was used in the new hold harmless computation.

TREATMENT OF FOOD STAMP BONUS VALUE BY IN-KIND PROGRAMS

Subcommittee provision. Provide that the amount of the unit's benefits attributable to the bonus value of food stamps be disregarded for purposes of other Federal means-tested programs. [Welfare Reform Subcommittee "Summary of Decisions as of December 16, 1977, item VII .4]

H.R. 9030 provision. No comparable provision exists.

Cost change.—$315 million (Federal) with 35 percent disregard; $245 million (Federal) with 27 percent disregard; $225 million (Federal) with 25 percent disregard. (See explanations)

Caseload change.—None for the Program for Better Jobs and Income.

Explanation. As the Amendment did not specify how the disregard of Food Stamp benefits was to be handled, an informal working group explored the matter. A set of different percentage disregards for various demographic groups was considered but rejected on administrative complexity and other grounds. Choice of an appropriate single percentage is an open question. Across the entire population, 35 percent of the post-reform welfare benefits would have been paid as pre-reform Food Stamp bonus values. The average for just single parent families and aged, blind, or disabled individuals and couples is roughly 27 percent. (The higher proportion of food stamps in welfare benefits for singles and childless couples brings the overall average up.) Estimates are presented here for 35 percent, 27 percent, and (a round number) 25 percent.

HEW program cost estimates include as offsets monies that will not be spent in other programs after the implementation of Welfare Reform. The percentage disregards reduce the size of the HUD reduction in HUD outlays (which is an offset to gross outlays) by roughly 63 percent, 49 percent, and 45 percent, respectively. The size of the HUD offset in FY78 is about $500 million. The offset decrease would be about $315 million, $245 million, or $225 million, depending on the percentage disregard.

While these exclusions will reduce the savings in other programs (such as Basic Education Opportunity Grants and Child Nutrition) resulting from Welfare Reform, these savings have not appeared as offsets in the Administration's cost estimates. Therefore, these reductions will have no effect on estimated program costs.

EITC

Subcommittee provision.—Change the Earned Income Tax Credit provision to a supplement of 12 percent of earnings up to the H.R. 9030 basic benefit levels ($4200 for a family of four) and reduce it by 6 percent of Adjusted Gross Earnings in excess of H.R. 9030 benefit levels. Vary by family size. [Subcommittee on Welfare Reform "Summary of Decisions as of December 16, 1977" item XIV].

H.R. 9030 provision.—Provide an Earned Income Tax Credit of 10 percent up to $4000, 5 percent from $4000 to maximum cash assistance phase-down point ($9100 for a family of four), phasing down at a rate of 10 percent of AGI above that level. Vary by family size (Sec. 103).

[Dollar amounts in billions]

	H.R. 9030	Subcommittee	Change in EITC
Cost change:			
EITC on income of cash assistance recipients	$1.4	$1.0	−$0.4
EITC on income outside the cash assistance system	3.2	.9	−2.3
Total	4.6	1.9	−2.7

Caseload change.—Not applicable.

Explanation.—Current estimates of the cost of the EITC provision in H.R. 9030 indicate a cost of $1.4 billion for units with income below the phase-out point of cash assistance levels ($9100 for a family of four in a State that supplements) and $3.2 billion on income above that level, or a total of $4.6 billion (this shows a revision of previous estimates of $1.5 billion below and $3.1 billion above).

Although the Subcommittee voted to tax welfare benefits, we have assumed that cash assistance would not be included in adjusted income for purposes of the Earned Income Tax Credit phase-down. The Subcommittee EITC provision, then would decrease H.R. 9030 EITC costs below the cash assistance phase-out ("breakeven") point by $400 million. An EITC reduction by 6 percent above the phase-out point of the cash assistance system would decrease tax relief by $2.3 billion for a total savings of $2.7 billion.

TAXATION OF BENEFITS AND ELIMINATION OF REIMBURSEMENT

Subcommittee provision.—The Subcommittee agreed to include cash assistance payments as income subject to Federal taxes. (House Welfare Reform Subcommittee, "Summary of Decisions as of December 16, 1977," Item XV.)

H.R. 9030 provision.—H.R. 9030 does not provide for taxation of benefits. Section 2104(b) provides that households eligible for benefits in any month would receive additional reimbursements of 20 cents for each dollar of earnings above the level at which tax liability begins. These payments would be reduced in any month by 20 cents for each dollar of earnings above the benefit eligibility ceiling.

Cost change.—Taxation of benefits would produce a net savings comprised of the items listed below. The amount of additional revenues will depend in part upon the extent of any "overlap" between the beginning of tax liability and H.R. 9030 eligibility ceilings. The two estimates presented here very roughly correspond to the existing tax structure (high overlap) and the Treasury's proposal for 1979 (low overlap).

[Dollar amounts in millions]

	High overlap	Low overlap
Revenue from taxation	$138	$79
Elimination of reimbursement	30	10
HEW administrative costs	−25	−25
Net savings	143	64

Taxation of benefits would also reduce program expenditures through its effect on the structure of the EITC. This is considered in detail in a separate analysis.

Caseload change.—It is reasonable to expect some small decline in program participation due to the taxation of benefits.

Ignoring this decline, it is estimated that the number of units receiving cash assistance and falling subject to taxation would be:

	million
High overlap	1.724
Low overlap	0.980

Explanation.—We are not yet able to incorporate tax parameters effectively in the micro-simulation model of H.R. 9030. However, it is possible to estimate the effects of taxation by analyzing the projected income distributions of cash assistance recipients. These projections are based on data on families from the Denver Income Maintenance Experiment for the years 1973–74. The income distributions derived from these observations are compared to the tax-exempt income levels of the existing tax system and the Administration's tax proposal for 1979. This method allows an approximate estimate of the number of H.R. 9030 recipient units with combined incomes above the appropriate tax-exempt levels. The amount of total cash benefits paid to these units provides an estimate of the benefits subject to taxation. Adjustments are made to account roughly for income and tax patterns among single persons, childless couples, and ABD's.

An average marginal tax rate of 20% is applied to the total amounts of benefits paid above tax-exempt levels. Non-reporting is assumed to reduce tax revenues by 10%. An additional 10% is subtracted to account for differences between the definitions of welfare and tax filing units: some units' benefits would be attributed in part to tax-exempt individuals within the larger welfare units.

Taxation of benefits will involve new administrative expenses for both HEW and IRS. A benefit reporting system similar to the W-2 procedure currently used for earnings will be necessary. It is estimated that HEW will incur additional expenses of $25 million. IRS expenses are not included.

ADMINISTRATIVE COST IMPLICATIONS: MEDICAID

Post-H.R. 9030 increase in Medicaid administrative costs:	*Amount of increase (million)*
(i) Federal intake and benefit calculation and payment	$784
(ii) State intake and Federal benefit calculation and payment:	
(a) State processes monthly reports	166
(b) Centralized report processing	324
(iii) State intake and benefit calculation and payment	166

Explanation.—In the absence of National Health Insurance or other substantial changes in Medicaid, it is necessary to assume that the States would continue to administer the Medicaid program after welfare reform is implemented. The impact upon administration and associated costs for Medicaid eligibility determinations depend in large part on the degree of coordination that can be anticipated between Medicaid and cash assistance eligibility processes. The amount of coordinative effort required varies depending upon which model of cash assistance administration eventually emerges.

1. *The Full Federal Model.*—Under this model the Federal government would be administering cash assistance. States would maintain a separate Medicaid eligibility determination system including an intake system for certain clients for whom additional data will be needed and a separate review of Federal data against existing AFDC criteria. Under this model a high degree of coordination would be required between State and Federal systems both at the management level and in terms of insuring the appropriate and timely exchange of client-related information. The degree of effort would be similar to that required to make Medicaid determinations for the present SSI population. Although the capacity will exist for using the Federal client data system to screen out persons (such as singles and childless couples) who are categorically ineligible for Medicaid, most Medicaid eligibility determinations would require the transfer of the data collected for cash eligibility purposes.

2. *The State Intake-Federal Payment Model.*—Under this model the State would collect and verify all the information required for a cash eligibility determination. The Federal government would calculate the benefit and make payment. The State would determine Medicaid eligibility, but this would be done by the same administrative system that performed the cash intake function. The Medicaid eligibility determination would either be a by-product of the cash intake function, or would utilize data collected within the same administrative system.

The ease with which these two functions can be coordinated depends upon two factors: (1) the degree of risk States are willing to assume in certifying someone eligible for Medicaid prior to actual receipt of a Federal check, and (2) the manner in which monthly income and status reports would be processed. If these reports come in through the State cash intake system, the data will be readily available to the Medicaid unit. If, on the other hand, they are sent directly to a regional processing center, additional expense will be incurred in facilitating the transfer for Medicaid purposes. The range of Medicaid eligibility determination costs associated with this model reflect limit-setting assumptions concerning the minimum or maximum amount of resources required to coordinate functions.

3. *The Full State Model (Intake and Payment).*—Under this model the State would perform all functions associated with cash assistance administration including benefit calculation and check payment. The Federal role would be limited to management and policy direction and oversight functions. The conforming amendments set forth in H.R. 9030 would permit the retention of common

intake and eligibility functions and would permit the maximum degree of compatibility between cash and Medicaid eligibility systems, although most of these advantages are also present under the State Intake-Federal Payment Model. Moreover, since States would also make cash payments, they would not bear the additional risk of making Medicaid eligibility determinations prior to actual Federal payment.

Estimation Procedures.—Estimates used in this analysis are based on the same technique outlined in the paper on Medicaid Administrative Costs in Hold Harmless. With respect to the State Intake Model, an incremental cost per case was added to cover the additional costs of reprocessing and transfering monthly report data. If States acted as the primary collection point for monthly reports and interacted with Medicaid determinations at that time, then there would be no significant cost difference between the Full State Model and the State Intake Model.

ADMINISTRATION ESTIMATE—FY 78 NET FEDERAL COST OF SUBCOMMITTEE BILL

Subcommittee provision.—All changes listed on the individual cost and caseload sheets.

H.R. 9030 provision.—H.R. 9030 as clarified by Administration letters and testimony.

Cost Change.—

Basic Federal Cash	+$2.3B
Matching Supplements	+.6
EITC (to cash assistance eligibles)	−.4
Puerto Rico Cash Asst	+.1
Hold Harmless	+.6
Net Change in Outlays	+$3.2
Change in offsets	−.2
Change in Net Cost	+3.4
EITC (to non-cash assistance eligibles)	−2.3
Change in Net Cost (including full cost of EITC)	+1.1

Caseload change.—Net change in units receiving benefits at some time during the year, +1.9 million.

Explanation.—Same assumptions used as were used for estimating costs of H.R. 9030 except that States are assumed to supplement up to benefit levels under AFDC, AFDC-UF, SSI, and General Assistance plus the bonus value of Food Stamps for all groups under the Subcommittee Bill whereas States were assumed to stop at the limits of Federal subsidization of supplements under H.R. 9030 (except for the aged, blind, and disabled living independently).

States are not assumed to grandfather existing General Assistance recipients. If they were to do so, fiscal relief would be less under both H.R. 9030 and the Subcommittee Bill. Federal costs would increase by $320 million because of the hold harmless protection in the Subcommittee Bill.

Section 105 on Medicaid eligibility is not assumed to take effect. National Health Insurance, fully or partially implemented or an intermediate step toward National Health Insurance, is assumed to supersede Section 105. If that were not the case, Federal costs would be higher under both bills because of the direct matching of Medicaid administrative costs ($120–440M). In adition, the Subcommittee bill would add an additional $110–$400M to Federal costs because of the hold harmless protection for increased Medicaid administrative costs.

The Food Stamp program is assumed to be terminated. If it were retained, the benefit costs would be about $200M. We have not estimated the administrative costs of retaining such a program.

This estimation of the Subcommittee revisions, taken together, is slightly different from the sum of the individual changes because many of the provisions interact. In particular, the more items one includes in the hold harmless provision, the greater the additional cost of adding another item because a larger percentage of the States will be in the hold harmless range. For example, the impact of General Assistance grandfather supplements and Medicaid administrative costs on hold harmless payments discussed above are considerably larger than the individual cost estimates of those items when added to H.R. 9030.

APPENDIX B

Questions Submitted by Members of the Committee to Secretary Marshall

Questions of Senator Long

Question. Mr. Secretary, I am concerned about the willingness and ability of the CETA sponsors to deal effectively with the welfare program. A major segment of these sponsors are the same officials who have not over the years distinguished themselves in serving welfare recipients. It would hardly seem that they would suddenly turn around and manage the portion of the CETA program dealing with welfare recipients in a fair and even-handed fashion. Figures published by DOL indicated that only 13.3 percent of total individuals served were from the AFDC rolls. In Title IV public service employment, there was only 10.5 per cent. What percentage of welfare recipients had you planned to have in public service jobs in the first year? Second, how many public service jobs and what is the minimum, maximum and average salary you are proposing in the Administration's welfare reform proposal? Why do you expect welfare recipients who have been working in public service jobs at a rate of pay much higher than they ordinarily earn to leave these public service jobs and go into a non-subsidized employment? The House Special Subcommittee on Welfare Reform has proposed a salary of $10,500 for some of these public service jobs. Do you support this position? If the unemployment rate does not reach the estimated level by 1982 but instead increases, how will you be able to increase the budget necessary for these persons without destroying the concept of a balanced budget that the President espouses?

Answer. Of the 1.4 million job slots planned for welfare reform it is estimated that 44 percent, or approximately 600,000 would be held by persons currently eligible for the AFDC or AFDC–Unemployed Parent Program. Many of these would be in the 300,000 part-time job slots which will be designed for mothers of school-age children. The remainder of the participants will come from working poor families to whom the Administration's welfare reform bill would extend eligibility for Federally supported cash assistance. Over 80 percent of expected participants will have had some work experience within the preceding year.

The minimum salary will be the Federal or State minimum wage, whichever is higher. In order to maintain some relative balance between benefits paid to those who do and do not work, States which are supplementing the basic cash assistance benefit must also supplement the base wage proportionately. However, a cap is placed on base wage supplements such that the total wage may not exceed 10 percent of the minimum wage (while cash assistance supplements may exceed 50 percent of the Federal minimum benefit). In addition, a limited number of team leaders or projects may receive wage supplements (paid for by prime sponsors out of overhead) up to 25 percent above the base wage. Such team leaders may not constitute more than 15 percent of job program participants in an area.

These wage schedules have been carefully restrained so as not to compete substantially with the regular economy jobs available to most participants. Estimates based on Census data indicate that most job participants with work experience will have had pre-program wages above the subsidized job wage; the training component which will be built into most subsidized job placements should insure that most participants will be able to find better paying jobs after a few months participation in the program. WIN program experience also supports this evaluation. In FY 1977 the average wage received by all WIN placements was $3.10 or 35 percent above the minimum wage. The average for a female WIN placement was $2.73 or 19 percent above the minmum wage.

The wage adjustment provisions of the bill reported out by the House Special Subcommittee on Welfare Reform allow some additional flexibility in adjusting wages to differences in participant skill levels within areas and to differences in the cost of living among areas. The proposal sets limits on the amount and level of variation allowed, with the maximum level paid to a limited number of participants in the highest cost area being $10,560 in 1981. This is roughly equivalent to a salary of $8950 in 1978. While there is merit in attempting to adjust wages more closely to skill levels and to area cost of living differences, the Administration is concerned that substantially increasing average wage levels and reducing restrictions on wage scales may lead to substantially increased program costs, diffusion of benefits to less disadvantaged persons, greater difficulty in monitoring program compliance and increased disruption to local economies.

If the unemployment rate is higher than that estimated for 1982, it is expected that the demand for the subsidized job slots will be somewhat higher. It is estimated that for every one percentage point increase in the unemployment rate, the demand for jobs will increase by 100,000. If the Congress decided to authorize additional expenditures to meet that demand, costs would rise accordingly. Some of these costs would be offset by savings in unemployment insurance and welfare benefits which would otherwise be paid. However, were unemployment at high levels in 1982 such additional expenditures would be appropriate as a countercyclical measure within the constraints of a full employment balanced budget concept.

Question. This Committee has been greatly pleased with the WIN program since the enactment of the Talmadge amendments in 1971. The number of recipients entering non-subsidized employment in the WIN program in 1972 was 60,000. By 1974, there was a 300 percent increase in the number of those entering non-subsidized employment in 1972. In FY 1977, 271,000 entered non-subsidized employment, an increase of 50 percent over the last two years. Also the welfare grant reductions due to this program in FY 1977 are $440 million, an increase of almost 300 percent since FY 1974. All of this, Mr. Secretary, has been accomplished with a budget that has remained constant in the amount of money but has actually declined in terms of purchasing power. This Committee recommended and both the Congress and the President authorized $435 million for both FY 1978 and 1979 for the WIN program, over and above its regular budget. Mr. Secretary, I would like to know from you (1) why you have not recommended the funding we authorized for the WIN program when it has such an impressive track record? and (2) why have you recommended that the WIN program be abolished in the welfare reform administration proposal and the effort to place welfare recipients in employment turned over to CETA?

Answer. It is true that the WIN program, as amended in 1971 to emphasize quick referral and placement, has a good track record. The 1971 amendments made an almost immediate impact in fiscal 1973, the first year they took effect, when WIN registrants obtained nearly 137,000 jobs—more than twice as many as in the previous year. Placements have continued to rise, even during the recession, and totaled more than 276,000 jobs in fiscal 1977.

We are naturally pleased with these increased placements but are cautious about expanding WIN as it is now constituted. A major longitudinal study that is still in process raises some questions about whether the minimal service approach is as effective as it seems. Comparisons with matched control group suggests that many registrants, for example, might have found jobs without assistance from WIN, sometimes at higher wages.

At the same time, although the evidence is not all in, it appears that training and other manpower development programs may be more cost effective than minimal services in terms of post enrollment results, even though they are initially more expensive. CETA is the Department's major vehicle for enlarged investments in that kind of effort and in that connection we are working to build stronger linkages between WIN and CETA. The use of CETA slots will also be a major feature of the jobs program under welfare reform.

The welfare reform proposal does not envision that WIN program functions would be abolished. In fact, in most areas, WIN program functions would now be expanded to a larger population. Under welfare reform it is expected that the CETA prime sponsor will contract with the Employment Service to perform a variety of intake and job placement functions including employability assessment, arrangement for supportive services, counseling, testing, referral to training if appropriate, supervised private sector job search, referral to OJT or subsidized placements and administrative linkages with the cash assistance system. The major differences will be: (1) extension of WIN-type services, on an as needed basis to the larger population now served by the cash assistance and subsidized job programs; (2) better delineation and integration of Employment Service, WIN and CETA functions.

Questions of Senator Moynihan

Question. The President's Message to Congress of August 6 stated that the present welfare system "discourages work." If we are to make that case, it seems to me essential that we know exactly what the available evidence consists of and understand the analytic tools used on (and suitable for use on) that evidence. What do "discourage" and "encourage" work really mean? While there is a clear intuitive basis for thinking that people's desire to—and success in finding—work is directly related to anticipated changes in their net income, is there a solid research basis for this supposition?

Answer. Economists agree and experimental findings confirm that the effects of income transfer programs all run in the direction of discouraging work effort. Cash benefits raise incomes and hence make additional work less essential. At the same time, the benefit reduction rate, the amount by which benefits are reduced as earnings increase, cuts the worker's hourly take-home pay and makes additional work less attractive compared to the alternatives of leisure or work in the home. Both cause work reductions. The only questions are, how much and how do these effects differ for different program designs and different population groups?

Over the last decade or so numerous studies have been made of the impact of various transfer programs—including AFDC, Unemployment Insurance, Social Security and "reform alternatives" on the work effort of various beneficiary groups. In addition the government has spent close to $100 million on income maintenance experiments designed to measure these effects.

We have reviewed numerous experimental and non-experimental studies of the impact of AFDC and other transfer programs on work effort and have prepared a lengthy review of their findings in response to your question.

All these studies confirm what common sense would suggest—people at all income levels are well aware of the work incentives offered by transfer program structures and they will adjust their behavior accordingly.

Of all the studies, those most pertinent to the current welfare reform are the income maintenance experiments. The largest and most reliable of these is the Seattle-Denver income maintenance experiment whose findings were incorporated into the model used by HEW to estimate costs and caseloads for the Administration's reform proposal. These results show that, while income maintenance programs of reasonable proportions will not cause massive withdrawals of primary earners from the labor market, they can result in nontrivial reductions in work effort. For example, husbands on the experiment worked an average of six weeks or 13 percent less per year than comparable husbands not receiving cash assistance. Their wives worked 20 percent less than control group wives. Furthermore, reductions of this magnitude can produce far larger impacts on program costs. For example, a welfare program with a modest basic benefit set at 75 percent after poverty and a 70 percent benefit reduction rate can cause such substantial work reductions that only 45 percent of increased welfare expenditures would translate into increases in disposable income for recipients.

Work incentives are equally important for successful operation of a job program. If, as the result of offsetting reduction in cash assistance benefits, there is little net return to work efforts, participants will view the jobs as a punishment rather than an opportunity and their efforts are not likely to be rewarding either for themselves or for their communities. Furthermoe, in the face of high benefit reduction rates, it will be exceedingly difficult to motivate individuals to seek and hold private sector work in preference to the subsidized jobs. This is because the worker will reap little net gain from a wage increase of substantial size. Hence he will be unwilling to take much more lucrative private sector jobs particularly if these are less secure, more inconvenient or more arduous than the subsidized jobs. The result may be a huge rise in subsidized jobs, costs and disruption to local economies. (For example, we estimate that the Corman Committee changes raising the benefit reduction rate can increase annual job program costs by $1.4 - 1.8 billion as the result of reduced turnover.)

The growth of the American economy, unparalleled in the history of the world has been based on reliance on the normal financial incentives provided by a free enterprise system. In countries with other types of economic systems attempts have been made to replace the profit incentive as a motivator of work effort by social sanctions, bureaucratic compulsion or even police force. In virtually every instance it has been necessary to reintroduce the profit incentive in order to achieve the economic growth desired. Desire and opportunity for gain has been clearly demonstrated throughout history to be the most effective as well as the most socially attractive method of sustaining and enhancing productive work effort in a society. No army of bureaucrats can nor should be relied upon to fulfill this function.

Common sense, theory, and practical experience all coalesce in support of the notion that work incentives matter. The evidence presented above must be further weighed in view of the fact that *there is not one iota of evidence available to the contrary.* Although no single one of the examples cited above is absolutely conclusive in itself, taken together they provide a powerful and persuasive case in support of the notion that, if we wish in the long run to move the poverty population towards financial independence, then we must build powerful monetary incentives into the structure of our income maintenance systems.

Question. The President's Message to Congress of August 6 stated that the present welfare system "discourages work." If we are to make that case, it seems to me essential that we know exactly what the available evidence consists of and understand the anlytic tools used on (and suitable for use on) that evidence. What do "discourage" and "encourage" work really mean? While there is a clear intuitive basis for thinking that people's desire to—and success in finding—work is directly related to anticipated changes in their net income, is there a solid research basis for this supposition?

Answer. Economists agree and experimental findings confirm that the effects of income transfer programs all run in the direction of discouraging work effort. Cash benefits raise incomes and hence make additional work less essential. At the same time, the benefit reduction rate, the amount by which benefits are reduced as earnings increase, cuts the worker's hourly take-home pay and makes additional work less attractive compared to the alternatives of leisure or work in the home. Both cause work reductions. The only questions are, how much and how do these effects differ for different program designs and different population groups?

How economic incentives affect work effort is a subject which has attracted scholarly attention on many levels. In this country, the focus has been on how such economic magnitudes as wages, taxes, transfer income, and property income influence the amount of time people work in the market. Elsewhere, particularly in socialist countries, the question of work incentives relates to productivity on the job and to movement between jobs.

What is meant by "encourages or discourages work" and by "incentives and disincentives to work" is a good place to start. Instead of defining these terms explicitly, economists here have attempted to explain actual work decisions. According to the economic model, non-wage income and net wages are key determinants of time at work in the market. It is natural to interpret "incentives" as the net wage and "encouragement" as the combination of the net wage and of the level of non-wage income. In this context, *any government action that reduces the worker's return from an additional hour of work is a disincentive.* That is, applying a tax rate or benefit reduction rate to earnings causes the return from work to fall; *the higher is the tax or benefit reduction rate, the greater is the decline in the work incentive.* Encouragement can be viewed as the combined effort of outside income and net wages. Here, the problem becomes more complex. A higher income tax will lower the worker's net wage, but also will lower his income. Although the decline in the return from added earnings discourages work, the decline in the worker's income encourages work.

In recent years, economists have gone well beyond speculation and have measured actual changes in work effort due to changes in net wages and non-wage income. The focus has been on the work-reducing effects of such income transfer programs as unemployment insurance, Aid to Families with Dependent Children (AFDC), social security, and the Negative Income Tax (NIT). All of these programs provide a basic benefit, an amount paid if earnings are zero, and use a benefit reduction rate, a rate at which the transfer payment declines as earnings rise. Since the programs raise non-wage incomes and lower net wages, the direction of the effect on work effort can only be negative. The research questions have been: how much are the reduction? and how do the size of the reductions depend on the nature of the program?

There is now reliable evidence demonstrating that income transfer programs can induce significant reduction in work effort and in earned income. Further, it is clear that work reductions increase as the basic benefit increases and as the marginal tax rate increases.

To begin, we review the findings most relevant to welfare reform. The most vigorous and reliable tests of how work effort varies with income support programs are based on the Seattle-Denver income maintenance experiment. These results have been used by HEW to estimate total program costs for the Administration's proposed welfare reform program. Using a sample of over 5,000 families eligible for payment. Then, they made payments to the treatment group families and collected detailed information each quarter on work patterns of both treatment and control group families. While analyses of the results are not complete, it is already clear that cash assistance payments induced substantial reductions in hours worked. Perhaps more important, the result shows that work reductions depend on the nature of the income support program.

Some examples of the work reduction responses appear in Table 1.

TABLE 1.—SUMMARY OF RESULTS FROM SEATTLE-DENVER EXPERIENCE: PERCENTAGE CHANGE IN HOURS OF WORK ASSOCIATED WITH CASH ASSISTANCE PROGRAM

	3-yr sample [1]	5-yr sample [1]
Husbands	−8	−13
Wives	−18	−20
Females heads	−16	−17

[1] In order to measure the extent of bias in the experimental results caused by the limited duration (3 yr) of the cash assistance payments for most families, a smaller sample of families was enrolled for a 5-yr period.

The results in the first column come from data of families offered income maintenance payment for only three years. As a result, they suffer from "duration bias," i.e., the fact that families may not adjust their work effort in response to a short-term income guarantee in the same way they would to a more or less permanent program. A better approximation of the long run effects of high benefit reduction rate programs is the effects found among families offered income maintenance payments for five years. Among this group, it turned out that the work reduction effects were even larger, especially for husbands. Those husbands eligible for income support payments for five years worked 13 percent less than comparable husbands in the control group.[1] The average decline in hours worked by husbands amounted to about 220–240 hours per year; the average decline by wives was about 140–160 hours per year.[2]

[1] Michael Keeley, *et al.*, *An Interim Report on the Work Effort Effects and Costs of a Negative Income Tax Using Results of the Seattle and Denver Income Maintenance Experiments: A Summary*, Stanford Research Institute, June 1977, p. 12.

[2] In general, the various other experiments run by HEW and OEO in New Jersey, Iowa/North Carolina and Gary, Indiana all showed similar effects (in some cases larger for wives and small for husbands but, typically with a 12–13 percent overall reduction in family hours of work). However, these experiments suffered from a variety of internal and external problems—including duration bias, very small sample sizes (particularly among experimental families below the breakeven point for coverage) and substantial numbers of control families receiving welfare payments which were, in some cases higher than the payments received by the experimental families to which they were compared—so that it is difficult to generalize from them beyond concluding that a modest income maintenance program (below poverty line guarantee, benefit reduction rate in the range of 50 percent) will cause about a 10–15 percent reduction in family hours of work. One experiment, the rural experiment showed, however, that a dramatic decline in reported income (*61 percent*) can be expected among farm operators (and perhaps among others of the self-employed) which could obviously exert a strong effect on predicted program costs.

It is also important to note that none of the experiments measured the impact of benefit reduction rates in excess of 70 percent and that one would expect work effort responses to accelerate as tax rates approach 100 percent. It is also noteworthy that all of the experiments employed very long (12-month) accounting periods for computing benefits. Long accounting periods mitigate the impact of high benefit reduction rates since benefits do not increase rapidly when work effort decreases and, by the same token, do not drop sharply when work effort increases.

Table 2 shows the predicted average work effort responses and their impact on nationwide program costs for a modest income maintenance program (guarantee equal to 75 percent of the poverty line) with alternative benefit reduction rates of 50 percent and 70 percent. Note that relatively small percentage reduction in hours worked can produce large increases in budget costs. Note also that the percentage effect rises with the benefit reduction rate.

For example, a program with a 70 percent benefit reduction rate and an income guarantee set at 75 percent of the poverty line would cause such substantial work reductions that only 45 percent of increased welfare expenditures would translate into a rise in the disposable income of recipients.

How can such large effects occur? We must first recognize that imposing a 70 percent tax rate lowers a typical worker's net pay from $4 to $1.20 per hour. Workers in families, both husbands and wives, may cut their work time in a variety of ways. They may spend more weeks waiting for a high paying job, they may choose jobs that demand fewer hours per week, or they may take unpaid vacations.

REDUCTIONS IN WORK EFFORT UNDER ALTERNATIVE CASH ASSISTANCE PROGRAMS [1]

	Percentage reduction in hours worked		Percentage of net program costs due to reduced work effort	
	50-percent benefit reduction rate	70-percent benefit reduction rate	50-percent benefit reduction rate	70-percent benefit reduction rate
2-parent families	10	16 } All	30	55
1-parent families	7	9 }		

[1] These cash assistance programs have a benefit level equal to 75 percent of the poverty line. It is expected that all but 11 States will have benefit levels equal to or higher than this amount under welfare reform.

Source: Michael Keeley, et al., "An Interim Report on the Work Effort Effects and Costs of a Negative Income Tax Using Results of the Seattle and Denver Income Maintenance Experiments: A Summary," Stanford Research Institute, June 1977, p. 12.

For example, husbands provided cash assistance on a five-year program (in Seattle and Denver) worked an average of six weeks or 13 percent less per year than comparable husbands not provided cash assistance. Their wives worked about four weeks or 20 percent less than comparable wives not receiving cash assistance.

What is not generally recognized is that even a small percentage decline in hours worked by the family can cause large increases in budget costs and small gains in disposable income. Consider a family with $8,000 in earnings before the Federal program envisioned in H.R. 9030 is implemented. If the program were to induce a 5 percent ($400) decline in earnings, the cash payment would rise from $200 to $400, a 100 percent increase.[8] Note further that the family's net income would remain at $8,000 with earnings down to $7,600 and Federal payments up to $400. A large increase in Federal costs has thus resulted in no net increase in the family's disposable income.

The existence of the jobs program would alter these effects on work hours to some extent, but not significantly for most current workers. Since the vast majority of working cash assistance recipients will be earning a higher wage

[8] In this example, it is assumed that a 50 percent benefit reduction rate is applicable to the program. It is important to note that if a $400 decline in earnings occurred under a program with a 70 percent benefit reduction rate, the Federal payment would increase by $280 or 140 percent.

than the PSE job their work effort decisions will not depend on the PSE job. For this large group, the experimental results are reliable indicators. Those with high unemployment or very low wages would be influenced to work more because of the jobs program and the waiting period. However, where the full guarantee (after 8 weeks) yields almost as much income as total income from the PSE job plus cash supplements, many unemployed or low wage workers will be deterred from taking PSE jobs.

Studies of existing programs offer additional evidence that financial disincentives to work actually cause work reductions. Several researchers have produced estimates of AFDC's impact on work effort. A study by Garfinkel and Orr looked at how state differences in welfare support levels and welfare tax rates affected the state employment rates of AFDC mothers in 1967.[4] Williams made a more detailed study using data on individual mothers in different states.[5] Although the two studies employed very different methodologies and analyzed different samples, the authors reached the same conclusion: higher welfare support levels and welfare tax rates influenced mothers to work less. Williams found that subjecting mothers to a higher tax rate, resulting in a 10 percent lower net wage, would cause them to reduce work effort by about 10 percent. Levy looked at the 1968 work patterns of a national sample of mothers heading families with children under 18.[6] He found that these mothers tended to work virtually all year or not work at all. This is the pattern one would expect if mothers were influenced by welfare. Welfare's high tax rates would tend to discourage those who would earn too little to leave welfare if they worked. Another result from Levy's work is that the higher the welfare grant relative to full-time potential earnings, the higher the likelihood that the mother did not work at all.

While Appel found that improving work incentives in AFDC did increase both earnings and work effort among AFDC recipients[7] there does exist evidence that lowering AFDC tax rates may not induce significantly more work effort. This evidence comes from the program experience between 1969 and 1973, when the maximum AFDC tax rates states could impose were cut from 100 to 67 percent. However, the share of AFDC mothers working in a given month rose only slightly. While the reason for the lack of a national response is not fully understood, it does not necessarily refute the conclusion that high tax rates lower work effort. First, employment of AFDC mothers did rise in high payment states which fully initiated the new earnings exemptions. Second, some states made changes in policy that raised tax rates and offset Federal action. In these states, employment rates of AFDC mothers declined. Third, the effect of AFDC tax rate reductions may have been offset by increases in basic benefit levels and tax rates from other programs, such as Food Stamps. Fourth, there appears to have been little understanding among AFDC recipients of the impact of the program change or, instead, of the fact that it had occurred.

Social Security program experience shows clearly the impact of benefit reduction rates on the elderly.[8] Earnings data for Social Security show a large clustering of recipients right below the earnings level at which the 50 percent marginal tax on earnings cuts in. There are virtually no recipients

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[4] Irwin Garfinkel and Larry Orr, "Welfare Policy and the Employment Rate of AFDC Mothers," 27 *National Tax Journal*, (No. 2), 1974.

[5] Robert G. Williams, *Public Assistance and Work Effort: The Labor Supply of Low-Income Female Heads of Household*, Princeton University, 1975.

[6] Frank Levy, "How Big is the American Underclass?" *The Income Dynamics of the Poor Project Report*, Institute of Business and Economic Research, University of California at Berkeley, 1977.

[7] Gary L. Appel, "Effects of a Financial Incentive on AFDC Employment: Michigan's Experience Between July 1969 and July 1970," Institute for Inter disciplinary Studies, Minneapolis, Minnesota, March 1972.

[8] For estimates of the effect of Social Security on labor supply see William Bowen and T. A. Finegan, *The Economics of Labor Force Participation* (Princeton University Press, 1969); Lowell Gallaway, *Manpower Economics* (Homewood, Ill.: Richard Irwin, 1971); Michael Boskin, "Social Security and the Retirement Decision," *Economic Inquiry* (January 1977); Joseph Quinn, "The Microeconomics of Early Retirement: A Cross-Sectional View", unpublished report prepared for the Social Security Administration (1975); and Wayne Vroman, *Older Worker Earnings and the 1965 Social Security Amendments*, SSA, Research Report No. 39 (1971).

in the range over which the 50 percent tax rate is effective. Whenever the earnings disregard limit is raised, reported earnings rise to the new limit. Clearly, for most Social Security recipients, a 50 percent benefit reduction rate is in itself a total discouragement for work effort except for those who can earn considerably higher incomes than are at issue for most transfer programs.

One would not, however, expect population groups with stronger labor force attachment to respond as strongly to transfer induced work disincentives as the aged and disabled.

Turning to the Unemployment Insurance (UI) program, we also find evidence that high work disincentives lower work effort. Of course, the intent of the UI program is to provide benefits so that workers can search for suitable employment. But, some unfortunate by-products of the program are that it weakens the incentive to work part-time and to find a job quickly. Evidence indicates these disincentives have an impact. In a study of effects of Wisconsin's UI benefit structure on part-time work, Munts[9] showed that recipients tended to limit their work effort so as to avoid reductions in UI benefits. Findings of Holen and Horowitz support this conclusion.[10] They found that States whose UI systems allowed recipients to earn more part-time (relative to the State's UI benefit) without losing eligibility had higher proportions of recipients working part-time. Marston examined UI's impact on the duration of unemployment and estimated that in 1969, UI increased the expected duration of unemployment and estimated that in 1969, UI increased the expected duration of unemployment by 16 to 31 percent. Hamermesh reviewed 12 studies of UI's impact on duration and concluded that in low unemployment periods, a 10 percent increase in the gross wage replacement rate (the ratio of the weekly benefit amount to pretax weekly wages) leads to an average increase in individual insured unemployment of one-half week. Since the low unemployment periods the average duration of weeks compensation is 11 to 13 weeks, a one-half week increase represents about a 4 percent increase in unemployment. Felder estimates that for every $10 increase in UI benefits in Seattle, unemployment duration increases by 13 days for males and 33 days for females.[11] Feldstein estimates that in tight labor markets, UI increases the unemployment rate by up to 1.25 percentage points;[12] however, Marston estimates the effect at only an additional 0.2 to 0.3 percentage.[13]

The technical studies of the income maintenance experiments and of the AFDC and UI programs provide impressive evidence about the short-run effects on work resulting from high marginal tax rates and benefits unrelated to work. The findings clearly show that high disincentives, as embodied in high marginal tax rates, do cause work reductions. In some cases, these work reductions are small relative to the size of the program. In other cases, the work reductions are significant enough to mean that 40 to 60 percent of expenditures simply offset earnings reductions induced by the program and only the remaining 60 to 40 percent result in higher incomes of recipients.

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[9] Raymond Munts, "Partial Benefit Schedules in Unemployment Insurance: Their Effect on Work Incentive," *Journal of Human Resources*, Spring 1970.

[10] Arlene Holen and Stanley Horowitz, "Partial Unemployment Insurance Benefits and the Extent of Partial Unemployment," Journal of Human Resources, Summer 1974.

[11] Henry E. Felder, *Unemployment Insurance, Wage Changes and Search Behavior: An Analysis*, Center for the Study of Welfare Policy, Stanford Research International, October 1977.

[12] Martin Feldstein, Lowering the Permanent Rate of Unemployment, a study prepared for the Joint Economic Committee, Congress of the United States (Washington, D.C.: U.S. Government Printing Office, 1973); and "Unemployment Compensation: Adverse Incentives and Distributional Anomalies," *National Tax Journal* (June 1974), pp. 231–44.

[13] Stephen Marston, "The Impact of Unemployment Insurance on Job Search," Brookings Papers on Economic Activity, No. 1 (1975). Daniel Hamermesh, *Jobless Pay and the Economic* (Baltimore: Johns Hopkins University Press, 1977), reviews the literature on the relationship between unemployment insurance and the length of job search. Also see Arnold Katz, ed., "The Economics of Unemployment Insurance: A Symposium," *Industrial and Labor Relations Review* (July 1977).

Although the technical studies are useful for providing ranges on the short-run impact of work disincentives, only a broad look at history can shed light on the potential long run consequences of high work disincentives. Unfortunately, we have not been able to review the historical literature on this topic. However, we have taken note of Jude Wanniski's interesting article in the Winter issue of *Public Interest*.[14] Wanniski points out that very high tax rates are often self-defeating because the potential increased revenue associated with high tax *rates* is more than offset by the decrease in income against which the high rates apply. Using examples ranging from the Russian experience with collective farms to the German postwar recovery, Wanniski notes that extremely high marginal tax rates cut back work effort, lowered productivity, and shifted economic activity toward a barter system. Alternatively, where the high marginal rates fell or where some sectors faced low marginal rates, economic activity and income rose sharply. The German recovery moved forward with economic expansion after Finance Minister Erhard raised the point at which 50 percent tax rates applied from $600 to $2,200. Russian peasants produce little on collective farms, where marginal tax rates are effectively 90 percent; but, on private plots (which are not taxed), the peasants are so productive as to yield 27 percent of Russian agricultural output from less than 1 percent of the agricultural land.

Taken together, the findings from the short-run studies and from historical experience should convince us that economic incentives matter, that work is directly related to anticipated changes in net income, and that high marginal tax rates will reduce work hours in the short-run and lower productivity in the long-run.

Question. Mr. Secretary, you have been extraordinarily informative and candid in summarizing the evidence on the effect of welfare programs on work incentives. But I am rather startled by one item in your prepared responses to the questions in my letter of January 6. You state, "*For example, a program with a 70 percent benefit reduction rate and an income guarantee set at 75 percent of the poverty line would cause such substantial work reductions that only 45 percent of increased welfare expenditures would translate into a rise in the disposable income of recipients.*" Since, and I am sure it is no coincidence, these hypothetical features are approximately the ones that will characterize the Program for Better Jobs and Income, are you suggesting that more than half of the incremental cost of the Administration's program will be used to replace income that otherwise would have been earned? What sense does that make?

Answer. The findings to which you refer pertain to a program providing only cash assistance and applying the same benefit level (relative to the poverty line) and same 70 percent benefit reduction rate to all recipients irrespective of family status. This cash program had no accompanying job component.

The Administration's program departs from these features in several important ways. First, the Administration program restricts the benefit reduction rate to about 50 percent for expected-to-work families. Second, PBJI provides a lower tier benefit feature, which requires that expected to work families go through an 8-week job search period before qualifying for a high income guarantee and which provides a generous disregard of earnings for those who do work. Third, the PBJI benefit reduction rate in those states not supplementing Federal benefits will be only 50 percent for not expected to work family units. Fourth, the Administration proposed extending the earned income tax credit so that within the range of the cash assistance program, the credit's payments rise with earnings and thereby raise the return to

[14] Jude Wanniski, "Taxes, Revenues, and the 'Laffer Curve'," *The Public Interest*, Winter 1978.

work. With these features, PBJI offers far better work incentives than does the program referred to in the question.

The most important distinction is that the Administration proposal includes a jobs program, which provides substantial increase in work opportunities for low income families. The increase in work opportunities is so large that families raise work hours because of the jobs program by more than they reduce work hours because of the cash assistance program.

The combined features of the jobs and cash assistance programs prevent the large work reductions reported above from occurring under PBJI. As a result, we expect over 75 percent of the net new costs to translate into income gains for recipients. Much of the other 25 percent, which is largely overhead cost, would be money well spent because it would pay for the increased levels of public services provided through the jobs component.

It is true that the program could become highly inefficient in reaching low income families if its features were modified in an anti-work direction. Raising the benefit levels and benefit reduction rates, cutting back the job opportunities, or altering the earned income tax credit could easily produce a situation in which the new program would have the effects cited in the question. The share of added budget costs going to low income families would clearly be low if we tried to achieve the same total income guarantee through a cash assistance program alone instead of through a combined cash-jobs approach.

Question. According to research done by Lee Rainwater, Martin Rein, David Lyons, and others, a relatively small proportion of welfare recipients receive public assistance continuously over a four or five-year period. For example, a study by the Rand Institute of New York City showed that of all new welfare cases between 1967 and 1972, half received aid for less than a year and only 5.7 percent stayed on the rolls for more than three years. How do you account for this turnover? Would it not be reasonable to conclude that many welfare mothers are finding their own way into the labor force, generally without benefit of special jobs or training? Are there differences among states in the likelihood that welfare recipients will obtain jobs?

Answer. It is not true that only a small proportion of AFDC families receive assistance for more than 4 years. The latest published statistics, from the 1975 AFDC survey, show that about 35 percent of the nation's AFDC families had been on the rolls for over 4 years. More than 25 percent had received assistance for over 9 years. The share of long duration cases jumped substantially between 1973 and 1975. In 1973, only about one-third of AFDC families had received assistance for 3 years or more. By 1975, the share of such cases had increased to 45 percent. In Table 1, we present the trends in the duration on the AFDC caseload.

Long duration cases were more common in New York State than in the rest of the country. In 1975, almost half of New York's AFDC families had received assistance for more than 4 years and 38 percent had received assistance for more than 9 years. The data for all States appear in Table 4 of the 1975 AFDC survey. We have attached a copy of this Table.

There are several explanations for the differences between these AFDC survey data and the Rand data. The Rand numbers relate only to new cases, not all cases. The Rand data cover the 1967–72 period, while the AFDC data go up to 1975. As noted above, the large increase in the share of long duration cases took place after 1973. To some extent, the increase in the share of long duration cases is the result of a decline in the rate of growth of the AFDC caseload. New cases have declined substantially. In addition, the large numbers brought on to the rolls in the 1969–71 period represented a much larger potential pool of long term recipients than was the case in prior periods. Nevertheless, there still seems to be some increase in the duration of a typical case. Cases on the rolls 1 to 3 years in 1973 showed a lower probability of leaving AFDC than similar cases in earlier years.

Although the share of long duration AFDC cases is high, a sizeable share do receive benefits only for short periods. In 1975, over 20 percent of the nation's AFDC families had received assistance for less than 1 year (although one cannot infer turnover rates from this statistic alone, as completed duration of these cases is not known). However, it is not the case that large numbers of welfare mothers work themselves off the rolls. In fact, the most common reason for exiting from AFDC is remarriage or reuniting with a spouse. Nevertheless, many welfare mothers do find employment on their own. The fact that the earnings from employment are insufficient to cause them to leave AFDC does not mean that their employment has not made them more self-supporting.

It is not merely the existence of long duration AFDC cases that has influenced the Administration to propose the Program for Better Jobs and Income. It is the generally poor employment opportunities faced by some principal earners in families with children. The unemployment rate of AFDC mothers was about 36 percent in 1975. Furthermore, those who did find jobs often worked for very low wage rates. Thus, PBJI will offer jobs to the unemployed and higher wages and income to those employed at substandard wages.

There is wide variation across States in the extent of employment of AFDC mothers. We have attached Table 33 from the AFDC survey to provide the most detailed breakdown available. In several States, including Missouri, Minnesota, Maine, and Indiana, 25–35 percent of AFDC mothers are employed full-time or part-time. In other States, employment rates are very low. Only 5.4 percent of Ohio's AFDC mothers worked in 1975; the figure for New York was 11.1 percent. These and others were below the national average of 16.1 percent. We have attached Table 33 from the 1975 AFDC survey, which provides a state-by-state breakdown of employment status of AFDC mothers.

TABLE 1.—AFDC FAMILIES BY LENGTH OF TIME RECEIVING AFDC ASSISTANCE SINCE MOST RECENT OPENING: 1969–75

[Numbers in thousands]

	Up to 1 yr		1 to 3 yr		Over 3 yr	
	Number	Percent of caseload	Number	Percent of caseload	Number	Percent of caseload
1969	552	33.9	494	30.2	584	35.8
1971	944	37.4	796	31.8	783	31.0
1973	895	29.9	1,034	34.6	1,052	35.2
1975	948	27.8	932	27.4	1,520	44.7

Source: 1969, 1971, 1973, and 1975 AFDC Surveys, U.S. Department of Health, Education and Welfare. The 1975 numbers are from table 1 of the publication.

TABLE 4.—AFDC FAMILIES, BY NUMBER OF MONTHS AFDC RECEIVED SINCE 1ST OPENING FOR AFDC THROUGH THE STUDY MONTH, 1975

New region and State	Total families	Months of AFDC					
		1 to 6	7 to 12, 1 yr	13 to 18, 1½ yr	19 to 24, 2 yr	25 to 36, 3 yr	37 to 48, 4 yr
U.S. total:							
Number	3,419,671	376,889	342,286	265,090	229,626	398,746	341,191
Percentage	100.0	11.0	10.0	7.8	6.7	11.7	10.0
HEW region:							
Region I	207,260	9.8	11.0	7.2	7.5	12.3	9.1
Region II	535,303	6.8	6.8	6.1	5.1	10.7	10.7
Region III	365,124	10.2	9.8	7.7	5.9	10.6	9.6
Region IV	524,728	12.8	10.7	7.8	6.3	11.8	9.7
Region V	739,928	13.2	10.8	8.2	7.9	12.4	10.4
Region VI	263,484	12.1	10.0	8.1	7.1	11.6	9.6
Region VII	146,263	11.4	9.6	8.9	7.1	11.8	11.6
Region VIII	67,091	16.5	12.0	7.6	7.1	12.8	8.8
Region IX	481,003	9.5	10.7	8.5	7.1	11.7	9.0
Region X	89,487	14.3	12.6	9.0	6.8	12.5	13.1
State:							
Arizona	20,790	14.6	12.7	7.4	6.6	9.4	9.5
California	440,863	9.3	10.9	8.2	7.0	11.8	8.8
Colorado	33,386	17.4	13.4	7.6	7.2	11.4	8.9
Florida	80,669	15.1	11.4	9.4	5.4	11.0	8.6
Georgia	113,253	9.3	9.0	7.2	5.7	12.5	12.0
Illinois	218,949	13.0	9.6	6.2	8.8	12.2	9.3
Indiana	50,788	14.1	10.0	9.8	6.1	11.3	12.0
Iowa	27,646	15.1	12.1	8.5	6.6	10.9	10.4
Kansas	21,646	13.4	10.8	7.2	6.8	11.7	9.3
Kentucky	52,951	13.1	12.2	7.6	7.9	12.4	8.2
Louisiana	68,267	11.3	9.8	7.3	7.3	11.5	7.7
Maine	24,444	5.8	7.2	6.0	5.6	12.4	12.6
Massachusetts	113,093	10.8	12.0	7.3	7.4	12.4	8.9
Michigan	193,506	10.1	10.3	6.8	8.1	13.7	13.4
Minnesota	44,107	11.7	12.1	8.4	9.3	12.2	9.9
Mississippi	54,522	12.4	12.6	7.8	7.2	14.3	8.8
Missouri	85,507	9.5	8.7	9.6	6.6	12.0	12.9
New Jersey	131,558	7.1	7.4	6.4	5.5	11.8	11.5
New York	357,728	6.9	6.7	5.9	5.1	10.4	10.5
North Carolina	61,572	18.8	11.4	7.6	7.2	9.9	7.5
North Dakota	4,399	13.2	13.0	9.3	8.4	11.1	9.6
Ohio	177,966	16.8	12.7	10.8	7.0	11.4	8.4
Pennsylvania	181,311	8.2	8.7	6.3	4.9	9.5	8.6
Puerto Rico	45,225	3.8	5.8	6.8	3.3	10.5	10.2
South Carolina	43,813	10.7	8.7	6.1	3.9	14.6	14.1
Tennessee	67,392	14.1	10.9	7.5	6.4	10.2	8.6
Texas	112,155	11.9	9.7	8.2	7.5	13.7	11.1
Virginia	55,370	14.3	15.8	11.8	10.5	13.2	8.1
West Virginia	21,475	18.1	10.2	6.4	5.6	10.5	5.9

TABLE 4.—AFDC FAMILIES, BY NUMBER OF MONTHS AFDC RECEIVED SINCE 1ST OPENING FOR AFDC THROUGH THE STUDY MONTH, 1975—Continued

	Total families	Months of AFDC					
		49 to 60, 5 yr	61 to 120, 10 yr	121 to 180, 15 yr	181 to 240, 20 yr	More than 20 yr	Unknown
U.S. total: Number	3,419,671	317,979	685,821	173,393	64,763	25,417	198,470
Percentage	100.0	9.3	20.1	5.1	1.9	.7	5.8
HEW region:							
Region I	207,260	9.0	20.5	5.9	1.8	.9	5.0
Region II	535,303	9.3	26.5	8.4	2.6	.8	6.1
Region III	365,124	10.6	21.3	5.7	2.4	1.0	5.4
Region IV	524,728	9.7	21.0	4.3	1.7	.6	3.6
Region V	739,928	9.7	15.4	3.8	1.7	.6	6.0
Region VI	263,484	10.4	19.7	4.0	1.8	1.1	4.5
Region VII	146,263	8.4	16.3	5.0	2.9	1.2	5.8
Region VIII	67,091	6.3	13.9	2.9	1.3	.8	9.9
Region IX	481,003	8.2	20.9	4.7	1.2	.3	8.2
Region X	89,487	5.8	14.9	2.7	.6	.7	6.8
State:							
Arizona	20,790	8.2	15.5	7.6	2.9	2.2	3.4
California	440,863	8.1	21.4	4.6	1.2	.2	8.5
Colorado	33,386	6.2	15.5	3.9	1.8	.4	6.4
Florida	80,669	9.6	20.3	3.8	1.2	.2	3.9
Georgia	113,253	12.5	23.9	2.7	1.1	.1	4.0
Illinois	218,949	11.7	15.3	4.4	3.1	1.2	5.1
Indiana	50,788	10.4	15.0	3.7	1.6	.5	5.6
Iowa	27,646	6.6	16.7	4.3	1.9	.7	6.1
Kansas	21,646	9.3	18.6	4.3	2.5	.6	5.4
Kentucky	52,951	6.8	18.3	6.9	2.5	2.1	2.0
Louisiana	68,267	8.3	23.4	6.0	2.5	1.1	3.9
Maine	24,444	10.4	27.7	4.4	3.4	.5	3.8
Massachusetts	113,093	10.0	18.1	6.1	1.3	.5	5.2
Michigan	193,506	9.5	15.9	2.8	.6	.3	8.5
Minnesota	44,107	9.1	16.8	4.4	.9	.6	4.5
Mississippi	54,522	7.4	19.2	4.9	1.5	.2	3.7
Missouri	85,507	8.5	15.7	5.9	3.7	1.6	5.4
New Jersey	131,558	10.0	25.2	8.0	1.5	(1)	5.5
New York	357,728	8.9	27.0	8.5	2.4	.9	6.8
North Carolina	61,572	8.1	17.9	5.0	2.4	.8	3.4
North Dakota	4,399	7.7	14.8	3.5	1.7	.5	7.1
Ohio	177,966	8.0	13.9	3.7	1.4	.5	5.4
Pennsylvania	181,311	11.8	24.9	6.9	3.5	1.4	5.4
Puerto Rico	45,225	10.4	26.5	8.9	7.8	3.0	2.7
South Carolina	43,813	9.4	27.8	2.7	1.0	(1)	1.0
Tennessee	67,392	9.1	20.7	3.5	2.8	.8	5.3
Texas	112,155	12.4	19.0	1.6	.2	.1	4.6
Virginia	55,370	7.5	10.7	2.1	.9	.2	5.0
West Virginia	21,475	5.0	16.3	8.9	3.6	2.7	6.8

[1] No sample cases.

TABLE 33.—NATURAL OR ADOPTIVE MOTHER IN HOME BY CURRENT STATUS, 1975

HEW region and State	Total of such mothers	Employed and usually works: Full time	Employed and usually works: Part time	Not employed: Incapacitated for employment	Not employed: Needed in home full time as homemaker	Not employed: Attending school or receiving training	Not employed: Other status: Awaiting recall from layoff	Not employed: Other status: Actively seeking work	Not employed: Other status: Not actively seeking work	Unknown
U.S. totals										
Number	3, 114, 153	324, 989	178, 895	228, 492	1, 238, 353	99, 302	31, 108	28, 1106	687, 217	44, 689
Percent	100.0	10.4	5.7	7.3	39.8	3.2	1.0	9.0	22.1	1.4
HEW region:										
Region I	195, 114	8.8	9.0	5.3	43.4	2.4	.5	8.2	21.6	.9
Region II	494, 393	8.0	3.9	9.9	46.4	3.3	.9	4.8	21.0	1.7
Region III	322, 718	10.3	4.2	9.5	43.0	4.0	.8	5.7	20.2	2.2
Region IV	455, 041	12.4	7.7	7.3	31.0	3.1	1.8	13.8	22.0	1.0
Region V	680, 287	9.8	4.8	5.0	43.5	2.7	1.2	8.7	22.3	2.0
Region VI	238, 378	7.2	6.9	7.7	36.6	3.7	.6	11.3	25.3	.7
Region VII	132, 722	22.5	8.3	3.3	28.5	3.2	1.5	7.8	23.8	1.1
Region VIII	60, 823	10.1	8.9	3.7	36.2	2.8	.3	6.4	30.8	.7
Region IX	450, 947	11.0	5.2	9.6	37.4	3.0	.5	12.0	20.4	1.0
Region X	83, 730	11.0	5.7	3.7	38.8	6.0	.7	6.6	26.3	1.2

State:										
Arizona	18,525	5.4	4.9	9.6	37.3	2.5	.4	10.8	26.8	2.5
California	413,885	11.4	5.1	9.6	37.4	3.1	.5	12.3	19.7	1.0
Colorado	30,790	9.4	6.2	2.8	35.8	2.9	.6	5.8	35.2	1.2
Florida	70,031	11.3	11.6	5.3	25.8	3.7	1.9	12.1	27.2	1.1
Georgia	98,064	18.6	8.1	6.8	35.3	3.0	1.4	15.8	10.0	1.1
Illinois	200,070	10.3	3.5	6.7	44.0	3.9	1.1	11.0	15.8	3.8
Indiana	47,378	18.8	6.9	6.0	26.9	3.6	1.8	11.1	23.4	1.5
Iowa	24,818	17.4	7.8	3.3	28.7	3.8	1.1	5.2	32.5	1.2
Kansas	19,326	14.6	7.9	6.1	41.2	3.4	1.0	7.9	17.1	.8
Kentucky	49,372	7.4	7.0	4.6	43.0	4.1	.8	10.4	25.3	.5
Louisiana	61,288	3.7	8.7	8.5	37.9	1.9	.6	18.3	19.2	1.3
Maine	22,644	19.4	11.2	4.3	35.9	.5	.4	6.6	21.0	.9
Massachusetts	107,103	8.9	9.4	5.7	41.2	3.6	.7	8.2	21.5	.6
Michigan	176,054	9.9	5.0	3.0	40.5	1.7	1.6	10.0	27.4	1.1
Minnesota	41,669	14.2	13.2	4.6	43.2	2.9	.7	8.7	12.6	(1)
Mississippi	47,336	20.6	8.0	7.2	22.8	2.0	2.2	10.5	25.0	1.6
Missouri	78,387	27.4	7.8	3.0	25.6	2.1	1.9	8.8	22.0	1.3
New Jersey	122,503	11.5	5.4	3.7	30.2	3.0	.9	7.4	35.8	2.0
New York	331,394	7.4	3.7	11.5	50.3	3.7	1.0	4.1	16.8	1.6
North Carolina	50,048	7.3	6.0	8.9	33.6	2.0	2.3	21.0	18.6	.3
North Dakota	4,047	18.1	12.1	3.9	29.9	2.9	.4	5.1	26.6	.1
Ohio	164,337	2.6	2.8	4.9	52.4	1.9	.9	5.4	27.7	1.5
Pennsylvania	162,151	8.0	3.3	10.3	54.2	3.8	.9	6.4	12.3	.7
Puerto Rico	39,836	2.3	1.8	16.1	64.1	.6	.3	2.8	10.1	2.0
South Carolina	36,775	5.7	5.1	12.3	27.4	3.9	3.1	15.3	27.0	.3
Tennessee	59,820	11.6	6.5	7.3	30.3	2.8	2.7	8.7	28.3	1.8
Texas	102,896	5.1	6.0	6.2	37.8	4.8	.4	10.3	29.1	3.0
Virginia	47,988	8.9	6.6	5.9	31.2	5.8	1.6	6.5	32.5	1.0
West Virginia	19,681	5.2	2.5	12.2	40.9	2.4	.7	8.2	26.0	2.0

[1] No sample cases.

Question. The President's Message also stated that "efforts to find jobs for current recipients have floundered." Yet, some have recently suggested that the WIN program is beginning to have some effects and should be given a fairer test. What is your Department's conclusion on this and how do you assess the performance and potential of the WIN program?

Answer. The reference to the difficulty in placing current recipients refers, of course, to the structural unemployment problems that characterize many persons who are currently AFDC and Food Stamp recipients. The group who have the highest incidence of unemployment—blacks, women, those with relatively low educational levels, the groups usually characterized as disadvantaged—make up sizeable segments of those currently on the AFDC and Food Stamp rolls. In spite of these impediments and the severe limitations imposed by very poor overall labor market conditions, it is noteworthy that the WIN program, as amended in 1971 to emphasize quick referral and placement, has a good track record. The 1971 amendments made an almost immediate impact in fiscal 1973, the first year they took effect, when WIN registrants obtained nearly 137,000 jobs—more than twice as many as in the previous year. Placements have continued to rise, even during the recession, and totalled more than 276,000 jobs in fiscal 1977.

We are naturally pleased with these increased placements but are cautious about expanding WIN as it is now constituted. A major longitudinal study that is still in process raises some questions about whether the minimal service approach is as effective as it seems. Comparisons with matched control groups suggests that many registrants, for example, might have found jobs without assistance from WIN, sometimes at higher wages.

At the same time, although the evidence is not all in, it appears that training and other manpower development programs may be more cost effective than minimal services in terms of post enrollment results, even though they are initially more expensive. CETA is the Department's major vehicle for enlarged investments in that kind of effort and in that connection we are working to build stronger linkages between WIN and CETA. The use of CETA slots will also be a major feature of the jobs program under welfare reform.

The welfare reform proposal does not envision that WIN program functions would be abolished. In fact, in most areas, WIN program functions would now be expanded to a larger population. Under welfare reform it is expected that the CETA prime sponsor will contract with the Employment Service to perform a variety of intake and job placement functions including employability assessment, arrangement for supportive services, counseling, testing, referral to training if appropriate, supervised private sector job search, referral to OJT or subsidized job placement and administrative linkages with the cash assistance system. The major differences will be: (1) extension of WIN-type services, on an as needed basis to the larger population now served by the cash assistance and subsidized job programs; (2) better delineation and integration of Employment Service, WIN and CETA functions.

The WIN program has been in operation since 1968 and a number of evaluation and research studies have been conducted. One of the major findings has been that although WIN has been successful in helping some welfare recipients improve their earnings and length of time in jobs, no matter how long it is tested, WIN cannot, of itself, resolve the problems inherent in the AFDC system. The presence of work disincentives which result from "notches," high marginal tax rates and the absence of an adequate number of subsidized jobs are problems that the WIN program in itself cannot overcome. A major redesign of the system is necessary to remove those barriers.

The Administration's proposal thus recognizes, that while a vigorous economy is the best remedy for high aggregate unemployment rates, the employment problems of the low income population cannot be addressed through aggregate economic policy alone. For this reason a substantial structural public service employment program is proposed to insure that adequate job opportunities, combined with appropriate training and skill development, are available to serve this group and that this better integrated, more comprehensive system of employment and training services draws upon the best features of the current system.

Question. The Program for Better Jobs and Income relies heavily on improving your Department's work-training and employment services. What evidence do you have from past Federal efforts to assist persons to rise out of poverty and dependency that suggests how much programs might be improved? Have the Federal and State employment services been effective in placing welfare recipients in private jobs? If not, what changes do you plan to make? What other services do you intend to provide?

Answer. In a recent evaluation (November 1976), the National Council on Employment Policy concluded that the weight of the evidence over the last 15 years is that employment and training programs have had positive impacts and there is more proof of effectiveness than for any other major social welfare activity. More specifically, that evaluation concluded that institutional training, subsidized private sector on-the-job training and public service employment substantially improve the economic well-being of participants. They also concluded that employment and training programs have favorably improved the tradeoff between unemployment and inflation, providing a "piece of the action" for the disadvantaged and improving the status of minorities.

The WIN program is, of course, adadministered through the State employment services in virtually every State and in FY 1977 more than 276,000 welfare recipients found unsubsidized employment through that program.

In FY 1977, the Employment Service served more than 15 million new applicants and renewals, of whom more than 7 million or 47 percent were WIN applicants, UI claimants, Food Stamp recipients or other welfare recipients. Persons in these programs represented 35 percent of all placements in FY 1977.

The high levels of aggregate unemployment have had a differential impact on the employment prospects of persons who are among the structurally unemployed. A substantial number of the persons who are Food Stamp recipients and WIN eligibles have the characteristics of the structurally unemployed and placements are more difficult. One of the most significant changes that would be a part of the Better Jobs and Income program would be the availability of a subsidized public job for persons for whom private sector placement is not immediately available.

To improve our relations with the private sector the ES has undertaken a number of efforts to expand the total number of jobs available by emphasizing employer service activities and organizing stronger local ties with the employing communities which it serves.

The DOL is also proposing to strengthen its linkage with the private sector by establishing a special private sector program which will have as one of its major features, the establishment of councils in each participating community to oversee the content and quality of training. These councils will include representation from the business community as well as from labor leaders.

Question. I understand that the Department of Labor has recently begun a demonstration project in Minnesota, designed to pilot-test some crucial aspects of the "jobs" portion of the Administration's welfare reform. Could you describe this experiment for us and exxplain precisely what you are testing, what your standards of success are, and when you anticipate having some meaningful findings?

Answer. The Department of Labor has awarded a grant to the State of Minnesota to conduct a demonstration project titled "Work Equity Through Meaningful Employment," or WEP for short. The primary goal of the project is to test the feasibility of an alternative welfare system that provides employment opportunities for welfare recipients who are capable of working. The Department of Labor committed $6.8 million of funding in 1977, and about $5.0 million of 1978 funds are available.

The Work Equity concept was developed by the State of Minnesota prior to the change in administrations in Washington and the formulation of the Program for Better Jobs and Income (PBJI). Thus, there were many features in the original WEP proposal that differ from the Administration's welfare reform program. As the Program for Better Jobs and Income began to take shape, a decision was made to fund the WEP proposal because it could test some of the key features of PBJI more quickly than specially designed demonstration projects, but efforts were made to modify WEP to make it as similar as possible to PBJI.

Current plans call for the implementation of WEP in the city of St. Paul and a group of rural counties in the southern part of the state. Eligible recipients of AFDC, General Assistance, and Food Stamps will be assessed and provided with the appropriate services and employment opportunities. Those who are considered ready to work will be provided a public service job if they are unable to find unsubsidized employment; those who are not considered job ready will be provided with supportive services and may be enrolled in a classroom training or on-the-job training program.

There are several important distinctions between WEP and PBJI: 1) wages for the public service jobs in St. Paul are expected to average about $3.12 per hour which is slightly higher than the planned welfare reform wage (in 1978 the typical worker in Minnesota under welfare reform would earn $2.91 with team leaders earning up to $3.64), 2) participation in St. Paul will be limited to new AFDC recipients and current WIN recipients who volunteer rather than all primary earners in families with children, 3) participation outside of St. Paul will be limited to those receiving General Assistance and new AFDC recipients, 4) the cash assistance provided to participants will follow Minnesota and Federal law, 5) the public service jobs will last only about 13 weeks, followed by intensive job search for two weeks and additional public service jobs if necessary, and 6) the project was initiated at the request of the State government rather than in conformance with federal guidelines. The lack of complete agreement among affected State agencies with respect to the features of the project and several reorganizations of the project staff have resulted in implementation delays.

Five major research issues will be addressed in WEP: 1) How feasible is it to create a large number of low-wage public service jobs for welfare recipients? 2) What is the demand for these jobs in the eligible population? 3) What is the effect of WEP compared to the current welfare system on the long-run employment and earnings experience of participants? 4) How do the costs of WEP and the current welfare system compare? 5) How well received is WEP by the participants and the general public? Because of the difference between WEP and PBJI, WEP cannot serve as a true demonstration of PBJI, but the demonstration will provide a limited test of some of the concepts and will aid in the planning of other demonstrations.

Research on WEP is being conducted by a private firm under contract with the Department of Labor. The research contract was awarded during the planning phase of WEP so that the Department of Labor can assess the planning as well as the implementation of the project. The research design includes periodic interviews with WEP participants, WEP staff, community officials, and the general public. Non-WEP comparison sites will be selected to permit a comparison of WEP with the current welfare system and to compare the experiences of WEP participants with similar people residing in the comparison sites. Participants and comparison site residents will be tracked at least two years after the program begins to permit an analysis of the long-run effects of the program.

The experiment will be a success if the five major questions described above can be answered. The program will be successful if it creates an adequate number of public service jobs and increases the transition rate from welfare to unsubsidized employment. If the program fails to meet its goals, it is important that the research determine the reasons for any failures.

Because of the Department of Labor is interested in the feasibility of the project as well as its long-run impact, some important findings related to start-up problems have already appeared on an informal basis. Qualitative and quantitative information on the implementation of WEP will continue to flow to the Department of Labor throughout the project. A detailed analysis of the design and implementation of WEP will not be available until at least one year after the program begins; it must be recognized that the experiences of the project during its first year may not be an accurate reflection of how the project would operate after initial problems have been worked out. The long-run impact studies will require several years for tracking the participants and comparison group and some additional time for analysis.

Question.

What has been the experience of the Federal Government with past efforts to develop "public service jobs?" What is the overhead cost per job? What is the long term effect on persons holding such jobs? Do they obtain jobs in the private sector after the public service jobs ends, and if not what happens to them? How do you intend to assure that the new public service jobs to be created by the Program for Better Jobs and Income will actually add to total employment, rather than just substituting Federal funds for jobs that were already existing or would have been created in any event?

Answer. The experience of the Federal Government with past efforts to develop public service jobs tends to show that the placement of transition potential of these jobs depnds on: 1) The state of the labor market; 2) the purposes and design of the program and 3) the priorities of the administration.

Federal job creation in the public sector has been addressed to two distinct purposes, countercyclical and structural. The countercyclical programs have been the WPA in the 1930's, EEA in 1971–73, and CETA Titles II and VI. The WPA served an average of 2 million persons annually during the period 1932–40. Placement was a major problem, due to the lack of adequate job opportunities in the private sector. Despite WPA wage rates lower than prevailing wages, the average individual stayed almost 2 years, and in 1939 a limit of 19 months was placed on enrollments. It was the advent of the war that put an end to the need for WPA.

Under EEA, placement into unsubsidized jobs was given high priority. Also, the economy began to improve in 1972 and 1973. As a result, more than half of all EEA participants (EEA served a total of nearly 300,000) found unsubsidized jobs immediately following EEA participation. A follow-up study of a national sample showed that one month after program participation 71 percent were in jobs; 6 months later, 79 percent; while a year later, 82 percent were employed.

CETA Title VI, enacted in December 1974 resembled EEA rather closely, creating essentially the same type of jobs for the same types of people. It was funded to support a level of about 300,000 slots, or twice the EEA level. For the most part, the jobs created under CETA PSE were in regular government agencies, at prevailing wages and were filled by people resembling regular government employees.

Concerns that those most in need were not being helped, as well as concerns about the substitution issue, led Congress, in extending Title VI, to change the nature of the jobs and the persons to be served. The extension focused more heavily on low income and long term unemployed, and on "projects" other than ongoing government services. A total of 725,000 jobs are now authorized under Titles II and VI of CETA.

The placement record for Titles II and VI is somewhat lower than that of EEA. However, this is not unexpected given the very poor labor market conditions which have existed during most of the life of the program and the fiscal difficulties that have constrained local government hiring. Placement rates immediately upon termination as reported in the DOL data system have ranged from 30 to 40 percent, but these figures are fragmentary and not consistent. Much more accurate data, although not as current, is available from the Continuous Longitudinal Manpower Survey (CLMS). CLMS data for public service employment terminees who were first enrolled in January–June 1975 is displayed in the following table and shows that during the year following program participation about 60 percent moved into unsubsidized employment; 25 percent were unemployed; and 15 percent left the labor force.

POST-PROGRAM EMPLOYMENT STATUS OF PSE TERMINEES 1ST ENROLLED IN JANUARY-JUNE 1975

[N=153,000]

Months after termination	In percent — Employed	Unemployed	Not in labor force
1 mo	58	28	15
2 mo	61	23	16
6 mo	62	21	17
12 mo	65	22	13

Initially, of those employed after leaving CETA, almost 60% were in unsubsidized public employment. Over the following year the proportion of those in private employment increased so that by the end of the year, a substantial majority (57%) were in private employment.

Costs per manyear for CETA public service jobs (Titles II and VI combined) are shown in the following table.

	Fiscal year 1975		Fiscal year 1976		Fiscal year 1977	
	Amount	Percent	Amount	Percent	Amount	Percent
Wages	6,375	84	6,584	83	6,804	81
Fringe	853	11	961	12	1,036	12
Training/services	51	1	42	1	80	1
Administration	312	4	292	4	508	6
Total	7,591	100	7,879	100	8,429	100

Source: ETA data.

Administrative costs, which have been very low, rose slightly in FY 1977 because some equipment purchases were allowed and are included in that category. Total Title II and VI manyear costs are estimated to run about $8,900 in FY 1978. By way of comparison, in FY 1974 the average manyear cost of EAA was $8,500 (wage ceiling then was $12,000 compared to $10,000 under CETA).

The second major category of a job creation effort can be described as structural, and encompasses the OEO initiated job programs of the sixties. Actually, within this category two somewhat different types of programs can be identified. The first was aimed at persons who needed some assistance, either because of discrimination or lack of skill, but who were expected to become competitive in the labor market with this help. New Careers and Public Service Careers were programs of this type.

Another type of program was designed to assist relatively noncompetitive applicants, and to move them into unsubsidized employment, such as the EEA demonstration projects which placed AFDC recipients in specially created public sector jobs. The participants performed the jobs satisfactorily, and were reluctant to leave them. Transition and turnover were lower than had been anticipated, in large part because of rising unemployment and declining public sector payrolls.

The maintenance of effort provisions in CETA are of course designed to prevent displacement, and are vigorously enforced by The Department of Labor. Also, the addition of provisions in the 1976 Title VI amendments to target the program on the economically disadvantaged and to move to the projects mode of operation have substantially lessened the problem of displacement.

While there has always been a potential displacement problem with the PSE programs, a new study by the Brookings Institution on public service employment programs found relatively low levels of substitution compared with previous estimates.

The study found a low level of fiscal substitution compared with previous estimates. The study is based on a survey of 42 jurisdictions, which represent about 5 percent of the nationwide PSE positions. The jurisdictions include 16 large cities, 9 small cities—of which 5 are suburban and 4 are rural, 10 rural counties, 5 suburban counties and 2 school districts. The Brookings study found that of the jobs surveyed, 51 percent are new jobs, 31 percent are for program maintenance, that is, for continuing operations which would otherwise have been terminated, and 18 percent are displacement. The use of PSE for program maintenance was found to be highest in distressed cities (about 60 percent). Concomitantly, displacement was found to be highest in those jurisdictions with no fiscal pressure. Furthermore, Title VI project jobs represent a lower level of displacement (8 percent) than the average (18 percent). This suggests that the new approaches contained in the 1976 Title VI amendments have been successful in limiting the amount of displacement that might otherwise occur. Brookings researchers found that where PSE was used for displacement, the money "freed up" was used to prevent tax increases. In some cases it was used for other municipal purposes, and in a few cases, it was used to reduce taxes.

Under welfare reform, emphasis will be on the creation of jobs in *new* areas of production or services. Further, the program will be targeted on workers with fewer skills and less education than workers usually hired in regular public jobs. These factors should substantially limit the possibilities of replacing regular workers with workers hired under the welfare reform program. In addition, there will be strong maintenance of effort requirements and explicit constraints on the ability of local officials to supplement wages. Limiting supplementation prevents employers from using PSE wage funds to support regular higher skilled civil service employees who would have been hired any way. Finally, the higher overhead rate allowed on the welfare reform jobs will reduce the incentive for substitution, especially by CBO's, because more overhead will facilitate sizeable job expansion into new project areas.

Question. When you testified before this Subcommittee last May, we discussed the type of jobs that would be created for welfare recipients. Yet in the material accompanying the Administration's proposal in August, you listed, as possible jobs, weatherizing homes, pest and insect control, building parks and other activities that seem to have little obvious connection with the skills usually found among welfare recipients. How did you produce this list? Does it have more to do with bureaucratic ideas about what would make for a "meaningful job" or have you some new evidence about the abilities of welfare recipients? Are you not concerned that because of the skills required and the salaries that will be paid, you may attract people who are employed at other jobs, thereby leaving too few opportunities for welfare recipients?

Answer. The second edition of the "Subsidized Public Service Jobs and Training" paper which has recently been completed provides answers to some of your questions. First, while some of our job development ideas have certainly come from the Washington bureaucracy, most of the jobs suggested are based on actual, ongoing projects in the field. In most cases, these are CETA Title VI PSE projects begun since mid-May 1977, in others they are WIN-based or efforts originating with other Federal agencies. They have been developed under State and local initiative for the most part, reflecting needs expressed at that level.

Second, while many doubts have been expressed about the skills and abilities to perform the tasks suggested, the evidence we have received from actual experience in the field is very encouraging. Keep in mind that the new hires for CETA Title VI projects are increasingly like the target population of the welfare reform jobs. Of those new hires (since March 31, 1977), 86 percent were economically disadvantaged and 25 percent had been receiving either AFDC or other public assistance payments. Those figures are roughly twice the proportions of FY 1976 CETA Title IV PSE. These participants are not only performing satisfactorily in the areas of weatherization and pest and insect control, but are also working quite successfully as day care and home health care aides.

Third, neither the skill levels nor the wages paid for these welfare reform jobs are likely to be so great as to attract large numbers of persons who are already employed at other jobs, given that there is to be an extended period of job search required before entry. Few are going to be willing to give up a certain job for a limited duration, relatively low-skilled job which offers a wage at the minimum wage or slightly higher than the minimum wage.

Question. The administration's estimates of fiscal relief associated with the Better Jobs and Income program are mostly based on its "cash side". But it appears that the jobs program could have a considerable impact. Won't the changes in CETA necessary to make jobs for these people portent substantial changes in public service job funds for many areas? For example, of the $6.5 billion allocated in fiscal 1977 and 1978 in CETA countercyclical funds, New York State received about $680 million. How much will New York receive for "welfare jobs" under the administration's proposal? How do fiscal relief estimates change if you "net out" the change in public service dollars?

Answer. Under the President's Program for Better Jobs and Income (BJIP), the State of New York would receive $707.4 million (in 1978 $) per year for jobs and related administrative expenses. Of this total, $674.5 million would be for federal wage and overhead costs and $32.9 million would be for administrative services, including counseling, testing, and job search assistance.

The total of over $700 million for BJIP jobs would *not* be a substitute for CETA countercyclical PSE funds. The administration intends to retain a countercyclical CETA PSE program, with the size of the program being dependent on the level of national unemployment. The President's budget for fiscal 1979 will request a total $5.955 billion to maintain CETA countercyclical PSE at a level of 725,000 jobs, the same level authorized in fiscal 1977 under the economic stimulus supplemental appropriation. After fiscal 1979, funds will be requested to maintain CETA countercyclical PSE jobs at levels consistent with the anticipated changes in the economy. It is currently estimated that these requests will total $4.6 billion in fiscal 1980, $2.3 billion in fiscal 1981, $1.6 billion in fiscal 1982 and $1.4 billion in fiscal 1983. As a result, depending on the level of national unemployment in the year in which BJIP is implemented. New York may receive both a total of over $700 million (in 1978 $) for BJIP jobs *and* a substantial total for CETA countercyclical jobs.

The source of confusion concerning the relationship between BJIP jobs and CETA countercyclical jobs probably stems from a misunderstanding as to what the President meant by the zero cost constraint. The idea was not simply to require that any expenditures on BJIP in the year of implementation be offset by expenditures which otherwise would have been made in the same year. Rather, the objective was to ensure that total federal expenditures in fiscal 1981 not exceed the proportion of GNP which they are expected to be in the fiscal 1978. In our original planning, we expected Title VI expenditures to be zero in fiscal 1981, because our original proposal would have had Title VI expenditures triggering off at the unemployment rate projected for that year. As a result, the outlays for Title VI stimulus in FY 1978, initially assumed to be $5.5 billion would have no longer been a commitment against the federal budget in fiscal 1981. Thus, this total of revenues—$5.5 billion—would have been available to offset the cost of BJIP without violating the total cost constraint.

Question. Mr. Secretary, the Secretary of Health, Education, and Welfare testified on Tuesday and revealed the inability of his Department to provide much information about the effect of welfare programs on families. This is, of course, a crucial matter in assessing the merit of the Program for Better Jobs and Income since I know that the Department of Labor has also paid attention to it. I was wondering if you might summarize the evidence available on the subject. What effect will the Program for Better Jobs and Income have on families?

Follow-up: If, as you say, having a job will contribute to family stability, how do you account for the rising rate of divorce and separation among middle- and upper-income families, all of whom presumably were headed by someone with a good job?

Answer. Over the last several years a growing body of research has focused on the impacts of the welfare system, and potential changes thereto, on family formation and marital stability. The potential effects of welfare on the family include the following:

1. The "Independence" effect—since welfare offers an alternative to earnings as a means of family support, it may discourage marriage before childbearing, encourage family splitting and impede remarriages. These effects are heightened if:

   (*a*) Welfare benefits are denied to families with two able-bodied parents;

   (*b*) Welfare benefits are extended to two-parent families but high benefit reduction rates offset most or all of the net income benefit from having an earner in the household;

   (*c*) The normal breadwinner experiences prolonged unemployment or unemployment.

2. The Income Effect—offsetting the independence effect is the stabilizing influence of higher and/or more stable income on family functioning.

IMPACTS OF THE CURRENT SYSTEM

Several studies have shown that the net effect of the AFDC program, with its general exclusion of parents headed by employable males, is to increase the number of female-headed families. However, none of the studies shows large effects.

Experience with the Unemployed Fathers component of AFDC (AFDC-UF) suggests that extending coverage to low income two-parent families will not offset these destabilizing influences. States with AFDC-UF programs show no lower (and in some analyses higher) rates of female-headedness than do states with UF programs. Families receiving AFDC-UF also experience rates of dissolution substantially higher than low income families not receiving AFDC-UF.

Far stronger are the measured effects of unemployment on marital stability. Numerous studies, both cross-sectional and longitudinal (the latter using longitudinal data from the (Michigan) Panel Study of Income Dynamics, and the (Parnes) National Longitudinal Survey) have shown that high rates of unemployment and/or low or sporadic earnings are strongly and positively associated with marital dissolutions. (This association was first highlighted by Senator Moynihan's well-known study undertaken while he was at the Department of Labor.)

POTENTIAL IMPACT OF EXTENDING CASH ASSISTANCE ALONE

Even if providing female-headed families with an adequate level of support does cause an increase in family instability, it does not follow that extending welfare coverage to two-parent families will reduce family instability.

In fact program experience and experimental research indicate that expanding eligibility for welfare to two-parent families will increase marital splits rather than decrease them.

The strongest evidence of this sort is provided by the three income maintenance experiments that have published such findings. In all three of the experiments (the New Jersey, Seattle/Denver and Rural Experiments) the measured rates of marital dissolution were larger in the experimental group (i.e., receiving income maintenance payments), than in the control group. Except for Chicanos, families enrolled in plans providing relatively low benefits (below poverty-line guarantees) experienced increases in dissolution rates from 50 percent to 100 pereent. Families receiving above poverty line guarantees did not show increases in family dissolution. The Seattle/Denver experiment also showed that, as expected, high benefit reduction rates increase the probability of family splitting and reduce the probability of remarriage.

A good summary of relevant research in this area is provided by John Bishop, Research Associate at the Institute for Research on Poverty, University of Wisconsin in his prepared testimony for the House Welfare Reform Subcommittee, October 14, 1977. The relevant portions of his testimonv are attached.

EXPECTED IMPACTS OF THE ADMINISTRATION'S WELFARE REFORM PROPOSAL

While any income transfer program will inevitably include some offsetting influences, it is expected that the overall impact of the Administration's proposal will be to have a stabilizing influence on families for two reasons. By reducing involuntary unemployment and underemployment among family breadwinners and by increasing their short and long-term earnings, the job component should offset potentially destabilizing influence of which the cash assistance component or the existence of improved job opportunities for single-parent families may exert. Most importantly, the two components together should considerably improve family stability by providing the assurance of an above poverty line income.

FOLLOWUP

Obviously there are many personal and societal factors which contribute to rising rates of family dissolution. However, the major significance of recent research findings is the direct evidence provided that the incentives provided by governmental policy do exert measurable impacts on family and individual behavior, and that account should be taken of such influences in the design of transfer, tax and other social policies.

WRITTEN TESTIMONY* TO THE WELFARE REFORM SUBCOMMITTEE OF THE COMMITTEE ON AGRICULTURE, EDUCATION AND LABOR, AND WAYS AND MEANS OF THE HOUSE OF REPRESENTATIVES, OCTOBER 14, 1977

(By John Bishop, Research Associate, Institute for Research on Poverty, University of Wisconsin; Co-Principal Investigator of a study of the Potential of Wage Subsidies)

II. WELFARE REFORM AND THE FAMILY

A highly advertised objective of the executive branch's welfare reform package is to "provide strong incentives to keep families together rather than tear them apart, [1] by offering the dignity of useful work to family heads and [2] by ending rules which prohibit assistance when the father of a family remains within the household." (White House Message, August 7, 1977)

In this section I'll examine whether these claims are supported by the results of recent social science research on marital stability. The conclusion is that while there is strong empirical support for the first claim, there is none for the second. In fact, the best available evidence is that expanding eligibility for welfare to include 2 parent families will increase marital splits rather than decrease them. This evidence has been available for only 18 months and was published in the American Journal of Sociology only last May. It, therefore, has not yet been subject to the full scrutiny of the research community. Because these findings are so surprising, some respected analysts doubt their validity. Decisions about income maintenance policy are being made now, however. Consequently Congress and the public must now be made aware of the current state of social scientific knowledge about the likely effects of universal income maintenance on marital stability.

If keeping families together is an objective, the policy implications of these findings are that President Carter's emphasis on providing jobs rather than stipends is correct and needs to be carried further. Intact families with an able bodied worker should be aided by providing jobs and by raising their after tax earnings not by putting them on welfare.

The jobs component of the Program for Better Jobs and Income (PBJI) is designed to provide an effective guarantee of employment to heads of families with children. This is to be accomplished by creating 1.4 million public service jobs and assigning heads of families with children priority in any queue that may develop in the application for these jobs. Tax relief would be extended to families with low earnings by liberalizing the earned income tax credit. Workers in private and nonsubsidized public employment would continue to receive the current 10 percent credit on earnings up to $4,000 a year and would, in addition, receive a 5 percent credit on earnings between $4,000 and the family's tax threshold (roughly $9,000 for a family of four). If implemented, these components of PBJI will accomplish the double purpose of eliminating involuntary unemployment and raising the take-home pay of workers in low and middle income families with children. The results of half a century of social science research support the proposition that accomplishing these objectives will help keep families together.

A. Evidence on the effect of unemployment and the earnings of husbands and wives on marital stability

The classic studies of the impact of unemployment on marriages are the studies of adjustment to long term unemployment during the 1930's done by Bakke (1940) and Komarovsky (1940). A pattern of progressive deterioration in the husband's authority and involvement in family ritual was common. When family heads were able to obtain work relief, the process of disintegration was arrested. Bakke concluded, "The job of the head of the family provides not only income but a social role for which there is no adequate substitute in a working class culture."

One of the best ways to study marital disruption is to follow a large sample of couples over a long period of time and examine how characteristics meas-

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ured early in the marriage relate to later disruption. Two large nationally representative data sets of this type currently exist: the Panel Study of Income Dynamics (PSID) and the National Longitudinal Survey (NLS). Hoffman and Holmes found that in the PSID when no other variables are controlled marital dissolution measured over a seven year period is negatively associated with the husband's hourly wage and average hours of work per week. When, however, a great number of demographic and other economic variables were controlled including home ownership, savings, hours worked and unemployment, the wage rate no longer had a consistent effect. Hours worked had an important though curvilinear effect. Husbands working 48 hours per week were found to have the lowest split rate with significant increases in splitting occurring for those working more than 60 or less than 40 hours a week. Husbands who had recently been experiencing unemployment or high job turnover were more likely to experience a marital dissolution. Owning a home and having substantial savings lowered the probability of separation. These results suggest that it may be the stable life style (as reflected by owning a home and having substantial savings) that a husband's high wage rate can make possible that leads to stable marriages.

Sawhill et al. analysis of PSID data obtained similar results. If the husband in a poor or near poor family had experienced serious unemployment problems, the probability of a separation over the next four years rose by more than 16 percentage points. A typical low income white family's probability of dissolution rises from 7.6 percent to 24 percent. The typical low income black family's probability of dissolution rises from 12 percent to 30 percent. Declines in income also cause statistically significant increases in marital dissolution.

Most studies find that women who earn more in the labor market are more likely to become separated and divorced. Sawhill, et al., for instance found that in the PSID each $1,000 of earnings by the wife raises the percent of couples that separate by one percentage point.

Cherlin's study of marital separations of 30 to 44 year old women in the National Longitudinal Survey also found that marriges are more stable when the husband works throughout the year and/or has a high wage rate and less stable when the wife has a high wage rate. Moore's (1977, p. 80) study of marital splits over a four year period using the National Longitudinal Survey's sample of young women (14 to 24 in 1968) also found the likelihood of a marital separation was higher when the husband's income was low or when the share of the family income provided by the wife was high.

The evidence for the proposition that families whose head experiences unemployment are more likely to split seems quite strong. Will, however, a reduction in unemployment caused by an economic boom or government created jobs reduce rates of marital dissolution as well? The doubter may argue that the correlation of unemployment and marital splits across individuals is due to some third factor (for example, a violent temper) which is not controlled in the studies cited above. For example, if violent tempers are the cause of the observed association, giving jobs to the unemployed will not save their marriages. A similar counter argument can be made about the observed associations between wives working and marital splitting. One way to test this omitted factor hypothesis is to examine whether there is an association between the unemployment rates and male earnings opportunities in the community and indicators of marital disruption in that community. Presumably the incidence of men with the key omitted characteristics (such as a temper) is not the cause of or highly correlated with variations across cities in the unemployment rate. Therefore, an association at the community level of higher unemployment rates, lower male wage rates, and higher female wage rates with higher rates of marital dissolution provides strong evidence for the existence of a casual relationship. Three studies of rates of female headship for large geographic areas are available and all find that unemployment, and the ratio of male to female wages are quite important.

Proportions of women heading families and rates of marital dissolution are not available by geographic area, however, so we must work with the best proxy available. It is not necessarily a disadvantage to analyse variations in rates of female headship because they are of great intrinsic interest. Besides reflecting differences in marital dissolution rates of families with children, they reflect differences in remarriage rates, differences in the likelihood of having a child out-of-wedlock and keeping the child, and differences in the likelihood for the mother to live with her own parents.

Honig's studies (1974, 1976) of rates of female headship in 44 metropolitan areas found that controlling for the characteristics of the AFDC program, rates of female headship of whites and blacks in 1960 and 1970 fall when males earn more and rise when females earn more. Higher unemployment rates increased the female headship rates of whites in 1970 and of both races in 1960. Using states as observations, Minaik and Goldfarb (1976) obtained similar results for male and female wage rates. The unemployment rate had a positive coefficient but it was not statistically significant.

Strong impacts of unemployment rates and male wage rates on marital instability have been found in Ross's study (1975, p. 216) of female headship rates in the low income areas of 41 cities in 1970. Holding the male/female wage ratio and AFDC program characteristics constant, she found that a doubling of the median weeks of male unemployment raised white female headship rates by 55 percent. Rates of female headship for black women did not respond to the unemployment variable. A ten percent rise in the median income of intact families lowered rates of female headship by 7 percent.

The final piece of evidence on the impact of local unemployment rates is provided by Caldwell's study of dissolutions using the young NLS women (Moore et al., 1977, p. 303). He found that living in an area with high unemployment caused a statistically significant rise in the marital split rate. The yearly rate of marital disruption which averaged 6.7 percent in this sample is predicted to rise to 7.7 percent if the local unemployment rate is 2 points higher than average.

What then will be the impact of the jobs component of the welfare reform package? The jobs component will assure all families with children a job that will yield a minimum income 13 percent above the poverty line of a family of four. Since these jobs will carry low wage rates their primary impact will be on unemployment not on wage levels. All of the studies which entered a local unemployment rate (Caldwell, Honig, Ross, and Minarik and Goldfarb) have found that generally tight labor markets are associated with fewer marital dissolutions or lower rates of female headship.

The stabilizing effect of a general reduction in unemployment will be accentuated by the fact that "if there is more than one adult in the family, this job or training slot will go to the family's principal wage earner. The principal wage earner will be the adult who had the highest earnings or worked the most hours in the previous year." (HEW News Release, August 6, 1977.) In two-parent families this will typically mean that the husband will be provided the job. Priority is given to providing principal wage earners a job because it is felt that families whose principal wage earner is unemployed have the greatest need of help. There is only a limited number of job slots; therefore, giving all wives a similar priority in the queue would result in some of the neediest families not receiving any job offer. By giving priority to ending the unemployment of family breadwinners, the jobs program will have the additional effect of stabilizing marital relationships. The jobs program will not be drawing wives in two-parent families into the labor market and thus destabilizing female independence effects will be minimized. The impact of the liberalized earned income tax credit on marital stability is harder to predict. This issue will be discussed at the end of the section on cash assistance.

B. The effect of making welfare payments to intact families

The second aspect of welfare reform that is supposed to encourage families to stay together is the expansion of coverage to include intact families with able bodied adults. Currently most low income two parent families are ineligible for the Medicaid and AFDC support that similarly situated one parent families receive. It is not unusual for the earnings of a father to be less than the value of the Food Stamps, AFDC and Medicaid his family would become eligible for if he were to desert them.

While it may seem only logical that these perverse incentives should increase marital instability, the empirical evidence for the proposition is by no means secure. Honig (1974, 1976) found a positive relationship between the level of the AFDC payment and rates of female headship for blacks and whites in both 1960 and 1970. The effect is not statistically significant for blacks in 1970, however, and its size is small. A doubling of the AFDC payment increases the number of female heads by only 6 percent. Ross's. (1975) study of female headship in low income neighborhoods has also found positive and statistically significant impacts of AFDC payment level on blacks but not on whites. Studies that use states rather than metropolitan areas as observations [Minarik and Goldfarb (1976) and MacDonald et al] have found nonsignificant negative effects of higher AFDC payments on female headship.

Analysis of PSID data has also failed to produce conclusive results. Hoffman and Holmes find that in states with high benefit levels the dissolution rates of low income couples rise from 3.8 percent to 10.6 percent. This effect is substantially larger than those found by anyone else. Sawhill et al.'s logit analysis of disruption during the first four years of the PSID finds a statistically significant but small effect of AFDC payment level. While two thirds of the studies find a positive effect of AFDC payment level on marital instability indicators, only one of these studies finds the effect to be large in recent data. Thus while there is some support for AFDC being a marriage destabilizer, there is very little support for its being a powerful destabilizer.

Even if providing female headed families with an adequate level of support does cause an increase in marital instability, it does not follow that "ending rules which prohibit assistance when the father of a family remains within the household . . ." will . . . "keep families together." (HEW News, August 6, 1977.) There is no empirical support for this assertion. The best existing evidence suggests exactly the opposite will occur.

In many states two-parent families with an unemployed head are already eligible for cash assistance from the AFDC-UP program. The primary purpose of this program is to reduce the incentive for families to split up in order to get AFDC. There is, however, no evidence that this program has reduced marital instability. A study of the AFDC caseload in Alameda County, California [Wiseman, 1977] found that 22 percent of a 1972 sample of mothers in two-parent families receiving AFDC-UP assistance were on AFDC for absent or disabled fathers before the end of a year. Wiseman reports that almost all of these transfers from AFDC-UP status to AFDC status were due to a desertion. These rates of dissolution are substantially higher than those experienced by two-parent low income families that are not on AFDC-UP. The yearly rates of dissolution in the control groups of the Income Maintenance Experiments were 4 percent in New Jersey and 5 to 10 percent in Seattle/Denver. The four year dissolution rates for poor and near poor couples in the PSID were 7.6 percent for whites and 12.1 percent for nonwhites. Since the families that apply for AFDC-UP are not a random sample of all low income families, this data does not prove that AFDC-UP caused the higher disruption rates. These results are, however, consistent with the findings of other research to be presently shortly that extending welfare to include two-parent families will increase rather than decrease marital instability.

Since many states do not have an AFDC-UP program, another way of examining the effect of AFDC-UP is to enter a dummy variable for the presence in the state of an AFDC-UP program in models predicting aggregate indicators of marital disruption. Three studies of female headship rates [Ross, 1975; Minarik and Goldfarb, 1976; Honig, 1976] have done this. Since the number of families receiving AFDC-UP aid is small even in the most liberal state, large impact is not to be expected. Where estimated separately by race, impacts are positive for blacks and negative for whites. The Minarik and Goldfarb estimate of AFDC-UP impact for both races combined is positive. In the three studies only one of the coefficients is statistically significant, however. This coefficient [in Honig, 1976] implies that female headship amongst black's increases by 15 percent where there is an AFDC-UP program. As expected the results are not conclusive.

The best evidence on the likely impact of extending cash assistance to two parent families on marital stability is provided by the negative income tax experiments. In these experiments negative income tax programs that are very similar to the cash assistance component of the Program for Better Jobs and Income were actually tried out. Families were randomly assigned to experimental and control groups. This is a major advantage. It means that if statistically significant non-artifactural differences are found between the experimental and control groups, it is possible to make the inference that being placed on the plan *caused* the difference. While better than any other kind of evidence, the experiments are not perfect. Ambiguities of interpretation may arise from small sample size, differential attrition of families from the experiment, and imperfect methods of measuring marital dissolutions. The families are promised only 3 to 5 years of payments and are studied only for that period of time. Consequently, predictions about the short and long term effects of a permanent program are necessarily extrapolations. After the basic findings of these experiments are presented, the likely direction and size of the biases created by these and other problems will be assessed.

Analyses of marital splitting have been published for three of the four experiments. In all three experiments the measured rates of marital dissolution were larger in the experimental group than the control group. The unadjusted dissolution rates for the control and experimental groups of each of these experiments are presented in Table 1. For whites in the Seattle/Denver experiment, for instance, 10 percent of the control group and 17 percent of the experimental group's marriages had dissolved within two years; an increase of 70 percent. Families on the most generous plans apparently did not experience an increase in the rate of marital dissolution. The cash assistance component of the Program for Better Jobs and Income has a low guarantee, however, so it is the effect of the low support plans in the NIT experiments that hold the greatest immediate policy interest. In all three experiments, it was the families on the least generous support plans that experienced the largest increases in the rate of marital dissolution. Except for Chicanos, families in the low support plan appear to have doubled their dissolution rate. These generalizations are based on the support level multipliers presented in Table II. that provide estimates of the proportionate response of dissolution rates when the pre-experimental characteristics of the family are controlled. For the low payment plan the increases in marital split rates are statistically significant in both of the urban experiments. They are not statistically significant in the Rural Income Maintenance Experiment because the low incidence of marital disruption in rural areas and the small sample size combined to produce only a limited number of splits to study.

TABLE 1.—DISSOLUTION RATES IN THE NEGATIVE INCOME TAX EXPERIMENTS

[In percent]

	Whites	Blacks	Spanish	Rural (3 yr)
Seattle-Denver (2 yr):				
Control	10.0	15.6	14.5	
Financial	17.0	23.3	17.6	
Approximate number of obligations in control and financial	1,400	1,200	500	
New Jersey (3 yr):				
Control	7.5	11.6	13.9	4.8
All financial	6.7	14.5	20.1	5.7
Low support	13.8	23.3	25.0	11.9
Medium support	7.2	10.7	24.1	4.1
High support	4.1	15.2	14.5	3.0
Number of control obligations	159	155	108	336
Number of financial obligations	209	193	144	280
Denver (30 mo):				
Control no IRF	11.2	26.7	13.0	
Control with IRF	13.4	16.4	20.6	
Low support	24.8	31.2	25.9	
Medium support	15.8	29.8	18.4	
High support	10.0	19.0	13.8	
Number of control with IRF obligations	119	98	92	
Number of financial obligations	333	247	335	

TABLE II.—MULTIPLIERS FOR DISSOLUTION AND REMARRIAGE RATES

Support level	Seattle/Denver (24 mo)					New Jersey[1] (36 mo), all	Rural (36 mo), all
	Whites		Blacks				
	All	With children	All	With children	Chicanos, all		
Dissolution of marriages intact at enrollment:[2]							
Low	[3] 2.27	[4] 1.77	[5] 1.69	[5] 1.67	1.37	[4] 1.9	3.0
Medium	[3] 2.00	[4] 1.75	[4] 1.85	[5] 1.69	.81	1.3	1.14
High	1.32	1.03	1.45	1.43	.85	1.0	.85
Remarriage of those enrolled as female heads:[6]							
Low	.85		.99		[3] .18		
Medium	.81		1.23		[4] .22		
High	.54		.81		[4] .11		
Remarriage of all female heads:[6]							
Low	1.30		1.29		[5] .51		
Medium	1.10		1.71		[4] .42		
High	.80		1.17		[3] .22		
Expected proportion of women in a population like SIME/DIME that will be married, living with spouse:[7]							
Control	.65		.34		.66		
Low	.55		.31		.35		
Medium	.54		.33		.48		
High	.53		.39		.30		

[1] The multipliers for New Jersey combine the effects of support level dummies and the payment variable in the linear probability model of the full sample in table XII, p. 68, of Sawhill et al., 1975. Average weekly payments were $34, $15.30, and $7.70 for high, medium, and low guaranteed levels of respectively.

[2] Marital dissolution equations contain controls for: Normal income (6 categories), city, log of marriage duration, wife's age, wife's education splined at 12 yr., wife's wage, husdnba's age, husband's education, husband's wage, wife/husband wage ratio, number of children of different ages, family on AFDC prior to beginning of experiment.

[3] 0.01>p.

[4] 0.05>p>0.01.

[5] 0.10>p>0.05.

[6] Remarriage equations contain all of the above variables except those that refer to the husband's characteristic.

[7] The steady state equilibrium proportion married is m/m+d where m is the marriage rate and d is the dissolution rate. It assumes that the impact effect of going on program occurs in the 1st 6 mo. and the next 18 mon. provide an estimate of the long runchange in rates of dissolution. Taken from table 3 of "Variation Over Time in the Impact of SIME/DIME on the Making and Breaking of Marriages" by Tuma, Hannan, and Groeneveld, February 1977.

Could these increases in the incidence of marital splitting for people on an NIT be produced by some bias in the mode of analysis? Longitudinal studies always find that some proportion of the families originally chosen for study disappear or refuse to cooperate with later interviews. Women who have separated from their husbands have a stronger incentive to remain in touch with the program if they are eligible for negative income tax payments. As a result, attrition from the sample may be disproportionately high for controls who change their marital status. If this occurs, rates of marital dissolution in the control group will be understated and the increase in marital splits due to the negative income tax experiment will be overstated. Attrition is quite large in the data that Sawhill et al have analyzed from the New Jersey Experiment and it may be biasing her results. Attrition is not, however, solely responsible for the large experimental effects being observed in the Seattle Denver Experiment. Hannan, Tuma and Groenveld have tested the sensitivity of the Seattle/Denver results to attrition. Even under the worst case—the unrealistic assumption that all controls who leave the experiment are dissolving their marriage—significant positive experimental impacts remain for whites and blacks. The decline in the support multiplier produced by even these extreme assumptions imply that in the low support plans instead of their being 100 percent increase there is a 50 percent increase in rates of marital dissolution.

The fact that all of the experimental group and only some of the control group were filling out Income Report Forms is another potential source of bias. In Seattle/Denver the financial report form was one of three sources of information used to keep track of changes in marital status. It is therefore possible that some of the separations that last for a few months might be counted only when the financial report form is being filed. If this happened rates of marital dissolution and remarriage in the control group will be understated. This would cause the impact of the experiment on dissolutions to be overstated and its impact on remarriages to be understated.

The bottom panels of Table I allow us to examine whether there is a tendency for more marital status changes to be measured when a family is filing an Income Report Form. The average for all ethnic groups suggests that while not having to file an IRF may undercount remarriages, it has no effect on the likelihod of counting splits. If only families filing the IRF are used to derive the effect of the experiment, on marital dissolution, the measured impact declines slightly for whites and rises substantially for blacks. The impact of the experiment on rates of marital dissolution of Chicanos—which have never been statistically significant—are further reduced. The average of the point estimates of experimental effects on splitting does not change. However, because the effective size of the sample has been reduced, the statistical significance of the result falls.

Knowing what happened in the experiments does not mean we know what will happen if a similar change is made in the nations welfare system. A revision of the welfare system would be viewed as a permanent change: the experiments were known by the participants to be temporary. One would expect a permanent program to have a larger impact on marital stability than a temporary one. Evidence for this hypothesis is provided by the fact that in Seattle/Denver the impacts of the experiment on both white and black families promised 5 years of payments are consistently (though non-significantly) greater than those on the plan for three years.

A second result of the short term nature of the experiment is that we do not know whether the effects observed over the first three years will continue in the 4th, 5th, etc. years of a permanent program. It is possible that for families that remain in the program long term effects will be much smaller than the initial response. Over the first 24 months of the Seattle/Denver experiment such a pattern was observed for whites. The opposite pattern—effects increasing over time—was observed for Blacks and Chicanos. Even if the impact of the program were to decline after three years, the turnover in the population effected by the program (newly formed families, and families experiencing a severe decline in income due to unemployment or sickness) will insure that the induced rise in marital instability would not gradually disappear.

The final difficulty with using the experiment to predict the results of a national program is that the experiments occurred within the context of an exogenously determined general climate of opinion and customs about marriage. A national program might overtime change the customs and the climate. The fact that something is more common may tend to cause us to feel it is more acceptable. I raise this only as a possibility. I am not aware of nor competent to judge the evidence on a question like this.

Having dealt with the potential biases in the estimates of experimental effects, let me turn to the interpretation of the results. Here one is on shakier ground for while the experiments provide a hard to refute answer to the question "Will marital dissolution rates go up or down," they only provide us clues as to "why."

The standard analysis of the marital stability response to a universal cash assistance program suggests that there should be two contrasting effects. The fact that the family is made better off while it remains together should reduce marital instability. This income effect as it is called should be strongest in the most generous plans. Split rates are lowest in the most generous plans so it appears that at least across plans an income effect is operating. The second effect results from the fact that the program also increases the income of one parent families. By improving the financial situation of the wife if there is a split and reducing the need for child support, the program may induce some families to split. This female independence effect as it is called is also presumed to be the reason why women who work and earn good wages are more likely to split. Evidence for the proposition that a female independence effect is operating is provided by the high split rates of families on a NIT plan but earning too much to receive a payment. The only way these above breakeven families can receive payments from the program is by reducing market work or splitting up. Splitting up seems to be one of the responses.

The most puzzling thing about the experimental results is that women on the low support plan are dissolving their marriages at a very high rate despite the fact that AFDC will pay them almost as much or more in the event of a split. Hannan, Tuma and Groenveld suggest that lack of knowledge about the stigma attached to receiving AFDC and food stamps may result in these programs having much smaller female independence effects than the NIT Experiment. In the New Jersey experiment, however, Garfinkel found that when AFDC payments exceeded experimental support more than half of the splitting families chosen to be on AFDC and not the experiment. This suggests that at least some of the splitting women did not consider the stigma of AFDC sufficiently large to outweigh the small financial gain involved in being on AFDC.

Another possible source of the high split rates of the experimental families on the low support plans is that the receipt of income tested cash transfers may lead to dissatisfaction with the husband's performance of his role and this may accentuate marital instability. Let me state the case for this view. Most working and middle class families have traditional views about the roles husbands' and wives' are to perform. The husband is supposed to be the breadwinner. If he is not able to fulfill his role, marital tensions result. The research on families experiencing long term unemployment during the depression suggested that other members of the family may tend to lose respect for him and he may tend to lose respect for himself. The male role performance view of instability is supported by the non-experimental research reviewed at the beginning of the paper. Families with an unemployed husband or a wife who is providing a major share of the income are more likely to be unstable. The Hoffman-Holmes finding that men working 48 hours a week had the lowest split rates suggest that the husband's wage rate matter less than how hard he tries.

The role performance explanation of the rise in splits is that the receipt of an income tested cash transfer is viewed by some families as a signal that the husband is a failure? A second variant of this explanation suggests that since the program increases the number and length of spells of unemployment, friction produced by having the man around the house builds up into a split. The evidence for choosing this view over the others is rather sketchy. Families with male role performance problems seem to be the ones most effected by being on the experiment. The proportionat increase in marital splitting seems to be greatest when the family's pre-experiment earnings are low and when the wife is well educated and is able to command a good wage rate.

At present the three explanations—stigma, information and male role performance—of the unexpectedly high split rates in the low support plan have the status only of hypotheses. They do not conflict with each other. It is almost certain that to some degree all three effects are operating.

The weight assigned to each is important, however, because it influences how seriously we view the splits that universal cash assistance may cause and what policy measures are available to reduce the number of splits. Some might view splits caused by a reduction of the stigma of being on AFDC or greater awareness of opportunities for aid as giving women the option to sever an already bad relationship. What are the consequences for the children of her exercising this option?

olding constant race, region, parent's education and occupation, the average child who grows up with only one parent spends one less year in school and obtains jobs that pay about 10 percent less. The experience of the marginal child may be different, however. It has been argued that a marital dissolution induced by reducing the stigma of AFDC will not hurt the children nearly as much as the averages quoted above. It might help the children. Social science does not know the extent to which children are hurt by this type of marital split and is not likely ever to be able to find out for we will never do the controlled experiment that would be necessary.

The role performance interpretation implies that a process of marital deterioration has been initialed and that every member of the family is going to be worse off. Most people would be likely to agree that it would be quite unfortunate if marriages were dissolving for this reason.

Which interpretation one gives to the high rates of marital dissolution in the low support plans of the experiment also effects how one might modify the welfare reform package to reduce the number of marital dissolutions caused by the program. If increased knowledge of the availability of income support for the family if a dissolution occurs is the cause, segregating the programs that aid two parent families from the one that aid single parent families is indicated. An earned income tax credit or wage rate subsidy would accomplish this. If stigma is the major explanation, we are between a rock and a hard place. There would appear to be no way we can make single parent families better off without creating more of them.

If the fact that the experiments makes payments to a husband that deserts his family is an important part of the explanation the solution is to categorically exclude non-aged or disabled single individuals from eligibility for income maintenance.

If the role performance explanation is a major cause, aiding the family through jobs and earnings related transfers is the solution. The key is to aid the family in a way that does not demean the husband or create incentive for the man to extend his periods of unemployment. The work requirement in the proposed program will tend to do the latter. The proposed program could have an unfortunate signaling effect, however. One way to avoid having the receipt of aid be seen as a signal that the husband is a failure is to construct the system so that the payments are received as part of the workers paycheck. Both earned income tax credits (EITC) and wage rate subsidies (WRS) would be built into withholding and would therefore operate in this way. By raising the EITC subsidy rate to 50 percent or more, making it taxable and increasing the marginal tax rate in the cash assistance program, almost all the two parent families that will receive cash assistance payments under the current proposal would instead be receiving the same dollars of increased income in the form of a higher paycheck. An example of how such an EITC oriented program would work for single and two parent four person families is provided by Table 3 and 4. A wage rate subsidy could be similarly designed to integrate with a guarantee type program. The advantages and disadvantages of these work related subsidy approaches are discussed in Section III. A mechanism for administering a family wage rate subsidy is described by the final section of my prepared testimony. This section compares the administrative problems of NIT's EITC's and wage rate subsidies.

TABLE 3.—A COMPARISON OF WELFARE REFORM ALTERNATIVES FOR 4-PERSON FAMILIES WITH 1 MEMBER EXPECTED TO WORK

Carter welfare reform				EITC alternative I			Alternative II		
Earnings	Cash Assistance	EITC	Total income	Earnings plus EITC	Cach assistance	Total income	Earnings plus EITC	Cash assistance	Total income
0	$2,300	0	$2,300	0	$2,300	$2,300	0	$2,300	$2,300
$1,000	2,300	$100	3,400	$2,000	1,400	3,400	$1,500	1,800	3,300
$2,000	2,300	200	4,500	$4,000	500	4,500	$3,000	1,300	4,300
$2,300	2,300	230	4,830	$4,600	230	4,830	$3,450	1,150	4,600
$3,000	2,300	300	5,600	$5,440	0	5,440	$4,500	800	,300
$4,000	2,200	400	6,600	$6,640	0	6,640	$6,000	300	6,300
$5,000	1,700	450	7,150	$7,240	0	7,240	$7,140	0	7,140
$6,000	1,200	500	7,700	$7,840	0	7,840	$7,740	0	7,740
$7,000	700	550	8,250	$8,440	0	8,440	$8,340	0	8,340
$8,000	200	600	8,800	$9,040	0	9,040	$8,940	0	8,940
$9,000	0	650	9,650	$9,640	0	9,640	$9,540	0	9,540
$10,000	0	562	10,562	$10,480	0	10,480	$10,380	0	10,380
$11,000	0	462	11,462	$11,380	0	11,380	$11,280	0	11,280

Alternative I.—EITC matches earnings dollar for dollar up to cash assistance guarantee for family expected to work (CAG). Above this level EITC equals 20 percent of the next $1,700. Above this the EITC is taxed at 40 percent up to 4 times the CAG at which point the tax rate drops to 10 percent. Both earnings and the EITC are taxed by the cash assistance. program. The tax rate in the cash assistance program is 45 percent for those expected to work and 70 percent for those not.

Alternative II.—The EITC is 50 percent up to double the CAG above wihch it is taxed back at a 40 percent tax rate. Above 4 times CAG the EITC tax back is 10 percent. The tax rate in the cash assistance program is 33⅓ percent for those expected to work and 60 percent for those not expected to work.

TABLE 4.—A COMPARISON OF WELFARE REFORM ALTERNATIVES FOR 4 PERSON FAMILIES WITH NO ONE EXPECTED TO WORK

				Alternative I			Alternative II		
Earnings	Cash Assistance	EITC	Total	Earnings and EITC	Cash Assistance	Total	Earnings and EITC	Cash Assistance	Total
0	$4,200	0	$4,200	0	$4,200	$4,200	0	$4,200	$4,200
$1,000	3,700	$100	4,800	$2,000	2,800	4,800	$1,500	3,300	4,800
$2,000	3,200	200	5,400	$4,000	1,400	5,400	$3,000	2,400	5,400
$3,000	2,700	300	6,000	$5,440	392	5,832	$4,500	1,500	6,000
$4,000	2,200	400	6,600	$6,640	0	6,640	$6,000	600	6,600
$5,000	1,700	450	7,150	$7,240	0	7,240	$7,140	0	7,140
$6,000	1,200	500	7,700	$7,840	0	7,840	$7,740	0	7,740
$7,000	700	550	8,250	$8,440	0	8,440	$8,340	0	8,340
$8,000	200	600	8,800	$9,040	0	9,040	$9,940	0	8,940
$9,000	0	650	9,650	$9,640	0	9,640	$9,540	0	9,540

Note: See table 3 for description of alternative I and II.

QUESTIONS OF SENATOR CURTIS

Question. You have stated that there is no needs test whatever for the 1.4 million job slots. Why not?

How do you plan to keep middle and high-income persons from flooding these opportunities, thereby completely negating the goal?

Answer. The job component relies upon the relatively low wage offered by the program, the existence of a waiting period and the restriction of jobs to principal earners to ration jobs to those most in need. There is no direct income or asset test for the following reasons:

Income and asset tests are difficult to administer. They are also likely to discourage some needy persons from applying. Asset tests may build long dependency by requiring people to deplete their savings.

Income limits can create serious equity problems among people who both need and want to work. For example, a widow with three children receives $5000 in pension income. With an income limit of $5000 this woman would not be eligible for the job program and her cash assistance payment would be limited to $200 because of the 80 percent benefit reduction rate on unearned income. Total income for this family would thus be $5200. Another widow and her family, however, does not have a pension. Consequently she would be eligible for a $5500 subsidized job and $1450 in cash assistance payments for a total income of $6950. By virtue of the fact that a pension was provided to the first family, the income limit has made the family substantially worse off than the latter family. This would be highly unfair.

Another family with $5001 in earnings from one parent would not be eligible for the job program. However, a similar family with $4999 in earnings from one parent could also obtain a $5500 subsidized job for the spouse, thus "leapfrogging" this family substantially above the income position of the former.

An income test is also easily circumvented since families can readily adjust their incomes to fall on the "right" side of the notch. The result is an unanticipated increase in demand for the program which in turn means that many of the most needy will not be served.

Income or asset tests are not the most efficient ways to target jobs to those most in need. It is far more efficient to put features in a jobs program that make it self-rationing.

The jobs component of welfare reform has been structured so not to compete in terms of wages and other factors with most existing jobs in the regular economy. People who hold most full-time jobs in our economy will not be attracted to these welfare reform jobs. As a result, the jobs, unlike cash assistance, will ration themselves to the needy.

A participant in the program has to make certain sacrifices to accept a welfare reform job. Such a person has to undergo an intensive, unpaid, five-week job search period. Leisure time and time to spend on family responsibilities are reduced. In addition, there is the knowledge that these welfare reform jobs are short-term, rather than permanent, jobs.

The principal earner rule, together with the relatively low wage and other job features is the surest, fairest way to target jobs on the neediest. If the best earner in the family wants to work at the minimum wage and cannot find a better job in the regular economy, the family is sure to be in need.

Question. Mr. Secretary, have you run any econometric studies of the effect of the President's program on the gross national product and the ability of the economy to sustain it? On the effect on inflation? On job creation in the private sector. If not, why not? If so, would you share with us the results?

Answer. While we have made numerous econometric simulations of various aspects of the President's program as part of the planning process, a macroeconometric simulation of the impact on GNP and job creation in the private sector would not be an appropriate analysis. The welfare reform proposals of the President seek *structural* changes in the economy, that is changes in the *parameters* of the current behavioral functions. Macroecenometric models, of course, assume fixed parameters and this is why such an analysis would be inappropriate. However, as I have said, numerous microeconometric simulations have been made to estimate the impact of the proposal on specific economic variables and we would be happy to share those with you. For example, in estimating the number of jobs participants, we have examined how the level of unemployment influences the number of full-time equivalent jobs. This was done by applying the microeconomic simulation to data on 1974 and 1975, years with 5.6 percent and 8.5 percent unemployment rates.

It is clear that the Program for Better Jobs and Income is sustainable. The aded costs of PBJI in 1982 will be less than one-half of one percent of GNP. The economy's performance on inflation could improve as a result of PBJI. The reason is that it will be easier to achieve our employment goals with a minimum stimulus to inflation. PBJI will permit a channeling of demand for labor on the slack sectors of the labor market; that is, those sectors with the lowest wage rates and the highest rates of unemployment. This will minimize the added pressure on wages per increase in employment. Job creation in the private sector should not decline because of PBJI. In fact, the private sector should be able to improve its ability to employ low income workers. Given the combination of work experience and training, PBJI participants will become more employable in the eyes of private firms. In this way, PBJI could expand the supply of workers and, in turn, raise the level of private employment.

Question. Mr. Secretary—Just how do you plan to enforce job search requirements?

Answer. Participants will be required to appear frequently at the Employment Service during the job search period. They will be provided with counseling, work orientation, testing, resume development and other supportive services. Special job referrals will be developed for each client. In addition, participants wil undertake monitored self-search activities using automated job matching services where available.

If they refuse to comply with job search requirements, subsidized job eligibles who are expected to work will not be eligible for either subsidized job placements or for higher level cash assistance benefits. Childless persons will lose all entitlement to cash assistancee benefits if they fail to comply.

Question. Mr. Secretary, your initial release talks about a whole host of the things that the 1.4 million persons will be doing, including "75,000 cultural" jobs. What in the world are these?

Answer. Since the time of the initial release, we have had the opportunity to do further research in this area and have pared down the slot estimate to 50,000. At present, there are about 10,000 slots, nationwide, in arts and cultural projects under CETA Title VI, not counting the previously existing or sustainment slots in Titles II and VI. These jobs and the ones we are proposing under welfare reform would encompass a variety of situations, including:

Constructing sets for local theatrical productions as in Highpoint, North Carolina;

Supporting artists-in-residence in schools or industrial workshops, as in

Rochester, New York and *Seattle, Washington;*

Renovating and maintaining historical buildings, as in the *State of Georgia;*

Supporting local dance and theatrical groups in outreach programs for performances in poor communities and neighborhoods as in the *State of Florida.*

Work would range from minor maintenance and clerical positions to catalogers and outreach workers. Practically all of these jobs would be at or near the minimum wage.

Question. Is it also correct that, as a recent article in *Scientific American* indicated, the Department of Labor has a survey of "potential" labor force participants who said they "want a job now"? How many so responded? If all of them who so responded were to surface and be guaranteed a job, wouldn't at least 8 million, and not 3 million, PSE jobs be required?

Answer. The Department of Labor does not have quarterly information about those not in the labor force who say yes when asked, "Do you want a job now?" The number saying they do want a job now has ranged from about 5 to 5.8 million over the last two years. The existence of these potential labor force participants would not require any increase in the number of job slots under the Program for Better Jobs and Income (PBJI). The primary reasons are:

(*a*) PBJI would provide jobs only to principle earners in families with children; most of the potential labor force participants are not in that category;

(*b*) Many of the potential labor force participants are already expected to take some of the 1.4 million jobs provided under PBJI; the model used in estimating the demand for slots took account of the increase in labor force participation that PBJI would stimulate; and

(*c*) It is unrealistic to expect most of the remaining potential participants will actually accept a job offered under PBJI; less than 20 percent of the group saying they wanted a job were not in the labor force because they were discouraged by lack of jobs; the rest failed to look for work for other reasons; and it is unlikely that many will join the labor force just because of PBJI.

For these and other reasons, the Administration believes that 1.4 million full-time equivalent job and training slots will be adequate to insure employment for all willing principal earners in families with children. The 3 million figure sometimes associated with PBJI refers to the number of people who participate in PBJI's jobs compopent sometime during the year. The number of full-year PSE slots will be well under 3 million because the average duration in the program will be only about 6 months.

Question. Mr. Secretary, it is my understanding that lowering the current unemployment rate by three percent would require funding and creating about three million PSE slots, not 1.4 million. Is that correct?

Answer. The Administration's plan for lowering unemployment rates to 4 percent relies almost exclusively on expansion of the private sector. However, we recognize that macroeconomic policy measures to stimulate private unemployment cannot by themselves permit us to reach 4 percent without excessive inflation. This is one reason that we turn to selective employment programs to play an important role in overall employment policy. As part of our full employment effort, we plan that the number of PSE jobs for adults in 1982 would be about 1.5 million. In addition, job programs for youth would add another .2-3 million full-time equivalent slots. The number of PSE jobs would only exceed these figures if the private sector does not respond and the aggregate unemployment rate well exceeds 5 percent. Even then, the number of jobs required to meet the demand by participants in PBJI would not substantially exceed our estimates since only about 100,000 jobs are estimated to be required for each one percentage point increase in the unemployment rate.

Question. What minimum wage did you base your cost estimates upon?

Answer. The cost estimates use the 1978 minimum wage rate of $2.65 per hour since all cost estimates are in 1978 dollars.

Question. How do you plan to relate the other titles of CETA, such as Title I, to the new jobs title?

Answer. The jobs component will provide a flexible mix of jobs, work experience and training, with the particular mix determined by local governments. CETA will continue to provide training and other human development services to those in need of such services who are not eligible or required to participate in the jobs component.

The proposed CETA reauthorization bill (S. 2570) contains a new Title II which authorizes both training and work opportunities for the economically disadvantaged—essentially the same as the existing Title I of CETA.

Individuals eligible for jobs under the jobs component of the welfare reform bill will, to the extent practical, be referred to work and training activities which also involve eligible persons under other CETA programs. Thus, participants under the jobs component of the welfare reform bill will not be separated from persons whose work or training activity is funded from another title of CETA.

Question. Mr. Secretary, I note that under the President's plan we are extending a guaranteed annual income to singles, and childless couples, and yet they are not even eligible for the 1.4 million job slots. Aren't we running the substantial danger that we will be creating new generations of single individuals, and couples, who will find it much easier to flock to the seacoasts and ski slopes and live off the working men and women of America?

Just how do you plan to prevent that?

Answer. The may reason for not extending job eligibility to single persons and childless couples is, of course, cost. Since such persons are eligible for relatively small cash assistance benefits in most areas, and have relatively high rate of unemployment, the costs of providing them with even minimum wage jobs is relatively high compared to that for primary earners in families with children. It is estimated that extending subsidized job eligibility to childless persons would increase the demand for slots by over 3 million or 222 percent.

Childless persons receiving cash assistance will, however, be subject to a work requirement as under current Food Stamp law. They will also be eligible for the intensive job search assistance component of the job program. To the extent that the subsidized job program enables some primary earners previously employed in relatively low paying jobs to improve their employment, this will have the effect of creating additional job openings for childless persons.

Question. Does HEW and/or DOL have any current outstanding contracts with Mathematica?

Answer. Outstanding DOL contracts with Mathematica Policy Research, Inc. are identified below:

	Contract title	Purpose
ETA/OPER	Supported Work Evaluation ($750,000).	To evaluate the supported work demonstration program.
ETA	Evaluation of Economic Impact of Job Corps Program on Participants ($950,000).	To determine the employment effects following completion of Job Corps experience.
ETA/ONP	Technical Services to DOL-CWBH Work Group ($77,000).	To assist the development of State longitudinal UI files.
ASPER	Simulation of Costs of Employment Related Welfare Reform Alternatives ($140,000).	To estimate the costs and caseloads of various welfare reform alternatives.
ILAB	Survey of Trade Adjustment Assistance Recipients ($333,000).	To determine impact of TAA program on recipients.
	Follow-up Study of UI Exhaustees ($490,000).	To determine the longer term effects of SSB/SUA programs on recipients.

With regard to the identification of HEW-Mathematics contracts, we understand that a similar request for such information was made to HEW by Senator Curtis and that HEW will supply that information for the record. Therefore, we assume that DOL need not supply duplicate information on the HEW-MPR contracts.

Question. Mr. Secretary—How many referrals do you estimate will descend upon the system?

Answer. We anticipate that about 5.3 million welfare reform participants will participants will receive job search assistance each year when welfare reform is fully implemented. This total will be broken down in the following way:

	Millions
Families with children	$3.5
Childless couples)	1.8
Single individuals)	
Total participants	5.3

Of the 3.5 million participants from families with children, about 3 million will receive not only job search assistance but will participate in a special public job during some part of the year. It is anticipated that the remaining 500,000 participants from families with children will receive job search assistance and will be placed in a regular job, either public or private.

The expected ES workload of 5.3 million welfare reform participants resulting from welfare reform will not represent a net addition to the current ES workload. In FY 1976, the ES served 15.1 million new applicants and renewals. Of this total, about 4.3 million were economically disadvantaged. Thus, the net addition to the ES workload is likely to be about 1.1 million (5.3 million minus 4.3 million) of primarily economically disadvantaged individuals. This represents an increase of about 7 percent compared to the FY 1976 base of 15 million. It is expected that ES staff resources will be increased by more than 7 percent to accommodate this increased workload.

Question. A question for Jodie Allen—What is your current position? And your former position? Were you formerly at HEW as well?

Answer. Jodie T. Allen is Special Assistant to the Secretary of Labor for Welfare Reform. In this position she assists the Secretary and is the lead person in the Department of Labor for the entire welfare reform effort.

Ms. Allen comes to the Department of Labor from Mathematica Policy Research, Inc. where she served as Senior Vice President and Director of the Washington Office from December 1973 until her DOL appointment. The research program which she developed and directed focused on the costs and distributional effects of the various government transfer programs including both welfare and social insurance programs, and on the design of controlled field experiments to measure the impact of such programs.

Prior to her position with Mathematica, Ms. Allen served as Assistant Vice President and Senior Researcher from August 1970 to December 1973 with the Urban Institute. At the Institute she directed studies of the design of employment alternatives to direct welfare programs, developed methods to estimate the costs and caseloads of income maintenance alternatives and analyzed administrative and technical aspects of current and proposed social programs.

From June 1967 through August 1970 Ms. Allen served as Chief, Research and Policy Coordination, FAP and program analysis officer in the Department of HEW, Office of the Secretary, Office of the Assistant Secretary for Policy, and Evaluation. She was responsible for policy issue development and coordination and development of supportive research programs for the Administration's welfare reform effort including development and direction of HEW's income maintenance experiments.

Ms. Allen has also held positions with the Brookings Institution, Research Analysis Corporation, National Planning Association, U.S. Army Corps of Engineers, Department of Defense and the Executive Office of the President.

Question. Tell me of your success in placing food stamp recipients in jobs. How will the job registration and placement system under the President's plan differ from that in place now for food stamps?

Answer. During FY 1977, the Employment Service provided services to 1,461,000 Food Stamp receipents. Nine percent of the applicants placed in jobs during the 1977 fiscal year were Food Stamp receipents.

The current registration procedure is carried out through the State agencies of the U.S. Employment Service. Those Food Stamp recipients to whom mandatory registration applies register for work at the local office of the Employment Service and are required to accept employment at not less than the minimum wage. Registration for the WIN program is considered sufficient to fulfill the conditions of the work registration requirement. UI registrants are also exempt. Failure to comply with these requirements without good cause can result in loss of benefits for the whole family.

Under the President's proposal, a specified job search period would exist (5 weeks). During that time, the ES would supervise the individual's job search efforts and provide assistance in job-seeking techniques during that period. During the 5-week period, the individual would be receiving lower-tier benefits. An eligible parent would be expected to take private sector employment if a job is found, however, if he or she refuses such employment the family would still continue to receive lower-tier benefits, in contrast with the Food Stamp program where benefits are cut off altogether.

Question. What is the total cost of a CETA job? Not just salary but including all administrative expenses, local and Federal?

Answer. Program costs per manyear for CETA public service jobs (Titles II and VI combined) are shown in the following table.

	Fiscal year 1975		Fiscal year 1976		Fiscal year 1977	
	Amount	Percent	Amount	Percent	Amount	Percent
Wages	$6,375	84	$6,584	83	$6,804	81
Fringe	853	11	961	12	1,036	12
Training/services	51	1	42	1	80	1
Administration	312	4	292	4	508	6
Total	7,591	100	7,879	100	8,429	100

Source: ETA data.

Administrative costs, which have been very low, rose slightly in FY 1977 because some equipment purchases were allowed and are included in that category. Total Title II and VI manyears costs are estimated to run about $8,900 in FY 1978. These cost figures do not include the Federal (DOL) cost of administering the program, which is estimated at less than one percent. They also do not include State and local outlays to supplement CETA funds for jobs that exceed the $10,000 ceiling. We have no information on the number of such jobs.

Question. How do you plan to resolve union disputes over the types of jobs and classifications established by prime sponsors?

Answer. We fully expect CETA sponsors to consult extensively with the appropriate employee unions before Special Public jobs are created and to take their views into account. One of the mechanisms in place under current CETA regulations is the local planning council which frequently includes union representation. This group reviews and approves the prime sponsor's plan, including the descriptions of job classifications, rates of pay and similar information. Most disputes should be settled at this point but in the event they are not, a mechanism for handling formal appeals of the prime sponsor's plans is in the regulations for CETA in the event that someone wishes to lodge a formal complaint.

Question. What will happen to the 725,000 public service employees now enrolled in Title VI?

Answer. The Administration's proposed legislation to extend the Comprehensive Employment and Training Act authorizes the apropriation of such sums as may be necessary for Fiscal Years 1979 through 1982. The Administration's budget for Fiscal Year 1979 requests sufficient funds to sustain the existing level of 725,000 public service jobs through Fiscal Year 1979.

With respect to Fiscal Years 1980 through 1982, the proposed CETA reauthorization legislation provides levels of funding for public service jobs under Title VI to be based on a sliding scale depending upon the national unemployment rate. Whatever that rate may be, there would be available a base of $1 billion, which would support approximately 100,000 jobs. However, those funds could be used only in local areas of substantial unemployment having at least 6.5 percent unemployment. If the national unemployment rate for a calendar quarter is above 4.75 percent, funds will be made available to support an additional 100,000 jobs, allocated among all areas of the Nation according to local unemployment, with additional increments of 100,000 jobs for each half percentage point by which the national unemployment rate exceeds 4.75 percent.

It should be noted that the CETA reauthorization legislation proposes to limit participation in a public service job to 78 weeks, except that public service job holders who have already participated for 26 weeks as of October 1, 1978 (i.e., current public service jobholders), would be permited only 52 more weeks in such public service employment, unless extended by the Secretary of Labor because of extraordinary circumstances.

APPENDIX C

Questions Submitted by Senator Curtis to the Department of Agriculture

Question. I understand the Department of Agriculture *favors* cash out of food stamps. How do you square that with your responsibility as a Department of Agriculture official (and your background) to protect and enhance recipients' nutrition and, as well, to assist the farmers of this nation? Are you saying food stamps have not had a nutritional impact?

Answer. The Department of Agriculture supports the Administration's welfare reform proposal, which consolidates a number of current programs including food stamps. Analysis by the Economic Research Service show that aggregate food purchases would not decline under this proposal, and therefore that there would not be an adverse impact on farm income. In addition, a series of studies indicate that most low income families would continue to spend as much on food as they now do.

This does not at all mean that food stamps have not had a nutritional impact. The food stamp program makes an important nutritional contribution. But when food stamps and other current assistance programs are replaced by a new program that provides an increase in purchasing power to the low income population in general through increased cash and job aid, we do not believe nutrition or farm income will suffer.

Question. What were your estimates for increased participation in food stamps when the purchase requirement was eliminated? What do you see as our experience in this, from now through 1982?

Answer. We estimate that approximately 900,000 households or around three million persons will join the Food Stamp Program as a result of the elimination of the purchase requirement.

It is difficult to predict the behavior of these households as distinct from all households on the Program. It does appear, however, that there would be more "working poor" households in this group than there are on the Program now. For this reason, they would be more dependent on economic conditions, and the participation estimate resulting from the elimination of the purchase requirement could go up or down depending on the economy in the next few years.

Question. A question for Mr. Greenstein—Mr. Greenstein, what is your current position? Your former position? In that latter capacity, didn't you lobby against job search amendments and other food stamp reform that I and other Members of the Senate and House outlined in the 94th Congress? How much in Federal funds did the Community Nutrition Institute receive over the last three years? Does not the United States Code specifically proscribe in whole or in part, lobbying with Federal funds?

Answer. Currently I am Special Assistant to Secretary Bergland. Until February 1977, I was Associate Editor of the Community Nutrition Institute Weekly Report. The Community Nutrition Institute is a private, nonprofit organization located in Washington, D.C.

During the 94th Congress, I advised some Members and Committee staff upon their request on a number of food stamp issues. I also prepared materials concerning some amendments. I did not, however, work against the introduction of a job search requirement into the Food Stamp Act. In fact, the bill passed on the Senate floor in 1976, which I supported, contained job search provisions added in Committee by Senator Talmadge. On the House side, the bill offered by Chairman Foley, which I supported, contained virtually the same job search provisions.

I do not have access to the books of the Community Nutrition Institute, and cannot tell you the exact amount of Federal funds they received during 1974–1976. I would estimate that these funds amounted to several hundred thousand dollars. I would like to point out, however, that the weekly newsletter, on which I worked, was entirely free of Federal funds, and that Federal funds did not go to support any work I did on Capitol Hill. The weekly newsletter was supported by subscriptions, not Federal grants. The Federal funds supported other activities of CNI such as training of persons managing elderly feeding sites under Title VII of the Older Americans Act or of persons directing Community Food and Nutrition Program grants awarded by the Community Services Administration.

Question. To what extent are you requiring job *search* of food stamp registrants?

Answer. The Food Stamp Act of 1964 does not contain a job search provision. The Food Stamp Act of 1977 does require job search. We are presently working on regulations to implement the job search requirements of the new law.

Question. How successful have the Department of Labor and state employment agencies been in placing food stamp registrants in jobs? By specific numbers and percentages of recipients? Isn't it just paper registration, by and large.

Answer. The Department of Labor has developed some figures on work registration activities of State Employment Services Agencies. The following figures are for the second quarter of fiscal year 1977:

Activity	*2d quarter*
Applicants available to ES	2,152,653
Individuals placed in jobs	112,003
Individuals referred to jobs	255,918
Individuals enrolled in training	12,463
Individuals counseled	54,697

These figures indicate that more than just paper registration is involved.

APPENDIX D

Congressional Budget Office Revised Cost Estimate of Administration's Welfare Reform Proposals

Congressional Budget Office,
U.S. Congress,
Washington, D.C., January 24, 1978.

Hon. James C. Corman,
Chairman, Welfare Reform Subcommittee, U.S. House of Representatives, Washington, D.C.

Dear Mr. Chairman: The enclosed document contains a revised cost estimate of the Administration's welfare reform proposal (H.R. 9030) and a comparison of the Congressional Budget Office's estimate with that printed in "The Budget of the United States, 1979." CBO has revised the cost estimate of H.R. 9030 that was provided to the Welfare Reform Subcommittee on November 29, 1977, to reflect improved estimating techniques. Also reflected is a communication from the Department of Health, Education, and Welfare informing us that the bill, as drafted, did not accurately take into account the Administration's intent in several sections.

In response to your request of December 20, 1977, the second section of the enclosed document provides a preliminary cost estimate of the actions taken by the Welfare Reform Subcommittee as of December 16, 1977. We have estimated both the cost of the Subcommittee's decisions as a group and the costs of the Subcommittee's decisions one by one. The costs of the individual changes do not total the cost of the Subcommittee's decisions altogether because of the complex interactions among the various provisions.

In response to your request of January 24, 1978, we have also provided estimates of the fiscal year 1982 costs of the Subcommittee's decisions expressed in 1978 dollars. While these estimates adjust for the inflation that would occur between fiscal years 1978 and 1982, they do not take into account probable demographic and economic changes. They are not, therefore, estimates of the costs of implementing the Subcommittee's proposal in fiscal year 1978, but rather are deflated estimates of fiscal year 1982 costs.

I hope this material proves useful to the Subcommittee. CBO will be happy to provide any additional assistance that will help the Subcommittee in its work on this important issue.

Best wishes,

Sincerely,

Robert A. Levine
(For Alice M. Rivlin, Director).

28-353—78——13

Congressional Budget Office Revised Cost Estimate of H.R. 9030 and Preliminary Cost Estimate of the Welfare Reform Subcommittee's Decisions as of December 16, 1977

This paper contains a revised cost estimate of the Administration's welfare reform proposal (H.R. 9030) and a comparison of the Congressional Budget Office's (CBO) estimate with the estimate printed in The Budget of the United States, 1979 (page 198). CBO has revised the cost estimate of H.R. 9030 that was provided to the Welfare Reform Subcommittee on November 29, 1977 to reflect improved estimating techniques and a communication from the Department of Health, Education, and Welfare informing CBO that the bill, as drafted, did not accurately reflect the Administration's intent in several sections.

In response to Chairman Corman's request of December 20, 1977, the second section of this paper provides a preliminary cost estimate of the actions taken by the Welfare Reform Subcommittee as of December 16, 1977. CBO has estimated both the cost of the Subcommittee's decisions taken collectively and the costs of the Subcommittee's decisions taken individually. The costs of the individual decisions do not sum to the cost of the Subcommittee's decisions taken collectively because of the complex interactions among the various provisions.

In response to Chairman Corman's request of January 24, 1978 the final section of this paper provides preliminary estimates of the fiscal year 1982 costs of the Subcommittee's decisions expressed in terms of 1978 dollars. While these estimates adjust for the inflation that would occur between fiscal years 1978 and 1982, they do not take into account probable demographic and economic changes. They should not, therefore, be interpreted as estimates of the costs of implementing the Subcommittee's proposal in fiscal year 1978, but rather as deflated estimates of the fiscal year 1982 costs assuming implementation in fiscal year 1981.

REVISED COST ESTIMATE OF H.R. 9030

The Administration's Welfare Reform Proposal (H.R. 9030) would cost all levels of government $50.87 billion in fiscal year 1982, the first full fiscal year during which all components of the plan would be in operation. (See Table 1.) The cost to the federal government would be $42.25 billion, while state and local governments would spend $8.63 billion. The net cost of H.R. 9030, which is the difference between the total cost of the proposal and the offsets attributable to discontinuing the programs replaced by H.R. 9030 and the impact of the proposal on the costs of related programs and revenue sources, would be $13.94 billion. Net federal costs would rise by $17.36 billion while state and local governments would experience a decline in net spending of $3.42 billion.

TABLE 1.—COSTS OF ADMINISTRATION'S WELFARE REFORM PROPOSAL BY LEVEL OF GOVERNMENT IN FISCAL YEAR 1982

[Billions of dollars]

H.R. 9030	Federal	State and local	Total
Total costs	$42.25	$8.63	$50.87
Total offsets	24.89	12.05	36.93
Net costs	17.36	(3.42)	13.94

Note: Figures may not add to totals due to rounding.

The revised estimate of the net cost for all levels of government is $4.16 billion higher than the estimate provided to the Welfare Reform Subcommittee on November 29, 1977. CBO's estimate of the total cost before offsets of the proposal has not changed significantly; it has increased by $1.43 billion. However, the cost of several of the components of total costs have changed significantly from the preliminary estimate. For example, the cost of the basic cash assistance component has increased by $1.45 billion, the cost of the public service employment component has decreased by $1.09 billion and the overhead cost for the public service employment component has decreased by $1.57 billion. It should be noted that the federal tax reimbursement costs provided by Section 2104 of H.R. 9030 are included in total costs, while in CBO's preliminary estimate they were carried as an offset. A detailed breakdown of the components of total costs is provided in Table A which is placed at the end of this paper.

CBO's estimate of the offsets has been lowered by $2.69 billion. This primarily reflects a lower estimate of the offsets attributable to the increased federal and state tax revenues generated by the proposal. A detailed breakdown of the offsets is provided in Table B which is located at the end of this paper.

The revised estimates are based on the same economic and programmatic assumptions as were those estimates provided to the Subcommittee on November 29, 1977. The assumed fiscal year 1982 unemployment rate underlying these estimates is 4.5 percent and states are assumed to supplement the program's basic benefits for single parent families with children and for the aged, blind and disabled to the point where they equal the combined benefits expected in 1982 from food stamps and AFDC and SSI.

The Budget of the United States, 1979 provides the Administration's estimates of the total gross federal costs of H.R. 9030 in fiscal year 1982. These estimates and those of CBO are presented in Table 2. The Administration's estimates of the gross federal cost of the program is $3.5 billion less than that of CBO while its estimate of the offsets is $5.1 billion higher than that of CBO. Therefore, CBO's estimate of the net cost of the proposal is $8.6 billion higher than that of the Administration.

TABLE 2.—COMPARISON OF ADMINISTRATION AND CBO ESTIMATES OF FEDERAL COSTS FOR H.R. 9030 IN FISCAL YEAR 1982

[Billions of dollars]

	Administration [1]	CBO	Difference
Gross costs:			
Cash assistance	$26.0	$28.1	$2.1
Jobs	9.9	11.5	1.6
Earned income tax credit [2]	3.0	2.6	(.4)
Total gross costs	38.8	42.3	3.5
Offsets	30.0	24.9	(5.1)
Net cost	8.8	17.4	8.6

[1] "Budget of the United States Government, 1979," Jan. 23, 1978, p. 198.
[2] The administration's estimate of the earned income tax credit (EITC) assumes implementation of the new provisions beginning with calendar year 1982. This estimate also assumes that some accrued tax liability under the provision will not appear as disbursements until fiscal year 1983. The CBO estimate assumes the EITC is in effect for the full fiscal year 1982 with all accrued liability being disbursed in that year.

Note: Figures may not add to totals due to rounding.

The estimates of the gross costs differ for several reasons. The most important of these are the use of different economic assumptions, different data bases, different demographic assumptions, different techniques for calculating the cost attributable to Puerto Rico, and different assumptions regarding the structure of the federal income tax system in 1982. The CBO and the Administration differ with respect to the offset estimates mainly because of differences in what is included as an offset. Offsets attributable to the discontinuation of the CETA public service jobs program, reduced fraud in medicaid, the proposed crude oil equalization tax refund, and reduced payments for extended unemployment insurance are included in the Administration's estimate but not in that of CBO. On the other hand, CBO has included but the Administration has not, offsets derived from eliminating the existing emergency assistance program, reduced costs of child nutrition programs, increased federal income tax revenues, increased state income and sales tax revenues and increased costs for medicaid eligibility determination.

BUDGET IMPACT OF THE SUBCOMMITTEE'S DECISIONS

The Subcommittee's decisions taken collectively would result in a total cost to all levels of government of $58.49 billion in fiscal year 1982. After subtracting the offsets the net costs to all levels of government would be $17.86 billion which is $3.92 billion over those estimated by CBO for H.R. 9030. (See Table 3.) The net cost to the federal government would be $21.05 which is $3.69 billion higher than those of H.R. 9030. The fiscal relief offered by the Subcommittee's proposal to state and local governments would be $3.20 billion which is $224 million less than that provided by H.R. 9030. These cost figures assume the elimination of the current food stamp program and the same jobs program as included in H.R. 9030.

Table C, which is placed at the end of this paper, provides a detailed breakdown of the total cost of the Subcommittee's welfare reform proposal. Total federal cash assistance would cost $24.17 billion, an increase of $2.4 billion over the Administration's proposal. Three factors account for most of this increase: (1) the indexation of the basic federal guarantees after the year of implementation, (2) increased eligibility and participation resulting from substitution of the one-month for the six-month retrospective accounting system, and (3) a reduction in work effort brought about by a combination of factors including increased basic benefits, increased supplementation of certain categories of recipients and the grandfathering of general assistance recipients.

TABLE 3.—COST OF SUBCOMMITTEE'S WELFARE REFORM PROPOSAL BY LEVEL OF GOVERNMENT IN FISCAL YEAR 1982

[Billions of dollars]

	Federal	State and local	Total
H.R. 9030 plus subcommittee decisions:			
Total cost	$48.90	$9.59	$58.49
Total offsets	27.85	12.79	40.63
Net cost	21.05	(3.20)	17.86
Difference in subcommittee decisions from H.R. 9030:			
Total cost	6.65	.96	7.62
Total offsets	2.96	.74	3.70
Net cost	3.69	[1] .22	3.92

[1] Represents a decrease in fiscal relief to states and local governments.

Note: Figures may not add to totals due to rounding.

The Subcommittee's decisions would cause total supplementation costs to increase by $3.7 billion. The federal share of the supplements would increase by about $1 billion. Increased supplementation costs result from the decisions of the Subcommittee to: (1) permit federal sharing of state supplementation of single individuals and childless couples, (2) raise the supplementation levels eligible for federal cost sharing for all families, and (3) raise the marginal tax rates on supplemented benefit levels which would lead to reduced work effort.

State grandfathering costs under the Subcommittee's proposal would be $3.35 billion. This increase of over $300 million from those of H.R. 9030 would result because of the decision to include state grandfathering costs for general assistance recipients in the hold-harmless calculations. With increased state supplementation, higher grandfathering costs and hold-harmless payments for increased medicaid expenditures, federal hold-harmless costs would rise to $4.1 billion or by $3.0 billion over H.R. 9030.

Under the Subcommittee's proposal an estimated 34.3 million persons would receive cash assistance benefits sometime during fiscal year 1982, an increase of 7.6 million persons over H.R. 9030. Increased participation in the cash assistance program will increase administrative costs by about $850 million.

The Subcommittee's earned income tax credit (EITC) proposal would cost $1.37 billion or approximately $1.3 billion lower than those estimated for H.R. 9030. The Subcommittee's EITC would concentrate benefits on lower income families; about $900 million would go to families below the positive tax entry point while the tax liability of families above the tax entry point would be reduced by $500 million. Approximately 5.3 million filing units would receive some benefits from the Subcommittee's EITC proposal.

Because of increased benefit payments, the relative attractiveness of the public service job component of H.R. 9030 declines. Approximately 1.169 million full time job and training slots would be demanded in fiscal year 1982 because of the Subcommittee's cash assistance decisions. This represents a decline of about 23,000 slots from H.R. 9030. The costs of the public service job program would be $11.73 billion, a decline of about $360 million from the costs of H.R. 9030.

Total offsets under the Subcommittee's proposal would be $40.63 billion in fiscal year 1982, an increase of about $3.7 billion over those of H.R. 9030. Some $3 billion of the increase in offsets represents the higher federal and state tax revenues stemming from the Subcommittee's decision to tax cash assistance benefits. The Subcommittee's decision not to count the entire cash assistance benefit in calculating benefits in other means tested programs would result in a reduction of about $460 million in the offsets estimated under H.R. 9030. Table D which is at the end of this paper provides a detailed breakdown of these offsets.

COST OF THE INDIVIDUAL SUBCOMMITTEE DECISIONS

This section presents the net costs or savings attributable to the major decisions of the Subcommittee assuming each were adopted individually while leaving all other aspects of H.R. 9030 as proposed by the Administration. These costs are shown in Table 4. Because of the interaction between the various components of the Subcommittee's welfare reform proposal, the sum of the costs of the Subcommittee's decisions taken individually does not equal the estimate of the cost of the Subcommittee's decisions taken collectively. For identification purposes each decision is labeled with the number under which it appears in the Subcommittee's December 19, 1977 release, "Summary of Decisions as of December 16, 1977".

TABLE 4.—NET COSTS OF THE SUBCOMMITTEE'S CHANGES TO H.R. 9030 BY LEVEL OF GOVERNMENT IN FISCAL YEAR 1982

[Billions of dollars]

Reform option	Federal	State and local	Total
Net cost of H.R. 9030	$17.360	($3.420)	$13.940
Change from H.R. 9030:			
Net cost of subcommittee's decisions collectively	3.691	.224	3.915
Net costs of marginal changes: [1]			
Stepparent's income	.203	.051	.254
Exclude single individuals under age of 25	(1.729)	(.021)	(1.750)
Benefit payments to residents of public institutions	.010	.001	.011
Foster care provisions	.267	.220	.487
Limit on family size	.083	(.022)	.061
Indexation of basic benefit schedule	3.108	.123	3.231
$800 reduction	.290	.035	.325
Supplementation provisions:			
With single individuals and childless couples	.984	.278	1.262
Without single individuals and childless couples	.183	.055	.238
Monthly accounting system	2.400	.230	2.630
Earnings deduction for aged, blind, and disabled	.101	(.010)	.091
Child and student earnings	.247	.023	.270
Disregard of food stamp bonus in means-tested programs	.414		.414
Asset test	(.191)	(.115)	(.306)
Grandfathering of general assistance recipients	.795	.507	1.302
Emergency needs block grant	.202	.092	.294
Substantial gainful activity	.050	.010	.060
Medicaid hold-harmless	.140	(.140)	
Earned income tax credit	(1.160)	.012	(1.148)
Tax cash assistance	(2.526)	(.459)	(2.985)

[1] The sum of marginal changes will not add to the net change of the subcommittee bill.

Stepparents' Income.—[II,1.(b)] The Subcommittee decided that the income of stepparents who are not legally responsible for stepchildren in a household would not be imputed to the child in the computation of his benefit. Under the Administration's proposal no differentiation is made between natural- and step-parent's incomes in the computation of the filing unit's benefit. The Subcommittee's decision would essentially result in stepchildren becoming independent filing units if the natural parent had no income.

This provision would raise federal costs by $203 million and state costs by $51 million. This cost is based on the Administration's estimate that there were 360,000 AFDC children living with stepparents in 1975. It was assumed that there would be no change in the number of affected stepchildren between 1975 and fiscal year 1982.

Exclude Single Individuals Under Age 25.—[II,1.(d)] The Subcommittee decided to require that single individuals under age 25, who have no children or are not blind or disabled, must file for cash assistance with their families. Under the Administration's bill such individuals over the age of 18 may apply for benefits on their own. Compared to H.R. 9030, excluding single individuals from applying for cash assistance on their own would lower federal costs by $1.729 billion and reduce state costs by about $21 million.

As a result of this provision 1.558 million fewer persons would participate in the cash assistance program; under H.R. 9030 these individuals would receive an average benefit of $987 a year in 1982. Processing fewer cash assistance applicants would reduce federal administrative costs by $142 million. State savings resulting from the exclusion of young single individuals from the basic cash assistance program would amount to about $159 million but would be offset by about $81 million of additional grandfathering expenditures for those individuals who would have received benefits from the current welfare programs; by $12 million of additional administrative expenses associated with this grandfathering; and by a loss of $46 million in federal hold-harmless payments. Grandfathering costs are transitional and therefore states would realize greater savings in subsequent years as the caseload turned over.

Benefit Payments to Residents of Public Institutions.—[II,2.(a)] The Subcommittee decided to allow the payment of benefits to aged, blind and disabled persons residing in public group homes with less than 16 beds. This provision would result in additional federal expenditures of $10 million and an added state expenditure of $1 million in 1982. CBO's estimate is based on the estimate of the Administration for fiscal year 1978. The Administration's estimate was inflated to fiscal year 1982 under the basic indexation scheme of H.R. 9030.

Foster Care Provisions.—[II,2.(b)] The Subcommittee decided to retain the present provisions in the AFDC program that provide federal matching funds for foster care children. Under the Administration's proposal, the AFDC program including the AFDC foster care services provided under Title IV–B would be eliminated. A child living with an unrelated individual could file for and receive the maximum amount payable for a child—$600 in 1978. In 1977, 110,600 foster children received payments averaging nearly $300 per month through the AFDC program. If these payments increased by the expected rate of inflation, the total cost of the AFDC foster care program would reach about $503 million in fiscal year 1982. In addition, it is estimated that Section 501 of H.R. 7200, which extends federal payments to children voluntarily placed in foster care, would add $20 million. Together, without any reform, the AFDC foster care program including administrative costs would cost the federal government $314 million and state and local governments $261 million.

Although foster children would receive the basic federal benefit under H.R. 9030, the Subcommittee's decision would raise the net federal costs by $267 million and the net state costs by $220 million.

Limit on Family Size.—[II,2.(c)] The Subcommittee decided not to limit the number of individuals in a filing unit for whom benefits could be paid. Under H.R. 9030, filing units of seven individuals or more would be eligible for the same amount of cash assistance. Assuming that additional filing unit members would receive $600 each (i.e., the benefit paid to each child in H.R. 9030 in 1978 dollars), removing the limit on the size of the filing unit would raise H.R. 9030 costs at the federal level by $83 million but reduce state costs by $22 million. The reduction in state costs is primarily due to a decline in grandfathering expenditures for units with more than seven members.

The modest increase in costs resulting from this provision reflects Bureau of the Census projections of a continued decline in average family size. Approximately 172,000 filing units (less than half a percent of all units) would have eight or more members. Of that total, 39 percent would participate under the Administration's plan; an additional 4 percent would participate as a result of the Subcommittee's decision to lift the family size restriction on benefits.

Indexation of Basic Benefit Schedule.—[III, 2.(b)] The Subcommittee decided to index cash assistance benefit levels according to the Consumer Price Index from now until the year of implementation and on an annual basis thereafter. Under H.R. 9030, benefit schedules would be indexed only to the year of implementation with no automatic indexing for subsequent years. The basic cost estimate of H.R. 9030 for fiscal year 1982 assumes the plan would be implemented in the spring of 1981 so that benefit schedules are not adjusted from 1981 to 1982. The Subcommittee's decision to index benefits would raise the federal costs of H.R. 9030 by $3.108 billion and state costs by $123 million in fiscal year 1982.

The higher federal benefit levels that result from the Subcommittee's indexing decision would induce approximately 1.7 million additional filing units to participate in the federal cash assistance program. Total cash assistance costs would rise by $2.947 billion because of increases in both benefit payments ($2.826 billion) and administrative costs associated with the new participants ($121 million). Moreover, because of the overlap between the higher cash assistance breakevens and the tax system in fiscal year 1982, the cost of the feature that reimburses cash assistance recipients for potential federal income taxes incurred would rise by $336 million; $322 million of the additional costs would be federal, while the rest would be borne by states.

$800 Reduction.—[III,2.(d)] The Subcommittee would not reduce cash assistance benefits for eligible units residing together. However, where an eligible unit not containing the household head shares a household with an ineligible unit the cash benefit would be reduced by $800 unless the eligible unit pays a portion of the rent or a pro rata

share of the costs of maintaining the household. H.R. 9030 would reduce benefits by $800 if an eligible unit not containing a household head shares a household with a related unit regardless of eligibility but would not reduce the benefit if the other unit were not related. In cases where both units would be eligible, related, and jointly own or ease the household, each would have their cash assistance benefit reduced by $400.

Because of inadequate data CBO has adopted the Administration's estimate for this provision. Adjusted for inflation to fiscal year 1982, this provision would raise H.R. 9030's federal costs by $290 million and state costs by $35 million. CBO hopes to be able to provide an independent estimate of this provision in the near future.

Supplementation Provisions.—[IV, 2. and 3.] The Subcommittee decided to make several changes in the state supplementation provisions of H.R. 9030 which are considered here collectively. The Subcommittee would raise the state supplemental benefits eligible for federal matching up to current cash assistance plus food stamp benefit levels or the poverty level, which ever is higher, for all categories of recipients including intact families expected to work, single individuals, and childless couples. Under H.R. 9030, the federal government would pay a portion of state supplements up to 112.32 percent of the basic federal benefit for intact families with a member expected to work and nothing thereafter. For a family of four whose primary earner was unable to find a job after the eight week job search, this benefit level would be equal to about 75 percent of the poverty threshold. For non-ABD single individuals and childless couples the federal government would pay no portion of state supplements. The Subcommittee also decided to restrict the combined benefit reduction rate applied to state supplement programs to 70 percent for all categories of recipient. Under H.R. 9030 states would not be allowed to raise the benefit reduction rate for single individuals, childless couples, intact families and single parent families expected to work above 52 percent.

If states provide the maximum matching supplements to all categories of recipients, these changes in the state supplementation provisions of H.R. 9030 would raise costs by $1.262 billion; $984 million would be federal and $278 million state. Costs would rise both because additional recipients would be made eligible by higher benefit levels and because there would be added financial disincentive to work for some categories of recipients not previously supplemented (i.e., single people, childless couples, and some intact families) and for recipients who would face a higher benefit reduction rate (i.e., 70 percent as opposed to 52 percent). State costs would initially rise by some $627 million. This would be partially offset by $370 million in additional federal hold-harmless payments to states. In addition to these hold-harmless payments, federal costs would increase by $132 million in basic cash assistance and $467 million in the federal share of state supplements. Much of the increase in costs at both the federal and state levels would result from the provision that would supplement the benefits of single individuals and childless couples. This provision accounts for $801 million of the additional federal costs and $223 million of the additional state costs.

Monthly Accounting System.—[V,1.] The Subcommittee decided to establish a one-month retrospective accounting system in place of the six-month retrospective accounting system in H.R. 9030. CBO has adopted the same basic procedures as the Administration to estimate the impact of this provision on costs and caseloads. These procedures are being reviewed and may be revised after further discussion with Administration officials.

A one-month retrospective account system would cause federal costs to increase by $2.4 billion and state costs to increase by $230 million. Under the Subcommittee's provision basic federal cash assistance benefits would increase by about $1.3 billion and the state share of the basic federal benefit would increase by $104 million. Total state supplementation payments would increase by $500 million, $170 million paid for by the federal government and the remainder by the states. Because of increased state spending, federal hold-harmless payments to the states would increase by $190 million. An estimated 34.3 million persons would participate sometime during the year as compared to 26.7 million under H.R. 9030. This additional participation would result in an increase in federal administrative costs of approximately $668 million.

Earnings Deduction for Aged, Blind and Disabled.—[VII,1.(d)] The Subcommittee decided to allow an earnings deduction in calculating cash assistance benefits for the aged, blind, and disabled of $65 a month plus 50 percent of remaining monthly earnings. Under H.R. 9030 such individuals would not have such a deduction and earnings would reduce benefits at the 50 percent rate from the first dollar on. The Subcommittee's disregard would raise H.R. 9030's federal cost by $101 million and lower state costs by about $10 million. The state savings would be attributable to the lower grandfathering costs associated with an expansion of cash assistance expenditures.

Child and Student Earnings.—[VII,2.] For determining a filing unit's benefits the Subcommittee decided to disregard the earnings of children under the age of 14 and of students between 14 and 18. It also decided to disregard earnings of full or part-time students between the ages of 18 and 25 if the earnings were applied to the earner's educational expenses. Under H.R. 9030 all such earned income would be counted in determining the filing unit's benefits. Data available to CBO are inadequate to estimate the cost of this provision, especially the part relating the earnings of students between the ages of 18 and 25 to their educational expenditures. Therefore, CBO has adopted the Administration's estimate of this provision. Inflated to fiscal year 1982, the additional federal costs would be $247 million and the additional state costs would be $23 million.

Disregard of Food Stamp Bonus in Means-tested Programs.—[VII,4.] The Subcommittee decided to disregard for purposes of calculating a unit's other federal means-tested benefits an unspecified percentage of a filing unit's additional welfare income that would result from eliminating the federal food stamp program. Under H.R. 9030 the entire amount of the increase in welfare income could be counted in determining a unit's benefits in other federal means-tested programs.

Under the Administration's proposal housing assistance and child nutrition benefits would be reduced by approximately $780 million as a result of increased cash payments. If 35 percent of the increase in cash assistance income were disregarded by the Subcommittee's provision, then the costs of federal housing assistance and child nutrition benefits would rise by $414 million over H.R. 9030, representing the net cost of this provision. Thirty-five percent is an estimate of the proportion of total welfare transfers received by food stamp households in 1976 accounted for by bonus food stamp transfers. There would be no additional state costs associated with this provision.

Asset Test.—[VII,5.] The Subcommittee decided to adopt the asset test and asset definitions of the current SSI program for determining cash assistance eligibility. Under this provision, single individuals with countable assets in excess of $1,500 and larger filing units with countable assets in excess of $2,250 would not qualify for the cash assistance program. Under H.R. 9030 the asset limit is $5,000 and 15 percent of the value of these assets would be imputed annually to income for the purpose of calculating benefits. The Subcommittee's more restrictive asset limit would result in a $191 million reduction in federal costs and $115 million savings to the states.

Grandfathering of General Assistance Recipients.—[VIII,2.(b)] The Subcommittee decided to include in the state hold-harmless calculation the cost of grandfathering those receiving general assistance, AFDC and SSI. The hold-harmless provision in the Administration's bill covers AFDC and SSI grandfathering only. If all states grandfathered current recipients up to pre-reform cash assistance and food stamps benefit levels federal costs would rise by $795 million under the Subcommittee's grandfathering provision and state costs would rise by $507 million.

This provision would add two million recipients of grandfathering payments at a cost of $681 million in benefits and $187 million in administrative expenditures. Based on the projected hold-harmless positions of states in fiscal year 1982, about 60 percent of these new grandfathering expenditures would be borne by the federal government through hold-harmless payments to states. Work disincentives produced by additional cash assistance would lead to a $186 million increase in the basic federal cash assistance program and a $229 million reduction in federal and state tax revenues. While the costs of grandfathering would be considerable in fiscal year 1982, these costs are transitional and would decline with caseload turnover in subsequent years.

Emergency Needs Block Grant.—[X] The Subcommittee decided to increase the federal authorization ceiling for the Emergency Needs block grant program from $630 million as called for in H.R. 9030 to approximately $832 million (based upon 1981 as the year of implementation). Indexing the $630 million to the year of implementation, as specified by the Subcommittee's decision, accounts for $110 million of the increased federal costs. In addition, states would be permitted to receive additional monies, matched at a 50 percent rate by the federal government, for emergency assistance costs. Under this provision the additional grant could not exceed 25 percent of the basic $740 million Emergency Needs block grant. Thus federal and state costs could increase by a maximum of $92 million each, under the assumption of full authorization of appropriations for this provision. Overall, federal costs for the Emergency Needs block grant would increase by $202 million, and state costs by $92 million. This estimate could represent an overestimate of the potential authorization if other components of the Subcommittee's proposal, such as the change to a one-month retrospective accounting system, were adopted.

Substantial Gainful Activity Test.—[XI,1.] The Subcommittee decided to change the disability test for establishing a recipient's ability to engage in "substantial gainful activity". The Administration's proposal would use the current SSI regulations, which specify that a disabled individual can maintain disability status until monthly earnings exceed $200. The Subcommittee raised this earnings test to $480 a month. CBO has adopted the Administration's 1978 estimate of the cost of this provision and adjusted it to fiscal year 1982 by the estimated rate of inflation on the assumption that if the basic benefits of recipients were indexed for inflation the earnings test would also be indexed. In fiscal year 1982, this provision would result in increased federal costs of $50 million and increased state costs of $10 million.

Medicaid Hold-Harmless.—[XIII] The Subcommittee decided to hold states harmless for increased administrative costs associated with the medicaid program. The basic proposal does not include these expenditures in the hold-harmless calculation. If states continue to provide medicaid under current eligibility rules, medicaid administrative expenditures would rise to reflect the fact that medicaid eligibility determination costs for AFDC and SSI recipients which currently are borne largely by the AFDC and SSI programs would have to be picked up by the medicaid program when AFDC and SSI are discontinued. It is estimated that the state share of this added administrative cost would be $240 million in fiscal year 1982. Approximately $140 million in increased federal hold-harmless payments would be required as a result of this provision. The entire increase in state expenditures would not be held harmless since some states, even with these additional expenditures, would receive the minimum guaranteed fiscal relief and hence would not be eligible for hold-harmless payments.

Earned Income Tax Credit.—[XIV] The Subcommittee decided to modify the existing Earned Income Tax Credit (EITC) to provide families with children a credit of 12 percent of earnings up to levels equal to the maximum payment amount in the federal cash assistance program (e.g. $4,200 for a family of four). The credit would be reduced at the rate of 6 percent of income thereafter. Under H.R. 9030, the EITC would be 10 percent of earnings up to $4,000 and 5 percent for earnings between $4,000 and approximately the breakeven point in the cash assistance program (e.g. $9,100 for a family of four). Beyond that income level the credit would be reduced at the rate of 10 percent. In addition, the Subcommittee decided to adjust annually, according to the Consumer Price Index, the income at which the credit is phased out. H.R. 9030 would make such an adjustment only to the year in which the EITC reform would be implemented.

The Subcommittee's EITC would reduce federal costs by $1.160 billion from those implied by H.R. 9030 and raise state expenditures by about $12 million. While the Subcommittee's credit would provide about $1.2 billion less in the way of benefits, it would target a greater proportion of its benefits on families below the breakeven level in the cash assistance program. About 59 percent of the Subcommittee's EITC benefits would go to such families while 42 percent of the benefits under H.R. 9030 would go to such families.

Tax Cash Assistance.—[XV.1] The Subcommittee decided to include cash assistance payments as income subject to federal taxes. Such benefits would not be counted for tax purposes in H.R. 9030. Subjecting cash assistance payments and the federal tax reimbursement (Section 2104 of H.R. 9030) to federal and state taxes would lower the net cost of H.R. 9030 by $2.985 billion; $2.526 billion would be federal and $459 million would be state.

Federal personal income tax revenues would increase by $2.454 billion. State income taxes would increase by $439 million if the Subcommittee's provision were applied by states. These additional tax revenues would be supplemented slightly by a $206 million decrease in public service employment costs. However, cash assistance costs would rise by $194 million because cash assistance recipients would work less because of the reduced financial incentive to work.

Impact of the Subcommittee's Decisions in Fiscal Year 1978 Dollars.—All of the estimates presented in this paper, thus far, have been expressed in fiscal year 1982 dollars, the assumed first full year of the proposal's implementation. The Administration has released its estimates of the fiscal year 1978 costs of the Subcommittee's decisions assuming implementation of the proposal in fiscal year 1978. In order to facilitate a crude comparison of CBO's and the Administration's estimated costs, Table 5 presents the CBO's fiscal year 1982 estimates deflated to fiscal year 1978 dollars. It should be noted that while these figures make a rough adjustment to deduct the impact of the inflation that would occur between fiscal years 1978 and 1982, they implicitly assume that the economic and demographic conditions of fiscal year 1982 would apply to fiscal year 1978. These estimates cannot therefore be interpreted as estimates of the cost of implementing the Subcommittee's proposal in fiscal year 1978.

TABLE 5.—NET COSTS OF THE SUBCOMMITTEE'S CHANGES TO H.R. 9030 BY LEVEL OF GOVERNMENT IN FISCAL YEAR 1982 DEFLATED TO FISCAL YEAR 1978 DOLLARS

[Billions of dollars]

Reform option	Federal	State and local	Total
Net cost of H.R. 9030	$13.940	($2.746)	$11.941
Changes from H.R. 9030:			
Net cost of subcommittee decisions collectively	2.969	.177	3.140
Net costs of marginal change:[1]			
Stepparent's income	.163	.041	.203
Exclude single individuals under age of 25	(1.388)	(.017)	(1.405)
Benefit payments to residents of public institutions	.008	.001	.009
Foster care provisions	.214	.177	.391
Limit on family size	.067	.018	.049
Indexation of basic benefit schedule	2.496	.099	2.595
$800 reduction	.233	.028	.261
Supplementation provisions:			
With single individuals and childless couples	.790	.223	1.013
Without single individuals and childless couples	.147	.044	.191
Monthly accounting system	1.927	.185	2.112
Earnings deduction for aged, blind, and disabled	.081	(.008)	.089
Child and student earnings	.198	.018	.217
Disregard of food stamp bonus in means-tested programs	.332		.332
Asset test	(.153)	(.092)	(.246)
Grandfathering of general assistance recipients	.638	.407	1.046
Emergency needs block grant	.162	.074	.236
Substantial gainful activity	.040	.060	.046
Medicaid hold-harmless	.112	(.112)	
Earned income tax credit	(.932)	.009	(.922)
Tax cash assistance	(2.028)	(.369)	(2.397)

[1] The sum of marginal changes will not add to the net change of the subcommittee bill.

In fiscal year 1978 dollars, the Subcommittee's decisions would result in a $2.97 billion increase in federal costs over H.R. 9030 and $177 million increase in state and local government costs. The marginal impact of the Subcommittee's decision taken individually are shown in 1978 dollars, and range from a savings of nearly $2.40 billion from the provision which would tax cash assistance benefits to a cost of $2.60 billion associated with the decision to index annually the basic benefit schedule according to changes in the Consumer Price Index.

EFFECTS OF THE INDEXATION OF THE BASIC BENEFIT SCHEDULE

Much of the net cost differences between H.R. 9030 and the Subcommittee's proposal is attributable to the Subcommittee's decision to index the basic benefit schedule by the Consumer Price Index after the date of implementation. H.R. 9030 calls for indexation up to the date of implementation. CBO's cost estimate for fiscal year 1982 assumes there would be no indexation of the benefit schedules from fiscal year 1981 to 1982. There has been some confusion regarding this point. Representatives of the Administration have stated that it is the Administration's intent to prevent real benefits from being erroded away by inflation. If this is the case and the benefits in H.R. 9030 were indexed to the Consumer Price Index as called for in the Subcommittee's proposal, the net cost of H.R. 9030 in fiscal year 1982 would be $17.17 billion; $20.47 billion of federal net costs and $3.30 billion of state fiscal relief (see Table 6). On this basis, the net cost of the Subcommittee's decisions taken collectively would be $17.85 billion, or a $680 millicn increase over H.R. 9030. Federal costs would increase by $580 million and state costs would increase by $100 million.

TABLE 6.—COMPARISON OF THE NET COSTS OF H.R. 9030 (WITH FULL INDEXATION OF BENEFITS)[1] AND THE SUBCOMMITTEE CHANGES TO H.R. 9030 BY LEVEL OF GOVERNMENT IN FISCAL YEAR 1982

[Billions of dollars]

Reform option	Federal	State and local	Total
Net cost of H.R. 9030 indexed	$20.47	($3.30)	$17.17
Net cost of subcommittee decisions taken collectively	21.05	(3.20)	17.85
Change from H.R. 9030 indexed	.58	.10	.68

[1] Assumes benefit levels will be adjusted according to the Consumer Price Index as specified in the Subcommittee provisions [III,2.(b)]. The administration's bill would not have automatically indexed benefits after initial implementation in the spring of 1981.

The previous sections of this paper have not included cost estimates for several of the Subcommittee's decisions. Establishing ten preschool education pilot projects [XV,2.] carries an authorization ceiling of $126,666 for fiscal years 1979 through 1981. No cost impact is therefore assumed in fiscal year 1982. Data limitations make it im-possible to assess the cost impacts of the following Subcommittee decisions:

Cash assistance work requirement provisions [VI, 1.(c) and 2. (a), (b)]; and

Cash assistance administrative provisions [IX],

The cost estimates of the Subcommittee decisions to date provided in this paper should be regarded as approximations because of the limitation in the estimating procedures and data bases. Moreover, decisions which are yet to be made regarding elements of the plan such as the scope of the jobs program may have significant cost implications.

TABLE A.—GROSS COSTS OF THE ADMINISTRATION'S WELFARE REFORM PROPOSAL BY LEVEL OF GOVERNMENT IN FISCAL YEAR 1982

[Billions of dollars]

Program costs [1]	Federal	State and local	Total
Benefits:			
Basic cash assistance	$19.74	$2.03	$21.77
State supplementation: [2]			
Matching supplements	2.04	3.67	5.70
Grandfathering supplements		3.04	3.04
Hold-harmless payments	1.08	(1.08)	
Emergency needs block grant [3]	.63		.63
Earned income tax credit	2.63		2.63
Public service employment [4]	8.47	.58	9.05
Federal tax reimbursement [5]	.89	.06	.95
Other [6]	1.32		1.32
Subtotal	36.80	8.30	45.09
Administrative/overhead:			
Cash assistance	2.41	.33	2.74
Public service employment	.50		.50
Public service overhead	2.54		2.54
Subtotal	5.45	.33	5.78
Total costs	42.25	8.63	50.87

[1] All estimates include 50 States, District of Columbia, and Commonwealth of Puerto Rico. Figures may not add to totals due to rounding.

[2] State supplementation estimates assume that each State will supplement the basic Federal benefit up to a level equivalent to the basic AFDC or SSI payment standard plus food stamp benefits in effect in that State immediately preceding the implementation of the new cash assistance program and that States will grandfather current SSI recipients and 75 percent of current AFDC recipients.

[3] Under H.R. 9030 the $630,000,000 authorized for the emergency needs block grant program is not adjusted for inflation. If an inflation adjustment were made to the year 1982 the grant would be $710,000,000 under CBO economic assumptions.

[4] Estimate includes an adjustment for incapacity.

[5] As provided in sec. 2104 of H.R. 9030.

[6] Includes estimates for institutionalized, foster care, and SSI Federal hold-harmless provisions based on proportional adjustment from the HEW Sept. 26, 1977, estimates.

Note: Figures may not add to totals due to rounding.

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TABLE B.—DIRECT AND INDIRECT COST OFFSETS OF THE ADMINISTRATION'S WELFARE REFORM PROPOSAL IN FISCAL YEAR 1982

[Billions of dollars]

Program offsets	Federal	State and local	Total
Direct cost savings:[1]			
AFDC	$8.93	$7.58	$16.50
SSI	6.09	2.50	8.59
Food stamps	6.69	.34	7.03
General assistance		1.40	1.40
Emergency assistance	.04	.04	.08
Earned income tax credit	.56		.56
Work incentive program	.48	.05	.53
Direct subtotal	22.79	11.91	34.69
Indirect cost savings (or increases):			
Related programs:			
Child nutrition	.06		.06
Housing assistance	.72		.72
Unemployment insurance	.44		.44
Medicaid	(.25)	(.24)	(.49)
Indirect subtotal	.97	(.24)	.73
Increased (or decreased) revenues:			
Increased Federal and State income taxes revenues	.65	.17	.82
Increased Social Security taxes	.48		.48
Sales tax revenues		.21	.21
Revenue subtotal	1.13	.21	1.51
Total offsets[2]	24.89	12.05	36.93

[1] Based on CBO 5-yr current policy projections; "Five-Year Projections: Fiscal Years 1979-84" except the AFDC, SSI, and earned income tax credit estimates which were generated by the basic methodology used to cost out the welfare reform plan. Different methodologies underly the current policy projections which indicate lower AFDC costs and higher SSI costs for 1982. However, in the aggregate the Federal cost estimated under the different methodologies differ by less than 5 percent.

[2] The administration's estimate of offsets includes savings from the discontinuation of several activities such as unemployment insurance extended benefits program and CETA, title VI—and the initiation of several new policies including fraud and abuse sanctions and the wellhead tax. The CBO current policy projections based upon a 4.5-percent unemployment rate for fiscal year 1982 include no expenditures for these activities and, therefore, no potential for cost offsets.

Note: Figures may not add to totals due to rounding.

TABLE C.—COSTS OF SUBCOMMITTEE'S WELFARE REFORM PROPOSAL BY LEVEL OF GOVERNMENT IN FISCAL YEAR 1982[1][2]

[Billions of dollars]

H.R. 9030 plus subcommittee provisions	Federal	State and local	Total
Benefits:			
Basic cash assistance	$21.97	$2.20	$24.17
State supplementation:			
Matching supplements	3.05	6.33	9.38
Grandfathering supplements		3.35	3.35
Hold-harmless payments	3.96	(3.96)	
Emergency needs block grant	.83	.09	.92
Earned income tax credit	1.37		1.37
Public service employment	8.21	.56	8.77
Federal tax reimbursement	1.19	.20	1.39
Other:			
Stepparent income	.20	.05	.25
Benefits to public institutions	.01		.01
Adjustment of $800 head bonus	.29	.04	.33
Foster care	.27	.22	.49
Children's earning [3]	.12	.01	.13
Substantial gainful activity	.05	.01	.06
Other [4]	1.32		1.32
Subtotal	42.84	9.10	51.94
Administrative/overhead:			
Cash assistance	3.09	.49	3.59
Public service employment	.50		.50
Public service overhead	2.46		2.46
Subtotal	6.06	.49	6.55
Total costs	48.90	9.59	58.49

[1] Estimates reflect actions taken by the Subcommittee as of Dec. 16, 1977. Figures may not add to totals because of rounding.

[2] All estimates include 50 States, District of Columbia, and Commonwealth of Puerto Rico.

[3] The estimated cost of excluding children's earnings and student's earnings in the absence of the exclusion of single individuals under 25 was approximately $240,000,000. In the presence of the single individuals under 25 provision the estimate was reduced by one-half.

[4] Includes estimates for basic H.R. 9030 provisions for institutional and SSI Federal hold-harmless provisions based on proportional adjustment from the HEW Sept. 26, 1977 estimates.

Program offsets	Federal	State and local	Total
Direct cost savings:[1]			
AFDC	$8.93	$7.58	$16.50
SSI	6.09	2.50	8.59
Food stamps	6.69	.34	7.03
General assistance		1.40	1.40
Emergency assistance	.04	.04	.08
Earned income tax credit	.56		.56
Work incentive program	.48	.05	.53
Direct subtotal	22.79	11.91	34.69
Indirect cost savings (or increases):			
Related programs:			
Child nutrition	.05		.05
Housing assistance	.27		.27
Unemployment insurance	.52		.52
Medicaid[2]	(.39)	(.10)	(.49)
Indirect subtotal	.45	(.10)	.35
Increased (or decreased) revenues:			
Increased Federal and State income tax revenues	4.20	.80	5.00
Increased Social Security taxes	.41		.41
Sales tax revenues		.18	.18
Revenue subtotal	4.61	.98	5.59
Total offsets	27.85	12.79	40.63

[1] Based on CBO 5-yr current policy projections; "Five-Year Projections: Fiscal Years 1979–84" except the AFDC, SSI and earned income tax credit estimates which were generated by the basic methodologies under the current policy projections which indicate lower AFDC costs and higher SSI costs for 1982. However, in the aggregate the Federal cost estimated under the different methodologies differ by less than 5 percent.

[2] Estimated offset include increased Federal hold-harmless expenditures of approximately $140,000,000.

Note: Figures may not add to totals due to rounding.

APPENDIX E

Excerpts From the Summary Reports of the Rural, Gary, New Jersey, and Seattle and Denver Income Maintenance Experiments

Excerpt From the Summary Report—Rural Income Maintenance Experiment

ACKNOWLEDGMENTS

The Rural Income Maintenance Experiment was initiated in 1968 with a planning grant from the Ford Foundation. The study was carried out by the Office for Economic Opportunity through a grant to the Institute for Research on Poverty, University of Wisconsin–Madison. The Director of the study was Lee Bawden. In August 1973, the study was transferred from OEO to the Office of Income Security Policy Research in the Office of the Assistant Secretary for Planning and Evaluation, DHEW.

The contents of the complete Final Report of the Rural Income Maintenance Experiment are listed in Appendix A of this summary. Individual chapters of the Final Report are available at reproduction cost from the Poverty Institute. The Poverty Institute is also prepared to provide, at reproduction cost, abstracts of the experimental data in the form of computer tapes for use by other researchers. Requests for specific chapters of the Final Report or for data abstracts should be addressed to the Publications Department, Institute for Research on Poverty, Social Science Building, University of Wisconsin, Madison, Wisconsin 53706. Technical inquiries concerning the Summary Report, and requests for additional copies, should be addressed to Florence Setzer and Mary Esposito, respectively, at the Office of Income Security Policy Research, DHEW.

This summary Report was written by Florence Setzer, Lee Bawden, William Harrar, and Stuart Kerachsky. It draws heavily on the papers listed in Appendix A.

SUMMARY

In the debate over alternatives to the current welfare system the effect of income maintenance programs on the work effort of low income people, particularly those who work and have family responsibilities, has proved a recurrent and politically significant question. Income support programs covering the so-called working poor have considerable appeal on equity grounds, but intuitive expectations and economic theory lead us to expect that they will cause recipients to decrease their work effort. To find out whether such a disincentive effect occurs, and the size of the effect, major social experiments have been conducted by the Office of Economic Opportunity and the Department of Health, Education, and Welfare.

In the recently-completed New Jersey Graduated Work Incentive Experiment the work reduction for married men as a result of income maintenance payments of a type that might be enacted proved to be less than 10 percent. The reduction resulted solely from fewer hours worked; no evidence appeared of husbands quitting entirely to live on the experimental payments. The percentage of wives in the labor force fell sharply as a result of experimental payments, but since wives worked very few hours to begin with the effect on total family labor supply was small. The experiment appeared to have little effect on the attitudes and nonwork behavior of recipients.

The New Jersey Experiment dealt exclusively with urban families, and researchers doubted that the results, or the administrative techniques, could be applied to the rural poor. The poor appear to face very different labor market opportunities in rural areas than in urban areas, particularly since many are self-employed farmers, and attitudes towa. work may differ between rural and urban settings. Many additional problems arise in the treatment of self-employment income and highly seasonal income in rural areas which do not often occur in urban low-income populations.

Since the results of the urban-based experiments might fail to apply to rural areas, and since an accurate estimate of incentive effects was necessary for estimates of program costs, the Rural Income Maintenance Experiment was carried out to measure labor supply responses and other effects of a negative income tax in rural areas. The results of this experiment are reported here.

The effects of the Rural Experiment, like those of other income maintenance experiments, were measured by comparing the behavior of members of an experimental group, who received cash payments according to one of several benefit formulas, with that of members of a control group who received no benefits. Thus what are described as changes in behavior as a result of the experiment are differences in behavior between the experimental group and the control group rather than changes over time in the behavior of the experimentals. A statistical technique was used which allowed the researchers to hold constant the effects of other characteristics such as the age or education of respondents and thus to isolate the effect of the experimental treatment. treatment.

The benefit formulas had a structure which appears in many current transfer programs and in many proposals for reform. They consisted of a basic benefit, a minimum level of income guaranteed to families with no other income; and an implicit tax rate, the rate at which the benefit was reduced as other income increased. Five different experimental treatments were used with basic benefit levels of from 50 to 100 percent of poverty level income and implicit tax rates ranging from 30 to 70 percent. Most of the results presented here are overall differences in response between controls and experimentals in all plans.

The experiment was carried out in two locations, one in Iowa and one in North Carolina. Families were selected randomly from within the experimental sites and, if eligible, were randomly assigned to a control group or to one of the five experimental treatments. Eligibility required a family income at the beginning of the experiment of less than one and one-half times the official poverty line. Of 809 original families, 729 remained in the program for the entire three years of the experiment.

Work and income responses to the experiment were examined separately for rural families whose income derived primarily from wages and for those whose main source of income was self-employed farming. On the basis of analyses which indicated significantly different response patterns by site and race, North Carolina whites, North Carolina blacks, and Iowa families (all white) were analyzed separately. In addition, effects of the experiment on attitudes and on nonwork behavior such as family stability, various forms of consumption, and school performance of children were examined for the whole group.

Income and work response of wage earners

Experimental effects on several measures of income and work effort were examined for families whose main source of income was wages. The labor supply responses are shown in Table 1. The first three columns show responses for each of the geographic and racial groups; the fourth column shows an aggregate response weighted to represent the low-income rural nonfarm population of the eight Midwestern and Southern states which the experimental sites were chosen to represent. Responses are calculated on the basis of an average plan having a 45 percent implicit tax rate and an 80 percent basic benefit level.

TABLE 1.—EXPERIMENTAL LABOR SUPPLY RESPONSE OF FAMILIES OF RURAL WAGE EARNERS

	Control/experimental differential as percent of control mean [1]			
	North Carolina			
	Blacks	Whites	Iowa	8-State [2] aggregate
All family members: Total hours worked for wages per quarter	−10	−18	−5	−13
Husbands:				
Total hours worked for wages per quarter	−8	+3	−1	−1
Percent employed during quarter	−1	−1	0	−1
Wives:				
Total hours worked for wages per quarter	−31	−23	−22	−27
Percent employed during quarter	−25	−28	−38	−28
Dependents: Total hours worked for wages per quarter	−16	−66	−27	−46

[1] Responses standardized to a 45-percent tax/80-percent basic benefit plan.
[2] The experimental sites were chosen to represent the low-income rural population of 8 Midwestern and Southern States. See p. 37 for weighting procedure used to derive this estimate.

For all family members combined, hours worked for wages were lower for experimental group members than for controls by a weighted average of 13 percent after holding constant nonexperimental differences. The differential was statistically significant for two of the three groups. The experiment had a similar negative effect on total family income and number of earners per family.

Labor supply responses varied greatly among family members. Hours worked by husbands moved in differing directions among the groups but on average remained essentially unchanged. No statistically significant evidence appeared in any of the groups of husbands withdrawing from the labor force in response to the experimental payments. For wives, large negative experimental effects, averaging 27 percent, appeared for hours worked, but they were statistically significant only for North Carolina blacks. Statistically significant negative effects on employment, averaging 28 percent, occurred for every group of wives. Among children effect was that for North Carolina wives, which resulted from a large increase in wage work by the control group which was not matched by the experimental group. Because of the small sample sizes the results for wives must be treated with caution.

Total earnings and total hours worked, including both farm and wage work for operators and wage work for wives, fell for experimental farm families relative to controls in North Carolina but not in Iowa. But the relative decline in hours in North Carolina occurred mostly because of the estimated decline in the wage work of wives.

Efficiency of farm operations, measured by the amount of output produced with a given amount of inputs, declined for experimental farms relative to controls. In North Carolina efficiency decreased as implicit tax rates rose. Total output declined by a small amount on experimental farms relative to controls in both North Carolina and Iowa.

The decline in output appears inconsistent with the increase in farm hours. One plausible explanation is that the experiment provided an incentive either to defer sales of output until after the end of the experiment, or to engage in investment activities which have a payoff in the long run but not during the three years of the experiment. Alternatively, the implicit tax on money income might have encouraged a shift from production in the market to production for consumption at home, or to less productive activities which were more enjoyable, either of which would appear as a decline in measured efficiency. The experiment may also have caused a shift in methods of production, possibly to more risky techniques, which might have required higher labor inputs, at least during the transition period.

Other responses to the experiment

In addition to labor supply and income responses, the study examined the effects of experimental payments on nutrition; various forms of consumption; health and health care; geographic mobility; debt and asset holding; psychological well-being; marital dissolution and family interaction; and attitudes, delinquency, and school performance of children. Significant experimental effects were found in only a few cases, possibly because of the short duration of the experiment.

Increases in consumption of several kinds occurred as a result of the experiment. Interestingly, nutrition improved significantly as a result of the experiment among North Carolina families but not in Iowa, in part because the level of nutrition was initially much higher in Iowa. The probability of buying a house was slightly greater for experimentals than for controls, with most of the effect occurring in North Carolina, and houses were bought about three years earlier in the life cycle by experimentals than by controls. No difference was found in the price of homes bought. Expenditures on health care were unaffected by the experiment, and changes in health showed no consistent pattern.

The study examined purchases of durable goods and cars and acquisition of debt. The increase in consumption from an additional dollar of income support payments was compared with the increase resulting from a dollar increase in the head's earned income. For durable goods, the increased consumption out of experimental payments was about the same as that out of head's earned income for whites, but was about double for blacks. For whites, almost no increased expenditure on cars occurred, but for blacks the increase was about the same as that from earned income. Little change occurred in store debt as a result of the experiment, but loan debt increased greatly, especially for blacks. Even so, debts appeared to remain within families' abilities to pay. The difference by race in increases in these assets and debts as a result of the experiment may be explained by the black families' lower initial holdings of them.

Experimental payments appeared not to increase the probability of leaving a job but did increase the amount of unemployment experienced by experimental group members. Members of the experimental group appeared more likely to change residence than control group members.

The experiment had very little effect on any of several measures of psychological well-being. Slight evidence appeared, however, that the level of the basic benefit, regardless of payments actually received, was positively related to psychological well-being, presumably through providing a greater sense of security to participants.

The experimental program appeared to have no important effect on the quality of family relationships. It had no effect on the number of marital dissolutions or on satisfaction with marriage or parent-child relationships as reported by wives and teen-agers. Division of labor in the household may have been affected slightly.

The aspirations, school attitudes, and school behavior of teen-agers were not affected by the experiment. Neither was self-reported delinquent behavior by teen-agers, nor their attitudes toward delinquency.

School performance did improve for grade school children in North Carolina, both black and white, as a result of the experiment. Children in grades 2 through 8 in the experimental group performed significantly better than the control group in attendance, comportment, academic grades, and standardized test scores. Similar improvements did not occur, however, for North Carolina children in grades 9 through 12 or for Iowa children. The lack of effect for Iowa children may be explained by the fact that they experienced richer home environments and performed better prior to the experiment than North Carolina children.

Administration of a negative income tax program in rural areas

The experiment provided experience with the problems of administering an income-conditioned cash transfer program in a rural area. These included the treatment of income and assets for self-employed farmers and questions of comprehension of the program and accuracy of reporting by poorly-educated participants.

The experiment established rules for the definition of self-employment and developed a method of calculating income for the purposes of a cash transfer program which differed from the IRS rules in disallowing accelerated depreciation and the investment tax credit, adding the value of rent-free housing to income, and imputing to income a percentage of assets above a given level. A one-month accounting period with a twelve-month carryover provision was developed to deal with the seasonal variability of farm income. Experience in administering the program led to additional recommendations to require the accrual method of accounting rather than the cash method and to treat both realized and unrealized capital gains as income.

Participants' understanding of the experimental rules proved very poor. Only about half of the families understood the basic benefit level, implicit tax rate, and breakeven level they faced, and the understanding of these program charactristics did not improve over time despite careful instruction of participants.

Benefits were calculated on the basis of family size, assets, and income as reported by the families. Data on family size, wage income, and transfer income were reported with acceptable accuracy, but assets and farm income were seriously underreported. On the basis of these results, in fact, underreporting by farmers could be expected to affect program costs far more than any likely response in their labor supply.

Summary of responses

Many of the results of the Rural Income Maintenance Experiment resemble closely the results of the New Jersey Experiment. In wage earners' families, income of experimentals declined relative to that of controls somewhat more than in New Jersey, but still by a modest amount. In the Rural Experiment husbands' hours did not decline consistently as a result of the experiment, and those declines that were found tended to be even smaller, on average, than in New Jersey. As in New Jersey, husbands did not withdraw from the labor force, but the percentage of wives working fell considerably. A new result of the Rural Experiment was that wage work of dependents also fell. But since wives and dependens worked only a small number of hours initially the effect on total family work effort was small. As in New Jersey, the experiment had very little effect on various psychological and social variables.

The Rural Experiment provided considerable new information about the work response of farm families. Hours of wage work by experimental farm families declined relative to controls only for one group, and this differential appears to have been caused by large increases in hours by control wives. Hours worked in farming in North Carolina increased while profits and efficiency declined. The latter result may be explained by the incentive to shift work effort away from tasks yielding money income and toward investment or production of directly-consumable commodities.

Other interesting new results were the relative improvements in nutrition and in school performance of grade school children among North Carolina experimental families. A positive experimental effect also occurred for many forms of consumption, including purchase of cars, durable goods, and houses, and acquisition of loan debt.

The results of the experiment suggest, as did the New Jersey Experiment, that a universal income-conditioned cash assistance program would cause only a modest decline in the labor supply of families of wage workers. Husbands who worked primarily for wages would decrease their hours of work slightly or not at all and would not leave the labor force. Wives would be less likely to work than in the absence of payments, but the effect on the families' hours of work would be small since wives' hours of wage work in low-income families tend to be few. The desirability of wives' working less depends on one's view of the value of wives' time devoted to work in the market rather than work at home.

An income maintenance program would be unlikely to affect most social or psychological variables. It would be likely to have a positive effect on the school performance of elementary school children and on various forms of consumption, including adequacy of nutrition, at least in families where these variables are at low levels initially.

The results of the experiment also indicate that special care must be taken in defining administrative and reporting procedures for self-employed farmers in order to avoid serious problems of underreporting and misreporting of income and assets. Problems associated with accurate measurement of farm income and assets may be of greater importance among this population than any likely labor supply response.

Excerpt from the Gary Income Maintenance Experiment

Acknowledgments

The Gary Income Maintenance Experiment was conducted between 1971 and 1974 in Gary, Indiana, under contract SRS 70-63 between the Indiana State Department of Public Welfare and the U.S. Department of Health,

Education, and Welfare. The experiment was administered by Indiana University at its Northwest (Gary) Campus. The Project Officer for the study was Joseph P. Corbett, Office of Income Security Policy Research in the Office of the Assistant Secretary for Planning and Evaluation, DHEW. Francis Cizon, John Maiolo, and Andy B. Anderson each served as a principal investigator during part of the project. Kenneth C. Kehrer was project director at the end of the experiment.

The experiment required the cooperation of many agencies and institutions. The people who helped to achieve that cooperation include: Evelyn Bell of the Indiana SDPW, Rex Stockton, Herman Feldman, John Hatchett, and William Farquhar of Indiana University, John Kelley of the Lake County DPW, and the staff of Mayor Richard G. Hatcher.

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Finally, the experiment depended on the good will of the participating families, without whose cooperation the experiment would not have been possible.

This summary of the initial findings draws heavily on the technical papers of the *Initial Findings Report*, whose contents are outlined in the Appendix. Information about how to obtain copies of this summary and of the individual papers of the *Initial Findings Report* is also contained in the Appendix. Technical inquiries about the *Initial Findings Report* should be directed to Joseph P. Corbett at DHEW or Kenneth C. Kehrer at Mathematica Policy Research.

Several persons commented on drafts of this summary: Joseph P. Corbett, Larry Orr, David Greenberg, Richard Kasten, Florence Setzer, and David Betson of DHEW, and David Kershaw, George Carcagno, Robert Moffitt, Valerie Leach, and David Richardson of Mathematica Policy Research. Their suggestions are gratefully acknowledged, as is the editorial and production assistance of Vivienne Killingsworth, Yoma Ullman, Kay Agnew, Jeannette Zimmerman, Claudette Dunn, and Suzanne Kernan. Of course, the author is solely responsible for the final product. The interpretations contained in the report are not necessarily those of DHEW, the State of Indiana, or Indiana University.

Analysis of data from the Gary experiment is continuing under a contract between DHEW and Mathematic Policy Research, with Kenneth C. Kehrer as principal investigator. Mathematica Policy Research, with the assistance of The Hendrickson Corporation, is also preparing the data for general public use. The data will be available for public use early in 1978.

EXECUTIVE SUMMARY

The Gary Income Maintenance Experiment was one of a coordinated series of experiments supported by the U.S. Department of Health, Education, and Welfare and the Office of Economic Opportunity to test the work incentive effects and other consequences of alternative income support plans. The experiments were conducted with different population groups in different parts of the country. The income support plans tested in Gary were similar in structure to those of existing welfare and transfer programs, except that the benefit formulas were simplified and eligibility was universal, depending only on family income and family size, and the presence of a dependent child. Benefits were determind by the *support level*, that is, the basic benefit provided to a family with no other source of income, and an *implicit tax* or *benefit reduction rate*, that is, the rate at which the benefit is reduced as other sources of income increase. Some benefits were paid to all families with income below a *breakeven level*, with the largest benefits going to those families with the lowest incomes. Thus, under such a plan the size of the benefit decreases as family income rises, but total family income always increases as earnings from work increase.

Four different income support plans, combining two implicit tax rates and two support levels, were tested in Gary. The tax rates were 40 and 60 percent, and the support levels were equal to the poverty level and about three-fourths of the poverty level annual income for each family size. In 1972, for example, when the official poverty threshold for a four-person-nonfarm family was $4,275, the two Gary support levels were $4,300 and 3,300 for that family size. Benefit schedules were adjusted every six months to compensate for increases in the cost of living.

The income maintenance experiments were experiments in the sense that otherwise similar families were randomly assigned either to an experimental (payments-eligible) or control group. By comparing the behavior of the experimental and control families, it is possible to determine statistically the effects of the income support plans, because the only important difference between the two groups was the randomly assigned experimental status.

The experimental group families were eligible for the income support payments for three years. All participating families filed monthly reports of income and family composition changes, and were interviewed before the experiment, about three times a year during the expriment, and after the experiment. Selected families were eligible for child care subsidies at various subsidy rates, and for experimental information-referral services.

Characteristics of the participating families

Each of the experiments studied the responses of different population groups. The Gary experiment focused on black families in an urban environment. Eligibility was also limited to families with at least one child under age 18. Of the 1,799 families who enrolled (voluntarily), 57 percent were assigned eligibility for experimental income support payments, while the remainder were control subjects. Almost 60 percent of the participating families were female-headed families (families without a male head of household present).

The families with a male head of household present (almost all of which were intact husband-wife families) usually had low incomes but generally were not extremely poor. The husbands were typically full-time workers who were able to earn enough to keep their families out of poverty—only 10 percent of these families had incomes below the poverty line. The wives, on the other hand, typically did not work outside the home—only 13 percent were employed at the start of the experiment. In the relatively few families where both the husband and the wife were employed, the wife's earnings usually raised family income so high that the family no longer qualified for the receipt of income support payments.

The husband-wife families studied in Gary would not be considered typical welfare families because of their attachment to the labor force and their income levels, and because public assistance payments were not generally available to husband-wife families in Indiana. But under the income support plans tested in Gary, many of these families were eligible to receive modest income supplements. The analysis of the Gary experiment can therefore provide insight into the consequences of extending an income supplement program to working, but low-income, families.

The families with female heads of household were generally much poorer than the husband-wife families studied. Over 80 percent were receiving welfare benefits from the Aid to Families with Dependent Children (AFDC) program immediately prior to the experiment. About three-fourths of the families that switched from AFDC to the experiment had incomes below the poverty line. The female heads on AFDC at enrollment were very dependent on welfare; 86 percent of their monthly income came from public transfers, with AFDC grants alone accounting for slightly more than half of their incomes. As with the wives studied, only 13 percent of the AFDC female heads were employed.

The female-headed families not on AFDC prior to the experiment were somewhat better off; only 38 percent had incomes below the poverty level. Approximately 60 percent of the income of the non-AFDC female-headed families came from earnings (40 percent of the female heads in these families were employed), while most of the rest of their income came from Food Stamps, Social Security, and other transfer programs.

The income support plans tested in Gary were considerably more generous than AFDC. Average experimental payments to female-headed families by the end of the second year of the experiment were $258 a month, as compared to $159 for AFDC payments. Thus, the Gary experiment can provide information about the effects of increasing the generosity of welfare payments to female-headed families and extending eligibility for income support to female heads who do not currently receive AFDC.

The research reported here is based on limited data from the first two years of the experiment. Because the analysis exploited only a small portion of the available data, these initial findings are still tentative. Once all of the data have been analyzed, the tentative conclusions summarized here may be revised. Nonetheless, several conclusions emerge from the data with strong statistical support.

Initial findings on work effort response

The initial analysis focused on the work effort of household heads who were of working age and capable of working. The work effort response at the end of the first and second years of the experiment was estimated using multiple regression analysis, a statistical technique that took into account the effects of major differences among families likely to influence work effort (e.g., age and education of household heads, family size, and labor market conditions). The available data have been subjected to numerous alternative specifications to test the sensitivity of the work effort response. While these sensitivity tests do not exhaust all possibilities, the narrow range of the response estimates do provide support for the tentative conclusions summarized here.

The initial analysis detected little difference in the work effort response among alternative income support plans. That is, the various support levels and implicit tax rates tested in Gary did not appear to result in greatly varying levels of work effort. Thus, the initial findings summarized in the following pages compare individuals eligible for the experimental support payments—regardless of the specific plan—with individuals who were control subjects.

The initial findings indicate that the experiment had a modest disincentive effect on the work effort of household heads by the end of the second year (see Table 1). In intact families, husbands reduced their total hours worked by an average of 7 percent, and wives reduced their hours of work by 17 percent. These estimates are quite similar to those of the work effort response of husbands and wives in the New Jersey and Rural experiments. Female heads who switched from AFDC to the NIT reduced their hours of work by 5 percent. However, because both AFDC female heads and wives worked few hours prior to the experiment—about 6 hours a week on the average—their reductions in work effort had only a small impact on total family labor supply and earnings. Our findings indicated that female heads not on AFDC at enrollment actually increased their hours of work slightly relative to controls, but we have little confidence in this result.

TABLE 1.—SUMMARY OF INITIAL FINDINGS ON WORK EFFORT FROM THE GARY INCOME MAINTENANCE EXPERIMENT: HOURS WORKED AT THE END OF THE 2D YEAR

	Effect of the experiment on total hours worked per week	Mean-hours worked by control group	Work effort response as a percentage of control group mean
Husbands	−2.5	36.0	−7
Wives	−1.0	5.7	−17
Female heads:			
On AFDC prior to the experiment	−.3	6.5	−5
Not on AFDC prior to the experiment	.3	14.7	+2

Note: These estimates of the work effort response were obtained using a statistical technique (regression analysis) that controlled for family composition, other family income, earnings of other family members, the individual's age, education, normal wage rate, and preexperiment work effort and AFDC status, and the unemployment rate and season at the time of the interview.

The work effort response of husband-wife families

A major focus of public debate over welfare reform has been the potential disincentive effects of extending coverage to all husband-wife families, or of increasing existing welfare benefits for these families. Currently only about half of the states provide benefits (under AFDC-UF) to intact, husband-wife families where the husband is unemployed.[1] The income support plans tested in the income maintenance experiments generally provide higher payments than existing AFDC benefits, and cover more husband-wife families than AFDC.

The work effort response of intact families to the support plans tested in Gary was centered among the husbands, who reduced their total hours worked by 2.5 hours a week in response to the experiment. This disincentive was largely the result of the complete withdrawal of a few individuals from the labor force rather than of small reductions in work effort by most of the husbands. Those who were not well established in the labor market prior to the experiment were most likely to withdraw from the labor force.

The wives responded to the experiment by reducing their total hours worked by one hour a week. This decline in work effort consisted of both a disincentive effort on employment of a few wives and an across-the-board reduction in hours worked by those who continued to work. However, many of the wives who stopped working remained in the labor force since they continued to look for work. In general, the estimates of the work effort response of wives are statistically insignificant, partly due to the small number of working wives in our sample.

Earlier income maintenance experiments focusing on intact families were conducted in cities in New Jersey and Pennsylvania and rural areas of Iowa and North Carolina. These experiments tested income support plans with benefit levels set between 50 and 125 percent of the poverty line and tax rates of between 30 and 70 percent. However, most of the participating families were assigned to income support levels between 75 and 100 percent of the poverty level and tax (benefit reduction) rates around 50 percent, as in Gary. It is useful to compare the findings from these experiments which tested similar income support plans on different population groups.

For husbands, the estimated average experimental response of total hours worked from the completed experiments falls in the range between —1 and —7 percent (see Table 2). The average response of black husbands in Gary appears to have been about the same magnitude as the response of white husbands in cities in New Jersey and Pennsylvania. The Gary response was centered in a reduction in employment among a few husbands, while the response in the other experiments was characterized by a marginal reduction in hours worked by many husbands. One reason for this may be that, in the highly institutionalized labor market in Gary, husbands may not be able to make small adjustments to their work effort. The only way to reduce work effort may be to quit work altogether.

TABLE 2.—COMPARISON OF FINDINGS ON WORK EFFORT FROM THREE INCOME MAINTENANCE EXPERIMENTS

[Percentage changes in hours worked]

	Husbands	Wives
New Jersey experiment	—6	—31
Rural experiment	—1	—27
Gary experiment	—7	—17

Note: These estimates are weighted averages of the response in hours worked of different population groups. Because there were some technical problems in estimating the response of black and Spanish speaking groups, the estimates from the New Jersey experiment reported here are for whites only. Recent reanalysis of the New Jersey data for husbands provides evidence that the magnitude of the response for these groups is similar to the response of whites (see Kerachsky and Mallar 1976). More detailed response estimates are presented in table 12 on p. 64.

The results from the three experiments for wives indicate a large disincentive effect in percentage terms (the estimates range from —17 to —31 percent), although the response is more modest in absolute terms; the range of

[1] However, eligibility for AFDC-UF benefits depends not only on income, but also on attachment to the labor force or on previous employment. All states provide benefits under AFDC to intact families where one of the parents is incapacitated.

response for wives was between 1 and 5 hours a week. Black wives in Gary and in the New Jersey sites appear to have reduced their work effort less than the other wives studied in the experiments.

Thus, the evidence from quite different population groups suggests that the reduction in work effort by prime-age husbands in response to an income support plan with a support level of about 85 percent of the poverty level and a tax (benefit reduction) rate of around 50 percent would not be large. The work effort response of wives to such a plan would be larger in percentage terms, but would not be large in terms of actual hours. Further analysis of data from the Gary and Seattle-Denver experiments will examine the generalizability of these findings and the impact of alternative income support plans.

The Work Effort Response of Female Heads

Switching female heads from AFDC to the experimental support plans resulted in only a modest reduction in work effort, .3 hours worked per week on the average (about 5 percent), despite the relative generosity of the experimental payments. The response consisted primarily of a few female heads who stopped working rather than an across-the-board reduction in hours worked. The modest disincentive effect—somewhat smaller than the negative experimental response of husbands in the sample—may reflect the work disincentive effects of the AFDC program, which enables mothers to reduce their work effort in order to care for their children. Switching from AFDC to a more adequate income support program may not lead to large reductions in work effort because many female heads may have already reduced their hours of work under AFDC. In any case, these estimates suggest that increasing the support levels of the AFDC program along the lines of the income support plans tested in Gary would result in a decline in the work effort of female heads by only a modest amount.

Female heads who were not on AFDC prior to the experiment appear to have increased their work effort slightly, by about .3 hours a week, in response to the experiment. However, the estimated responses for the group of female heads who were not on AFDC prior to the experiment are statistically insignificant and unstable over time. The sample size of this group is quite small and may not be large enough to permit us to estimate the effect of the experiment on their work effort with confidence.

Other initial findings

While work effort was the central focus of the initial analysis, it was not the only response of interest. Studies were also conducted on experimental responses in four other areas: the effects of income maintenance on family consumption; the demand for housing; the demand for social services; and the choices teenagers make among school, work and leisure. In addition, other studies investigated the utilization of the experiment's subsidized child care and social services information-referral programs, and the degree of participants' understanding of the rules of the experiment and the mechanics of the income support plans.

The effect of the experiment on family consumption was investigated by comparing differences between the experimental and control groups in debt, monthly purchases, and the acquisition of durable goods between mid-experiment and the period prior to enrollment. This preliminary analysis suggests that experimental families tended to use their additional income to increase their expenditures on clothing, medicine, and automobile repairs (but not to purchase automobiles), and to reduce their medical debt. In addition, families eligible for experimental payments spent 78 percent more on home production appliances and 64 percent more on furniture than control families. Initial examination of the housing consumption patterns of a subsample of families indicates that the experimental payments did not appear to induce families to move to different housing. On the other hand, among those families that did move during the experiment, public housing residents in the experimental group were about 50 percent more likely to move to private dwellings than similar control families, and experimental families were twice as likely to purchase homes. Thus, the experimental payments appear not to have influenced the decision of families to move but, among those families who would have moved anyway, the payments influenced their choice of residence.

Experimental families used social agencies less extensively than did the control families. Controlling for other factors, families eligible for experimental payments reduced their use of social service agencies about 13 percent. Thus, the evidence from the Gary experiment suggests that a universal income support program, available to more families and with higher benefits than AFDC in Indiana~~, may~~ ~~reduce~~ the demand for social services to some extent.

The experimental payments appear to have had a positive effect on school attendance among male teenagers, who tended to reduce thir labor force participation and continue their high school education. On the other hand, the experimental income support plans appear to have had no effect on high school continuation for female teenagers and no effect on college attendance by either sex. Of course, black female teenagers are already much more likely to finish high school than black males, so there exists less opportunity for a positive experimental response among females.

Child care subsidies were available to selected experimental participants at varying subsidy rates—100, 80, 60, and 35 percent. For most of these families, the availability of the subsidies was contingent on working (or engaging in a work-related activity). The number of families who used the child care program was much smaller than originally anticipated; less than 5 percent of eligible families used the program during the second year. The rate of utilization generally declined as the subsidy decreased, and utilization was higher among families with preschool children; for families with preschool children the rate of use in the 80 and 100 percent subsidy plans with a work requirement was 15 percent. These initial findings suggest that utilization of a child care subsidy program will depend on the rate of subsidy, and that utilization will be concentrated among families with preschool children.

The Gary experiment attempted to test the usefulness of "access workers" who provided information and referral services to a subgroup of the study sample. However, utilization of the access workers was much lower than expected and declined to an almost negligible level from the beginning of the program to the end of the first year of the study. About 25 percent of the eligible families contacted the access workers.

Household heads were highly knowledgeable about the rules that governed a family's eligibility for continued participation in the experiment. However, as had been anticipated, they were considerably less knowledgeable about the mechanics of the income support plans. These results are similar to findings from the New Jersey and Rural experiments.

FUTURE RESEARCH

Research on the Gary experiment is continuing at Mathematica Policy Research, Inc., under a contract with the U.S. Department of Health, Education. and Welfare. In addition, the findings from another major income maintenance experiment in Seattle and Denver are forthcoming. Other researchers will also analyze data from all four experiments as these data are released for public use. The additional research in progress should provide further evidence of the generalizability of previous experimental findings on the effects of income support programs on work effort and family consumption. Moreover, the ongoing research will also improve our understanding of the effect of the income support plans tested on a whole range of other outcomes, including the school performance of children, the incidence of low birth weight (an objective measure of the effect of the experiment on the health status of infants), family stability, and other aspects of the quality of life.

EXCERPT FROM THE NEW JERSEY GRADUATED WORK INCENTIVE EXPERIMENT

The Graduated Work Incentive Experiment was initiated in 1967 by the Office of Economic Opportunity, through a contract with the Institute for Research on Poverty, University of Wisconsin-Madison. Field operations were conducted by Mathematica, Inc., Princeton, New Jersey. Research Director for the study is Professor Harold Watts, University of Wisconsin; Director for Operations is David Kershaw, Mathematica. The Technical Papers on which this Report is based were edited by Professor Watts and Professor Albert Rees, Princeton University. A companion volume describing the surveys, operations, and administration of the experiment was edited by Kershaw and Jerilyn Fair, Mathematica. In August, 1973, the study was transferred from OEO to the Office of Income Security Policy Research in the Office of the Assistant Secretary for Planning and Evaluation, DHEW. Inquiries pertaining to this Summary Report should be directed to this Department; inquiries pertaining to the experiment itself and the technical analysis should be directed to the Institute for Research on Poverty.

FOREWORD

For nearly ten years there has been debate and controversy over the effects of extending cash assistance to the "working poor"—intact families with children headed by able-bodied, non-aged males who are currently ineligible for most public assistance programs. Central to this debate has been the question of the labor supply response of such families. Would the receipt of assistance payments cause them to work less or, in some cases, quit work altogether? Clearly, any substantial reductions in labor supply would not only increase the cost of assistance to the working poor, but would also tend to undermine the anti-poverty objectives of assistance by weakening labor market ties and reducing earned income.

It was primarily to address this question that the Office of Economic Opportunity initiated the Graduated Work Incentive Experiment in 1967. This study was a carefully controlled, scientific field test of the effects on recipient families of eight different "negative income tax" or benefit formulas. A negative income tax plan can be characterized by a "basic benefit," the amount paid to a family that has no other source of income, and an "implicit tax rate," the rate at which benefits are reduced as family income rises. The present cash welfare system and many non-cash assistance programs—e.g., food stamps and public housing—have the general benefit structure of a negative income tax; but they also include administration restrictions and eligibility requirements which are not necessarily present in a general negative income tax plan. The experimental plans included a broad range of levels of both basic benefits (ranging from 50 percent to 125 percent of the poverty line) and implicit tax rates (ranging from 30 percent to 70 percent).

Over 1,350 randomly selected low-income families in five New Jersey and Pennsylvania cities were enrolled in the experimental plans and a control group. The control group received no transfer payments; they were included to allow comparisons which would isolate the effects of the various payment plans. Each family remained in the experiment for three years. Intensive interviews were conducted every three months to measure a variety of family attributes, including labor supply and other behavioral responses. The first comprehensive analysis of this wealth of data has now been completed by the Institute for Research on Poverty of the University of Wisconsin and Mathematica, Inc., who conducted the study. This report summarizes the major findings of that analysis for the 693 husband-wife families who were present throughout the experiment.

The analyses reported here, like the experiment itself, are complex and multi-faceted. A wide variety of response measures were analyzed for a number of different groups of participants. For example, in the area of labor supply alone, four basic response variables were analyzed for husbands, wives, and the family as a whole, within each of three major ethnic groups. Moreover, the analytical models employed highly sophisticated statistical techniques. Inevitably, the specific quantitative estimates of labor supply vary somewhat from one response measure to another, from one group of participants to another, and from one analytical model to another. The analysis of these data is an ongoing process; further work is already underway at the Poverty Institute and it is our hope that other researchers will take full advantage of this unique data base. It is also our hope that the completed analyses, available in the form of a large set of detailed Technical Papers, will be carefully and critically scutinized by other scholars, and we are taking steps to facilitate such a review.

Despite the complexity of the analyses and the diversity of the results, the broad outlines of the central labor supply results, and their importance for public policy, are now apparent. It seems unlikely that further research on this data will significantly alter the general characteristics of these results although some caveats are discussed below.

The most striking feature of the findings is that the observed changes in labor supply in response to the experimental payments were generally quite small. For most groups of participants, the various measures of labor supply showed reductions relative to the control group of less than 10 percent; many of the differentials were much smaller, and often were not statistically different from zero. Indeed, for black families statistically significant reductions in labor supply were virtually never found, and in a number of cases a statistically significant increase in work effort was observed. Only for wives were large percentage reductions in labor supply observed with any consistency and, again, these responses were largely confined to non-blacks. Even these responses were quite small in absolute terms; they were large only relative to the initially small amounts of labor supplied by wives. Because the labor supply of wives was small even in the absence of assistance, and because the vast majority of husbands in the experiment were employed, these reductions in wives' labor supply had only small effects on overall family labor supply and earnings. It is worth noting that over the course of the experiment, correcting for inflation, the average payment to continuous families actually declined.

It is also worth noting the form taken by those labor supply reductions which were observed, especially for husbands. It seems clear that these reductions were not the consequence of a small number of participants withdrawing from the labor force entirely to live on assistance payments. Approximately 95 percent of all husbands, in both the treatment and control groups, were in the labor force during any survey week throughout the experiment. There was not significant reduction in either labor force partiicipation or employment rates for either white or black husbands, although whites did reduce slightly the number of hours worked per week. Only for Spanish-speaking husbands was there a statistically significant reduction in labor force participation, and it was small. The overall reduction in labor supply among the Spanish-speaking was largely accounted for by somewhat higher unemployment rates among those in the labor force.

A large number of behavioral responses to the experimental negative tax plans outside the labor supply area have also been analyzed. These are not discussed in detail in this report, although abstracts of the Technical Papers dealing with these topics are presented in an appendix. In general, few significant responses were found in these other areas. Cash assistance at the levels involved in this study do not appear to have a systematic effect on the recipients' health, self-esteem, social integration, or perceived quality of life, among many other variables. Nor does it appear to adversely affect family composition, marital stability, or fertility rates. Perhaps these findings are not surprising, in view of the relatively modest amounts of the experimental benefits. Monthly payments averaged about $100 across all plans. Even in a plan with a basic benefit equal to the poverty line, average monthly benefits were only $125. This is because earnings of families in the experiment averaged about $450 per month. What we can say with certainty is that these benefits represented a net increase in family income, allowing these families greater command over material goods and services, and enhancing their economic well-being. The anti-poverty effectiveness of the payments was not seriously vitiated by offsetting reductions in earnings due to reduced work effort.

There are a number of caveats and qualifications which must be observed in assessing the results of this study, and a good deal of further research can be profitably pursued with these data. The temporary nature of the experiment may have had some effect on the responses observed that is different than one would expect under a permanent national program. Moreover, as with any study of a panel of families over time, there are problems of missing data and drop-outs. In addition, the existence of relatively generous AFDC-UP and General Assistance programs in the experimental sites greatly complicates the interpretation of the results. These and other problems of analysis and interpretation have been investigated in some detail by researchers at the Institute for Research on Poverty, and are the subject of continuing research. Their resolution will undoubtedly affect many of the specific findings of the study; however, the Poverty Institute's investigations suggest that the overall results of the study are valid.

Thus, they would appear to have important implications for public policy. They clearly indicate that a negative tax type plan with a basic benefit as high as the official poverty line will not trigger large-scale reductions in work effort among male heads of families. Indeed, there is no evidence here that even a small proportion of male heads would drop out of the labor force completely in response to such a plan; small labor supply reductions are likely to be evenly spread over large numbers of workers. Without a mandatory work requirement the male heads of families maintained high levels of labor force participation under all of the experimental plans.

It does seem likely, on the basis of these results, that a national income-conditioned cash assistance plan would result in a rather substantial (percentage) reduction in the labor supply of the 15–20 percent of low-income wives who are employed. Whether this is viewed as an undesirable outcome depends on one's social values. On the one hand, it is true that a second paycheck can be the route out of poverty for many low-income families. On the other hand, there may be important costs to low-income families, their children, and society as a whole, when these women work outside the home due to economic necessity. In any event, the income security provided by such income supplementation enhances the freedom of individual women to choose their own balance between work inside or outside the home.

Even the small increases in unemployment rates among some male heads observed in the experiment are not an unambiguously undesirable outcome. There is some evidence that, especially for younger workers, these reflect longer periods of search between jobs, resulting in better jobs and higher wage rates. Thus, these supply responses should not be viewed as negatively as we would unemployment caused by insufficient demand.

Since benefits depend on family earnings and income, the cost of any given plan will be sensitive to family labor supply responses, and particularly, earnings. Total earnings of these families tend to be dominated by those of the head, since wives tend to work few hours at low wages. Thus, the experimental results indicate that only small changes in family earnings, with only minor cost implications, should be expected in response to a negative income tax type plan. Offsetting these would be the potential for substantially reducing income poverty, increasing the command of the poor over material goods and services, and enhancing their freedom to choose among economic options.

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Assistant Secretary for Planning and Evaluation, DHEW.

EXCERPT FROM THE SEATTLE-DENVER INCOME MAINTENANCE EXPERIMENT

MID-EXPERIMENTAL LABOR SUPPLY RESULTS AND A GENERALIZATION TO THE NATIONAL POPULATION

(Conducted by Stanford Research Institute and Mathematic Policy Research for the Department of Health, Education, and Welfare, December 1977)

ACKNOWLEDGMENTS

The Seattle-Denver Income Maintenance Experiment, which was initiated in 1970, was sponsored by the Department of Health, Education, and Welfare. Experimental design and most analysis of the experimental data are being performed by Stanford Research Institute, with survey work and simulations performed by Mathematica Policy Research. The experiment was conducted with the cooperation and assistance of the states of Washington and Colorado.

Research papers produced under the experiment, and addresses from which they may be obtained, are listed in Appendix A of this report. Technical inquiries concerning the Summary Report and requests for additional copies should be addressed to David Greenberg and Mary Esposito, respectively, at the Office of Income Security Policy/Research, DHEW. This Summary Report was written by Florence Setzer, Richard Kasten, and David Betson, with contributions by Larry Orr and David Greenberg.

SUMMARY

In the long-running debate over welfare policy, the effect of welfare programs on the work effort of recipients has been a central issue. Both economic theory and common sense suggest that cash payments based on income provide incentives to decrease work effort, but until recently little information has existed concerning the probable size of the effect. The disincentive to

work is potentially a serious problem for several reasons. A decline in work will reduce both the national output and the income of low-income families, and will increase the cost of assistance programs; in addition, a policy that reduces the work attachment of the low-income population will run counter to strongly-held ethical beliefs and the goal of enabling recipients to become self-sufficient.

To provide information about the work incentive effects of income-conditioned cash transfers, the former Office of Economic Opportunity and the Department of Health, Education, and Welfare conducted a series of four social experiments. The last of these experiments, the Seattle-Denver Income Maintenance Experiment, has provided information about work effort responses that facilitates generalization to the national population and to a variety of possible programs.

The results from this experiment have now been used, as described in this report, to simulate the costs, distribution of benefits to different types of families and work incentive effects resulting from various programs, including the Carter Administration's proposed Program for Better Jobs and Income. A number of different cash assistance programs—none with any jobs provision—were simulated to clarify the implications of choices among various benefit levels and benefit reduction rates. These simulations provided information useful in the development of the cash component of the Carter welfare reform proposal. In addition, the results of the Seattle-Denver Experiment were used in simulations of the Program for Better Jobs and Income to project the number of jobs needed for the program, and the costs and work incentive effects of combining a jobs program with a cash assistance program.

Estimates of work incentive effects

The Seattle-Denver Income Maintenance Experiment, conducted by Stanford Research Institute and Mathematica Policy Research, began in 1970 and will continue through 1978. It is the most comprehensive of the income maintenance experiments, covering nearly 5000 one- and two-parent black, white, and Hispanic-American families. The families were assigned either to one of several experimental groups receiving cash assistance payments or to a control group of families which received no experimental payments but continued to receive whatever benefits they were eligible for under current governmental programs. Comparison of the hours of work of experimental families with those of control group families during the course of the experiment enabled economists to measure the work disincentives of cash programs on the experimental group.

The programs studied in the experiment have a structure similar to that of most existing income-conditioned transfer programs, such as AFDC and SSI. They consist of a basic benefit, the amount of money a family receives when it has no other income; and a benefit reduction rate, the amount by which a family's benefit is reduced as its income from other sources increases. Programs of this form can be expected to reduce the incentives to work both because income received through such programs reduces the need to work and because benefits are reduced as earnings rise, thereby diminishing the reward from work. Under a 50 percent benefit reduction rate, for example, a recipient who earns $3.00 an hour will lose $1.50 in benefits for each hour of work, so that the net increase in income will be only $1.50 an hour.

Preliminary results based on the first two and one-half years of data closely resemble the results of earlier income maintenance experiments. Under various alternative cash assistance programs that contained no work requirement and were not combined with any provision for job search assistance, training, or public service employment, husbands in the experimental group worked only slightly less—6 percent fewer hours—than husbands in the control group. For wives and female family heads, the percentage decline in work effort was greater—17 percent and 12 percent, respectively—as compared with the relevant control group. But since most wives in low-income families and female family heads work relatively few hours, the absolute decline in their hours of work was small. These declines in hours of paid work were undoubtedly compensated in part by other useful activities, such as search for better jobs or work in the home.

In addition to comparing the experimental group with the control group, the Seattle-Denver researchers developed a method to measure how the work incentives that individuals face under the existing welfare system would be changed by introduction of a new program. It was found that individuals would adjust their work effort in response to changes in the amount of transfer payments they receive or in the size of the benefit reduction rate they face. Results implied, for example, that for a family with current income of $4000, a program that would increase the amount of their income by $1000 over their current total income, including cash assistance, would cause the husband to reduce his hours of work by a little less than an hour a week. If the new program also increased the benefit reduction rate the husband faced so that his returns from an hour of work were reduced by $1.00, he would reduce his average hours of work a week by an additional one and one half hours. Thus, such a program would cause him to reduce his work effort by a total of around two and one half hours a week. In the same situation, wives would work a total of five and a half hours less, and female heads would work almost four hours per week less.

Simulations of cash programs

Estimates of work incentive effects from the Seattle-Denver Income Maintenance Experiment were used to conduct simulations of several income-conditioned cash assistance programs with no jobs component. These simulations were designed to permit direct comparisons of cash programs and to clarify the policy implications of different benefit levels and benefit reduction rates. Estimates were computed of costs, caseloads, and benefits received by various types of families under each of the simulated programs. The simulations were carried out by Mathematica Policy Research, using the Micro-Analysis of Transfers to Households (MATH) model and data from the March 1975 Current Population Survey.

The simulated programs had basic benefit levels of 50, 75, and 100 percent of the poverty line and benefit reduction rates of 50 and 70 percent. It was assumed that the simulated programs would replace the existing Food Stamp and Aid to Families with Dependent Children programs. All eligible families were assumed to participate.

These simulated cash programs differ greatly from the Program for Better Jobs and Income, and were not designed for comparison with that program. The results of these cash program simulations, however, provided considerable information about the policy implications of different benefit levels and benefit reduction rates, information that was useful in designing the Administration's welfare reform proposal.

The simulations indicate that in response to the relatively simple cash assistance programs described above, husband-wife families receiving benefits would reduce their hours of work between 13 and 20 percent, with the low end of this range associated with simulated programs with a 50 percent benefit reduction rate. The reduction in work effort would increase as the benefit reduction rates increased. While the percentage reduction for wives would be larger than that for husbands, their absolute decline in hours would be smaller because of the large number of wives who work few hours or not at all. The change in hours in single-parent families would be smaller than in husband-wife families—ranging from an increase of 1 percent to a decline of 16 percent—because most female heads receive transfer payments under the existing welfare system and have already adjusted their work effort to them. In fact, several of the simulated programs would decrease transfer benefits currently received by many female-headed families, thereby increasing the hours that such families work.

Even though the change in hours of work may be moderate, such changes in work effort were found to have important implications for program costs. For example, the simulations predicted that under a program with a basic benefit level of 75 percent of the poverty line and a benefit reduction rate of 50 percent, the reduction in work effort of husbands, wives, and female family heads receiving cash assistance would increase net program costs by 25 percent. In computing net costs, the costs of present AFDC and Food Stamp Programs, which are assumed to be abolished, were subtracted from total costs of the simulated programs.

Net program costs, numbers of families who would receive benefits, and costs attributable to program-induced changes in working hours are all sensitive to both program benefit levels and benefit reduction rates, as shown in Table 1. For example, a relatively generous program, with benefit levels set at the poverty line and a benefit reduction rate of 50 percent, would have many more participants and higher program costs than a program that set benefit levels at 75 percent of the poverty line and benefit reduction rates at 70 percent. Total net costs attributable to reductions in work effort would be higher for such a program than for less generous, less costly programs, but the proportion of net cost caused by reduced work would be much lower. This is because the reduction in work effort per family is less under the plan with the lower benefit reduction rate and because the higher benefit reduction rate plan includes relatively more low-income families whose work effort response is greater.

TABLE 1.—NET PROGRAM COSTS AND NUMBERS OF PARTICIPATING FAMILIES FOR ALTERNATIVE CASH ASSISTANCE PROGRAMS: FAMILIES RECEIVING TRANSFER PAYMENTS OR TAX RELIEF

Basic benefit as percent of poverty line	Net program costs (billions)	Net program costs due to changes in work effort: Amount (billions)	Net program costs due to changes in work effort: Percent	Participating families (millions)
50-percent benefit reduction rate:				
50	−$2.54	0.53	(1)	4.4
75	7.44	1.88	25	9.7
100	27.61	4.58	17	17.9
70-percent benefit reduction rate:				
50	−3.66	.41	(1)	1.5
75	2.36	1.36	58	5.1
100	12.20	3.07	25	8.0

[1] Percentage not computed when base is negative.

As can be seen from Table 1, total net program costs were found to vary from a saving of $3.66 billion to a net cost of $27.61 billion. Savings occurred under the less generous simulated programs because benefits were smaller for many families than payments they currently receive under the AFDC and Food Stamp programs.[1] The fraction of net program costs resulting from decreases in work effort ranged from 58 percent of one of the less expensive programs to only 17 percent of the most generous program. The number of families covered ranged from 1.5 million to almost 18 million, with all but the two extreme plans falling between 4 and 10 million. Most of the difference lay in the number of husband-wife families covered; the number of female-headed families varied relatively little, since a large fraction of these families had such low incomes that they were covered under every program.

Program costs were shown to increase as the basic benefit level increases, an effect which occurred both because more families became eligible and because benefits per family rose. However, costs decreased as the benefit reduction rate rose because benefits decreased for most families, especially higher-income ones, and fewer families were eligible. A high benefit reduction rate program would pay a relatively large share of its benefits to families with very low incomes, as compared with a low benefit reduction rate program. The percentage of net cost due to decreases in work effort, however, was higher in the high benefit reduction rate programs. This occurred both because the reward to work was lower and because only relatively low income families, whose work responses to changes in income are large, were eligible for benefits.

The way in which a cash assistance program is integrated with the income tax system was also found to have major implications for program costs, work effort, and the distribution of program benefits among the nation's families. Both the experimental programs and the simulated cash programs fully reimbursed taxes that were owed by persons eligible for transfer payments. In addition, taxes were partially reimbursed to families who were at income levels that were above those at which they qualified for a transfer payment, although the percentage of taxes that were reimbursed gradually fell as income increased, eventually falling to zero. This procedure was necessary to

[1] Net program costs were also calculated under a "hold-harmless" provision for AFDC participants, which ensured that their benefits under the simulated programs were at least as high as their current AFDC benefits. Although this resulted in only negligible increases in costs for the more generous of the simulated programs, net costs of the less generous programs increased by several billion dollars.

keep after-tax income from suddenly falling with an additional dollar of earnings. Two alternative reimbursement plans were simulated—one in which the rate of reimbursement fell relatively rapidly as earnings increased, and one in which the reimbursement rate decreased relatively gradually. Although the percentage of cost due to reductions in work effort was slightly greater under the first plan than the second, the cost of the tax relief was almost twice as high under the latter plan, and the number of families receiving tax relief was two and one-half times higher.

Simulations of the administration's welfare reform program

The costs and work incentive effects of the Administration's Program for Better Jobs and Income were also simulated on the basis of the results of the Seattle-Denver Experiment. This welfare reform proposal includes both an income-conditioned cash assistance component which would replace the AFDC (and WIN), SSI, and Food Stamp programs, and various employment aids including a major public service jobs component. The program would provide a basic federal benefit floor for all persons and would encourage work by establishing different benefit structures for recipients who are expected to work and those who are not. States that presently pay benefits in excess of the proposed federal basic benefit would be encouraged to supplement these benefits by Federal subsidization of state payments that are fully consistent with the Federal incentive structure.[2]

The simulations estimated costs and caseloads for the Program for Better Jobs and Income and compared the work effort effects of adding public service jobs to a cash assistance component. Simulation results indicate

Overall, the results of the simulations presented here make clear that while workers—particularly secondary earners—do respond to monetary incentives, cash assistance programs would not cause a massive withdrawal of workers from the labor force, as many have feared. When combined with jobs, as in the case of Administration's welfare reform proposal, they would result in increased work effort. Any reduction in work effort caused by cash assistance would be more than offset by the increased employment opportunities provided by public service jobs. The stimulation results also suggest that changes in the basic benefit and benefit reduction rate of a cash assistance program may not only have major effects on costs and on work effort, but on the distribution of benefits among families of different types as well. They also show that the method of integration of the cash assistance program with the tax system can have major effects on costs and number of recipients and must be planned with care.

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[2] A description of the Administration's proposal is contained in Section IV of this report.

APPENDIX F

Staff Data and Materials on Public Welfare

95th Congress } COMMITTEE PRINT
2d Session }

Staff Data and Materials on

Public Welfare Programs

COMMITTEE ON FINANCE
UNITED STATES SENATE

RUSSELL B. LONG, *Chairman*

Data and Materials Prepared by the Staff of the Committee on Finance for the Use of the

SUBCOMMITTEE ON PUBLIC ASSISTANCE

DANIEL PATRICK MOYNIHAN, *Chairman*

APRIL 1978

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TABLES

STAFF DATA AND MATERIALS ON PUBLIC WELFARE PROGRAMS

Introduction

In 1977, the administration developed and sent to the Congress a legislative proposal for restructuring the major public assistance programs. This proposal was introduced in the Senate by Senator Moynihan as S. 2084. Public hearings have been scheduled for April and May 1978 by the Public Assistance Subcommittee of the Committee on Finance on S. 2084 and related proposals. This document was prepared to make available certain data related to major public welfare programs as they are now in existence. Also included is a comparison of the provisions of S. 2084 with three proposals which have been advanced as alternative plans for major restructuring of the welfare system. These are: (1) H.R. 10950, the proposal developed by the *ad hoc* welfare reform subcommittee created by the House of Representatives and introduced by Mr. Corman; (2) H.R. 10711, an alternative proposal developed by Mr. Ullman, Chairman of the House Ways and Means Committee; and (3) S. 2777, an alternative proposal introduced by Senators Baker, Bellmon, Ribicoff, Danforth, Hatfield of Oregon, Stevens, and Young. The document also includes a brief description of the major features of H.R. 7200, a bill already reported by the Committee on Finance. While H.R. 7200 does not undertake a major restructuring of the welfare system, it would make a number of amendments to the existing programs. For the sake of completeness, information is included on H.R. 7200.

I. General Information on Welfare Programs

The term "welfare programs" is not an easily definable concept. Frequently, however, the term is used to designate those programs which provide significant support on an income-tested basis to a fairly broad segment of the low-income population. This definition would exclude programs aimed at a particular segment of the population such as veterans' pensions although the veterans' pension programs clearly would fit within other reasonable definitions of "welfare programs." Similarly, the above definition excludes the general social security programs, which are not operated on an income-tested basis, although there is an obvious interrelationship between the social security and the welfare programs. For example, the amount paid in social security benefits to dependent children exceeds the Federal share of payments under aid to families with dependent children. Similarly, the cost of the Supplemental Security Income program for the aged, blind, and disabled is significantly related to the social security program. Over half of all SSI recipients (and 70 percent of aged recipients) also get social security benefits. In previous years, using a much broader definition of welfare programs, the committee identified over 100 different programs which could be so classified. Tables 1 and 2 show the change over the past several years in cost and caseload of selected programs which fit within the more narrow definition described above.

One common measure of the success or failure of the welfare system is the extent to which it removes people from poverty. In order to apply this measure, there has been developed an official standard of what constitutes the amount of income below which one is said to be poor. Table 3 gives the estimated 1977 poverty levels for families of different types and sizes. Table 4 shows the number and percent of people in poverty from 1959 to 1976. The official poverty levels are based upon a methodology adopted several years ago and are updated from year to year by applying the changes in the Consumer Price Index to the prior poverty levels. Since earnings levels over a period of years tend to rise more than price levels, the percentage of people in poverty could be expected to decline from year to year (except during recessionary periods) if the income of those in the poverty population reflects about the same rate of growth as the income of the population generally.

The usual measure of the size of the poverty population (as in table 4) takes into account only money income and not income in kind. Similarly, the usual measure of the poverty population does not show how many would be poor if they did not receive the benefits provided by income support programs. Table 5 shows how the number of poor families varies when different criteria of this type are applied.

Much of the interest in welfare programs centers on the assistance provided to families with children. Table 6 shows the family status of children in the population.

TABLE 1.—NUMBER OF RECIPIENTS—SELECTED WELFARE PROGRAMS, DECEMBER 1973–OCTOBER 1977

[In millions]

	December				October 1977
	1973	1974	1975	1976	
Aid to families with dependent children (AFDC)	10.8	11.0	11.4	11.2	10.8
(Families)	(3.2)	(3.3)	(3.6)	(3.6)	(3.5)
Supplemental security income (SSI)	[1] 3.2	4.0	4.3	4.2	4.2
Food stamps	12.7	17.3	19.0	17.4	15.9
Medicaid [2]	18.8	20.8	22.1	21.6	21.3
General assistance	.7	.9	.10	.9	.8
Earned income tax credit [3]. (Families [4])			(6.3)	(6.6)	(6.6)

[1] State-administered programs of old age assistance, aid to the blind, and aid to the permanently and totally disabled were in effect in fiscal year 1973.
[2] Annual number of medicaid recipients for fiscal years. "Medicaid recipients" indicates individuals who had at least some of their health bills paid by the program.
[3] Not in effect before 1975 tax year.
[4] Estimated.

TABLE 2.—EXPENDITURES FOR SELECTED SOCIAL WELFARE PROGRAMS,[1] 1973–78

[In billions]

	Fiscal year 1973			Fiscal year 1976			Fiscal year 1977			Fiscal year 1978 (estimated)		
	Total	Federal	State and local	Total	Federal	State and local	Total	Federal	State and local	Total	Federal	State and local
Aid to families with dependent children (AFDC)	$7.6	$4.2	$3.4	$10.7	$5.8	$4.9	$11.7	$6.4	$5.3	$12.2	$6.7	$5.5
Supplemental security income (SSI)	[2] 3.7	2.2	1.5	6.6	5.1	1.5	6.8	5.3	1.5	7.5	6.0	1.5
Food stamps	2.2	2.2	NA	5.9	5.7	.3	5.7	5.3	.3	5.8	5.5	.3
Medicaid	9.1	5.0	4.1	14.7	8.3	6.3	17.1	9.7	7.4	19.1	10.9	8.2
General assistance [3]	1.3	0	1.3	2.2	0	2.2	2.4	0	2.4	NA	NA	NA
Social services (title XX)	2.3	1.5	.8	2.8	2.1	.7	3.2	2.4	.8	3.5	2.6	.9
Earned income tax credit	([4])	([4])	([4])	1.1	1.1	0	1.2	1.2	0	1.2	1.2	0
Work incentive program (WIN)	.3	.3	.03	.3	.3	.03	.4	.4	.04	.4	.4	.04

[1] Total expenditures—includes administrative costs and benefit costs, except with respect to general assistance and the earned income tax credit, for which identifiable administrative costs are not available.

[2] State-administered programs of old age assistance, aid to the blind, and aid to the permanently and totally disabled were in effect in 1973.

[3] Includes non-federally aided medical assistance, as follows: 1973, $0.5 billion; 1976, $1.0 billion; and 1977, $1.1 billion.

[4] Not in effect before 1975 tax year.

NA—Not available.

TABLE 3.—THE POVERTY LEVEL IN 1977 BY TYPE AND SIZE OF FAMILY

Size of family	Total	Nonfarm: Total	Nonfarm: Male head	Nonfarm: Female head	Farm: Total	Farm: Male head	Farm: Female head
1 person (unrelated individual)	$3,060	$3,070	$3,210	$2,970	$2,600	$2,700	$2,500
Under 65 years	3,140	3,150	3,270	3,020	2,710	2,780	2,570
65 years and over	2,900	2,910	2,940	2,900	2,470	2,500	2,460
2 persons	3,930	3,950	3,960	3,900	3,330	3,340	3,230
Head under 65 years	4,050	4,070	4,090	3,970	3,480	3,480	3,360
Head 65 years and over	3,640	3,670	3,670	3,650	3,120	3,120	3,110
3 persons	4,810	4,830	4,860	4,700	4,110	4,110	3,970
4 persons	6,160	6,190	6,190	6,160	5,270	5,270	5,150
5 persons	7,280	7,320	7,330	7,240	6,250	6,250	6,220
6 persons	8,200	8,260	8,270	8,210	7,010	7,010	7,030
7 persons or more	10,120	10,210	10,240	9,980	8,590	8,590	8,970

Source: Census Bureau.

TABLE 4.—PERSONS BELOW THE POVERTY LEVEL, 1959 TO 1976

(Numbers in thousands. Persons as of March of the following year)

Year	Number below poverty level						Poverty rate *					
		In families						In families				
	Total	Total	Head	Related children under 18 yr	Other family members	Unrelated individuals	Total	Total	Head	Related children under 18 yr	Other family members	Unrelated individuals
All persons:												
1976	24,975	19,632	5,311	10,081	4,240	5,344	11.8	10.3	9.4	15.8	6.0	24.9
1975	25,877	20,789	5,450	10,822	4,457	5,088	12.3	10.9	9.7	16.8	6.4	25.1
1974 [1]	23,370	18,817	4,922	9,967	3,928	4,553	11.2	9.9	8.8	15.1	5.7	24.1
1974	24,260	19,440	5,109	10,196	4,135	4,820	11.6	10.2	9.2	15.5	6.0	25.5
1973	22,973	18,299	4,828	9,453	4,018	4,674	11.1	9.7	8.8	14.2	5.9	25.6
1972	24,460	19,577	5,075	10,082	4,420	4,883	11.9	10.3	9.3	14.9	6.6	29.0
1971	25,559	20,405	5,303	10,344	4,757	5,154	12.5	10.8	10.0	15.1	7.2	31.6
1970	25,420	20,330	5,260	10,235	4,835	5,090	12.6	10.9	10.1	14.9	7.4	32.9
1969	24,147	19,175	5,008	9,501	4,667	4,972	12.1	10.4	9.7	13.8	7.2	34.0
1968	25,389	20,695	5,047	10,739	4,909	4,694	12.8	11.3	10.0	15.3	7.8	34.0
1967	27,769	22,771	5,667	11,427	5,677	4,998	14.2	12.5	11.4	16.3	9.1	38.1
1966	28,510	23,809	5,784	12,146	5,879	4,701	14.7	13.1	11.8	17.4	9.5	38.3
1966	30,424	25,614	6,200	12,876	6,538	4,810	15.7	14.2	12.7	18.4	10.5	38.9
1965	33,185	28,358	6,721	14,388	7,249	4,827	17.3	15.8	13.9	20.7	11.8	39.8
1964	36,055	30,912	7,160	15,736	8,016	5,143	19.0	17.4	15.0	22.7	13.3	42.7
1963	36,436	31,498	7,554	15,691	8,253	4,938	19.5	17.9	15.9	22.8	13.8	44.2
1962	38,625	33,623	8,077	16,630	8,916	5,002	21.0	19.4	17.2	24.7	15.1	45.4
1961	39,628	34,509	8,391	16,577	9,541	5,119	21.9	20.3	18.1	25.2	16.5	45.9
1960	39,851	34,925	8,243	17,288	9,394	4,926	22.2	20.7	18.1	26.5	16.2	45.2
1959	39,490	34,562	8,320	17,208	9,034	4,928	22.4	20.8	18.5	26.9	15.9	46.1

See footnotes at end of table.

TABLE 4.—PERSONS BELOW THE POVERTY LEVEL, 1959 TO 1976.—Continued

(Numbers in thousands. Persons as of March of the following year)

Year	Number below poverty level						Poverty rate					
		In families						In families				
	Total	Total	Head	Related children under 18 yr	Other family members	Unrelated individuals	Total	Total	Head	Related children under 18 yr	Other family members	Unrelated individuals
Persons in families with male head and male unrelated individuals:												
1976	12,390	10,603	2,768	4,497	3,337	1,787	7.1	6.4	5.6	8.5	5.2	19.7
1975	13,609	11,943	3,020	5,284	3,638	1,667	7.8	7.1	6.2	9.8	5.7	19.9
1974 [1]	11,901	10,355	2,598	4,605	3,151	1,547	6.8	6.2	5.4	8.3	5.0	19.5
1974	12,484	10,877	2,757	4,809	3,310	1,607	7.1	6.5	5.7	8.7	5.2	20.4
1973	11,616	10,121	2,635	4,282	3,204	1,495	6.6	6.0	5.5	7.6	5.1	19.8
1972	12,873	11,463	2,917	4,988	3,558	1,410	7.4	6.8	6.1	8.6	5.7	21.1
1971	14,151	12,608	3,203	5,494	3,910	1,543	8.1	7.5	6.8	9.3	6.3	23.9
1970	14,266	12,828	3,309	5,546	3,973	1,438	8.2	7.7	7.2	9.2	6.5	24.0
1969	13,735	12,296	3,181	5,253	3,862	1,439	8.0	7.4	6.9	8.6	6.4	26.2
1968	15,025	13,705	3,292	6,330	4,083	1,320	8.8	8.3	7.3	10.2	7.0	25.4
1967	17,178	15,873	3,893	7,181	4,799	1,305	10.1	9.6	8.7	11.5	8.3	26.9
1966	18,260	16,948	4,063	7,884	5,001	1,312	10.8	10.3	9.3	12.6	8.7	29.3
1966	19,579	18,314	4,384	8,374	5,556	1,265	11.6	11.2	10.0	13.4	9.6	27.7
1965	22,127	20,834	4,805	9,826	6,203	1,293	13.2	12.8	11.1	15.7	10.9	28.9
1964	25,084	23,615	5,338	11,314	6,963	1,469	15.1	14.6	12.5	18.2	12.4	32.0
1963	25,339	23,852	5,582	11,137	7,133	1,487	15.4	14.9	13.1	18.0	12.9	34.8
1962	27,394	25,842	6,043	12,124	7,675	1,552	16.9	16.4	14.3	19.9	14.1	36.5
1961	28,830	27,257	6,437	12,533	8,287	1,573	18.1	17.6	15.4	21.0	15.4	36.0
1960	29,188	27,678	6,288	13,193	8,197	1,510	18.5	18.0	15.4	22.3	15.3	36.1
1959	29,100	27,548	6,404	13,063	8,081	1,552	18.7	18.2	15.8	22.4	15.3	36.8

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Persons in families with female head and female unrelated individuals:												
1976	12,586	9,029	2,543	5,583	903	3,557	34.4	37.3	33.0	52.0	15.7	28.7
1975	12,268	8,846	2,430	5,597	819	3,422	34.6	37.5	32.5	52.7	15.0	28.9
1974 [1]	11,469	8,462	2,324	5,361	777	3,007	33.6	36.5	32.1	51.5	14.1	27.3
1974	11,775	8,563	2,351	5,387	825	3,212	34.4	36.8	32.5	51.5	14.9	29.3
1973	11,357	8,178	2,193	5,171	814	3,179	34.9	37.5	32.2	52.1	16.0	29.7
1972	11,587	8,114	2,158	5,094	862	3,473	36.9	38.2	32.7	53.1	17.0	34.3
1971	11,409	7,797	2,100	4,850	847	3,611	38.0	38.7	33.9	53.1	17.5	36.6
1970	11,154	7,503	1,951	4,689	862	3,652	38.2	38.1	32.5	53.0	17.9	38.4
1969	10,412	6,879	1,827	4,247	805	3,532	38.4	38.2	32.7	54.4	17.5	38.7
1968	10,364	6,990	1,755	4,409	826	3,374	38.9	38.7	32.3	55.2	17.8	39.2
1967	10,591	6,898	1,774	4,246	878	3,693	40.6	38.8	33.3	54.3	18.9	44.7
1966	10,250	6,861	1,721	4,262	878	3,389	41.0	39.8	33.1	58.2	18.6	43.5
1966	10,845	7,300	1,816	4,502	982	3,545	43.8	43.1	35.1	61.3	22.2	45.4
1965	11,058	7,524	1,916	4,562	1,046	3,534	46.0	46.0	38.4	64.2	24.5	46.2
1964	10,971	7,297	1,822	4,422	1,053	3,674	45.9	44.4	36.4	62.3	24.3	49.3
1963	11,097	7,646	1,972	4,554	1,120	3,451	48.4	47.7	40.4	66.6	26.0	50.0
1962	11,231	7,781	2,034	4,506	1,241	3,450	50.5	50.3	42.9	70.2	28.8	51.0
1961	10,798	7,252	1,954	4,044	1,254	3,546	49.5	48.1	42.1	65.1	29.8	52.4
1960	10,663	7,247	1,955	4,095	1,197	3,416	49.5	48.9	42.4	68.4	28.3	50.9
1959	10,390	7,014	1,916	4,145	953	3,376	50.2	49.4	42.6	72.2	24.0	52.1

[1] Under revised methodology.
* Note: Percentage of persons with income below the poverty level.

Source: Census Bureau.

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TABLE 5.—FAMILIES BY TYPE BELOW THE POVERTY LEVEL UNDER ALTERNATIVE INCOME DEFINITIONS: FISCAL YEAR 1976*

Families in poverty	Pretax/pre-transfer income	Pretax/post-social insurance income	Pretax/post-Money transfer income	Pretax/post-in-kind transfer income[1]		Post-tax/post-total transfer income[1]	
				I	II	I	II
A. Single-person families:							
Number in thousands	10,306	6,131	5,396	5,002	3,537	5,130	3,659
Percent of single-person families	47.8	28.4	25.0	23.2	16.4	23.8	17.0
B. Multiple-person families:							
Number in thousands	11,130	6,323	5,320	3,977	2,904	4,035	2,938
Percent of multiple-person families	19.2	10.9	9.2	6.9	5.0	7.0	5.1

[1] Col. I excludes medicare and medicaid benefits received by families participating in those programs; col. II includes medicare and medicaid benefits.

*Note; Table shows how the number of poor families varies according to how family income is defined. The number (and percentage) declines as additional types of income transfer payments and in-kind benefits are included as part of family income. The primary example of social insurance income is Old-Age, Survivors, and Disability Insurance (OASDI) benefits. The major other money transfer income is from AFOC and SSI benefits. The major in-kind income is composed of food stamps, medicaid and medicare.

Source: Congressional Budget Office.

TABLE 6.—LIVING ARRANGEMENTS AND PRESENCE OF PARENTS FOR PERSONS UNDER 18 YRS OLD, BY RACE, SPANISH ORIGIN, AND AGE: MARCH 1976

[Noninstitutional population excluding members of the Armed Forces living in barracks. Excludes persons under 18 years old who were heads or wives in families or subfamilies]

Race and age	Total, under 18 yrs	In families									Not in families
		Total	Living with both parents	Living with mother only					Living with father only	Living with neither parent	
				Total [1]	Mother single	Mother separated	Mother widowed	Mother divorced			
NUMBER (thousands)											
All races:											
Total, under 18 yrs	65,129	64,697	52,101	10,310	1,139	3,200	1,357	4,017	811	1,476	432
Under 14 yrs	48,598	48,321	39,132	7,751	1,045	2,554	715	2,984	443	996	277
14 to 17 yrs	16,531	16,376	12,969	2,559	94	646	642	1,033	368	480	155
White:											
Total, under 18 yrs	54,411	54,081	46,342	6,421	292	1,663	870	3,192	634	684	330
Under 14 yrs	40,440	40,240	34,744	4,753	280	1,342	434	2,393	331	413	199
14 to 17 yrs	13,971	13,841	11,598	1,668	12	321	436	799	303	271	131
Black:											
Total, under 18 yrs	9,461	9,366	4,688	3,791	836	1,518	479	787	145	741	96
Under 14 yrs	7,174	7,101	3,534	2,920	754	1,195	279	557	85	560	74
14 to 17 yrs	2,287	2,265	1,154	871	82	323	200	230	60	181	22
Spanish origin: [2]											
Total, under 18 yrs	4,894	4,891	3,716	999	123	413	90	300	45	128	3
Under 14 yrs	3,925	3,925	3,040	787	118	325	58	222	27	72	....
14 to 17 yrs	969	966	676	212	5	88	32	78	18	56	3

See footnotes at end of table.

TABLE 6.—LIVING ARRANGEMENTS AND PRESENCE OF PARENTS FOR PERSONS UNDER 18 YRS OLD, BY RACE, SPANISH ORIGIN, AND AGE: MARCH 1976—Continued

[Noninstitutional population excluding members of the Armed Forces living in barracks. Excludes persons under 18 years old who were heads or wives in families or subfamilies]—Continued

Race and age	Total, under 18 yrs	In families: Total	In families: Living with both parents	Living with mother only: Total [1]	Mother single	Mother separated	Mother widowed	Mother divorced	Living with father only	Living with neither parent	Not in families
PERCENT DISTRIBUTION											
All races:											
Total, under 18 yrs	100.0	99.3	80.0	15.8	1.7	4.9	2.1	6.2	1.2	2.3	0.7
Under 14 yrs	100.0	99.4	80.5	15.9	2.2	5.3	1.5	6.1	.9	2.0	.6
14 to 17 yrs	100.0	99.1	78.5	15.5	.6	3.9	3.9	6.2	2.2	2.9	.9
White:											
Total, under 18 yrs	100.0	99.4	85.2	11.8	.5	3.1	1.6	5.9	1.2	1.3	.6
Under 14 yrs	100.0	99.5	85.9	11.8	.7	3.3	1.1	5.9	.8	1.0	.5
14 to 17 yrs	100.0	99.1	83.0	11.9	.1	2.3	3.1	5.7	2.2	1.9	.9
Black:											
Total, under 18 yrs	100.0	99.0	49.6	40.1	8.8	16.0	5.1	8.3	1.5	7.8	1.0
Under 14 yrs	100.0	99.0	49.3	40.7	10.5	16.7	3.9	7.8	1.2	7.8	1.0
14 to 17 yrs	100.0	99.0	50.5	38.1	3.6	14.1	8.7	10.1	2.6	7.9	1.0
Spanish origin: [2]											
Total, under 18 yrs	100.0	99.9	75.9	20.4	2.5	8.4	1.8	6.1	.9	2.6	.1
Under 14 yrs	100.0	100.0	77.5	20.1	3.0	8.3	1.5	5.7	.7	1.8	....
14 to 17 yrs	100.0	99.7	69.8	21.9	.5	9.1	3.3	8.0	1.9	5.8	.3

[1] Includes those living with a mother who was "married, husband absent (excluding separated)," not shown separately.

[2] Persons of Spanish origin may be of any race.

Source: Census Bureau.

II. Aid to Families With Dependent Children

The program of aid to families with dependent children (AFDC) provides Federal matching for State programs of cash assistance to needy families with children in which at least one parent is deceased, disabled, or absent from the home. States, at their option, may also provide benefits for families in which dependency arises from the father's unemployment. Twenty-six States plus Guam and the District of Columbia have elected to provide benefits to families with unemployed fathers. (See table 8.)

The amount of Federal matching for AFDC benefits varies from State to State under formulas providing higher percentages in States with lower per capita income. About a dozen States with the highest income receive the minimum Federal matching of 50 percent; Mississippi receives the highest matching of all States—about 83 percent. For all States, the percentage of benefits paid for by the Federal Government is about 54 percent. In 1976, local governments contributed about 9 percent of the cost of AFDC benefits.

In recent years the AFDC caseload has been relatively stable. In December of 1973 there were 10.8 million AFDC recipients. Two years later the number had increased to 11.4 million. By October of 1977, however, the number had declined again to 10.8 million. The cost of AFDC payments in constant dollars, in contrast to current dollars, has also been stable. In 1973 the cost of payments in 1973 dollars was $3.9 billion, increasing to an estimated $6.1 billion in 1979 dollars. In constant (1969) dollars, however, payment costs for 1979 are estimated to be the same as in 1973—$3.2 billion.

The AFDC caseload is largely concentrated in a few States. California and New York alone account for nearly one-quarter (24 percent) of the national caseload. These two States, plus Illinois, Michigan, Ohio, and Pennsylvania, make up nearly half (48 percent) of the national total. Expenditures for benefits are similarly concentrated. In 1976, recipients in New York and California received nearly one-third (31 percent) of all AFDC benefits paid in the United States. Recipients in these two States, plus the four listed above, received 57 percent of the benefits paid to all recipients in the United States in 1976.

The makeup of the AFDC population has undergone some important changes in recent years. Average family size has dropped from four persons per AFDC family in 1969 to 3.2 persons in 1975. The percentage of families in which the father is absent has continued to increase, from 77 percent in 1969 to 83 percent in 1975. The percentage of mothers who are employed either part or full time increased between 1969 and 1973, but since that time has remained constant at about 16 percent. The percentage of mothers in full time employment, however, has continued to increase, to 10 percent in 1975. In 1969 only 53 percent of AFDC families participated in the food stamp or commodity food programs. In 1975, 75 percent were participating, and this percentage is expected to increase substantially as the result of the elimination of the purchase requirement under the 1977 food stamp reform legislation.

The length of time families are remaining on the AFDC rolls has increased substantially in the last few years. In 1973 the median number of months a family had been receiving AFDC was 24. Only two years later, in 1975, the median time on the rolls was 31 months.

In 1971 only 32 percent of the families had been receiving AFDC for more than 3 years (since the most recent case opening), but by 1975, 45 percent of families had been on the rolls for more than 3 years.

The racial composition of the caseload has shown little change. In 1969, 49 percent of the families were white. In 1975, 50 percent were white. There has also been little change in the percentage of AFDC households which include nonrecipient members (stepfathers, older children, or other nonlegally responsible individuals). The percentage of such households is 35 percent.

Since the implementation of quality control measures in 1973, the amount of AFDC money which has been spent in error has decreased significantly, from 16.5 percent in April–September 1973 to 8.6 percent in January–June 1977. The percentage of payments made in error varies greatly among the States. In the January–June 1977 period California made only 3.5 percent of its payments in error (with only 1 percent being paid to ineligible families), while Illinois made erroneous payments amounting to 18.6 percent of all payments.

TABLE 7.—AID TO FAMILIES WITH DEPENDENT CHILDREN: RECIPIENTS OF CASH PAYMENTS AND AMOUNT OF PAYMENTS, BY STATE, SEPTEMBER 1977

[Includes nonmedical vendor payments, unemployed father segment and AFDC-foster care data]

State	Number of families	Number of recipients		Payments to recipients		
		Total	Children	Total amount	Average per Family	Average per Recipient
Total [1]	3,549,899	10,887,254	7,655,969	$851,994,774	$240.01	$78.26
Alabama	56,909	172,010	125,767	6,395,977	112.39	37.18
Alaska	4,582	12,194	8,814	1,399,487	305.43	114.77
Arizona	18,644	56,339	41,903	2,641,451	141.68	46.88
Arkansas	30,423	92,903	68,811	4,258,954	139,99	45.84
California	474,861	1,420,705	967,272	146,582,165	308.68	103.16
Colorado	30,992	88,595	62,364	5,997,318	193,51	67.69
Connecticut	44,455	136,491	96,635	12,994,873	292,32	95.21
Delaware	10,610	30,958	22,077	2,186,434	206.07	70.63
District of Columbia	32,208	96,889	68,393	7,650,453	237.53	78.96
Florida	83,574	245,441	181,016	12,070,163	144.42	49.18
Georgia	84,343	236,465	175,543	8,768,091	103.96	37.08
Guam	1,239	4,607	3,467	240,363	194.00	52.17
Hawaii	17,930	57,554	38,911	6,662,612	371.59	115.76
Idaho	6,853	19,852	13,727	1,720,701	251.09	86.68
Illinois	224,490	749,585	534,824	59,516,705	265.12	79.40

See footnotes at end of table.

TABLE 7.—AID TO FAMILIES WITH DEPENDENT CHILDREN: RECIPIENTS OF CASH PAYMENTS AND AMOUNT OF PAYMENTS, BY STATE, SEPTEMBER 1977—Continued

[Includes nonmedical vendor payments, unemployed father segment and AFDC-foster care data]

State	Number of families	Number of recipients		Payments to recipients		
					Average per	
		Total	Children	Total amount	Family	Recipient
Indiana	53,523	159,630	115,516	9,579,477	178.98	60.01
Iowa	31,918	94,715	63,893	8,329,888	260.98	87.95
Kansas	27,683	73,709	53,871	6,492,944	234.55	88.09
Kentucky	61,244	174,534	124,399	9,960,339	162.63	57.07
Louisiana	64,210	212,573	159,144	7,846,108	122.19	36.91
Maine	19,818	59,477	40,845	4,044,161	204.07	68.00
Maryland	72,927	211,247	147,593	13,543,479	185.71	64.11
Massachusetts	123,744	373,203	253,755	36,855,616	297.84	98.75
Michigan	200,865	634,568	441,160	55,645,900	277.03	87.69
Minnesota	46,961	131,548	90,667	12,731,454	271.11	96.78
Mississippi	52,636	170,509	129,851	2,486,056	47.23	14.58
Missouri [2]	83,422	245,595	178,832	13,372,730	160.30	54.45
Montana	6,261	17,782	12,623	1,150,694	183.79	64.71
Nebraska	11,622	34,486	24,502	2,942,333	253.17	85.32
Nevada	3,941	10,894	7,782	660,950	167.71	60.67

New Hampshire	8,363	24,318	16,827	1,669,261	199.60	68.64
New Jersey	142,444	463,523	325,037	38,974,581	273.61	84.08
New Mexico	17,048	53,460	38,119	3,507,014	205.71	65.60
New York	369,976	1,194,555	824,137	137,063,376	370.47	114.74
North Carolina	71,725	196,484	143,365	10,926,723	152.34	55.61
North Dakota	4,882	13,973	9,902	1,084,415	222.13	77.61
Ohio [2]	179,009	536,188	368,181	36,089,317	201.61	67.31
Oklahoma	28,631	88,312	65,634	5,914,454	206.58	66.97
Oregon	42,681	119,297	79,420	11,557,827	270.80	96.88
Pennsylvania [2]	207,570	650,512	442,744	57,815,302	278.53	88.88
Puerto Rico [1]	44,431	189,104	136,630	2,233,081	50.26	11.81
Rhode Island	17,537	53,454	37,186	4,507,348	257.02	84.32
South Carolina	48,316	141,049	102,373	4,037,565	83.57	28.63
South Dakota	7,813	23,124	16,907	1,384,564	177.21	59.88
Tennessee	60,652	171,745	125,521	6,292,357	103.75	36.64
Texas	96,255	306,339	227,939	10,127,165	105.21	33.06
Utah	12,894	37,865	27,581	3,264,412	253.17	86.21
Vermont	6,326	19,747	13,128	1,651,935	261.13	83.65
Virgin Islands [1]	1,190	3,782	3,047	151,695	127.47	40.11
Virginia	58,791	168,681	120,499	11,212,684	190.72	66.47
Washington	49,051	141,395	92,069	13,753,294	280.39	97.27
West Virginia	20,927	61,392	43,644	3,681,397	175.92	59.97
Wisconsin	68,173	197,671	137,584	19,915,710	292.13	100.75
Wyoming	2,326	6,226	4,533	451,421	194.08	72.51

[1] Incomplete. Data for foster care not reported by Puerto Rico and the Virgin Islands.

[2] Estimated data.

Source: Department of Health, Education, and Welfare.

TABLE 8.—AID TO FAMILIES WITH DEPENDENT CHILDREN, UNEMPLOYED FATHER SEGMENT: RECIPIENTS OF CASH PAYMENTS AND AMOUNT OF PAYMENTS, BY STATE, SEPTEMBER 1977

[Includes nonmedical vendor payments]

State	Number of families	Number of recipients		Payments to recipients		
					Average per	
		Total	Children	Total amount	Family	Recipient
Total	127,358	566,448	321,926	$46,153,300	$362.39	$81.48
California	35,656	155,402	89,282	13,714,191	384.63	88.25
Colorado	1,036	4,564	2,494	296,398	286.10	64.94
Connecticut	984	4,560	2,616	377,227	383.36	82.73
Delaware	273	1,183	657	79,879	292.60	67.52
District of Columbia	348	1,495	891	113,011	324.74	75.59
Guam	56	261	152	13,843	247.20	53.04
Hawaii	736	3,260	1,801	343,216	466.33	105.28
Illinois	9,186	44,862	26,882	3,294,677	358.66	73.44
Iowa	914	3,996	2,238	304,131	332.75	76.11
Kansas	388	1,448	827	121,164	312.28	83.68

Maryland	1,939	8,455	4,719	482,516	248.85	57.07
Massachusetts	5,775	25,291	14,463	2,346,256	406.28	92.77
Michigan	13,944	65,643	37,786	5,697,550	408.60	86.80
Minnesota	1,473	6,349	3,442	545,122	370.08	85.86
Missouri [1]	485	2,342	1,372	115,251	237.63	49.21
Montana	185	783	439	48,192	260.50	61.55
Nebraska	48	248	153	15,311	318.98	61.74
New Jersey	3,848	17,017	10,000	1,341,908	348.73	78.86
New York	12,789	58,628	33,547	4,897,422	382.94	83.53
Ohio [1]	16,619	70,868	38,849	4,498,098	270.66	63.47
Oregon	4,005	16,594	8,677	1,460,656	364.71	88.02
Pennsylvania	7,711	33,460	18,204	2,749,607	356.58	82.18
Rhode Island	318	1,484	870	95,752	301.11	64.52
Utah	714	3,555	2,289	274,130	383.94	77.11
Vermont	359	1,713	1,016	126,110	351.28	73.62
Washington	3,822	15,500	8,227	1,315,508	344.19	84.87
West Virginia	319	1,357	955	88,217	276.54	65.01
Wisconsin	3,428	16,130	9,078	1,397,957	407.81	86.67

[1] Estimated data.

Source: Department of Health, Education, and Welfare.

TABLE 9.—AID TO FAMILIES WITH DEPENDENT CHILDREN (AFDC) TOTAL MAINTENANCE ASSISTANCE PAYMENTS, FISCAL YEAR 1976

State	Total payments computable for Federal funding	Federal funds (unadjusted)	Local funds	State funds	Percentages: Federal funds	Percentages: Local funds	Percentages: State funds
Alabama	$61,864,423	$46,923,718		$14,940,705	75.8	0	24.2
Alaska	13,457,182	6,623,664		6,833,518	49.2	0	50.8
Arizona	33,977,273	18,895,181		15,082,092	55.6	0	44.4
Arkansas	50,159,256	37,418,805		12,740,451	74.6	0	25.4
California	1,424,692,553	712,346,276	253,580,487	458,765,790	50.0	17.8	32.2
Colorado	83,227,441	45,517,087	16,700,968	21,009,386	54.7	20.1	25.2
Connecticut	131,786,271	65,893,135		65,893,136	50.0	0	50.0
Delaware	23,649,023	11,824,511		11,824,512	50.0	0	50.0
District of Columbia	91,865,652	45,932,825		45,932,827	50.0	0	50.0
Florida	120,436,323	68,315,478		52,120,845	56.7	0	43.3
Georgia	122,679,985	90,120,035		32,559,950	73.5	0	26.5
Guam [1]	1,511,650	755,825		755,825	50.0	0	50.0
Hawaii	64,632,077	32,316,039		32,316,038	50.0	0	50.0
Idaho	19,796,706	13,497,394		6,299,312	68.2	0	31.8
Illinois	720,065,139	358,715,572		361,349,567	49.8	0	50.2
Indiana	115,583,003	66,425,552	20,351,153	28,806,298	57.5	17.6	24.9
Iowa	98,783,931	56,435,260		42,348,671	57.1	0	42.9
Kansas	67,602,756	36,519,009		31,083,747	54.0	0	46.0
Kentucky	132,730,945	94,730,076		38,000,869	71.4	0	28.6
Louisiana	98,429,037	71,272,467		27,156,570	72.4	0	27.6
Maine	46,662,236	32,943,539		13,718,697	70.6	0	29.4
Maryland	154,441,383	77,220,692	4,413,052	72,807,639	50.0	2.9	47.1
Massachusetts	415,121,135	207,560,568		207,560,567	50.0	0	50.0
Michigan	746,719,100	373,359,550		373,359,550	50.0	0	50.0
Minnesota	156,149,764	88,757,624	29,087,774	38,304,366	56.9	18.6	24.5
Mississippi	32,017,662	26,504,646		5,513,016	82.8	0	17.2
Missouri	140,017,934	85,774,453		54,243,481	61.3	0	38.7
Montana	12,786,884	8,082,589	1,008,552	3,695,743	63.2	7.9	28.9
Nebraska	28,780,341	15,998,096		12,782,245	55.6	0	44.4
Nevada	10,317,578	5,158,789		5,158,789	50.0	0	50.0

New Hampshire	23,673,490	14,270,380	6,700	9,396,410	60.2		39.7
New Jersey	426,793,857	213,396,928	52,226,857	161,170,072	50.0	12.2	37.8
New Mexico	32,125,612	23,544,860		8,580,752	73.3	0	26.7
New York	1,563,184,768	766,768,978	428,746,351	367,669,439	49.1	27.4	23.5
North Carolina	123,889,145	84,281,786	19,711,194	19,896,165	68.0	16.0	16.0
North Dakota	13,122,019	7,556,970	1,044,992	4,520,057	57.6	8.0	34.4
Ohio	446,319,654	242,753,261		203,566,393	54.4	0	45.6
Oklahoma	65,506,367	44,164,394		21,341,973	67.4	0	32.6
Oregon	113,521,471	67,023,078	1,165	46,497,228	59.0		41.0
Pennsylvania	650,945,260	360,558,579		290,386,681	55.4	0	44.6
Puerto Rico	24,171,922	12,085,960		12,085,962	50.0	0	50.0
Rhode Island	51,270,478	28,993,455		22,277,023	56.5	0	43.5
South Carolina	46,352,487	35,670,249		10,682,238	77.0	0	23.0
South Dakota	20,140,672	13,540,573		6,600,099	67.2	0	32.8
Tennessee	85,756,646	62,722,396		23,034,250	73.1	0	26.9
Texas	137,686,030	100,157,072		37,528,958	72.7	0	27.3
Utah	35,237,274	24,680,187		10,557,087	70.0	0	30.0
Vermont	26,538,100	18,528,902		8,009,198	70.0	0	30.0
Virgin Islands	1,849,649	924,824		924,825	50.0	0	50.0
Virginia	138,678,345	80,904,947	1,462,344	56,311,054	58.3	1.1	40.6
Washington	160,546,774	86,245,728		74,301,046	53.7	0	46.3
West Virginia	52,466,290	37,671,723		14,794,567	71.8	0	28.2
Wisconsin	210,875,774	126,335,680		84,540,094	59.9	0	40.1
Wyoming	4,900,181	2,986,169	684,505	1,229,507	60.9	14.0	25.1
Total	9,675,496,908	5,257,605,534	829,026,094	3,588,865,280	54.3	8.6	37.1

[1] The sum of $755,825 was reported by Guam as a local expenditure; but is reported here as a State (territorial) expenditure. Adjustments have been made for errors in the printed report.

Source: Based on tables by the Department of Health, Education, and Welfare, Office of Financial Management. Division of Finance. Fiscal year 1976 State expenditures for public assistance programs, approved under titles I, IV-A, X, IV, XVI, XIX, XX of the Social Security Act. (SRS) 77-04023 This report is compiled from State expenditure reports submitted quarterly by States.

TABLE 10.—AID TO FAMILIES WITH DEPENDENT CHILDREN (AFDC) EXPENDITURES FOR STATE AND LOCAL ADMINISTRATION, FISCAL YEAR 1976

State	Total payments computable for Federal funding	Federal funds (unadjusted)	Local funds	State funds	Percentages: Federal funds	Percentages: Local funds	Percentages: State funds
Alabama	$10,076,517	$5,038,258	$51,478	$4,986,781	50.0	0.5	49.5
Alaska	2,074,295	1,037,148		1,037,147	50.0	0	50.0
Arizona	6,269,473	3,124,975		3,144,498	49.8	0	50.2
Arkansas	3,718,605	1,859,302		1,859,303	50.0	0	50.0
California	203,966,858	101,983,429	41,765,172	60,218,257	50.0	20.5	29.5
Colorado	7,392,791	3,696,396	1,377,963	2,318,432	50.0	18.6	31.4
Connecticut	6,405,025	3,188,946		3,216,079	49.8	0	50.2
Delaware	1,722,884	861,442		861,442	50.0	0	50.0
District of Columbia	8,411,955	4,205,979		4,205,976	50.0	0	50.0
Florida	22,660,148	11,330,074		11,330,074	50.0	0	50.0
Georgia	19,831,290	9,915,644		9,915,646	50.0	0	50.0
Guam	174,670	87,335		[1] 87,335	50.0	0	50.0
Hawaii	2,450,954	1,225,478		1,225,476	50.0	0	50.0
Idaho	2,661,306	1,328,615		1,332,691	49.9	0	50.1
Illinois	80,153,027	39,850,036		40,302,991	49.7	0	50.3
Indiana	12,971,709	6,485,855	3,924,285	2,561,569	50.0	30.3	19.7
Iowa	6,792,719	3,396,360		3,396,359	50.0	0	50.0
Kansas	5,528,339	2,764,169		2,764,170	50.0	0	50.0
Kentucky	12,667,777	6,333,889		6,333,888	50.0	0	50.0
Louisiana	17,923,356	8,961,677		8,961,679	50.0	0	50.0
Maine	2,719,139	1,359,570		1,359,569	50.0	0	50.0
Maryland	11,909,628	5,954,822	194,317	5,760,489	50.0	1.6	48.4
Massachusetts	23,744,309	11,872,155	5,921,646	5,950,508	50.0	24.9	25.1
Michigan	40,478,866	20,239,432		20,239,434	50.0	0	50.0
Minnesota	13,636,479	6,818,240	4,811,057	2,007,182	50.0	35.3	14.7

Mississippi	4,209,332	2,104,665	212,017	1,892,650	50.0	5.0	45.0
Missouri	17,842,752	8,880,944	....	8,961,808	49.8	0	50.2
Montana	1,344,303	672,152	....	672,151	50.0	0	50.0
Nebraska	2,318,552	1,159,276	....	1,159,276	50.0	0	50.0
Nevada	2,693,586	1,346,793	....	1,346,793	50.0	0	50.0
New Hampshire	1,525,799	755,786	....	770,013	49.5	0	50.5
New Jersey	32,069,217	16,034,609	14,621,453	1,413,155	50.0	45.6	4.4
New Mexico	5,688,352	2,844,176	....	2,844,176	50.0	0	50.0
New York	213,912,847	106,958,086	51,739,114	55,215,647	50.0	24.2	25.8
North Carolina	8,579,346	4,289,677	2,849,902	1,439,767	50.0	33.2	16.8
North Dakota	1,117,024	558,513	374,913	183,598	50.0	33.6	16.4
Ohio	24,259,398	12,053,541	8,509,072	3,696,785	49.7	35.1	15.2
Oklahoma	12,158,089	6,079,044	....	6,079,045	50.0	0	50.0
Oregon	10,990,837	5,495,419	....	5,495,418	50.0	0	50.0
Pennsylvania	68,936,879	34,468,439	....	34,468,440	50.0	0	50.0
Puerto Rico	4,809,048	2,404,524	....	2,404,524	50.0	0	50.0
Rhode Island	3,342,462	1,654,780	....	1,687,682	49.5	0	50.5
South Carolina	8,099,518	4,049,758	313,002	3,736,758	50.0	3.9	46.1
South Dakota	3,043,832	1,521,917	....	1,521,915	50.0	0	50.0
Tennessee	12,468,647	6,234,323	....	6,234,324	50.0	0	50.0
Texas	26,230,881	13,115,441	205,442	12,909,998	50.0	.8	49.2
Utah	3,314,198	1,657,100	....	1,657,098	50.0	0	50.0
Vermont	1,517,616	758,808	....	758,808	50.0	0	50.0
Virgin Islands	252,713	126,356	....	126,357	50.0	0	50.0
Virginia	13,560,163	6,780,082	2,355,191	4,424,890	50.0	17.4	32.6
Washington	11,719,928	5,859,965	....	5,859,963	50.0	0	50.0
West Virginia	6,684,276	3,342,137	....	3,342,139	50.0	0	50.0
Wisconsin	8,849,125	4,422,814	....	4,426,311	50.0	0	50.0
Wyoming	687,884	343,943	[2] 343,943	....	50.0	50.0	....
Total	1,038,568,723	518,892,294	139,569,976	380,106,462	50.0	13.4	36.6

[1] The sum of $87,335, was reported by Guam as a local expenditure, but is recorded here as a State (territorial) expenditure.
[2] Estimate. (Published data in SRS report 77-04023 are erroneous.)

Source: U.S. Department of Health, Education, and Welfare, Social and Rehabilitation Service, Office of Financial Management, Division of Finance.

Fiscal year 1976 State expenditures for public assistance programs approved under titles I, IV-A, X, XIV, XVI, XIX, XX of the Social Security Act. (SRS) 77,04023. This report is compiled from State expenditure reports submitted quarterly by States.

Note: Totals reflect above adjustments.

TABLE 11.—AFDC—JANUARY TO JUNE 1977 PAYMENT ERROR RATES COMPARED WITH PAYMENT ERROR RATES IN JULY TO DECEMBER 1976 AND APRIL TO SEPTEMBER 1973 [1]

State	Amount of payment errors as a percent of total payments								
	Ineligible			Eligible but overpaid			Eligible but underpaid		
	January to June 1977	July to December 1976	April to September 1973	January to June 1977	July to December 1976	April to September 1973	January to June 1977	July to December 1976	April to September 1973
U.S. average [2]	4.9	4.6	9.1	3.7	3.9	7.4	0.9	0.9	1.5
Alabama	3.4	2.9	9.6	2.0	3.1	5.5	1.2	1.4	6.5
Alaska	12.3	9.3	15.9	4.4	3.2	6.4	1.8	.8	.9
Arizona	7.1	8.2	7.5	3.8	4.2	7.7	.6	1.2	1.5
Arkansas	5.7	3.2	1.8	3.4	4.1	1.8	1.8	2.2	1.9
California	1.0	2.2	6.9	2.5	2.5	5.4	.6	.8	1.4
Colorado	1.5	4.1	2.3	3.3	3.3	5.1	.9	.4	1.3
Connecticut	4.3	4.4	5.6	2.0	3.2	5.2	.8	.6	1.1
Delaware	6.7	6.5	9.9	3.3	3.0	9.7	1.3	2.8	1.5
District of Columbia	9.1	12.7	9.8	8.8	7.1	8.2	1.5	1.1	.4
Florida	4.3	3.8	7.9	2.8	3.2	10.9	.6	.7	2.5
Georgia	7.2	7.6	5.1	3.3	4.6	9.8	1.0	1.1	2.8
Hawaii	7.9	5.9	4.6	3.5	3.5	6.7	.5	.6	1.3
Idaho	1.1	.4	6.3	2.8	3.4	3.6	.4	.9	.3
Illinois	12.0	5.2	10.9	6.6	6.9	11.5	.5	.7	1.3
Indiana	.7	.7	7.1	1.1	1.6	6.0	.2	.2	1.0
Iowa	4.2	6.2	8.3	3.7	4.7	7.3	.8	.6	1.7
Kansas	4.5	2.6	8.5	3.2	3.0	6.7	.6	.6	1.7
Kentucky	4.5	3.2	7.9	2.8	3.0	10.4	.7	.5	1.1
Louisiana	4.3	5.0	13.6	3.6	3.6	7.6	.7	.5	1.1
Maine	6.5	5.8	4.1	4.2	5.8	3.0	.6	.7	.5
Maryland	9.5	6.6	13.1	3.3	4.8	9.9	2.5	1.2	2.0
Massachusetts	8.4	7.6	8.5	4.4	4.4	7.4	.6	.6	.9
Michigan	5.0	4.3	5.9	4.6	4.8	5.4	.8	.8	.7
Minnesota	3.5	3.4	5.0	2.3	2.4	4.4	.6	.3	1.4
Mississippi	4.6	4.6	2.0	2.8	4.6	3.2	1.6	2.2	1.9

Missouri	4.9	7.1	6.8	4.6	3.4	5.5	.5	1.2	1.4
Montana	6.8	3.9	7.8	6.6	9.4	9.0	1.5	2.2	1.4
Nebraska	2.9	3.4	5.4	1.9	3.5	3.2	1.0	1.4	(3)
Nevada	.....	.....	1.5	.6	.5	2.0	.....	.1	.9
New Hampshire	3.7	4.0	10.0	3.0	4.6	11.4	.4	.6	1.3
New Jersey	2.4	2.0	4.0	4.7	3.4	5.4	.8	.7	.9
New Mexico	2.3	3.4	2.5	1.8	2.0	4.0	1.0	.7	1.2
New York	5.2	7.2	16.4	5.4	4.9	10.2	1.6	1.1	1.6
North Carolina	2.6	2.6	6.6	3.3	4.0	6.5	1.1	1.5	3.9
North Dakota	.7	1.7	.....	.2	1.7	2.1	.1	.2	.7
Ohio	8.2	7.3	11.5	2.4	4.0	10.2	.4	.5	1.0
Oklahoma	2.1	1.0	3.0	2.0	2.1	5.1	.8	.4	.6
Oregon	2.0	3.6	6.0	4.3	4.3	4.5	.6	.6	.7
Pennsylvania	5.5	5.4	16.4	4.8	3.9	8.2	.6	.5	1.0
Puerto Rico	4.5	3.8	14.6	4.8	5.1	8.4	1.6	2.0	2.7
Rhode Island	3.7	1.6	4.1	2.1	2.3	6.6	.7	.5	.4
South Carolina	3.9	3.3	8.7	4.0	5.2	8.6	1.4	1.7	2.5
South Dakota	1.4	2.1	2.3	3.9	3.2	5.4	.6	.9	.3
Tennessee	5.2	4.9	8.2	2.1	3.7	4.7	1.3	1.1	1.9
Texas	3.4	3.4	8.6	2.6	2.1	6.5	.2	.4	1.1
Utah	.7	5.1	6.0	1.3	3.0	3.4	.6	.6	.9
Vermont	5.3	1.4	10.0	2.9	5.3	7.8	.7	.2	.7
Virgin Islands	3.6	11.4	4.2	3.0	5.0	5.2	1.5	2.9	1.7
Virginia	3.9	3.6	5.3	3.7	2.8	9.6	1.1	1.4	2.7
Washington	5.6	2.6	5.2	1.5	2.8	2.8	.4	.5	.4
West Virginia	2.9	1.9	6.4	1.6	3.0	3.8	.4	.3	.9
Wisconsin	3.1	2.1	4.2	1.6	1.8	3.1	.6	1.1	1.5
Wyoming	4.6	1.8	7.4	3.1	2.2	3.9	.6	1.0	1.9

[1] Based on reviews of statistically reliable samples of approximately 45,000 cases in each reporting period from an average national caseload of 3,500,000 families. Rates were computed by a statistical regression method.

[2] Weighted average.

[3] Less than 0.05 percent.

Source: Department of Health, Education, and Welfare.

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TABLE 12.—AFDC—JANUARY TO JUNE 1977 CASE ERROR RATES COMPARED WITH CASE ERROR RATES IN JULY TO DECEMBER 1976 AND APRIL TO SEPTEMBER 1973 [1]

State	Cases with errors as a percent of total cases								
	Ineligible			Eligible but overpaid			Eligible but underpaid		
	January to June 1977	July to December 1976	April to September 1973	January to June 1977	July to December 1976	April to September 1973	January to June 1977	July to December 1976	April to September 1973
U.S. average [2]	5.4	5.3	10.6	12.5	13.1	23.7	5.0	4.9	8.1
Alabama	4.9	3.7	10.2	6.1	8.2	13.4	4.9	5.1	9.9
Alaska	13.4	9.8	17.9	11.5	13.0	13.8	7.8	4.0	5.8
Arizona	8.4	8.6	8.9	14.3	13.1	25.8	2.8	4.8	8.2
Arkansas	6.8	4.4	2.2	9.3	11.8	7.1	5.3	6.9	7.3
California	1.2	2.5	8.4	8.4	9.8	17.8	4.2	4.8	7.9
Colorado	2.1	5.2	3.9	8.5	10.1	16.2	3.3	1.9	6.7
Connecticut	4.9	4.9	6.9	7.4	10.7	18.9	4.4	4.3	5.1
Delaware	8.5	6.4	15.5	10.1	13.2	31.5	9.9	18.4	8.5
District of Columbia	11.7	15.0	10.7	26.2	23.2	25.4	7.8	6.7	3.6
Florida	4.4	4.0	10.1	8.7	9.1	26.3	2.2	2.7	9.8
Georgia	7.9	8.7	7.5	8.7	11.0	25.9	2.7	4.4	10.9
Hawaii	10.0	5.8	4.6	20.7	23.1	20.6	6.4	4.4	6.1
Idaho	1.7	1.3	5.8	14.2	12.1	15.3	3.4	9.5	1.9
Illinois	13.5	7.1	12.5	17.3	17.8	37.7	2.8	2.5	10.8
Indiana	.9	.9	8.4	4.5	5.0	20.7	1.5	1.9	5.0
Iowa	5.1	7.9	10.4	15.4	18.0	21.0	6.2	4.3	8.2
Kansas	5.1	3.1	10.3	10.8	11.2	26.0	3.7	3.1	9.2
Kentucky	4.3	3.9	10.1	7.7	9.7	29.8	2.0	3.8	8.6
Louisiana	5.5	5.8	14.8	8.6	9.8	21.1	2.7	2.6	5.4
Maine	6.8	6.2	4.6	15.5	18.6	9.0	3.2	4.4	1.6
Maryland	9.2	7.6	14.7	14.4	15.9	28.5	8.0	5.7	10.2
Massachusetts	8.4	8.2	10.8	14.9	17.8	30.6	3.8	2.7	13.1
Michigan	4.6	4.5	6.3	16.2	19.2	21.7	6.9	7.3	5.5
Minnesota	3.6	3.8	7.0	9.0	8.8	27.7	4.6	3.2	12.0
Mississippi	6.8	6.8	2.8	8.2	11.8	8.8	4.7	5.6	5.9

Missouri	5.8	7.1	7.6	10.7	10.2	14.8	3.6	4.8	4.4
Montana	5.2	3.6	10.3	14.4	15.2	20.6	7.8	4.5	5.2
Nebraska	5.6	4.3	7.6	7.6	9.5	11.6	5.3	7.5	1.4
Nevada			2.6	1.3	1.9	8.5		.6	5.8
New Hampshire	3.9	4.4	12.7	15.3	18.6	40.6	5.1	9.5	7.5
New Jersey	3.1	2.7	4.9	14.3	12.6	21.1	4.5	5.1	5.3
New Mexico	2.7	3.5	4.3	5.9	8.8	11.9	6.0	4.1	5.0
New York	6.2	8.1	18.2	20.3	17.8	33.0	12.4	9.8	10.4
North Carolina	3.5	3.0	7.9	13.4	13.6	21.6	5.3	7.2	18.6
North Dakota	.6	3.3		2.5	7.7	8.3	.6	2.4	4.6
Ohio	7.8	7.8	14.2	8.8	10.7	29.5	2.0	2.2	8.0
Oklahoma	2.9	1.2	4.1	6.3	4.7	13.5	3.1	1.4	2.9
Oregon	2.7	3.8	6.3	16.3	17.3	16.9	6.9	5.9	1.8
Pennsylvania	6.0	5.8	17.9	19.3	16.8	26.7	5.0	2.9	7.0
Puerto Rico	6.1	4.7	16.4	14.3	14.4	19.9	5.1	7.0	7.7
Rhode Island	5.6	2.6	5.6	8.6	8.5	20.3	4.7	4.6	4.6
South Carolina	4.4	4.6	9.7	12.5	13.6	26.7	5.1	6.7	11.0
South Dakota	2.0	3.3	3.1	12.4	12.0	14.9	2.6	5.9	2.6
Tennessee	6.3	5.3	9.7	7.0	8.6	14.3	4.0	4.0	6.9
Texas	3.9	3.6	10.4	6.4	5.1	16.9	.9	1.7	3.5
Utah	1.6	5.3	6.8	7.2	7.2	13.6	4.2	3.9	3.9
Vermont	6.3	2.9	9.1	14.0	20.2	27.2	9.6	3.4	6.0
Virgin Islands	6.0	11.3	5.8	8.7	8.7	15.2	4.7	6.7	14.5
Virginia	4.2	4.3	7.0	11.5	10.4	29.3	4.0	5.3	15.9
Washington	4.8	3.4	5.4	7.2	11.3	10.8	2.9	2.8	2.7
West Virginia	3.2	2.9	6.7	7.4	8.0	12.4	2.0	2.2	3.9
Wisconsin	2.6	2.6	4.7	10.6	10.8	18.9	4.5	5.8	15.0
Wyoming	6.4	3.2	8.5	10.4	7.1	14.6	2.4	3.9	9.1

[1] Based on reviews of statistically reliable samples of approximately 45,000 cases in each reporting period from an average national caseload of 3,500,000 families. Rates were computed by a statistical regression method.

[2] Weighted average.

Source; Department of Health, Education, and Welfare.

TABLE 13.—AFDC CHARACTERISTICS, 1969-75

	May 1969	January 1973	May 1975	Percentage change of 1969 from 1975
Average family size (persons)	4.0	3.6	3.2	−20
Incidence of fathers (percent):				
Absent	[1] 77.1	[2] 80.5	[2] 83.3	([6])
Not married to the mother	[1] 27.9	[2] 31.5	[2] 31.0	([6])
Incidence of working mothers (percent):				
With full-time jobs	7.5	9.8	10.4	39
With part-time jobs	5.8	6.3	5.7	−2
Actively seeking work, or in school or training	9.2	11.5	12.2	32
Median number of months on AFDC [3]	23	24	31	35
Race (percent):				
White	[4] 49.2	46.9	50.2	....
Black	46.2	45.8	44.3	....
Incidence of households (percent):				
Living in public housing	[5] 12.8	13.6	14.6	14
Participating in food stamp or donated-food program	52.9	68.4	75.1	42
Including nonrecipient members	33.1	34.9	34.8	5
Average family AFDC grant	$170.90	$188.90	$211.28	24
Average grant per recipient	$43.10	$53.43	$64.78	50

[1] Calculated on the basis of total number of families.
[2] Calculated on the basis of total number of children; on the basis of total number of families, the January 1973 percentages would be 83.0 where the father was absent and 34.7 where the father was not married to the mother.
[3] Since most recent enrollment.
[4] Excludes Puerto Rico and the Virgin Islands.
[5] As of 1971. Item not available for 1969.
[6] Percentages not on a comparable basis.

Source: Congressional Research Service, based on AFDC recipient characteristic studies, conducted by the Department of Health, Education, and Welfare.

TABLE 14.—AFDC CHILDREN BY REASON FOR ELIGIBILITY, 1975

Category	Number	Percent
Total	8,120,732	100.0
Deprived of support of the child's mother	132,402	1.6
Deprived of support of the child's father because he is:		
Deceased	303,715	3.7
Incapacitated	623,315	7.7
Unemployed	298,924	3.7
Absent from home and:		
In armed forces	24,103	.3
Divorced	1,572,986	19.4
Separated	2,323,100	28.6
Not married to mother	2,520,279	31.0
Other	321,908	4.0

Source: AFDC recipient characteristic study, 1975, conducted by the Department of Health, Education, and Welfare.

TABLE 15.—LENGTH OF TIME ON AFDC ROLLS SINCE MOST RECENT CASE OPENING

	Percent of families		
	1971	1973	1975
No more than—			
1 year	35.2	30.2	27.7
2 years	56.0	49.3	43.4
3 years	68.2	64.7	55.0
5 years	81.9	81.6	73.8
10 years	93.5	94.4	93.1

Source: Based on AFDC recipient characteristic study, for years 1971, 1973, and 1975, conducted by the Department of Health, Education, and Welfare.

TABLE 16.—MAXIMUM POTENTIAL COMBINED CASH AND FOOD STAMP BENEFITS (ANNUAL)—AFDC FAMILY OF FOUR PERSONS, JULY 1977

[AFDC benefit levels as of July 1977]

	Combined maximum potential benefits (AFDC and food stamps per year)			AFDC maximum potential benefits per year		
	Total	Paid by the United States	Federal share (percent)	Total [1]	Paid by the United States [1]	Annual food stamp bonus [3]
Alabama	$3,828	$3,402	89	$1,776	$1,350	$2,052
Alaska	6,840	4,392	64	4,800	2,352	2,040
Arizona	4,248	3,203	75	2,376	1,331	1,872
Arkansas	4,164	3,597	86	2,268	1,701	1,896
California	6,132	3,594	59	5,076	2,538	1,056
Colorado	5,081	3,475	68	[4] 3,570	1,964	[4] 1,511
Connecticut	6,324	3,648	58	5,352	2,676	972
Delaware	4,992	3,270	66	3,444	1,722	1,548
District of Columbia	5,220	3,336	64	3,768	1,884	1,452
Florida	4,188	3,202	76	2,292	1,306	1,896
Georgia	3,768	3,328	88	1,692	1,252	2,076
Hawaii	7,848	4,650	59	6,396	3,198	1,452
Idaho	5,472	3,408	62	4,128	2,064	1,344
Illinois	5,244	3,342	64	3,804	1,902	1,440
Indiana	4,884	3,482	71	3,300	1,898	1,584
Iowa	5,676	3,816	67	4,428	2,568	1,248
Kansas	5,640	3,631	64	4,368	2,359	1,272
Kentucky	4,548	3,730	82	2,820	2,002	1,728
Louisiana	3,960	3,409	86	1,968	1,417	1,992
Maine	5,220	4,127	79	[5] 3,768	2,675	1,452
Maryland	4,716	3,192	68	3,048	1,524	1,668
Massachusetts	5,808	3,498	60	4,620	2,310	1,188
Michigan	6,516	3,702	57	5,628	2,814	888
Minnesota	5,976	3,891	65	4,848	2,763	1,128
Mississippi	2,808	2,686	96	720	598	2,088
Missouri	4,572	3,463	76	2,844	1,735	1,728
Montana	4,968	3,707	75	3,408	2,147	1,560
Nebraska	5,688	3,734	66	[5] 4,440	2,486	1,248
Nevada	4,788	3,210	67	3,156	1,578	1,632
New Hampshire	5,484	3,823	70	4,152	2,491	1,332
New Jersey	5,568	3,432	62	4,272	2,136	1,296
New Mexico	4,428	3,715	84	2,640	1,927	1,788
New York	7,308	3,930	54	6,756	3,378	552
New York City	(6,576)	(3,720)	57	(5,712)	(2,856)	(864)

See footnotes at end of table.

TABLE 16.—MAXIMUM POTENTIAL COMBINED CASH AND FOOD STAMP BENEFITS (ANNUAL)—AFDC FAMILY OF FOUR PERSONS, JULY 1977—Continued

[AFDC benefit levels as of July 1977]

	Combined maximum potential benefits (AFDC and food stamps per year)			AFDC maximum potential benefits per year		
	Total	Paid by the United States	Federal share (percent)	Total [1]	Paid by the United States [2]	Annual food stamp bonus [3]
North Carolina	4,260	3,492	82	2,400	1,632	1,860
North Dakota	5,688	4,267	75	4,440	3,019	1,248
Ohio	4,824	3,350	69	3,204	1,730	1,620
Oklahoma	5,004	3,860	77	3,468	2,324	1,536
Oregon	6,276	4,111	66	5,280	3,115	996
Pennsylvania	5,712	3,698	65	4,476	2,462	1,236
Rhode Island	5,760	3,806	66	[4] 4,544	2,590	[4] 1,216
South Carolina	3,492	3,169	91	1,404	1,081	2,088
South Dakota	5,376	4,057	75	3,996	2,677	1,380
Tennessee	3,744	3,295	88	1,668	1,219	2,076
Texas	3,756	3,302	88	1,680	1,226	2,076
Utah	5,532	4,265	77	4,224	2,957	1,308
Vermont	5,976	4,518	76	4,860	3,402	1,116
Virginia	5,196	3,629	70	3,732	2,165	1,464
Washington	6,072	3,776	62	4,992	2,696	1,080
West Virginia	4,668	3,831	82	2,988	2,151	1,680
Wisconsin	6,288	4,166	66	5,304	3,182	984
Wyoming	4,848	3,584	74	3,240	1,976	1,608
Guam	5,916	4,116	70	3,600	1,800	2,316
Puerto Rico	2,820	2,478	89	684	342	2,136
Virgin Islands	4,620	3,624	78	1,992	996	2,628
Median State	5,220			3,768		1,452

[1] Largest amount paid in highest-benefit area of State for a family with no countable income. In some cases, this amount is paid only if the family's shelter costs equal a maximum allowance.
[2] Federal share is based on percentages of fiscal year 1976 benefits paid by the United States.
[3] Calculated on the basis of the monthly food stamp allotment for a household of 4 persons for January–June 1978 and under terms of the Food and Agriculture Act of 1977, which then was not yet implemented. Food stamp calculations assume maximum deductions ($135 monthly per household) allowed by the new law. If only the standard $60 deduction were taken (and no dependent care and/or excess shelter allowance assumed). Food stamp bonus would drop by about $23 monthly ($276 yearly).
[4] Annual benefits take account of seasonal variation.
[5] Effective as of September 1977.

Source of AFDC data: U.S. Department of Health, Education, and Welfare (26 States), supplemented by telephone survey by the Congressional Research Service. Table prepared by CRS.

TABLE 17.—GROWTH IN AFDC PAYMENTS IN CONSTANT DOLLARS

[In thousands]

	AFDC payment costs	Fiscal year CPI	Constant dollars
Fiscal year:			
1969	1,704,099,000	100.0	1,704,099,000
1970	2,163,438,000	105.9	2,042,907,000
1971	3,018,589,000	111.4	2,709,685,000
1972	3,611,938,000	115.4	3,129,929,000
1973	3,865,109,000	120.4	3,220,924,000
1974	4,008,539,000	130.8	3,064,632,000
1975	4,587,871,000	145.3	3,157,516,000
1976	5,262,339,000	155.6	3,381,966,000
1977	5,577,145,000	167.3	3,333,619,000
1978 [1]	5,798,000,000	177.3	3,270,164,000
1979 [1]	6,064,000,000	188.1	3,223,817,000

[1] Estimated.

Source: Department of Health, Education, and Welfare, fiscal year 1979 budget justification material.

III. Child Support

The child support enforcement program, enacted near the close of the 94th Congress as title IV–D of the Social Security Act, mandates an aggressively administered program at both the Federal and State levels. The program provides for child support services, including support collection and establishment of paternity, for both AFDC and non-AFDC families. It leaves basic responsibility for these activities with the States, but provides for an active role on the part of the Federal Government in monitoring and evaluating State programs, in providing technical assistance and, in certain instances, in undertaking to give direct assistance to the States in locating absent parents and obtaining support payments from them. There is also provision for financial penalties to be imposed on States which, as the result of a Federal audit, are shown not to have an effective child support program.

To assist and oversee the operation of the State program, the Department of Health, Education, and Welfare is required to establish a separate organizational unit under the direct control of an individual who has been designated by, and reports directly to, the Secretary. In the most recent reorganization of the Department of Health, Education, and Welfare, this responsibility was placed with the Commissioner on Social Security. The Office of Child Support Enforcement reviews and approves State plans, evaluates and audits implementation in each State, and provides technical assistance to the States. There is also a legislatively mandated parent locator service within the child support office.

The implementation of the child support program since 1975 has been highly successful in many States. Overall, in 1977 States reported collecting a total of $818 million in child support payments, with about half that amount being collected in support of AFDC families, and half for non-AFDC families. The cost of collecting these payments was $259 million, 75 percent of which was paid by the Federal Government. Between 1976 and 1977 child support collections for both AFDC and non-AFDC families increased by 35 percent. For AFDC families only, the increase was 46 percent.

The number of AFDC families being served by the child support program has been increasing steadily. This increase is anticipated to continue. A total of 600,000 AFDC families, or 20 percent of all AFDC families, had collections made in their behalf in 1977. It is estimated that the number will increase to 930,000 families, or 35 percent of all families, in 1981.

State success in operating the child support program has been uneven. In 1977, Michigan, for example, collected about $4.70 for each dollar it spent in administering the program. Florida, at the other extreme, actually spent slightly more, $3.4 million for administration, than it collected. In the Nation as a whole, $3.16 was collected for each dollar spent.

States have also varied in the emphasis in their programs. Data show that some States are having relatively greater success in their collections for non-AFDC families than they are having for AFDC families. California collected $77.8 million in behalf of non-AFDC families in 1977, and $63.4 million for AFDC families. Massachusetts, on the other hand, reported no collections at all for non-AFDC families, and more than $24 million for families who are receiving AFDC.

TABLE 18.—CHILD SUPPORT PROGRAM COLLECTIONS AND EXPENDITURES, FISCAL YEARS 1976 AND 1977

[In millions]

	1976				1977			
	Collection			Total expenditures	Collection			Total expenditures
	AFDC	Non-AFDC	Total		AFDC	Non-AFDC	Total	
Total	$280.0	$323.7	$603.7	$142.6	$409.5	$408.5	$818.0	$258.8
Alabama	.01	.002	.01	.8	.2	.01	.2	2.9
Alaska	0	0	0	.1	.2	2.9	3.1	.8
Arizona	.01	0	.01	.2	.1	.003	.1	1.3
Arkansas	.03	0	.03	.2	.8	.03	.8	.9
California	26.1	52.9	79.0	42.8	63.4	77.8	141.2	62.7
Colorado	1.8	.003	1.8	1.3	3.5	.2	3.7	2.7
Connecticut	6.5	9.8	16.3	.5	8.2	8.7	16.9	4.3
Delaware	.7	4.0	4.7	.4	1.2	5.0	6.2	.7
District of Columbia	.5	0	.5	.4	.6	.01	.6	1.0
Florida	.6	0	.6	1.7	2.8	.3	3.1	3.4
Georgia	2.5	.05	2.6	.7	3.3	.5	3.8	1.6
Guam	.001	0	.001	.02	.01	0	.01	.1
Hawaii	.03	0	.03	.4	1.1	0	1.1	.8
Idaho	1.0	.02	1.0	.4	1.6	.2	1.8	.7
Illinois	4.4	.01	4.4	2.8	7.8	.2	8.0	4.6
Indiana	(1)	0	0	.1	7.8	.1	7.9	2.8
Iowa	5.6	.1	5.7	.9	7.4	.4	7.8	1.8
Kansas	2.0	0	2.0	.3	3.4	.01	3.4	1.2
Kentucky	.1	.01	.1	.3	.6	.03	.6	1.3
Louisiana	.9	4.7	5.6	3.1	2.7	4.8	7.5	4.0
Maine	1.0	0	1.0	.4	2.7	.1	2.8	.8
Maryland	5.9	0	5.9	1.0	7.4	.1	7.5	4.0
Massachusetts	16.3	0	16.3	2.9	24.3	0	24.3	3.6
Michigan	53.7	21.8	75.5	7.2	64.4	10.7	75.1	16.0
Minnesota	6.3	1.6	7.9	4.6	11.3	2.8	14.1	7.9

Mississippi	(1)	0	0	.3	.6	0	.6	.6
Missouri	(1)	0	0	.3	0	0	0	.3
Montana	.2	.03	.2	.3	.4	.2	.6	.4
Nebraska	.09	0	.09	.3	1.1	.2	1.3	.8
Nevada	(1)	0	0	.01	.3	1.6	1.9	1.3
New Hampshire	.6	0	.6	.1	1.9	0	1.9	.3
New Jersey	13.9	0	13.9	9.3	19.9	33.7	53.6	15.5
New Mexico	.5	.01	.5	.4	.9	.2	1.1	1.2
New York	7.8	86.4	94.2	44.1	44.0	63.1	107.1	41.6
North Carolina	.1	.06	.2	1.1	2.7	.4	3.1	3.1
North Dakota	.4	.02	.4	.1	.9	.1	1.0	.4
Ohio	16.3	0	16.3	3.3	19.3	.1	19.6	6.1
Oklahoma	.5	0	.5	.8	1.2	.2	1.4	2.1
Oregon	.9	15.2	16.1	3.6	8.9	50.2	59.1	6.4
Pennsylvania	12.7	123.2	135.9	2.1	24.3	131.6	155.9	14.1
Puerto Rico	0	0	0	.2	.01	.03	.04	.7
Rhode Island	2.2	0	2.2	.6	3.1	0	3.1	.7
South Carolina	0	0	0	.1	.5	.04	.5	.6
South Dakota	.4	.01	.4	.6	.7	.03	.7	.9
Tennessee	.3	.1	.4	.1	2.2	2.6	4.8	1.1
Texas	3.8	.3	4.1	4.2	4.5	.9	5.4	8.4
Utah	1.6	.01	1.6	1.0	2.8	.5	3.3	1.5
Vermont	.7	.03	.7	.3	1.0	.1	1.1	.5
Virgin Islands	.03	.01	.04	0	.1	.002	.1	.4
Virginia	3.7	0	3.7	1.1	5.4	0	5.4	3.8
Washington	11.2	3.3	14.6	3.3	15.6	5.4	21.0	5.9
West Virginia	0	0	0	.4	.7	0	.7	1.3
Wisconsin	3.4	.01	3.4	2.0	19.4	2.4	21.8	6.8
Wyoming	.2	.01	.2	.1	3	.1	.4	.1

[1] State exempted by Federal law until June 30, 1977, from reporting collections.

Source: Department of Health, Education, and Welfare.

TABLE 19.—CHILD SUPPORT COLLECTIONS: NUMBER AND PERCENT OF AFDC FAMILIES SERVED

	1977	1978	1979	1980	1981
Percent of AFDC families with absent parents for whom collections are made...	20	23	26	30	35
Number of AFDC families for whom collections are made...	600,000	690,000	760,000	830,000	930,000

Source: Department of Health, Education, and Welfare.

TABLE 20.—CHILD SUPPORT ENFORCEMENT, FISCAL YEAR 1977—RANKING OF STATES BY AMOUNT OF SUPPORT COLLECTED (AFDC) AND BY RATIO OF COLLECTIONS TO EXPENDITURES

		Ranking of State	
	AFDC collections (millions)	By amounts collected	By ratio of collections to expenditures
Alabama	$0.2	48	52
Alaska	.2	49	47
Arizona	.1	51	51
Arkansas	.8	38	35
California	63.4	2	32
Colorado	3.5	19	29
Connecticut	8.2	12	18
Delaware	1.2	32	22
District of Columbia	.6	43	42
Florida	2.8	23	38
Georgia	3.3	21	15
Guam	.01	52	50
Hawaii	1.1	34	27
Idaho	1.6	30	13
Illinois	7.8	14	23
Indiana	7.8	13	11
Iowa	7.4	15	4
Kansas	3.4	20	10
Kentucky	.6	42	46
Louisiana	2.7	26	41

TABLE 20.—CHILD SUPPORT ENFORCEMENT, FISCAL YEAR 1977—RANKING OF STATES BY AMOUNT OF SUPPORT COLLECTED (AFDC) AND BY RATIO OF COLLECTIONS TO EXPENDITURES—Continued

	AFDC collections (millions)	Ranking of State: By amounts collected	Ranking of State: By ratio of collections to expenditures
Maine	2.7	25	6
Maryland	7.4	16	20
Massachusetts	24.3	4	1
Michigan	64.4	1	5
Minnesota	11.3	10	24
Mississippi	.6	41	33
Missouri	0	54	54
Montana	.4	45	34
Nebraska	1.1	33	28
Nevada	.3	46	49
New Hampshire	1.9	29	2
New Jersey	19.9	6	30
New Mexico	.9	36	40
New York	44.0	3	31
North Carolina	2.7	27	36
North Dakota	.9	37	14
Ohio	19.3	7	7
Oklahoma	1.2	31	43
Oregon	8.9	11	26
Pennsylvania	24.3	5	21
Puerto Rico	.01	53	53
Rhode Island	3.1	22	3
South Carolina	.5	44	37
South Dakota	.7	40	39
Tennessee	2.2	28	16
Texas	4.5	18	44
Utah	2.8	24	19
Vermont	1.0	35	17
Virgin Islands	.1	50	48
Virginia	5.4	17	25
Washington	15.6	9	12
West Virginia	.7	39	45
Wisconsin	19.4	8	9
Wyoming	.3	47	8

Source: Based on data prepared by the Department of Health, Education, and Welfare.

TABLE 21.—CHILD SUPPORT PROGRAM—TOTAL NUMBER OF PARENTS LOCATED, BY STATE, FISCAL YEARS 1976 AND 1977

	1976 [1]	1977
Totals	181,504	341,111
Alabama	(2)	11,149
Alaska	(2)	1,781
Arizona	3,025	4,978
Arkansas	840	3,552
California	(2)	31,953
Colorado	2,753	4,831
Connecticut	3,410	2,475
Delaware	468	265
District of Columbia	146	1,139
Florida	15,752	20,997
Georgia	10,875	15,673
Hawaii	1,586	3,376
Idaho	2,419	1,153
Illinois	6,785	8,132
Indiana	(2)	5,070
Iowa	(2)	2,162
Kansas	2,809	1,015
Kentucky	565	2,369
Louisiana	(2)	2,334
Maine	(2)	(2)
Maryland	(2)	21,278
Massachusetts	3,632	1,886
Michigan	(2)	19,530
Minnesota	(2)	4,276
Mississippi	0	217
Missouri	(2)	(2)
Montana	1,092	2,393
Nebraska	[3] 719	1,202
Nevada	0	1,654
New Hampshire	(2)	475

See footnotes at end of table.

TABLE 21.—CHILD SUPPORT PROGRAM—TOTAL NUMBER OF PARENTS LOCATED, BY STATE, FISCAL YEARS 1976 AND 1977—Continued

	1976[1]	1977
New Jersey	([2])	3,346
New Mexico	([2])	2,292
New York	52,387	49,004
North Carolina	7,952	11,333
North Dakota	107	743
Ohio	8,836	32,488
Oklahoma	([2])	1,417
Oregon	38,050	21,846
Pennsylvania	6,763	([2])
Rhode Island	([2])	([2])
South Carolina	549	2,760
South Dakota	31	([2])
Tennessee	291	147
Texas	([2])	2,541
Utah	113	4,697
Vermont	292	877
Virginia	278	3,374
Washington	8,047	11,226
West Virginia	([2])	0
Wisconsin	([2])	10,463
Wyoming	867	2,245
Puerto Rico	0	2,500
Virgin Islands	65	516

[1] Some States reported only 11 mo.
[2] Information not available.
[3] Estimated.

Source: Department of Health, Education, and Welfare.

TABLE 22.—CHILD SUPPORT ENFORCEMENT—TOTAL NUMBER OF CASES IN WHICH A SUPPORT OBLIGATION WAS ESTABLISHED, BY STATE, FISCAL YEARS 1976 AND 1977

	1976 [1]	1977
Total	75,008	83,073
Alabama	(2)	6,869
Alaska	(2)	154
Arizona	1,028	444
Arkansas	252	3,936
California	(2)	13,125
Colorado	1,308	6,034
Connecticut	7,804	14,293
Delaware	(2)	(2)
District of Columbia	123	171
Florida	3,881	8,568
Georgia	3,820	9,097
Hawaii	255	632
Idaho	676	461
Illinois	10,001	11,012
Indiana	(2)	1,863
Iowa	(2)	2,135
Kansas	4,849	1,763
Kentucky	2	1,095
Louisiana	(2)	3,526
Maine	(2)	(2)
Maryland	(2)	7,026
Massachusetts	12,048	3,872
Michigan	(2)	6,208
Minnesota	(2)	4,103
Mississippi	0	96
Missouri	(2)	(2)
Montana	2	7
Nebraska	(2)	(2)
Nevada	0	795
New Hampshire	(2)	103

See footnotes at end of table.

TABLE 22.—CHILD SUPPORT ENFORCEMENT—TOTAL NUMBER OF CASES IN WHICH A SUPPORT OBLIGATION WAS ESTABLISHED, BY STATE, FISCAL YEARS 1976 AND 1977—Con.

	1976 [1]	1977
New Jersey	(2)	2,812
New Mexico	(2)	894
New York	(2)	13,556
North Carolina	3,677	6,696
North Dakota	15	381
Ohio	5,239	14,937
Oklahoma	(2)	281
Oregon	0	309
Pennsylvania	(2)	(2)
Rhode Island	(2)	(2)
South Carolina	2	892
South Dakota	4,278	4,001
Tennessee	124	1,059
Texas	8,580	2,486
Utah	(2)	3,966
Vermont	436	794
Virginia	445	2,329
Washington	6,163	10,201
West Virginia	(2)	0
Wisconsin	(2)	9,144
Wyoming	(2)	475
Puerto Rico	0	288
Virgin Islands	0	184

[1] Some States reported only 11 mo.
[2] Information not received/not available.

Source: Department of Health, Education, and Welfare.

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TABLE 23.—CHILD SUPPORT PROGRAM—TOTAL NUMBER OF CASES IN WHICH PATERNITY WAS ESTABLISHED, BY STATE, FISCAL YEARS 1976 AND 1977

	1976 [1]	1977
Total	14,706	68,263
Alabama	(2)	4,465
Alaska	(2)	20
Arizona	3,005	2,443
Arkansas	194	1,031
California	(2)	4,137
Colorado	(2)	787
Connecticut	1,357	1,559
Delaware	(2)	(2)
District of Columbia	(2)	85
Florida	629	4,000
Georgia	(2)	5,674
Hawaii	95	263
Idaho	67	112
Illinois	1,753	2,624
Indiana	(2)	546
Iowa	(2)	841
Kansas	1,014	369
Kentucky	2	310
Louisiana	(2)	560
Maine	(2)	12
Maryland	(2)	3,756
Massachusetts	1,500	414
Michigan	(2)	2,551
Minnesota	(2)	1,524
Mississippi	0	70
Missouri	(2)	(2)
Montana	3	8
Nebraska	(2)	(2)
Nevada	0	125
New Hampshire	(2)	42

See footnotes at end of table.

TABLE 23.—CHILD SUPPORT PROGRAM—TOTAL NUMBER OF CASES IN WHICH PATERNITY WAS ESTABLISHED, BY STATE, FISCAL YEARS 1976 AND 1977—Continued

	1976[1]	1977
New Jersey	(2)	3,280
New Mexico	(2)	67
New York	(2)	6,295
North Carolina	1,812	5,247
North Dakota	9	120
Ohio	1,248	5,203
Oklahoma	(2)	69
Oregon	(2)	2,067
Pennsylvania	1,405	(2)
Rhode Island	(2)	(2)
South Carolina	9	613
South Dakota	33	143
Tennessee	111	373
Texas	157	38
Utah	(2)	98
Vermont	55	79
Virginia	162	1,170
Washington	78	433
West Virginia	(2)	0
Wisconsin	(2)	4,606
Wyoming	8	20
Puerto Rico	0	6
Virgin Islands	0	8

[1] Some States reported only 11 mo.
[2] Information not received/not available.

Source: Department of Health, Education, and Welfare.

IV. Work Incentive (WIN) Program

The work incentive (WIN) program was originally enacted by Congress in 1967 with the purpose of reducing welfare dependency through the provision of manpower training and job replacement services. In 1971 the Congress adopted amendments aimed at strengthening the administrative framework of the program and at placing greater emphasis on immediate employment instead of institutional training, thus specifically directing the program to assist individuals in the transition from welfare to work. In the same year, Congress also provided for a tax credit to employers who hire WIN participants, equal to 20 percent of the wages paid for a maximum of 12 months' employment.

The 1971 amendments required that all persons at least 16 years of age and receiving AFDC benefits must register for WIN, unless legally exempt by reason of health, disability, needed in the home, advanced age, student status, or geographic location. Registrants selected for participation in WIN must accept available jobs, training, or needed services to prepare them for employment. Refusal to do so without good cause will result in termination of their AFDC payments.

Since these amendments were enacted, there has been a significant increase in the number of persons placed in employment with resultant savings in AFDC funding.

Spending for the WIN program has remained level in recent years, at about $350 million. Public Law 95–30, enacted last year, authorized additional funding of $435 million for manpower and supportive services in each of fiscal years 1978 and 1979. However, this additional money was not included in the appropriation for the program in 1978, and has not been requested by the administration for 1979. On April 3 the Senate passed S. 2779, as reported by the Committee on Finance, authorizing new funding of $235 million in 1979, and up to $1.5 billion annually for years after 1979.

The administration estimates that in fiscal year 1978 about $352 million will be spent for WIN, including $234 million for training and employment services, and $118 million for supportive services, including $49 million for child care.

In fiscal year 1973, according to Labor Department statistics, 34,000 families in which a family member was a WIN participant went off welfare and an additional 31,000 families received a reduced AFDC grant because of the salaries earned by WIN participants who became employed. In fiscal year 1976, 87,000 such families went off welfare, and 95,000 received a reduced AFDC grant because of the salaries earned by WIN participants. These figures represent a substantial increase over fiscal year 1973. In fiscal year 1977, there were 136,000 such families who went off welfare, and an additional 135,000 families who remained welfare recipients, but whose AFDC payments were reduced due to their additional income.

Program statistics show that about 73 percent of those in WIN are female, and 71 percent are age 22 to 44 years. Nearly 60 percent have completed less than 12 years of school. About 18 percent are participating on a voluntary basis.

TABLE 24.—WORK INCENTIVE PROGRAM, COSTS AND WORKLOAD

[Dollar amounts in thousands]

	Fiscal year 1977 actual			Fiscal year 1978 estimate			Fiscal year 1979 estimate		
	Workload	Unit cost	Total cost	Workload	Unit cost	Total cost	Workload	Unit cost	Total cost
1. Grants to States (DOL/HEW)			$351,796			$351,995			$351,995
(a) Training and incentives (DOL)			235,038			233,578			233,578
Intake/services			105,612			103,989			103,989
IMU medical verification	67,858	$23	1,596	67,900	$23	1,562	67,900	$23	1,562
Registration/labor market exposure	1,102,717	40	45,117	1,102,000	40	44,080	1,102,000	40	44,080
Appraisal/employability planning	692,148	21	14,867	692,100	21	14,534	692,100	21	14,534
Orientation	67,548	41	2,833	67,500	41	2,768	67,500	41	2,768
Intensive manpower services/direct placement	251,483	154	38,842	251,500	154	38,738	251,500	154	38,738
Adjudication	29,166	79	2,357	29,200	79	2,307	29,200	79	2,307
Work and training	[1] 37,226		129,426	[1] 37,300		129,590	[1] 37,300		129,590
On-the-job training	11,480	4,239	48,664	11,500	4,239	48,749	11,500	4,239	48,749
Public service employment	5,404	7,731	41,778	5,400	7,731	41,747	5,400	7,731	41,747
Institutional training	15,152	1,846	27,971	15,200	1,846	28,059	15,200	1,846	28,059
Work experience	5,190	2,122	11,013	5,200	2,122	11,034	5,200	2,122	11,034
(b) Child care and supportive services (HEW)			116,758			118,417			118,417
Child care	77,571	626	48,560	78,000	626	48,828	78,000	626	48,828
Supportive services	124,611	547	68,198	127,000	547	69,589	127,000	547	69,589
2. Program direction and evaluation (DOL)			11,307			13,005			13,276

[1] Man-years.

Source: WIN—Department of Labor.

TABLE 25.—WORK INCENTIVE PROGRAM: AMOUNTS FOR TRAINING AND INCENTIVES ACTIVITIES AND WIN SOCIAL SERVICES

State	Fiscal year 1977	Fiscal year 1978
Alabama	$3,403,862	$3,287,484
Alaska	1,051,006	1,088,495
Arizona	2,719,518	3,053,486
Arkansas	2,565,669	2,313,521
California	50,340,713	43,234,508
Colorado	6,271,970	7,299,165
Connecticut	3,440,589	4,381,546
Delaware	686,082	1,064,145
District of Columbia	4,298,305	3,542,251
Florida	6,541,591	6,817,211
Georgia	6,895,697	9,199,454
Guam	251,184	264,411
Hawaii	1,536,501	1,302,216
Idaho	1,526,906	1,723,882
Illinois	17,240,100	18,377,094
Indiana	3,659,694	4,977,262
Iowa	3,284,976	3,218,696
Kansas	2,791,285	3,031,603
Kentucky	3,000,902	3,874,062
Louisiana	3,150,095	2,775,524
Maine	1,422,742	2,129,939
Maryland	7,321,880	8,145,328
Massachusetts	8,174,662	10,498,814
Michigan	21,431,665	24,573,147
Minnesota	6,887,706	6,557,075
Mississippi	2,928,754	3,647,417
Missouri	6,256,101	6,993,171
Montana	1,937,313	1,851,789
Nebraska	1,519,968	1,368,082
Nevada	796,686	1,084,369

TABLE 25.—WORK INCENTIVE PROGRAM: AMOUNTS FOR TRAINING AND INCENTIVES ACTIVITIES AND WIN SOCIAL SERVICES—Continued

State	Fiscal year 1977	Fiscal year 1978
New Hampshire	712,792	1,060,913
New Jersey	13,346,611	10,485,028
New Mexico	1,738,633	2,180,266
New York	31,176,908	28,559,158
North Carolina	4,040,190	3,384,983
North Dakota	1,003,479	971,797
Ohio	15,290,761	22,149,809
Oklahoma	2,811,815	2,372,501
Oregon	8,883,958	9,200,288
Pennsylvania	11,042,832	16,866,350
Puerto Rico	2,294,746	3,050,085
Rhode Island	2,713,053	1,087,430
South Carolina	2,425,535	2,602,400
South Dakota	2,069,822	1,821,166
Tennessee	3,365,716	3,757,305
Texas	9,540,211	9,838,379
Utah	4,836,295	5,068,591
Vermont	2,721,129	2,027,773
Virginia	3,058,677	3,959,260
Virgin Islands	270,866	206,260
Washington	10,673,715	10,056,957
West Virginia	6,820,433	5,984,999
Wisconsin	10,320,148	13,007,073
Wyoming	468,762	621,082
Total	334,961,209	351,995,000

Source: Department of Labor.

TABLE 26.—COMPARISON OF WIN CHARACTERISTICS, FISCAL YEARS, 1975–77

	Fiscal year— 1975	1976	1977
Sex:			
Male	24.7	27.1	27.4
Female	75.3	72.9	72.6
Age:			
21 years and under	18.7	17.4	15.8
22 to 44 years	73.0	69.7	71.4
45 years and over	8.3	12.9	12.8
Race:			
White	53.9	55.8	57.0
Black	42.4	38.6	40.1
Other	3.7	5.6	2.9
Spanish speaking	9.8	11.6	11.1
Years of school completed:			
Under 8 years	9.3	11.0	10.5
8 to 11 years	49.6	49.1	48.7
12 years	33.5	32.9	33.0
Over 12 years	7.6	7.0	7.8
Mandatory		79.7	82.1
Voluntary		20.3	17.9

Source: Department of Labor.

V. Supplemental Security Income

The supplemental security income (SSI) program is a federally administered income support program for the aged, blind, and disabled. The program was enacted in 1972 and became effective on January 1, 1974, replacing the former State-administered programs of aid to the aged, blind, and disabled.

The SSI program guarantees needy aged, blind, and disabled persons a minimum monthly income of $177.80 for a single individual or $266.70 for a married couple. These are the basic Federal guarantee levels. In many States, however, higher levels prevail as a result of State action to supplement the basic Federal support levels. States may elect to administer their supplementary payments as a separate program or to contract for Federal administration so that the monthly payment of Federal and State benefits combined is included in a single check issued by the Federal Treasury.

The amount actually payable to a given recipient is determined by subtracting from the overall income support level the amount of income the individual has from other sources. In making this computation, some types of income are not counted. For example, there is excluded the first $20 of monthly income from any source (such as from social security benefits) and certain proportions of income from wages. As a result, the total income of an individual who has some other source of income will always be somewhat higher than the total income of an individual who is entirely dependent upon SSI benefits.

In calendar year 1977, the SSI program paid $4.7 billion in Federal benefits and another $1.5 billion in federally administered State supplementary benefits.

The total number of individuals receiving SSI has remained relatively stable over the last three years. In January 1975 there were about 4.0 million aged, blind and disabled recipients receiving federally administered benefits. In January 1978 the number was 4.2 million. Within this total, however, there has been a steady and important change in the composition of the SSI rolls. Since the program was first implemented until the present time there has been a 66 percent increase in the number of individuals receiving SSI on the basis of disability. The number receiving assistance on the basis of age has increased only 10 percent. Since December 1975 the number of aged recipients has actually declined slightly, from 2.3 million to 2.1 million. This gradual transformation of the SSI program from one primarily for the aged to one primarily serving the disabled is illustrated most dramatically by statistics showing new awards. In 1977 there were about 190,000 individuals who were initially awarded SSI on the basis of age. The number awarded SSI on the basis of disability was 362,000.

The composition of the SSI rolls also varies greatly from State to State, with some States serving predominantly the aged, and others the disabled. Massachusetts, for example, has about 74,000 aged individuals receiving SSI, and 51,000 who are disabled. Louisiana similarly has more aged recipients than it has disabled—about 80,000 aged individuals compared with 66,000 disabled. In contrast, New York has 226,000 disabled recipients, compared with 154,000 aged recipients. California has 352,000 disabled recipients, and 326,000 aged recipients.

TABLE 27.—SUPPLEMENTAL SECURITY INCOME FOR THE AGED, BLIND, AND DISABLED: NUMBER OF PERSONS RECEIVING FEDERALLY ADMINISTERED PAYMENTS AND TOTAL AMOUNT, 1974–78 [1]

Period	Number of persons [2]				Amount of payments (in thousands)		
	Total	Aged	Blind	Disabled	Total	Federal SSI	State supplementation [2]
January 1974	3,215,632	1,865,109	72,390	1,278,133	$365,149	$260,159	$104,989
December 1974	3,996,064	2,285,909	74,616	1,635,539	450,856	340,853	110,003
December 1975	4,314,275	2,307,105	74,489	1,932,681	493,495	374,419	119,076
December 1976	4,235,939	2,147,697	76,366	2,011,876	507,060	386,440	120,620
December 1977	4,237,692	2,050,921	77,362	2,109,409	527,658	402,743	124,915
January 1978	4,249,970	2,052,175	77,398	2,120,397	523,951	399,753	124,198

[1] Excludes emergency advance payments made by the Social Security Administration district offices. Figures not adjusted for returned checks and refunds of overpayments.

[2] Excludes data for State supplementation under State-administered programs.

TABLE 28.—SUPPLEMENTAL SECURITY INCOME FOR THE AGED, BLIND, AND DISABLED: AMOUNT OF TOTAL PAYMENTS, FEDERAL SSI PAYMENTS, AND STATE SUPPLEMENTARY PAYMENTS, 1974-78

[In thousands]

Period	Total	Federal SSI	State supplementation		
			Total	Federally administered	State administered
1974	$5,245,719	$3,833,161	$1,412,558	$1,263,652	$148,906
1975	5,878,224	4,313,538	1,564,686	1,402,534	162,152
1976	6,068,079	4,512,061	1,556,018	1,388,154	167,864
1977	6,380,672	4,744,711	1,635,961	1,459,368	[1] 176,593
January 1978	538,626	399,753	138,873	124,198	[1] 14,675

[1] Partly estimated.

TABLE 29.—SUPPLEMENTAL SECURITY INCOME FOR THE AGED, BLIND, AND DISABLED: NUMBER OF PERSONS RECEIVING FEDERALLY ADMINISTERED PAYMENTS, BY REASON FOR ELIGIBILITY AND STATE, JANUARY 1978

State	Total	Aged	Blind	Disabled
Total [1]	4,249,970	2,052,175	77,398	2,120,397
Alabama [2]	141,372	89,027	1,918	50,427
Alaska [2]	3,143	1,295	68	1,780
Arizona [2]	28,761	12,876	499	15,386
Arkansas	84,781	50,934	1,622	32,225
California	695,661	326,119	17,181	352,361
Colorado [2]	33,648	16,639	349	16,660
Connecticut [2]	22,651	8,196	295	14,160
Delaware	7,146	2,912	193	4,041
District of Columbia	14,731	4,526	199	10,006
Florida	165,022	88,415	2,562	74,045
Georgia	160,758	82,070	2,964	75,724
Hawaii	10,001	5,268	133	4,600
Idaho [2]	7,851	3,243	99	4,509
Illinois [2]	127,567	40,923	1,655	84,989
Indiana [2]	41,038	18,039	1,077	21,922
Iowa	27,096	13,304	1,119	12,673
Kansas	22,376	10,152	339	11,885
Kentucky [2]	96,015	49,784	2,025	44,206
Louisiana	148,521	79,993	2,203	66,325
Maine	22,915	11,466	277	11,172
Maryland	48,164	17,560	539	30,065
Massachusetts	130,313	74,407	4,702	51,204
Michigan	117,423	44,558	1,637	71,228
Minnesota [2]	35,605	15,742	656	19,207
Mississippi	118,746	71,481	1,887	45,378
Missouri [2]	92,346	51,329	1,627	39,390
Montana	7,568	2,951	139	4,478
Nebraska [2]	14,396	6,808	236	7,352
Nevada	6,078	3,474	361	2,243
New Hampshire [2]	5,491	2,532	147	2,812
New Jersey	80,783	34,254	1,009	45,520
New Mexico [2]	25,899	11,443	411	14,045
New York	384,120	153,941	3,964	226,215
North Carolina [2]	145,076	71,604	3,469	70,003
North Dakota [2]	7,311	4,088	70	3,153

See footnotes at end of table.

TABLE 29.—SUPPLEMENTAL SECURITY INCOME FOR THE AGED, BLIND, AND DISABLED: NUMBER OF PERSONS RECEIVING FEDERALLY ADMINISTERED PAYMENTS, BY REASON FOR ELIGIBILITY AND STATE, JANUARY 1978—Continued

State	Total	Aged	Blind	Disabled
Ohio	125,647	44,081	2,318	79,248
Oklahoma [2]	76,951	43,041	1,084	32,826
Oregon [2]	23,582	8,644	549	14,389
Pennsylvania	168,045	66,068	3,885	98,092
Rhode Island	15,565	6,489	173	8,903
South Carolina [2]	83,381	42,555	1,887	38,939
South Dakota	8,513	4,565	132	3,816
Tennessee	135,102	70,308	1,816	62,978
Texas [3]	274,220	168,862	4,086	101,272
Utah [2]	8,413	2,886	151	5,376
Vermont	8,977	4,071	120	4,786
Virginia [2]	79,496	39,326	1,447	38,723
Washington	49,301	18,197	522	30,582
West Virginia [2]	42,950	17,081	635	25,234
Wisconsin	67,208	33,581	930	32,697
Wyoming [2]	2,209	1,054	32	1,123
Unknown	37	13	....	24

[1] Includes persons with Federal SSI payments and/or federally administered State supplementation, unless otherwise indicated.
[2] Data for Federal SSI payments only. State has State-administered supplementation.
[3] Data for Federal SSI payments only; State supplementary payments not made.

Source: Department of Health, Education, and Welfare.

TABLE 30.—SUPPLEMENTAL SECURITY INCOME FOR THE AGED, BLIND, AND DISABLED: NUMBER OF PERSONS INITIALLY AWARDED FEDERALLY ADMINISTERED PAYMENTS, BY REASON FOR ELIGIBILITY 1974–77

Period	Total	Aged	Blind	Disabled
1974 [1]	890,768	498,555	5,206	387,007
1975	702,147	259,823	5,834	436,490
1976	542,355	171,798	4,735	365,822
1977	557,570	189,750	5,753	362,067

[1] Reflects data for May–December.

Source: Department of Health, Education, and Welfare.

TABLE 31.—MAXIMUM POTENTIAL CASH AND FOOD STAMP BENEFITS PER SSI RECIPIENT

[*=If blind †=If disabled]

	Maximum SSI monthly benefit (July 1977–June 1978)[1]	Bonus food stamp monthly entitlement[2]	Annual total
Alabama	$177.80	$40	$2,614
Alaska	[3] 354.00	12	4,392
Arizona	177.80	40	2,614
Arkansas	177.80	40	2,614
California	296.00	(4)	3,552
	*344.00		*4,128
Colorado	215.00	28	2,916
Connecticut	266.00	13	3,348
Delaware	177.80	40	2,614
District of Columbia	177.80	40	2,614
Florida	177.80	40	2,614
Georgia	177.80	40	2,614
Hawaii	193.00	53	2,952
Idaho	231.00	24	3,060
Illinois	185.00	37	2,664
Indiana	177.80	40	2,614
Iowa	177.80	40	2,614
Kansas	177.80	40	2,614
Kentucky	177.80	40	2,614
Louisiana	177.80	40	2,614
Maine	177.80	37	2,698
Maryland	177.80	40	2,614
Massachusetts	296.53	(4)	3,558
	*321.92		*3,863
	†285.12		†3,421
Michigan	202.10	32	2,809
Minnesota	[3] 211.00	30	2,892
Mississippi	177.80	40	2,614
Missouri	177.80	40	2,614
Montana	177.80	40	2,614
Nebraska	[3] 268.00	13	3,372
Nevada	217.85	28	2,950
	*280.35	*10	*3,484
	†177.80	†40	†2,614
New Hampshire	180.00	39	2,628
New Jersey	200,00	33	2,796
New Mexico	177.80	40	2,614

See footnotes at end of table.

TABLE 31.—MAXIMUM POTENTIAL CASH AND FOOD STAMP BENEFITS PER SSI RECIPIENT—Continued

[*=If blind †=If disabled]

	Maximum SSI monthly benefit (July 1977–June 1978)[1]	Bonus food stamp monthly entitlement[2]	Annual total
New York	$238.65	$21	$3,116
North Carolina	177.80	40	2,614
North Dakota	177.80	40	2,614
Ohio	177.80	40	2,614
Oklahoma	214.80	28	2,914
Oregon	189.80	36	2,710
	†214.80	*28	*2,914
Pennsylvania	210.20	30	2,882
Rhode Island	209.24	30	2,871
South Carolina	177.80	40	2,614
South Dakota	177,80	40	2,614
Tennessee	177.80	40	2,614
Texas	177.80	40	2,614
Utah	177.80	40	2,614
Vermont	[3] 210.00	30	2,880
Virginia	177.80	40	2,614
Washington	[3] 218.25	28	2,955
West Virginia	177.80	40	2,614
Wisconsin	254.00	17	3,252
Wyoming	197.80	34	2,770

[1] The amount shown is the maximum amount payable to an individual in combined Federal SSI payments and State supplementary payments for basic needs. In some cases, additional amounts are payable by the State for special needs. Individuals who were on the State rolls in December 1973 may also in some instances receive additional amounts under the mandatory supplementation grandfather clause. The Federal component of the payment is $177.80.

[2] Calculated on the basis of January–June 1978 food stamps allotments $52 monthly in continental United States, $72 in Alaska, $70 in Hawaii). Assumes that the SSI benefit is the recipient's only income. However, 60 percent of SSI recipients have outside income. SSI benefits are reduced by $1 for each dollar of outside income, except that the first $20 per month of unearned income does not reduce the SSI grant. (A more liberal exclusion applies to earned income.) If the recipient has unearned income, his total income could exceed the SSI maximum benefit level by $20 and would thereby reduce the food stamp benefit.

Also assumes maximum allowable deductions of $135 per month—$60 flat deduction and $75 for excess shelter and/or dependent care costs. (The shelter deduction applies only to costs that exceed 50 percent of income remaining after other deductions.) If only the standard $60 deduction were assumed, food stamp benefits would drop by $23 monthly.

[3] Maximum payment may be less depending upon actual shelter costs or area of State.

[4] SSI recipients in California and Massachusetts are not eligible for food stamps. These States provide increased cash benefits in lieu of food stamps.

Source: Table prepared by the Congressional Research Service.

TABLE 32.—MAXIMUM POTENTIAL CASH AND FOOD STAMP BENEFITS PER SSI COUPLE

[*=If blind †=If blind or disabled ‡=If disabled]

	Maximum SSI monthly benefit (July 1977-June 1978)[1]	Bonus food stamp monthly entitlement[2]	Annual total
Alabama	$302.00	$46	$4,176
	*270.00	*56	*3,912
Alaska	[3] 519.00	19	6,456
Arizona	266.70	57	3,884
Arkansas	266.70	57	3,884
California	557.00	(4)	6,684
	*663.00	....	*7,956
Colorado	430.00	12	5,304
	†390.00	†20	†4,920
Connecticut	326.90	39	4,391
Delaware	266.70	57	3,884
District of Columbia	266.70	57	3,884
Florida	266.70	57	3,884
Georgia	266.70	57	3,884
Hawaii	290.90	82	4,475
Idaho	302.00	46	4,176
Illinois	266.70	57	3,884
Indiana	266.70	57	3,884
Iowa	266.70	57	3,884
	*310.70	*44	*4,256
Kansas	266.70	57	3,884
Kentucky	266.70	57	3,884
Louisiana	266.70	57	3,884
Maine	281.70	52	4,002
Maryland	266.70	57	3,884
Massachusetts	451.50	(4)	5,418
	*643.84	....	*7,726
	‡434.38	....	‡5,213
Michigan	303.10	46	4,189
Minnesota	[3] 311.00	44	4,260
Mississippi	266.70	57	3,884
Missouri	266.70	57	3,884
Montana	266.70	57	3,884
Nebraska	[3] 361.00	29	4,680
Nevada	343.76	34	4,533
	*560.70	*0	*6,728
	‡266.70	‡57	‡3,884
New Hampshire	266.70	57	3,884

See footnotes at end of table.

TABLE 32.—MAXIMUM POTENTIAL CASH AND FOOD STAMP BENEFITS PER SSI COUPLE—Continued

[*=If blind †=If blind or disabled ‡=If disabled]

	Maximum SSI monthly benefit (July 1977–June 1978)[1]	Bonus food stamp monthly entitlement[2]	Annual total
New Jersey	$277.00	$54	$3,972
New Mexico	266.70	57	3,884
New York	342.64	34	4,520
North Carolina	266.70	57	3,884
North Dakota	266.70	57	3,884
Ohio	266.70	57	3,844
Oklahoma	335.70	36	4,460
Oregon	276.70	54	3,968
	*307.70	*45	*4,272
Pennsylvania	315.40	42	4,284
Rhode Island	326.02	39	4,380
South Carolina	266.70	57	3,884
South Dakota	266.70	57	3,884
Tennessee	266.70	57	3,884
Texas	266.70	57	3,884
Utah	266.70	57	3,884
Vermont	[3] 330.00	38	4,416
Virginia	266.70	57	3,884
Washington	[3] 311.10	44	4,261
West Virginia	266.70	57	3,884
Wisconsin	385.90	21	4,883
Wyoming	306.70	45	4,220

[1] The amount shown is the maximum amount payable to a couple in combined Federal SSI payments and State supplementary payments for basic needs. In some cases, additional amounts are payable by the State for special needs. Individuals who were on the State rolls in December 1973 may also in some instances receive additional amounts under the mandatory supplementation grandfather clause. The Federal component of the payment is $266.70.

[2] Calculated on the basis of the food stamp allotments for the first half of 1978 ($96 for 2 persons in the continental United States, $134 in Alaska, and $128 in Hawaii). Assumes that SSI benefit is the recipient's only income. However, 60 percent of SSI recipients have outside income, SSI benefits are reduced by $1 for each dollar of outside income, except that the first $20 per month of unearned income does not reduce the SSI grant. (A more liberal exclusion applies to earned income). If the recipient has unearned income, his total income could exceed SSI maximum benefit level by $20 and could thereby reduce the food stamp benefit. Also assumes maximum allowable deductions of $135 per month—$60 flat deduction and $75 for excess shelter and/or dependent care costs. (The shelter deduction applies only to costs that exceed 50 percent of income left after other deductions.) If only the $60 standard deduction were assumed, the food stamp bonus would drop by $23 monthly.

[3] Maximum payment may be less depending upon actual shelter costs or area of State.

[4] SSI recipients in California and Massachusetts are not eligible for food stamps. These States have chosen to provide cash in lieu of food stamps.

Source: Table prepared by the Congressional Research Service.

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TABLE 33.—SUPPLEMENTAL SECURITY INCOME—SUMMARY OF ERROR RATES

	January-June 1975	October 1976-March 1977	April-September 1977
Payment error rate (incorrect payments as a percentage of all payments):			
Overpayments	5.2	2.8	2.5
Payments to ineligibles	6.3	3.5	2.7
Total [1]	11.5	6.3	5.2
Dollar values of payment error rate (in millions):			
Total payments	$2,800	$3,000	$3,100
Excess payments	300	190	160
Inaccurate cases as a percentage of all cases:			
Overpayments	11.0	5.9	5.2
Payments to ineligibles	7.7	4.9	3.9
Underpayments	5.7	4.1	4.3
Total	24.4	14.9	13.4

[1] Underpayments are not included in the payment error rate because they represent money not paid. Payment error rates refer only to dollars misspent through payments to ineligibles and overpayments to eligibles as a percent of total payments. SSA data show an underpayment rate of 1.6 percent, or an estimated $50.5 million, in the April-September 1977 period.

Staff note: Error rates shown above are based on sample surveys conducted by the administration. The amount of incorrect payments shown by these surveys is understated because of certain tolerances incorporated in the surveys and because the surveys do not attempt to measure errors resulting from incorrect disability findings.

Source: Department of Health, Education, and Welfare.

VI. Social Services

In addition to providing Federal funding for cash public assistance to certain categories of needy individuals, the welfare titles of the Social Security Act have provided funding for a variety of social services programs. Originally, the costs of social services were considered a part of the administrative costs of operating cash public assistance programs, but subsequent amendments provided separate recognition of social services programs, expanded their availability to persons not receiving cash assistance, permitted funding of services provided by other than the welfare agency itself (including services by non-public agencies), and increased the Federal rate of matching to 75 percent (90 percent in the case of family planning services).

Prior to fiscal year 1973, Federal matching for social services, like Federal matching for welfare payments, was mandatory and open-ended. Every dollar a State spent for social services was matched by three Federal dollars. In 1971 and 1972 particularly, States made use of these provisions to increase at a rapid rate the amount of Federal money going into social services programs.

In 1972, the Congress established a $2.5 billion annual ceiling on the amount of Federal funding for social services programs effective for fiscal year 1973 and subsequent fiscal years. Under this overall national ceiling, each State has a ceiling established which is based on its population relative to the population of the entire Nation.

In 1974, Congress substantially revised the statutes governing the social services programs. The 1974 legislation transferred the provisions governing social services programs from the cash public assistance titles of the Social Security Act to a new separate services title (title XX). The Federal matching percentage for services remained at 75 percent under the new title XX program and the overall ceiling of $2.5 billion allocated among the States on a population basis was not changed.

Both the 94th and 95th Congresses acted to increase the amount of money available under title XX, to be used by the States to assist them in meeting the child care standards mandated by title XX. Legislation enacted by the Congress provided a temporary increase in funding, amounting to $200 million for each of fiscal years 1977 and 1978.

HEW estimates that in 1978, 41 States will be spending all or nearly all of the funds allotted to them under the $2.5 billion ceiling. Forty-nine States are expected to use all or nearly all of their title XX funds in 1979. A substantial number of States are spending more than their allotments on services which would qualify for title XX funding, and are paying for them out of State and local funds.

Individuals and families may qualify for Federally-matched social services only if they meet certain income requirements. States may not provide services other than protective services, family planning services, and information and referral services to families with incomes above 115 percent of the State median income. This ranges from a low of $15,496 for a family of four in Mississippi, to a high of $32,857 in Alaska in 1979.

States use their title XX money in very different ways, depending on their own State-determined needs. On a national basis, the service for which the largest amount of money is being spent is child day care. HEW estimates for 1979 indicate that about 22 percent of all Federal social services funds will be spent for child day care. Homemaker/chore services are expected to account for slightly more than 11 percent of all funds in 1979, and education, training and employment services are estimated to account for an additional 10 percent. Protective services and child foster care together will account for another 18 percent of total spending.

TABLE 34.—CEILING ON FEDERAL FUNDING OF TITLE XX SOCIAL SERVICES EXPENDITURES, FISCAL YEAR 1978

[In thousands]

	Basic ceiling	Additional amount under Public Law 95-171
Alabama	$42,500	$3,400
Alaska	4,250	340
Arizona	26,000	2,080
Arkansas	24,750	1,980
California	248,500	19,880
Colorado	29,500	2,360
Connecticut	36,250	2,900
Delaware	6,750	540
District of Columbia	8,500	680
Florida	98,000	7,840
Georgia	57,750	4,620
Hawaii	10,250	820
Idaho	9,750	780
Illinois	130,750	10,460
Indiana	62,250	4,980
Iowa	33,750	2,700
Kansas	26,500	2,120
Kentucky	39,750	3,180
Louisiana	44,750	3,580
Maine	12,500	1,000
Maryland	48,000	3,840
Massachusetts	68,250	5,460
Michigan	107,500	8,600
Minnesota	46,000	3,680
Mississippi	27,500	2,200
Missouri	55,750	4,460
Montana	8,750	700

TABLE 34.—CEILING ON FEDERAL FUNDING OF TITLE XX SOCILA SERVICES EXPENDITURES, FISCAL YEAR 1978—Con.

[In thousands]

	Basic ceiling	Additional amount under Public Law 94-401
Nebraska	$18,250	$1,460
Nevada	7,000	560
New Hampshire	9,500	760
New Jersey	85,750	6,860
New Mexico	13,500	1,080
New York	212,500	17,000
North Carolina	64,000	5,120
North Dakota	7,500	600
Ohio	126,250	10,100
Oklahoma	31,750	2,540
Oregon	26,750	2,140
Pennsylvania	138,750	11,100
Rhode Island	10,750	860
South Carolina	33,000	2,640
South Dakota	8,000	640
Tennessee	49,250	3,940
Texas	143,500	11,480
Utah	14,250	1,140
Vermont	5,500	440
Virginia	58,250	4,660
Washington	41,500	3,320
West Virginia	21,250	1,700
Wisconsin	54,000	4,320
Wyoming	4,500	360
Total	2,500,000	200,000

Source: Department of Health, Education, and Welfare.

TABLE 35.—TITLE XX SERVICES: ESTIMATED DISTRIBUTION OF FEDERAL FUNDING BY TYPE OF SERVICES AND NUMBER OF RECIPIENTS, FISCAL 1979

[In thousands]

Type of service	Number of recipients	Federal funding: Amount	Federal funding: Percent
Total	([1])	$2,650,000	100.0
Child day care	649	580,350	21.9
Homemaker/chore	411	302,100	11.4
Education, training and employment	511	272,950	10.3
Protective services	723	262,350	9.9
Child foster care	327	222,600	8.4
Counseling	642	185,500	7.0
Health-related services	804	127,200	4.8
Residential care	123	95,400	3.6
Family planning	312	63,600	2.4
Other	([2])	537,950	20.3

[1] Number of recipients is not additive as recipients may receive more than 1 type of service.
[2] Not estimated.

Source: Fiscal 1979 budget estimates, Department of Health, Education, and Welfare.

TABLE 36.—NUMBER OF STATES USING LESS THAN FULL AVAILABLE TITLE XX FUNDING UNDER $2.5 BILLION CEILING, 1975–79

[Number of States]

Fiscal year	98 to 100 percent of ceiling	90 to 98 percent of ceiling	80 to 90 percent of ceiling	Less than 80 percent of ceiling	Federal cost (000)
1975	12	5	5	29	$1,962,581
1976	18	7	9	17	2,130,380
1977 [1]	19	14	9	9	2,259,726
1978 [1]	35	6	6	4	2,382,604
1979 [1]	48	1	1	1	2,450,000

[1] Estimated.

Source: Fiscal 1979 budget estimates, Department of Health, Education, and Welfare.

TABLE 37.—FEDERAL INCOME LIMITS ON ELIGIBILITY FOR SOCIAL SERVICES (FISCAL 1979—FAMILY OF 4) [1]

	Maximum income level for services	
	If no fee is charged [2] (80 percent of median income)	If a fee is charged (115 percent of median income)
Alabama	$12,277	$17,648
Alaska	([3]) 17,315	32,857
Arizona	13,705	19,701
Arkansas	10,943	15,731
California	15,145	21,771
Colorado	14,595	20,981
Connecticut	15,031	21,607
Delaware	13,487	19,388
District of Columbia	13,761	19,781
Florida	13,022	18,720
Georgia	12,693	18,159
Hawaii	16,090	23,130
Idaho	12,786	18,379
Illinois	15,469	22,236
Indiana	13,863	19,928
Iowa	13,535	19,457
Kansas	13,472	19,336
Kentucky	11,971	17,209
Louisiana	12,283	17,657
Maine	11,543	16,593
Maryland	15,465	22,231
Massachusetts	14,274	20,518
Michigan	14,858	21,358
Minnesota	14,376	20,666
Mississippi	10,780	15,496
Missouri	12,942	18,604
Montana	12,418	17,850
Nebraska	12,164	17,486
Nevada	14,632	21,034
New Hampshire	13,550	19,478

See footnotes at end of table.

TABLE 37.—FEDERAL INCOME LIMITS ON ELIGIBILITY FOR SOCIAL SERVICES (FISCAL 1979—FAMILY OF 4)[1]—Continued

	Maximum income level for services	
	If no fee is charged [2] (80 percent of median income)	If a fee is charged (115 percent of median income)
New Jersey	$15,892	$22,845
New Mexico	12,403	17,830
New York	13,750	19,780
North Carolina	12,171	17,496
North Dakota	12,375	17,789
Ohio	14,012	20,142
Oklahoma	12,497	17,964
Oregon	14,209	20,425
Pennsylvania	13,643	19,612
Rhode Island	13,593	19,540
South Carolina	12,333	17,728
South Dakota	10,947	15,737
Tennessee	11,887	17,088
Texas	13,936	20,033
Utah	13,325	19,154
Vermont	12,418	17,851
Virginia	14,364	20,648
Washington	14,687	21,113
West Virginia	12,451	17,899
Wisconsin	14,338	20,611
Wyoming	14,605	20,994

[1] The median income levels are adjusted each year by HEW using data supplied by the Census Bureau.

[2] States may impose fees subject to HEW regulation but need not. About half the States do so.

[3] 100 percent of national median income. The income limit for services without a fee is 100 percent of the national median income where that amount is lower than 80 percent of State median income. (80 percent of Alaska State median income is $18,285.

Source: Department of Health, Education, and Welfare.

VII. Food Stamp and General Assistance Programs

The largest part of public welfare program expenditures derives from the assistance titles of the Social Security Act. There are, however, other significant programs which have to be considered in any discussion of major welfare restructuring. Two such programs are the Food Stamp program operated by the Department of Agriculture with full Federal funding of the benefit costs, and the various general assistance programs which are operated by State and local governments without any Federal participation. As table 2 shows, the Food Stamp program has grown from a $2.2 billion program in fiscal year 1973 to a $5.8 billion program in fiscal year 1978. Table 38 shows the State-by-State recipients and expenditures under general assistance programs to the extent that information on these programs is reported. Tables 39 and 40 provide information on the Food Stamp program as of October 1977.

TABLE 38.—GENERAL ASSISTANCE: RECIPIENTS OF CASH PAYMENTS AND AMOUNT OF PAYMENTS, BY STATE, SEPTEMBER 1977

[Includes nonmedical vendor payments]

State	Cases	Recipients	Total amount for month
Total (42 States)	649,275	813,247	$99,538,190
Alabama	35	35	437
Arizona	2,503	2,503	245,284
California	42,136	44,812	5,970,509
Colorado	415	863	38,944
Connecticut	14,152	22,078	1,803,160
Delaware	1,338	1,898	73,434
District of Columbia	5,847	6,122	931,840
Georgia	1,595	2,862	96,992
Guam	55	57	4,574
Hawaii	8,164	15,709	2,167,077
Illinois	69,936	81,175	9,349,546
Kansas	5,535	5,734	734,693
Louisiana	2,855	2,959	170,255
Maine	2,964	8,037	180,494
Maryland	18,322	19,520	2,084,233
Massachusetts	20,798	22,844	3,149,598
Michigan	42,790	52,843	7,825,555
Minnesota	12,470	14,963	1,486,965
Mississippi	1,134	1,365	17,391
Missouri	5,187	5,708	352,628
Montana	612	1,067	35,390
New Hampshire	1,561	2,997	181,360
New Jersey	28,068	41,289	4,333,725
New Mexico	256	270	23,622
New York	144,508	186,971	28,405,119

TABLE 38.—GENERAL ASSISTANCE: RECIPIENTS OF CASH PAYMENTS AND AMOUNT OF PAYMENTS, BY STATE, SEPTEMBER 1977—Continued

[Includes nonmedical vendor payments]

State	Cases	Recipients	Total amount for month
North Carolina	2,207	4,687	$91,253
North Dakota	92	190	6,068
Ohio [1]	40,975	48,232	3,685,076
Oklahoma	300	707	9,315
Oregon	4,524	6,882	504,844
Pennsylvania	135,896	161,291	21,738,129
Puerto Rico	241	241	3,541
Rhode Island	3,510	5,550	559,140
South Carolina	906	990	50,329
South Dakota	395	1,020	16,301
Utah	1,456	1,919	246,191
Virgin Islands	284	351	18,081
Virginia	7,404	10,811	847,163
Washington	9,332	10,548	1,328,806
West Virginia	2,735	7,060	98,167
Wisconsin	5,492	7,399	656,555
Wyoming	290	688	16,406

[1] Estimated data.

Source: Department of Health, Education, and Welfare.

TABLE 39.—FOOD STAMP PROGRAM DATA, OCTOBER 1977

[In thousands]

Participants:	
Total	15,925
Public assistance recipients	7,671
Public assistance as percent of total	(48)
Total value of food stamps	668,630
Bonus value of food stamps	403,112

Source: Department of Agriculture, preliminary report.

TABLE 40.—NUMBER OF FOOD STAMP PARTICIPANTS, BY STATE, OCTOBER 1977

[In thousands]

	Assistance recipients	Nonrecipients of assistance	Total
Alabama	86	214	300
Alaska	3	6	9
Arizona	28	91	119
Arkansas	51	143	194
California	886	369	1,255
Colorado	59	75	134
Connecticut	96	71	167
Delaware	21	7	28
District of Columbia	71	20	91
Florida	162	534	696
Georgia	115	296	412
Hawaii	76	48	124
Idaho	13	15	27
Illinois	636	231	867
Indiana	93	78	171
Iowa	64	34	98
Kansas	39	19	58
Kentucky	100	248	348
Louisiana	150	246	396
Maine	33	56	89
Maryland	169	73	242
Massachusetts	342	249	590
Michigan	435	125	560
Minnesota	81	68	148
Mississippi	75	231	306
Missouri	100	95	195
Montana	9	14	23
Nebraska	18	18	36
Nevada	5	11	16
New Hampshire	18	20	38

TABLE 40.—NUMBER OF FOOD STAMP PARTICIPANTS, BY STATE, OCTOBER 1977—Continued

[In thousands]

	Assistance recipients	Nonrecipients of assistance	Total
New Jersey	334	147	480
New Mexico	36	67	103
New York	1,044	392	1,437
North Carolina	97	287	384
North Dakota	4	9	14
Ohio	458	257	715
Oklahoma	49	93	142
Oregon	77	60	136
Pennsylvania	603	219	822
Rhode Island	48	25	73
South Carolina	67	183	250
South Dakota	8	14	22
Tennessee	86	284	370
Texas	205	550	755
Utah	25	8	32
Vermont	16	21	36
Virginia	94	110	205
Washington	115	77	192
West Virginia	64	159	224
Wisconsin	106	53	159
Wyoming	3	4	7
Guam	3	19	22
Puerto Rico	92	1,487	1,579
Virgin Islands	2	24	26

Source: Department of Agriculture, preliminary report.

VIII. Summary of H.R. 7200 Provisions

On November 1, 1977, the Finance Committee reported to the Senate the bill H.R. 7200 which was pending on the Senate Calendar at the time this document was prepared. The committee's version of H.R. 7200 does not involve a comprehensive restructuring of the welfare system but it does provide amendments to several of the present welfare programs.

Fiscal relief for State and local welfare costs.—H.R. 7200, as reported, would have made available up to $1 billion in fiscal relief for State and local welfare costs. The first installment for fiscal 1978 would have totaled $500 million, distributed among the States in proportion to their December, 1976, AFDC costs. The second installment would be equal to the first but would be available only to the extent that States showed progress towards reaching a 4 percent AFDC payment error rate.

Subsequent to the reporting of H.R. 7200, the Senate approved legislation providing a reduced level of fiscal relief ($374 million) for fiscal 1978, and half of this amount ($187 million) was agreed to by the House and enacted into law. Table 41 shows how this $187 million already enacted for fiscal 1978 is distributed among the States. Table 42 shows how the fiscal relief funds in H.R. 7200 for fiscal 1979 would be distributed, on the basis of State progress through June, 1977, in reducing error rates. (The actual distribution would be based on error rates in the first 6 months of 1978.)

Adoptions, foster care, and child welfare services.—H.R. 7200 would establish a new program of Federal matching for adoption subsidies for low and middle income families. The subsidies would apply to children adopted prior to fiscal 1983 who cannot be placed without subsidies and who would otherwise be recipients of aid to families with dependent children. The bill also modifies the child welfare services program in several respects, including the addition of a provision permitting up to half of any new appropriations for the program to be earmarked for State tracking and information systems, individual case review systems, services to reunite families or place children in adoption, and procedures to protect the rights of natural parents, children and foster parents. Under present law, Federal matching under AFDC is permitted for certain children who are in foster care. H.R. 7200 would broaden the scope of this AFDC foster care provision to include foster care in public institutions (provided they serve no more than 25 children). The bill would also place a ceiling on Federal matching for foster care, beginning with fiscal 1978, set at 20 percent above the 1977 level with a 10 percent annual increase thereafter through 1982. (Amounts not used within the ceiling could be transferred to the State's child welfare services program.)

Social services.—H.R. 7200 would extend a number of provisions related to child care and certain other services under title XX. It would make permanent the existing temporary increase in the annual Federal funding ceiling from $2.5 billion to $2.7 billion.

Aid to families with dependent children.—H.R. 7200 includes a number of provisions intended to improve the operations of the AFDC program. A few of the provisions in the bill have already been enacted as part of Public Law 95-216. These enacted provisions relate to fiscal incentives for reducing errors, authorization of certain State demonstration projects, and access by AFDC agencies to social security and unemployment wage records. Additional provisions in H.R. 7200 would improve quality control and management information activities, encourage the use of recipient identification cards and increased anti-fraud activities, strengthen the work incentive program and permit States to utilize community work and training programs. H.R. 7200 also permits States to compute AFDC benefits in a way which takes into account the presence in the household of ineligible persons. Another provision of H.R. 7200 would modify the provision under which certain amounts of earned income are disregarded in computing benefit eligibility. Under present law, an amount of earnings equal to child care costs and other work expenses is disregarded. In addition, $30 per month plus ⅓ of earnings in excess of $30 are disregarded. Under the bill there would be no separate work expense disregard except for child care costs; for earnings in excess of the child care deduction, $60 per month ($30 for part-time workers) plus ⅓ of the next $300 and ⅕ of any additional earnings would be disregarded.

Child support enforcement.—H.R. 7200 also has several provisions related to the child support enforcement program including continuation of Federal matching for child support assistance to non-welfare families, clarification of certain reporting and matching procedures, and authorization for matching child support costs of certain court personnel.

Supplemental security income provisions.—H.R. 7200 includes numerous modifications to the supplemental security income program (SSI). Included among these are a change in the treatment of in-kind income, simplification of the mandatory state supplementation provisions, the elimination of certain windfall benefits where people receive both social security and SSI benefits, the establishment of a new emergency aid program for the aged, blind and disabled, and several other provisions.

General provisions.—H.R. 7200 also includes significant increases in Federal funding for welfare programs in the territories, provisions designed to deter immigration of those who intend to become dependent on welfare programs, and certain provisions related to collection and compilation of welfare data.

TABLE 41.—DISTRIBUTION OF FISCAL RELIEF FOR WELFARE COSTS UNDER PUBLIC LAW 95-216

State	Amount (thousands)
Total	$187,000
Alabama	2,180
Alaska	370
Arizona	1,307
Arkansas	1,361
California	25,245
Colorado	1,770
Connecticut	2,469
Delaware	523
District of Columbia	1,205
Florida	3,951
Georgia	2,938
Hawaii	1,138
Idaho	512
Illinois	11,619
Indiana	3,037
Iowa	1,948
Kansas	1,498
Kentucky	2,845
Louisiana	2,996
Maine	980
Maryland	3,269
Massachusetts	1,172
Michigan	10,521
Minnesota	3,221
Mississippi	1,636

TABLE 41.—DISTRIBUTION OF FISCAL RELIEF FOR WELFARE COSTS UNDER PUBLIC LAW 95-216—Continued

State	Amount (thousands)
Missouri	$3,130
Montana	446
Nebraska	822
Nevada	311
New Hampshire	489
New Jersey	6,951
New Mexico	922
New York	26,460
North Carolina	3,503
North Dakota	329
Ohio	7,802
Oklahoma	1,727
Oregon	2,219
Pennsylvania	11,241
Rhode Island	905
South Carolina	1,666
South Dakota	456
Tennessee	2,475
Texas	5,815
Utah	864
Vermont	483
Virginia	3,174
Washington	2,727
West Virginia	1,335
Wisconsin	4,286
Wyoming	218
Guam	47
Puerto Rico	450
Virgin Islands	33

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TABLE 42.—FISCAL RELIEF FOR STATE AND LOCAL WELFARE COSTS UNDER H.R. 7200

[Dollars in thousands]

State	Percentage distribution	Maximum possible State fiscal relief payment	Error rate in cash payments (percent): July–December 1974	Error rate in cash payments (percent): January–June 1975	Error rate in cash payments (percent): January–June 1977	Percent progress toward 4-percent error rate	Share of October 1978 already achieved
Alabama	1.2	$5,829	11.2	8.6	5.4	80.6	$4,696
Alaska	.2	989	11.2	9.4	16.7		
Arizona	.7	3,494	17.5	18.0	10.9	50.7	1,772
Arkansas	.7	3,663	5.3	6.7	9.1		
California	13.5	67,501	9.2	8.4	3.5	100.0	67,501
Colorado	1.0	4,734	10.5	10.0	4.8	87.7	4,151
Connecticut	1.3	6,603	8.7	9.1	6.3	54.9	3,625
Delaware	.3	1,398	16.1	18.3	10.0	58.0	811
District of Columbia	.6	3,222	17.0	18.6	17.9	4.8	154
Florida	2.1	10,565	16.2	12.7	7.1	74.6	7,880
Georgia	1.6	7,855	18.4	18.3	10.5	54.9	4,309
Guam	(*)	126					
Hawaii	.6	3,043	11.4	13.4	11.4	21.3	647
Idaho	.3	1,368	4.9	6.0	3.9	100.0	1,368
Illinois	6.2	31,068	23.8	19.0	18.6	26.3	8,159

Indiana	1.6	8,119	6.7	4.5	1.8	100.0	8,119
Iowa	.1	5,209	11.9	12.0	7.9	51.3	2,670
Kansas	.8	4,005	15.5	13.8	7.7	67.8	2,716
Kentucky	1.5	7,607	9.3	11.1	7.3	53.5	4,071
Louisiana	1.6	8,011	12.2	7.4	7.9	52.4	4,201
Maine	.5	2,622	11.7	16.4	10.7	46.0	1,205
Maryland	1.8	8,742	20.1	17.7	12.8	45.3	3,964
Massachusetts	3.8	19,176	17.9	19.8	12.8	44.3	8,496
Michigan	5.6	28,132	14.7	13.7	9.6	47.7	13,409
Minnesota	1.7	8,613	11.8	7.9	5.8	76.9	6,625
Mississippi	.9	4,374	5.3	5.3	9.2	...	...
Missouri	1.7	8,369	13.7	11.2	9.5	43.3	3,624
Montana	.2	1,194	14.4	21.7	13.4	46.9	560
Nebraska	.4	2,197	16.6	8.7	4.8	93.6	2,056
Nevada	.2	831	.4	.5	.5	100.0	831
New Hampshire	.3	1,307	24.1	15.3	6.7	86.6	1,131
New Jersey	3.7	18,585	8.2	6.7	7.1	26.2	4,868
New Mexico	.5	2,464	6.3	6.0	4.1	95.6	2,357
New York	14.2	70,750	21.7	1.54	10.6	62.7	44,369
North Carolina	1.9	9,366	11.9	7.9	5.9	76.0	7,113
North Dakota	.2	880	2.0	.8	.9	100.0	880
Ohio	4.2	20,861	15.9	17.7	10.6	51.8	10,811
Oklahoma	.9	4,618	3.5	3.5	4.1	...	...
Oregon	1.2	5,932	8.3	8.1	6.3	46.5	2,759
Pennsylvania	6.0	30,055	13.6	13.3	10.3	34.4	10,339

TABLE 42.—FISCAL RELIEF FOR STATE AND LOCAL WELFARE COSTS UNDER H.R. 7200—Continued

[Dollars in thousands]

State	Percentage distribution	Maximum possible State fiscal relief payment	Error rate in cash payments (percent)			Percent progress toward 4-percent error rate	Share of October 1978 already achieved
			July-December 1974	January-June 1975	January-June 1977		
Puerto Rico	.2	1,202	16.2	12.6	9.3	56.6	680
Rhode Island	.5	2,420	9.8	7.9	5.8	69.0	1,669
South Carolina	.9	4,455	12.5	9.9	7.9	54.1	2,411
South Dakota	.2	1,220	5.7	9.9	5.3	78.0	951
Tennessee	1.3	6,617	12.7	2.5	7.3	62.0	4,107
Texas	3.1	15,548	7.7	5.1	6.0	46.0	7,144
Utah	.5	2,310	8.4	10.6	2.0	10.0	2,310
Vermont	.3	1,291	7.9	9.2	8.2	19.2	248
Virgin Islands	(*)	87	12.8	21.1	6.6	84.8	74
Virginia	1.7	8,486	9.0	7.5	7.6	28.0	2,376
Washington	1.5	7,292	6.4	5.5	7.1		
West Virginia	.7	3,570	5.5	4.5	4.5	66.7	2,380
Wisconsin	2.3	11,461	7.7	9.0	4.7	86.0	9,856
Wyoming	.1	583	11.9	9.0	7.7	53.2	310
Total	100.0	500,000					278,427

* Less than 0.05 percent.

IX. Comparison of Welfare Reform Bills

The administration's welfare reform proposal, S. 2084—the Better Jobs and Income Act, was introduced by Senator Moynihan, chairman of the Public Assistance Subcommittee, on September 12, 1977. Congressman Corman, chairman of the Subcommittee on Public Assistance and Unemployment Compensation of the House Ways and Means Committee, introduced the bill on behalf of the administration as H.R. 9030. The House bill was referred to a special Welfare Reform Subcommittee, and that subcommittee completed markup and reported a clean bill, H.R. 10950, on February 15.

Both the administration's proposal and the subcommittee bill provide for a major restructuring of three welfare programs: Supplemental security income, aid to families with dependent children, and food stamps. Individuals and families who are in need would receive cash payments under a new title XXI of the Social Security Act, instead of under three separate programs, as they do at the present time. In addition, the work incentive (WIN) program would be repealed and a new major jobs program would be created under the Comprehensive Employment and Training Act.

The differences between the major provisions of these two bills are shown in the comparison which follows. In addition, the comparison shows the major provisions of two other bills which have recently been introduced and which would make significant changes in present programs. S. 2777, the Job Opportunities and Family Security Act of 1978, was introduced by Senator Baker (with Senators Bellmon, Danforth, Ribicoff, Mark Hatfield, Stevens, and Young as cosponsors) on March 22. This bill would retain the current programs, but would amend them in major ways, including establishing a minimum payment for recipients of the AFDC program, and providing for an AFDC program for unemployed parents in all States. The food stamp program would be retained as the basic source of federally funded benefits for persons who are not eligible for cash assistance, including single individuals and couples without children. H.R. 10711, the Welfare Reform Act of 1977, introduced by Congressman Ullman on February 2, is also included in the comparison. It, too, would retain the basic current programs, but would provide for increased coordination of eligibility requirements between AFDC and the food stamp program, in addition to mandating a minimum Federal floor for AFDC payments, and amending the program of AFDC for unemployed parents to establish a new Federal payment for eligible families in every State. Both S. 2777 and H.R. 10711 would retain and expand the WIN program above current levels.

Cost estimates prepared by the Congressional Budget Office show that H.R. 9030, as proposed by the administration, would have a cost to the Federal Government of $17.36 billion above current program costs in fiscal year 1982, the first full year the new program would be in effect. CBO estimates that the bill as amended by the subcommittee in H.R. 10950 would cost an additional $2.86 billion above the administration's bill, or $20.22 billion more than present law. Cost estimates for S. 2777 and H.R. 10711 have not yet been completed by CBO.

ELIGIBILITY FOR ASSISTANCE—SUMMARY

S. 2084—(Moynihan)	H.R. 10950—(Corman)
In general, all individuals and families who meet the basic requirements may receive cash assistance under the new Federal "Better Jobs and Income Program," which replaces the existing AFDC, SSI, and food stamp programs. Persons potentially eligible are single individuals and childless couples; 1- and 2-parent families with children; aged, blind and disabled individuals and couples and their children; and children living in special circumstances, such as foster care. The benefit for which a unit is eligible depends upon the composition of the unit, with, for example, higher amounts payable in behalf of the aged, blind and disabled. (A table showing how the benefit for each unit is determined is presented on p. 128.)	Generally the same as S. 2084.

ELIGIBILITY FOR ASSISTANCE—SUMMARY

S. 2777—(Baker)	H.R. 10711—(Ullman)
Retains the existing SSI program for aged, blind and disabled individuals and couples, but gradually reduces the age at which persons may qualify on the basis of age, beginning in 1980, so that in 1982 and years thereafter, the age limit will be 62.	Retains the existing SSI program for aged, blind and disabled individuals and couples.
Retains the food stamp program for needy households.	Retains and amends the food stamp program for needy households.
Retains and amends the AFDC program for families with children deprived of support due to the death, incapacity, or absence from the home of a parent. The program of AFDC for children with unemployed fathers, which is now optional with the States, is amended and made mandatory so that children of unemployed parents in all States are eligible for assistance. AFDC becomes "Aid for Family Security."	Retains and amends the AFDC program for families with children deprived of support due to the death, incapacity, or absence from the home of a parent. The program of AFDC for children with unemployed fathers, which is now optional with the States, is amended to provide a program of temporary Federal cash assistance for children of unemployed parents in all States.

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BENEFITS (ANNUAL)

S. 2084—(Moynihan)	H.R. 10950—(Corman)
AGED, BLIND, AND DISABLED (ABD)	
New Federal cash program provides benefit of $2,500 for an individual, $3,750 for a couple (1978 dollars).	Same as S. 2084.
If a State chooses to supplement this payment, it receives 25 percent Federal matching for benefits which do not exceed 51.2 percent of the Federal benefit ($3,780 for an individual, $5,670 for a couple).	If a State chooses to supplement this payment, it receives 25 percent Federal matching for benefits which do not exceed current benefit levels (including the Federal SSI payment, any State supplement, and the value of food stamps), or the poverty level, whichever is higher.
Food stamp program is repealed.	Persons who are eligible for benefits are ineligible for food stamps.
(ABD's receiving benefits under the present SSI program in the month prior to implementation would be eligible for the higher of the Federal portion of their SSI benefits payable in that month, or the Federal benefits under this program.)	Same as S. 2084.

BENEFITS (ANNUAL)

S. 2777—(Baker)	H.R. 10711—(Ullman)
Retains SSI program which currently provides a Federal benefit of $2,136 for an individual, $3,200 for a couple.	Same as S. 2777.
Retains new food stamp law which, combined with SSI, provides a Federal benefit of $2,334 to $2,614 for an individual, and $3,612 to $3,884 for a couple (amount depends on the shelter deduction which the recipient is eligible to take in the food stamp program).	Provides for increasing the Federal SSI amounts by $180 per year for an individual, $360 per year for a couple (beginning in 1980), and making SSI recipients ineligible for food stamps.
Allows States to supplement the Federal SSI benefit at 100 percent State cost. With supplementation, the current range of total benefit payments plus food stamps is from $2,334 to $4,368 for an individual, and from $3,584 to $7,956 for a couple.	Allows same State supplementation as S. 2777 (current law).
States have the option of providing higher cash benefits in lieu of food stamps.	

BENEFITS (ANNUAL)—Continued

S. 2084—(Moynihan)	H.R. 10950—(Corman)
SINGLE-PARENT FAMILY (4 PERSONS)	
New Federal cash program provides a benefit of $4,200 (1978 dollars) for single-parent families if the parent is not expected to work.	Same as S. 2084.
If a State chooses to supplement this payment, it receives 75 percent Federal matching for benefits which do not exceed 12.32 percent of the Federal benefit ($4,717), and 25 percent matching for additional benefits which do not exceed 51.2 percent of the Federal benefit ($6,350).	If a State chooses to supplement this payment, it receives 75 percent Federal matching for benefits which do not exceed 12.32 percent of the Federal benefit ($4,717), and 25 percent matching for additional benefits up to current benefit levels (AFDC plus food stamps), or the poverty level, whichever is higher.
Parents in single-parent families are expected to work if there is no child under age 14. These families receive a reduced benefit, as do two-parent families (below). Single-parent families with a child 7–13 receive a reduced benefit only if the parent is offered—and refuses—a job during the child's school hours.	Same as S. 2084.
Food stamp program is repealed.	Persons eligible for cash assistance are ineligible for food stamps.

BENEFITS (ANNUAL)—Continued

S. 2777—(Baker)	H.R. 10711—(Ullman)
Retains AFDC and food stamp programs; States continue to set AFDC benefit levels, but are required to provide benefits (cash plus food stamps) equaling 55 percent of the poverty level in 1981, 60 percent in 1982, and 65 percent in 1985 (60 percent of the 1977 poverty level equals about $3,700; 60 percent of the estimated 1982 poverty level is about $4,600; current AFDC plus food stamp benefits range from $2,808 to $7,303).	Retains AFDC and food stamp programs; sets 1978 benefit in each State at the higher of current levels or $4,200 (in cash plus food stamps); new Federal benefit requirements provide for uniform cash AFDC payment without regard to family size, but with food stamp benefits adjusted to reflect family size; at the $4,200 minimum benefit level a family would receive $2,550 in cash, $1,650 in food stamps. States may supplement the basic benefit but there is no Federal matching of State supplementary payments.

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BENEFITS (ANNUAL)—Continued

S. 2084—(Moynihan)	H.R. 10950—(Corman)
TWO-PARENT FAMILY (4 PERSONS)	
Unless excluded because of incapacity or some other specified condition, one parent in a two-parent family is subject to the work requirement. Families subject to the work requirement receive a reduced benefit—$2,300. If, after an 8-week job search period, however, the parent has not been placed in a job, the family receives the full benefit—$4,200.	Same as S. 2084, except changes the job search period from 8 to 5 weeks and provides that during this period the family will receive full benefits if the Secretary of Labor determines that, because of substantial unemployment in the area, there is no reasonable prospect for the parent to obtain a job.
If a State chooses to supplement this payment, it receives 75 percent Federal matching for benefits which do not exceed 12.32 percent of the Federal benefit ($2.583 if the family receives a reduced Federal benefit, $4,717 if it receives a full benefit).	If a State chooses to supplement this payment, it receives 75 percent Federal matching for benefits which do not exceed 12.32 percent of the Federal benefit (as under S. 2084), but may also receive 25 percent Federal matching for benefits above this amount (up to current benefit levels or the poverty level), subject to the constraint that it must apply the same percentage increase to the reduced benefit that it applies to the full benefit.
Food stamp program is repealed.	Persons eligible for cash assistance are ineligible for food stamps.

BENEFITS (ANNUAL)—Continued

S. 2777—(Baker)	H.R. 10711—(Ullman)
Present AFDC-unemployed father program is amended to provide cash assistance to unemployed parents in all States at the same benefit level as for single-parent families; however, the family loses eligibility for any payment if its earned income for 2 months exceeds 130 times the Federal minimum wage ($4,134 at $2.65 per hour), without regard to the earned income disregard provisions.	Present AFDC-unemployed father program is replaced by a new program providing temporary Federal cash assistance to families with unemployed parents in all States; benefit is $2,400 (1978 dollars) plus $1,680 available under the food stamp program.
Retains present food stamp program.	States may supplement the basic Federal payment (within $1,800 limit) but there is no Federal matching of State supplementary payments.
	Federal payments are available to a family no more than 17 weeks a year; State is responsible for making cash payments to eligible families for an additional 35 weeks if there is no available job.

BENEFITS (ANNUAL)—Continued

S. 2084—(Moynihan)	H.R. 10950—(Corman)
INDIVIDUALS AND CHILDLESS COUPLES (NON-AGED, BLIND, DISABLED)	
New Federal cash program provides benefit of $1,100 for an individual, $2,200 for a couple.	Same as S. 2084.
If a State chooses to supplement this payment, it receives 75 percent Federal matching for benefits which do not exceed 12.32 percent of the Federal benefit ($1,236 for an individual, $2,471 for a couple).	If a State chooses to supplement this payment, it receives 75 percent Federal matching for benefits which do not exceed 12.32 percent of the Federal benefit (as under S. 2084), but may also receive 25 percent matching for additional benefits which do not exceed current general assistance benefit levels, or the amount equal to the same percentage increase over the basic benefit that is provided for single-parent families with children, whichever is higher.
	Persons eligible for cash assistance are ineligible for food stamps.

BENEFITS (ANNUAL)—Continued

S. 2777—(Baker)	H.R. 10711—(Ullman)
Retains food stamp program; current benefit value is $624 for an individual, $1,152 for a couple.	Same as S. 2777.
There is no provision which would affect the option which States and localities now have to establish their own general assistance programs (with no Federal matching).	Same as S. 2777.

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ADJUSTMENT OF BENEFIT LEVELS

S. 2084—(Moynihan)	H.R. 10950—(Corman)
Upon implementation, benefit levels will be adjusted to reflect changes in the Consumer Price Index from 1978 to the date of implementation. Thereafter, the benefits remain unchanged unless modified by subsequent legislation.	Same as S. 2084 except that after implementation benefit levels would be automatically adjusted each year as the CPI rises.
Payments to a unit are increased to reimburse it for taxes paid on earned income by $.20 for each $1 of taxable income until the family's earned income is high enough so that it no longer is eligible for cash assistance. Thereafter, this grant declines by $.20 for each additional $1 of taxable income until the grant is phased out.	

ADJUSTMENT OF BENEFIT LEVELS

S. 2777—(Baker)	H.R. 10711—(Ullman)
Food stamp benefits are adjusted semiannually to reflect changes in food prices; the amount of the minimum cash benefit to AFDC and AFDC–UP families is adjusted annually to reflect changes in the poverty level.	In States with lower benefit levels, cash benefits for AFDC families other than families in the unemployed parent program are adjusted upward annually to move them toward a "target" amount (cash plus food stamps) of 30 percent of State median income for a family of 4. In addition, in States where benefits are below the "target" amount, AFDC benefit levels are adjusted annually to reflect increases in the Consumer Price Index. Cash benefits for families receiving AFDC–UP are adjusted annually to reflect increases in the Consumer Price Index. Food stamp benefits are adjusted semiannualy to reflect changes in food prices.
As under present law, SSI benefits are adjusted annually to reflect changes in the Consumer Price Index.	Same as S. 2777.

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SPECIAL LIMITS AND CONDITIONS RELATING TO BENEFIT AMOUNTS

S. 2084—(Moynihan)	H.R. 10950—(Corman)
Benefits are not payable for family members in excess of 7.	

WORK REQUIREMENTS

S. 2084—(Moynihan)	H.R. 10950—(Corman)
All applicants are referred to the Department of Labor and are required to accept offered employment, except: a child under 18; a member of a household unit who is over 17 and under 21 years of age and is enrolled in an elementary or secondary school; an aged, blind or disabled individual, or a person with a temporary incapacity; one adult member of a household that includes either a child under the age of 7 or an individual who is aged, blind, or disabled or incapacitated and in need of a caretaker at home; one adult member other than the principal earner of a household consisting of two or more adults and at least one child; an adult member of a household who is enrolled as a full-time student, if his monthly earnings equal the Federal hourly minimium wage times 20 hours per week or he is the only adult in a unit with a child over 6 and under 14 years of age.	Adds to the exceptions provided under S. 2084: an adult member of a household which includes a child who requires special supervision or care (because of factors or conditions specified by the Secretary) if the adult is the only member of the household who can provide the supervision or care.

SPECIAL LIMITS AND CONDITIONS RELATING TO BENEFIT AMOUNTS

S. 2777—(Baker)	H.R. 10711—(Ullman)
No family with children would be eligible for cash assistance if the monthly payment would be less than $10. States may establish up to 3 different standards of need to reflect varying costs of living within the State.	No family with children would be eligible for cash assistance if the monthly payment would be less than $10; no household would be eligible for food stamps if the amount of its monthly allotment would be less than $10.

WORK REQUIREMENTS

S. 2777—(Baker)	H.R. 10711—(Ullman)
AFDC: Retains present law which requires that all applicants are required to register for (and participate in) the work incentive (WIN) program, and to accept offered employment, except: a child under 16 or attending school full time; a person who is ill, incapacitated or of advanced age; a person whose presence in the home is required because of the illness or incapacity of another household member; a mother or other relative caring for a child under age 6; a mother or other female caretaker of a child unless the father or other adult male relative who is in the home and required to register refuses to do so, or refuses WIN participation or employment; a person so remote from a WIN project that his effective participation is precluded.	AFDC: Similar to present law: requires applicants to register for and participate in WIN if they are physically and mentally fit and between the ages of 16 and 60, unless they are: a parent or other relative caring for a child under age 6 or for an ill or incapacitated person; a parent or other caretaker of a child in a family in which there is another person subject to the work requirement; a student enrolled at least half time in school or training, or an institution of higher education; students in institutions of higher education must be employed at least 20 hours a week or in a Federal work study program, have weekly earnings equal to the minimum wage times 20 hours, be registered for work amounting to at least 20 hours, or be the head of a family with dependents; employed at least 30 hours a week or receiving wages equal to the minimum wage times 30.

WORK REQUIREMENTS—Continued

S. 2084—(Moynihan)	H.R. 10950—(Corman)

WORK REQUIREMENTS—Continued

S. 2777—(Baker)	H.R. 10711—(Ullman)
Adds to these exceptions: a person who is working or in a college program for at least 30 hours per week, and a person who is in a public service job under CETA title VI.	
Adds a requirement that individuals required to register for WIN must participate in employment search programs.	
Food stamps: Retains present law; all applicants are required to register for and accept employment, except: a child under 18, or a student attending school at least half time; a person who is physically or mentally incapacitated, or over the age of 60; a person caring for an incapacitated person; a parent caring for a child under 12; a parent or other caretaker of a child when another able-bodied parent is registered; a person complying with work registration requirements under WIN or the unemployment compensation program; a person employed at least 30 hours a week or having weekly earnings equal to the minimum wage for 30 hours employment; a person registered and participating in a drug or alcoholic treatment program.	Food stamps: Generally the same as under AFDC.

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PENALTIES FOR NOT MEETING THE WORK REQUIREMENT

S. 2084—(Moynihan)	H.R. 10950—(Corman)
If a person who is required to accept offered employment refuses to do so, that person is not counted in determining the amount of the benefit. A family's benefit is further reduced by the loss of the special increment due to each family with children. For example, a family composed of two adults and two children with a $4,200 benefit would lose $1,100 (the amount payable to an adult), plus $800 (the increment payable to a family with children), for a total reduction of $1,900.	Same at S. 2084.

PENALTIES FOR NOT MEETING THE WORK REQUIREMENT

S. 2777—(Baker)	H.R. 10711—(Ullman)
AFDC: an individual required to register with WIN is not counted in determining the family's benefit if he refuses to register for or participate in the WIN program or refuses employment, and payments are made to a protective payee.	AFDC: if a household member required to work refuses to comply with the work requirements, all cash payments must be made in the form of protective payments. If no protective payee is found the family payment is reduced $100 per month.
Food stamps: Retains present law; the household is not eligible for food stamps if a member who is required to register for employment refuses a job, or refuses to comply with reporting or inquiry requirements.	AFDC-UP: the family loses all cash benefits if a household member who is required to work refuses to comply with the work requirements.
	Food stamps: As under present law, the household is not eligible for food stamps if a member who is required to register for employment refuses a job, or refuses to comply with reporting or inquiry requirements.

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EXCLUSIONS FROM INCOME

S. 2084—(Moynihan)	H.R. 10950—(Corman)
Provides for excluding—	Provides for excluding—
50 percent of monthly earnings for the aged, blind and disabled, single-parent families with children under 14, and single individuals and childless couples.	Same as S. 2084, but also provides for excluding the first $65 of monthly earnings for the aged, blind and disabled (as under present SSI law).
The first $317 plus 50 percent of monthly earnings for families with children who receive reduced benefits (generally 2-parent families and single-parent families with no children under 14).	Same as S. 2084.
For single-parent families: child care costs of a child under 14, amounting to $150 per month for 1 child, with a maximum of $300 per month for 2 or more children.	Same as S. 2084.
	For blind recipients: work-related expenses, and income needed to achieve self-support.
	For disabled recipients: income needed to achieve self-support, as well as income of an individual who is severely physically disabled (with a functional limitation requiring assistance in order to be able to work) as is necessary to pay the cost of attendant care.

EXCLUSIONS FROM INCOME

S. 2777—(Baker)	H.R. 10711—(Ullman)
Provides for excluding—	Provides for excluding—
For SSI recipients: Same as present law and H.R. 10950.	For SSI recipients: Same as present law and H.R. 10950.
For AFDC recipients: the first $60 plus 1/3 of monthly earnings; if an individual's actual work expenses exceed the $60 basic disregard, up to an additional $60 in work expenses is disregarded (the earned income exclusions do not apply for purposes of determining whether a family is eligible on the basis of a parent's unemployment).	For AFDC applicants and recipients: $30 plus 1/3 of monthly earnings; $30 plus 40 percent of earnings for families receiving AFDC on the basis of a parent's unemployment.
For food stamp recipients: retains current law—$60 plus 20 percent of earnings.	For food stamp recipients: $30 plus 80 percent of earnings up to $595 a month; 60 percent of earnings above that amount.
For AFDC recipients: child care costs of $100 per month for 1 child, maximum of $300 for a family (or 50 percent of earnings).	Same as S. 2777.
Same as H.R. 10950 (current law).	Same as H.R. 10950 (current law).
Same as H.R. 10950 (current law), but does not provide for excluding the cost of attendant care.	Same as S. 2777.

EXCLUSIONS FROM INCOME—Continued

S. 2084—(Moynihan)	H.R. 10950—(Corman)
	Earnings of students under age 18; earnings of students age 18 but under 25 to the extent the earnings are actually applied to the cost of education.
Does not exclude income of a stepparent in determining the family's cash assistance payment.	The income of non-legally-responsible stepparent who files an affidavit that he is not contributing to the child's support is excluded in determining the portion of the household payment that is attributable to the child.
20 percent of nonemployment income, defined as income other than Federal assistance income, including pensions, retirement or disability benefits, veterans' or workmens' compensation, social security benefits, unemployment benefits, railroad retirement.	Same as S. 2084.

EXCLUSIONS FROM INCOME—Continued

S. 2777—(Baker)	H.R. 10711—(Ullman)
Earnings of AFDC children under age 14 and of older children who are full- or part-time students (current law).	Earnings of students under age 18.
Allows States to provide in their AFDC plans for pro rata reduction in the family benefit when a child is living in the household of someone who is not legally responsible for his support, or who is responsible, but is eligible for aid under another program.	Does not exclude income of a stepparent in determining the family's AFDC payment.
$20 per month in earned or unearned income for SSI recipients (current law).	Same as S. 2777.

TREATMENT OF ASSETS

S. 2084—(Moynihan)	H.R. 10950—(Corman)
Value of nonexcluded household assets cannot exceed $5,000; equity value of business assets (for self-employment income) cannot exceed a limit prescribed by the Secretary of HEW.	Value of nonexcluded household resources may not exceed $1,500 for an individual, or $2,250 for 2 or more individuals (current law limits for SSI recipients).
1.25 percent (15 percent annually) of the value of nonexcluded nonbusiness assets in excess of $500 and 0.83 percent (10 percent annually) of business assets, reduced by any income derived from such assets, is included in determining the monthly income of the household.	
Not counted in determining the assets of the household are a home (and reasonable amount of land) if it is the household's place of residence, household goods and personal effects (including vehicles and tools or other items necessary for employment).	Similar to S. 2084.

TREATMENT OF ASSETS

S. 2777—(Baker)	H.R. 10711—(Ullman)
AFDC: Same as under H.R. 10950 (current law limits for SSI recipients). SSI: Retains current law limits and rules (dollar limits are $1,500 for an individual, $2,250 for a couple). Food stamps: Retains current law limits and rules (dollar limits are $3,000 for a household of 2 or more persons, one of whom is at least age 60, and $1,750 for other households).	AFDC and food stamps: Generally establishes uniform limits and rules for these two programs (dollar limits are $3,000 for a household of 2 or more persons, one of whom is at least age 60, and $1,750 for other households). SSI: Retains current law limits and rules (dollar limits are $1,500 for an individual, $2,250 for a couple). Home and attached land are not counted, as well as household goods and personal effects.

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ACCOUNTING AND REPORTING REQUIREMENTS

S. 2084—(Moynihan)	H.R. 10950—(Corman)
Eligibility and payment for a month are determined by the applicant's income for that month and the preceding 5 months.	Eligibility and payment for a month are determined on the basis of the income which the applicant actually received in that month.

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ACCOUNTING AND REPORTING REQUIREMENTS

S. 2777—(Baker)	H.R. 10711—(Ullman)
AFDC: States have the choice of determining eligibility and payment on the basis of (1) income received during the 30 days preceding application (or during the calendar month preceding the month in which application is made), or (2) income anticipated to be received during the calendar month in which application is made.	AFDC: Eligibility and payment for a month are determined on the basis of income received during the 30 days preceding application, or, at State option, during the preceding calendar month.
Food stamps: Retains current law; eligibility and benefits are based on current income at time of application and prospective income anticipated during household's period of certification.	Food stamps: Same as AFDC (above).
SSI: Retains current law; eligibility and payment are based on income anticipated during the calendar quarter, except that if application is made in the second or third month of a calendar quarter, they are based on the income in each month of that quarter.	SSI: Same as S. 2777 (current law).

ACCOUNTING AND REPORTING REQUIREMENTS—Continued

S. 2084—(Moynihan)	H.R. 10950—(Corman)
No provision for redetermination. Household is required to file periodic reports on income, assets, composition of household unit and other relevant matters as specified by the Secretary of HEW.	No provision for redetermination. Families with children, single individuals, and childless couples must file monthly reports (unless excepted by the Secretary of HEW); aged, blind and disabled individuals must file periodic reports as specified by the Secretary.

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ACCOUNTING AND REPORTING REQUIREMENTS—Continued

S. 2777—(Baker)	H.R. 10711—(Ullman)
Redeterminations for AFDC recipients must be made every 6 months; as a condition of eligibility, States may require recipients to report monthly such changes in income and circumstances as the State determines to be necessary. Current law is retained for SSI recipients: redeterminations are made annually (except for disability factors) and recipients are required to report changes in circumstances that affect benefits.	Redeterminations for AFDC-UP families are made monthly. For other AFDC families, redeterminations are made at least every 4 months, and families must report changes in income and circumstances as required by regulations of the Secretary of HEW, after consultation with the Secretary of Agriculture. AFDC families receiving food stamps must report at the same time and on the same form as required under the food stamp law. Current law is retained for SSI recipients: redeterminations are made annually (except for disability factors) and recipients are required to report changes in circumstances that affect benefits.

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TAXABILITY/RECOUPMENT OF BENEFITS

S. 2084—(Moynihan)	H.R. 10950—(Corman)
	Benefits would be included in adjusted gross income for purposes of calculating the Federal income tax.

FEDERAL/STATE FINANCING OF BENEFITS

S. 2084—(Moynihan)	H.R. 10950—(Corman)
Aged, Blind, and Disabled (ABD)	
Basic Federal benefit: 90 percent Federal, 10 percent State.	Basic Federal benefit: Same as S. 2084.
State supplements: 25 percent Federal matching of benefits up to 51.2 percent of the Federal benefit level ($3,780 for an individual, $5,670 for a couple).	State supplements: 25 percent Federal matching for benefits up to current benefit levels (including the Federal SSI payment, any State supplement, and the value of food stamps), or the poverty level, whichever is higher.
No Federal matching is payable for State supplements which result in a benefit reduction rate of more than 70 percent.	No Federal matching is payable for State supplements which result in a benefit reduction rate of more than 70 percent.

TAXABILITY/RECOUPMENT OF BENEFITS

S. 2777—(Baker)	H.R. 10711—(Ullman)
Dollar value of AFDC and food stamp benefits would be recouped from those whose adjusted gross income plus AFDC and food stamps exceeds specified amounts. The amount for a taxpayer with 4 exemptions is $10,760.	Same as S. 2777. (Also provides that unemployment insurance benefits would be treated as taxable income.)

FEDERAL/STATE FINANCING OF BENEFITS

S. 2777—(Baker)	H.R. 10711—(Ullman)
Retains current law provisions; Federal Government pays 100 percent of Federal SSI benefits; States pay 100 percent of any supplements; Federal Government pays 100 percent of value of food stamp benefits.	Retains current law provision for payment by the Federal Government of 100 percent of the cost of the basic Federal SSI benefit, with State supplements being paid at 100 percent State cost (SSI recipients would not be eligible for food stamps).

FEDERAL/STATE FINANCING OF BENEFITS—Continued

S. 2084—(Moynihan)	H.R. 10950—(Corman)
SINGLE-PARENT FAMILY	
Basic Federal benefit: 90 percent Federal, 10 percent State.	Basic Federal benefit: Same as S. 2084.
State supplements: 75 percent Federal matching of benefits up to 12.32 percent of the Federal benefit ($4,717 for a family of 4), and 25 percent matching for additional benefits up to 51.2 percent of the Federal benefit ($6,350 for a family of 4).	State supplements: 75 percent Federal matching of benefits up to 12.32 percent of the Federal benefit ($4,717 for a family of 4), and 25 percent matching for additional benefits up to current benefit levels (AFDC plus food stamps), or the poverty level, whichever is higher.
Single-parent families with a member expected to work are treated the same as two-parent families where a parent is subject to the work requirement.	Same as S. 2084.
No Federal matching is payable for State supplements which result in a benefit reduction rate of more than 70 percent.	Same as S. 2084.

FEDERAL/STATE FINANCING OF BENEFITS—Continued

S. 2777—(Baker)	H.R. 10711—(Ullman)
AFDC: Current provisions for Federal matching ranging from 50 to 83 percent of benefit costs are adjusted in fiscal years 1980–82 so that by 1982 no State would receive less than 80 percent Federal matching, or more than 90 percent.	AFDC: Federal Government pays all benefit costs in excess of 85 percent of the State's 1977 AFDC costs; State continues to pay 85 percent of its 1977 AFDC costs, plus 50 percent of the cost of erroneous payments.
Food stamps: Federal Government pays 100 percent of benefit costs.	Food stamps: Federal Government pays 100 percent of benefit costs.
Federal matching is limited to payments which, when combined with the food stamp benefit, do not raise family income above the poverty level.	Federal matching is limited to benefit amounts which do not exceed current levels (as defined in the bill) plus prescribed annual increases as the State moves toward its "target" benefit level (defined as 30 percent of State median income for a family of 4).

FEDERAL/STATE FINANCING OF BENEFITS—Continued

S. 2084—(Moynihan)	H.R. 10950—(Corman)
TWO-PARENT FAMILY	
Basic Federal benefit: 90 percent Federal, 10 percent State.	Basic Federal benefit: Same as S. 2084.
State supplements: 75 percent Federal matching of benefits up to 12.32 percent of the Federal benefit ($2,583 for a family of 4 if it receives a reduced Federal benefit, $4,717 if it receives a full benefit).	State supplements: 75 percent Federal matching of benefits up to 12.32 percent of the Federal benefit ($2,583 for a family of 4 if it receives a reduced Federal benefit, $4,717 if it receives a full benefit) and 25 percent Federal matching for additional benefits up to current benefit levels (AFDC plus food stamps) or the poverty level, whichever is higher, and subject to the constraint that the State must apply the same supplementation percentage to the Federal benefit regardless of whether the family receives a full benefit or one that has been reduced because of the work requirement provisions.
No Federal matching is payable for State supplements which result in a benefit reduction rate of more than 52 percent.	No Federal matching is payable for State supplements which result in a benefit reduction rate of more than 70 percent.

FEDERAL/STATE FINANCING OF BENEFITS—Continued

S. 2777—(Baker)	H.R. 10711—(Ullman)
Same as for single-parent family.	The Federal Government pays 100 percent of the cost of cash benefits under the new AFDC-unemployed parents program; States may supplement (within a limit) at 100 percent State cost; payments are available only for 17 weeks in a year.
	If no job is available, the State must provide the same level of benefits for an additional 35 weeks at 100 percent State cost.

FEDERAL/STATE FINANCING OF BENEFITS—Continued

S. 2084—(Moynihan)	H.R. 10950—(Corman)
INDIVIDUALS AND CHILDLESS COUPLES (NON-AGED, BLIND, DISABLED)	
Basic Federal benefit: 90 percent Federal, 10 percent State.	Basic Federal benefit: Same as S. 2084.
State supplements: 75 percent Federal matching for benefits up to 12.32 percent of the Federal benefit ($1,236 for an individual, $2,471 for a couple).	State supplements: 75 percent Federal matching for benefits up to 12.32 percent of the Federal benefit (as under S. 2084), and 25 percent matching for additional benefits up to current general assistance benefit levels, or to an amount equal to the same percentage increase over the basic benefit that is provided for families with children, whichever is higher.
No Federal matching is payable for State supplements which result in a benefit reduction rate of more than 52 percent.	No Federal matching is payable for State supplements which result in a benefit reduction rate of more than 70 percent.

FEDERAL/STATE FINANCING OF BENEFITS—Continued

S. 2777—(Baker)	H.R. 10711—(Ullman)
Federal Government pays 100 percent of food stamp benefits.	Same as S. 2777.
There is no Federal matching of cash benefits provided under any State or local general assistance program.	

FEDERAL/STATE FINANCING OF BENEFITS—Continued

S. 2084—(Moynihan)	H.R. 10950—(Corman)
Maintenance of effort: For 3 years each State must (1) continue to spend a declining percentage of its current welfare expenditures—90 percent in the first year, 75 percent in the second year, and 65 percent in the third year, or (2) in general, pay matching supplements and grandfather current recipients so that current benefit levels will be retained and current recipients will not lose benefits.	Generally the same as S. 2084.
Hold harmless: States are held harmless for costs which exceed 90 percent of their current welfare expenditures in the first 2 years of the program, and 95 percent in the next 3 years. There is no hold harmless protection after 5 years.	Generally the same as S. 2084, but modifies and simplifies the hold harmless provisions and continues hold harmless protection after 5 years at 100 percent of current State expenditures.

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FEDERAL/STATE FINANCING OF BENEFITS—Continued

S. 2777—(Baker)	H.R. 10711—(Ullman)
Reduces Federal matching for States that do not prohibit local funding of AFDC.	Prohibits States from requiring localities to finance any portion of AFDC expenses.
Reduces Federal matching for States with high error rates.	

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ADMINISTRATION OF BENEFITS

S. 2084—(Moynihan)	H.R. 10950—(Corman)
Federal Government performs all intake procedures, data processing, benefit computation, and benefit payment operations; however, States are given the option of contracting with the Federal Government for State performance of intake procedures.	For household units including aged, blind and disabled recipients: Federal Government administers Federal payment; States have the option of administering supplementary payments or of contracting for Federal administration of these payments.
Federal Government will only administer payments due to persons qualifying under Federal rules.	For all other recipients: States have the option of (1) performing all administrative procedures, (2) performing intake and verification procedures only, with the Federal Government performing benefit computation and payment procedures, or (3) contracting with the Federal Government for Federal administration of all procedures.
	Federal Government will only administer payments due to persons qualifying under Federal rules.
	Establishes specific limits on the time which may elapse between application and determination of eligibility.

ADMINISTRATION OF BENEFITS

S. 2777—(Baker)	H.R. 10711—(Ullman)
As under present law, State performs all AFDC and food stamp administrative procedures; for SSI recipients, the Federal Government continues to administer the Federal payment, with States having the option of administering their own State supplements or of contracting with the Federal Government for Federal administration of State supplements.	Same as S. 2777.
Provides option to the State of establishing an automated statewide management information systems to assist in the administration of the AFDC program (with Federal matching of 90 percent for developing and 75 percent for operating such systems).	Provides option to the State of establishing an automated statewide management information system to assist in the administration of the AFDC program (with 75 percent Federal matching for developing and operating the system).
Encourages State administration of AFDC by reducing the rate of Federal matching if the State plan provides for local administration.	Removes option which States now have for local administration of the AFDC program.
Requires the Secretary of HEW, in consultation with the Secretaries of Agriculture and HUD, to develop uniform definitions for programs based on need, and to submit proposals to Congress for legislative changes.	Requires States to the maximum extent practicable to use a uniform application form for AFDC and food stamps.

EMPLOYMENT AND TRAINING

S. 2084—(Moynihan)	H.R. 10950—(Corman)
ELIGIBILITY	
Principal earners in two-parent families and single parents are eligible for new CETA title IX employment or training, provided by CETA prime sponsors after 5 weeks of job search. There are no income eligibility requirements.	Same as S. 2084, but limits eligibility to parents who are eligible for cash assistance.
DURATION OF JOB	
Person is eligible for a public service job for 1 year, after which he must undergo a new 8-week job search period.	No person can remain in a public service employment program for more than 18 consecutive months.
AUTHORIZATION	
Authorizes an amount sufficient to provide 1.4 million employment and training opportunities under the new CETA title IX program.	Provides entitlement to prime sponsors of an amount sufficient to make payments for wages and allowances to all persons eligible for the new CETA title IX employment and training opportunities—estimated at 1.1 million slots.

EMPLOYMENT AND TRAINING

S. 2777—(Baker)	H.R. 10711—(Ullman)
Eligibility	
Retains requirements in present law for participation in work incentive (WIN) employment and training programs, administered by States. One adult in an AFDC-UP family who has completed a 90-day job search period is eligible for a public service job under an amended CETA title VI program. Remaining title VI jobs are distributed 50 percent to other AFDC recipients, and 50 percent to other long-term unemployed persons (after job search).	The parent in a two-parent AFDC family who has the greater job experience or employment potential has first priority for participation under an expanded State-administered work incentive (WIN) program. Other AFDC parents are also eligible, as under present law. Persons may be placed in public service employment only after 16-week job search.
Duration of Job	
Jobs under the CETA program are limited to 12 months.	Payment to a public service employer is 100 percent of cost of employment in the first year, 75 percent in the second, and 50 percent in the third (current law).
Authorization	
Authorizes $565 million for WIN jobs and training; authorizes sufficient funds to provide 750,000 public service jobs in fiscal years 1979 and 1980, 500,000 in fiscal years 1981 and 1982, and 375,000 thereafter, under CETA title VI.	Authorizes up to $5.5 billion for WIN jobs and training—estimated to provide 500,000 public service jobs; ⅔ of State WIN allocation is to be spent for OJT and PSE programs.

EMPLOYMENT AND TRAINING—Continued

S. 2084—(Moynihan)	H.R. 10950—(Corman)

Wage Levels

S. 2084—(Moynihan)	H.R. 10950—(Corman)
Provides State or Federal minimum wage, whichever is higher, with wage supplements paid in those States which pay supplements to cash assistance recipients, and up to 125 percent higher wages payable to work leaders.	Provides State or Federal minimum wage, whichever is higher; average annual rate not to exceed $7,700 and average maximum not to exceed $9,600 (in 1981), with these amounts varied according to an area wage adjustment index.

EMPLOYMENT AND TRAINING—Continued

S. 2777—(Baker)	H.R. 10711—(Ullman)
Wage Levels	
CETA title VI program is to provide employment consistent with the aim of maintaining average wage rates for public service employment of $7,800, adjusted on a regional and area basis.	Provides State or Federal minimum wage, whichever is higher; up to 5 percent of amount paid to the employer may be used to pay higher wages to reward outstanding performance.
Private Employer Subsidy	
Provides tax credit of $1 per hour for 1 year to private employers who hire additional employees—eligible persons include AFDC recipients, persons unemployed for more than 26 weeks, and unemployed youths, all of whom must have completed 90 day's job search; and persons terminated from CETA public service jobs who have completed 30 day's job search.	Expands current WIN tax credit available to employers who hire WIN registrants; credit is limited to first $6,000 in wages for any employee for 1 year.
Provides job voucher program amounting to $1 per hour for 1 year to private employers who hire additional employees at the prevailing wage; those eligible are the same as above with the added requirement that they must be from households with incomes not exceeding 70 percent of the BLS lower living standard.	
Employer cannot participate in both tax credit and job voucher programs.	

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EMPLOYMENT AND TRAINING—Continued

S. 2084—(Moynihan)	H.R. 10950—(Corman)

MEDICAID ELIGIBILITY

Provides medicaid eligibility for individuals and families who would have been eligible under State plans as in effect the month prior to the month of implementation of the new cash program.	Same as S. 2084.

CHILD SUPPORT

S. 2084—(Moynihan)	H.R. 10950—(Corman)
Retains existing child support program (title IV–D of the Social Security Act) with conforming amendments.	Similar to S. 2084.

EARNED INCOME TAX CREDIT (EITC)

Taxpayers that maintain a household in the United States and have either a dependent child under age 19 or a disabled dependent are eligible for the EITC.	Same as S. 2084 but also provides eligibility for the EITC in cases where a child is living with a taxpayer who is not his parent, but who is providing more than half the support of the child.

EMPLOYMENT AND TRAINING—Continued

S. 2777—(Baker)	H.R. 10711—(Ullman)
Other Provisions	
	Pays the State $200 for each AFDC recipient who is placed by the WIN program in private employment for at least 90 days.
	The WIN training allowance is increased from $30 per month to $30 per week.

MEDICAID ELIGIBILITY

Retains current medicaid law thus providing medicaid benefits for all families eligible for AFDC (including unemployed parents in all States), and all SSI recipients who meet current law requirements.	Same as S. 2777.

CHILD SUPPORT

S. 2777—(Baker)	H.R. 10711—(Ullman)
Retains existing child support program (title IV–D of the Social Security Act).	Retains existing child support program (title IV–D of the Social Security Act) with conforming amendment.

EARNED INCOME TAX CREDIT (EITC)

Essentially the same as H.R. 10950.	Essentially the same as H.R. 10950.

EARNED INCOME TAX CREDIT (EITC)—Continued

S. 2084—(Moynihan)	H.R. 10950—(Corman)
Amount of credit is 10 percent of earnings up to $4,000; 5 percent of additional earnings up to the cash assistance phaseout point for a family of given size ($9,100 for a family of 4); phasing out at 10 percent of earnings above the amounts (for a family of 4, the maximum credit is $655 and it would phase out at an income level of $15,650).	Amount of credit is 12 percent of earnings up to $3,000 for a family of 2, $3,600 for a family of 3, $4,200 for a family of 4, and continuing to increase by $600 increments for additional members of a family; phasing out at 6 percent of earnings above these amounts (for a family of 4, the maximum credit is $504; it would phase out at an income level of $12,600).
Credit is payable to the family on a monthly or other periodic basis through the employer tax withholding system.	Same as S. 2084.
Credit is not payable for earnings under the new CETA title IX jobs program.	Same as S. 2084.
Earnings levels at which the EITC begins to phase down are indexed (according to the CPI) for years up to the year of implementation.	Same as S. 2084 but also continues indexing of earnings levels for years after the year of implementation.

EARNED INCOME TAX CREDIT (EITC)—Continued

S. 2777—(Baker)	H.R. 10711—(Ullman)
Amount of credit is 15 percent of earnings up to the poverty line for families of varying size, up to 7 members ($6,190 for a family of 4 in 1977); phasing out at 20 percent of earnings above these amounts (for a family of 4, the 1977 maximum credit would be $929; it would phase out at an income level of $10,835).	Amount of credit is 20 percent of earnings up to $5,000; phased out between $7,500 and $15,000 at rate of 13.3 percent; no variation for family size; maximum credit is $1,000 at earnings between $5,000 and $7,500.
Same as S. 2084.	Same as S. 2084.
Credit is not payable for earnings from public service employment under CETA and WIN.	Same as S. 2777.
Earnings levels would change according to changes in the poverty level.	EITC is not indexed.

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EMERGENCY ASSISTANCE

S. 2084—(Moynihan)	H.R. 10950—(Corman)
Provides a program of grants to States for assistance to meet emergency needs (under a new part B of title XX). For each fiscal year, $600 million is allocated to the States on the basis of each State's public assistance expenditures for the first year, gradually substituting population as a basis until the 5th year when all amounts are allocated on the basis of population.	Provides a program of grants to States for assistance to meet emergency needs (under a new title XXI). For each fiscal year, $600 million is allocated to the States, 50 percent on the basis of the State's 1977 welfare expenditures and 50 percent on the basis of State population. A State's allocation may be increased by up to 25 percent of its basic grant for costs of emergency assistance in excess of the basic grant. The additional funding must be matched by 50 percent State funds. Circumstances under which emergency assistance is to be provided and the persons eligible are specified in the bill.

EMERGENCY ASSISTANCE

S. 2777—(Baker)	H.R. 10711—(Ullman)
Retains present law, which provides advance payments of up to $100 to SSI applicants with a financial emergency; and an expedited eligibility procedure for food stamp applicants with little or no income.	Repeals present program which provides Federal matching for emergency assistance provided to families with children. Retains current provisions for SSI and food stamp applicants, as under S. 2777.
Replaces the current program which provides Federal matching for emergency assistance provided to families with children, with a new program providing $150 million to be allocated to the States on the basis of the State AFDC population, and used to meet the living expenses of needy families or individuals not-met by the AFDC program.	

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DEMONSTRATION PROJECTS

S. 2084—(Moynihan)	H.R. 10950—(Corman)

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DEMONSTRATION PROJECTS

S. 2777—(Baker)	H.R. 10711—(Ullman)
Directs the Secretary of HEW (in consultation with the Secretaries of Agriculture and HUD) to establish demonstration projects to evaluate the desirability of establishing consolidated public assistance centers at which an individual can make application for any type of aid available under any federally assisted program which is based on need.	
Directs the Secretary of HEW (in consultation with the Secretaries of Agriculture and Labor) to establish demonstration projects to evaluate the desirability of (1) consolidating public assistance programs to be administered by the Federal Government, or (2) allowing the States to carry out public assistance programs without Federal regulation, using block grants.	
Authorizes demonstrations which involve the payment of the value of food stamp allotments in the form of cash to AFDC and all other eligible recipients.	

ANNUAL BENEFITS PAYABLE TO HOUSEHOLD UNITS UNDER S. 2084 AND H.R. 10950

For each member who is—	Amount payable is—
An aged, blind, or disabled adult	$1,600
Any other adult	1,100
A blind or disabled child	1,100
Any other child	600

Plus the following increments

If the unit consists entirely of—	Amount payable to the unit is increased by—
One adult who is aged, blind, or disabled	$900
One individual and the individual's spouse, each of whom is aged, blind, or disabled	550
One adult and one or more children	1,300
Two or more adults and one or more children	800

TABLE 43.—COSTS OF H.R. 10950 AND S. 2084, BY LEVEL OF GOVERNMENT IN FISCAL YEAR 1982

[In billions of dollars]

	S. 2084 (Moynihan)			H.R. 10950 (Corman)		
	Federal	State and local	Total	Federal	State and local	Total
Total cost	42.25	8.63	50.87	47.21	10.29	57.50
Total offsets	24.89	12.05	36.93	26.99	12.50	39.48
Net cost	17.36	(3.42)	13.94	20.22	(2.21)	18.02

Source: Based on Congressional Budget Office cost estimates.

TABLE 44.—HEW ESTIMATE OF CASELOAD UNDER ADMINISTRATION BILL (S. 2084) AND HOUSE WELFARE REFORM SUBCOMMITTEE BILL (H.R. 10950), 1982

[In millions]

	H.R. 10950	H.R. 9030
Basic cash assistance:		
Eligible units	19.72	15.18
Eligible Persons	56.82	35.86
Participating units	13.42	12.42
Participating persons	37.32	30.58
EITC:		
Units eligible for basic cash	3.52	3.89
Units above cash eligibility limits	5.99	9.68
Total units	9.51	13.57
Job and training:		
Full-time slots	1.10	1.19
Persons participating	2.41	2.52

TABLE 45.—COSTS OF HOUSE WELFARE REFORM SUBCOMMITTEE BILL (H.R. 10950) BY LEVEL OF GOVERNMENT IN FISCAL YEAR 1982

[Billions of dollars][1]

H.R. 10950	Federal	State and local	Total
Benefits:			
Basic cash assistance	$22.23	$2.24	$24.74
State supplementation:			
Matching supplements	1.71	6.71	8.42
Grandfathering supplements		3.55	3.55
Hold-harmless payments	3.73	(3.73)	
Emergency needs block grant	.83	.09	.92
Earned income tax credit	1.62		1.62
Public service employment	7.81	.55	8.36
Federal tax reimbursement			
Other:			
Stepparent income	.20	.05	.25
Benefits to public institutions	.01		.01
Adjustment of $800 head bonus	.29	.04	.33
Foster care	.27	.22	.49
Children's earning[2]	.12	.01	.13
Substantial gainful activity	.05	.01	.06
Other[3]	1.32		1.32
Subtotal	40.19	9.74	49.93
Administrative/overhead:			
Cash assistance	2.93	.55	3.48
Public service employment	3.59		3.59
Public service overhead	.50		.50
Subtotal	7.02	.55	7.57
Total costs	47.21	10.29	57.50

[1] Figures may not add to totals because of rounding. All estimates include 50 States, District of Columbia, and Commonwealth of Puerto Rico.

[2] The estimated cost of excluding children's earnings and student's earnings in the absence of the exclusion of single individuals under 25 was approximately $240,000,000. In the presence of the single individuals under 25 provision the estimate was reduced by ½.

[3] Includes estimates for basic H.R. 9030 provisions for institutional and SSI Federal hold-harmless provisions based on proportional adjustment from the HEW Sept. 26, 1977, estimates.

Source: Congressional Budget Office.

TABLE 46.—DIRECT AND INDIRECT COST OFFSETS OF H.R. 10950 BY LEVEL OF GOVERNMENT IN FISCAL YEAR 1982

[Billions of dollars] [1]

Program offsets	Federal	State and local	Total
Direct cost savings: [2]			
AFDC	$8.93	$7.58	$16.50
SSI	6.09	2.50	8.59
Food stamps	6.69	.34	7.03
General assistance		1.40	1.40
Emergency assistance	.04	.04	.08
Earned income tax credit	.56		.56
Work incentive program	.48	.05	.53
Direct subtotal	22.79	11.91	34.69
Indirect cost savings (or increases):			
Related programs:			
Child nutrition	.05		.05
Housing assistance	.29		.29
Unemployment insurance	.26		.26
Medicaid	(.25)	(.24)	(.49)
Indirect subtotal	.35	(.24)	.11
Increased (or decreased) revenues:			
Increased Federal and State income taxes revenues	3.53	.64	4.17
Increased social security taxes	.32		.32
Sales tax revenues		.19	.19
Revenue subtotal	3.85	.83	4.68
Total offsets	26.99	12.50	39.48

[1] Figures may not add to totals due to rounding.
[2] Based on CBO 5-yr current policy projections; *Five-Year Projections: Fiscal Years 1979–83* except the AFDC, SSI and earned income tax credit estimates which were generated by the basic methodologies used to cost the welfare reform plan. Different methodologies under the current policy projections which indicate lower ADFC costs and higher SSI costs for 1982. However, in the aggregate the Federal cost estimated under the different methodologies differ by less than 5 percent.

Source: Congressional Budget Office.

TABLE 47.—COSTS OF ADMINISTRATION BILL (S. 2084) BY LEVEL OF GOVERNMENT IN FISCAL YEAR 1982

[Billions of dollars] [1]

Program costs	Federal	State and local	Total
Benefits:			
Basic cash assistance	$19.74	$2.03	$21.77
State supplementation: [2]			
Matching supplements	2.04	3.67	5.70
Grandfathering supplements		3.04	3.04
Hold-harmless payments	1.08	(1.08)	
Emergency needs block grant [3]	.63		.63
Earned income tax credit	2.63		2.63
Public service employment [4]	8.47	.58	9.05
Federal tax reimbursement [5]	.89	.06	.95
Other [6]	1.32		1.32
Subtotal	36.80	8.30	45.09
Administrative/overhead:			
Cash assistance	2.41	.33	2.74
Public service employment	.50		.50
Public service overhead	2.54		2.54
Subtotal	5.45	.33	5.78
Total costs	42.25	8.63	50.87

[1] All estimates include 50 States, District of Columbia, and Commonwealth of Puerto Rico. Figures may not add to totals due to rounding.

[2] State supplementation estimates assume that each State will supplement the basic Federal benefit up to a level equivalent to the basic AFDC or SSI payment standard plus food stamp benefits in effect in that State immediately preceding the implementation of the new cash assistance program and that States will grandfather current SSI recipients and 75 percent of current AFDC recipients.

[3] Under H.R. 9030 the $630,000,000 authorized for the emergency needs block grant program is not adjusted for inflation. If an inflation adjustment were made to the year 1982 the grant would be $710,000,000 under CBO economic assumptions.

[4] Estimate includes an adjustment for incapacity.

[5] As provided in sec. 2104 of H.R. 9030.

[6] Includes estimates for institutionalized, foster care, and SSI Federal hold-harmless provisions based on proportional adjustment from the HEW Sept. 26, 1977 estimates.

Source: Congressional Budget Office.

TABLE 48.—DIRECT AND INDIRECT COST OFFSETS OF S. 2084 BY LEVEL OF GOVERNMENT IN FISCAL YEAR 1982

[Billions of dollars] [1]

Program offsets	Federal	State and local	Total
Direct cost savings: [2]			
AFDC	$8.93	$7.58	$16.50
SSI	6.09	2.50	8.59
Food stamps	6.69	.34	7.03
General assistance		1.40	1.40
Emergency assistance	.04	.04	.08
Earned income tax credit	.56		.56
Work incentive program	.48	.05	.53
Direct subtotal	22.79	11.91	34.69
Indirect cost savings (or increases):			
Related programs:			
Child nutrition	.06		.06
Housing assistance	.72		.72
Unemployment insurance	.44		.44
Medicaid	(.25)	(.24)	(.49)
Indirect subtotal	.97	(.24)	.73
Increased (or decreased) revenues:			
Increased Federal and State income taxes revenues	.65	.17	.82
Increased social security taxes	.48		.48
Sales tax revenues		.21	.21
Revenue subtotal	1.13	.21	1.51
Total offsets [3]	24.89	12.05	36.93

[1] Figures may not add to totals due to rounding.

[2] Based on CBO 5-yr current policy projections; *Five-Year Projections: Fiscal Years 1979–83* except the AFDC, SSI, and earned income tax credit estimates which were generated by the basic methodology used to cost out the welfare reform plan. Different methodologies underly the current policy projections which indicate lower AFDC costs and higher SSI costs for 1982. However, in the aggregate the Federal costs estimated under the different methodologies differ by less than 5 percent.

[3] The administration's estimate of offsets includes savings from the discontinuation of several activities such as unemployment insurance extended benefits program and CETA title VI—and the initiation of several new policies including fraud and abuse sanctions and the wellhead tax. The CBO current policy projections based upon a 4.5-percent unemployment rate for fiscal year 1982 include no expenditures for these activities and, therefore, no potential for cost offsets.

Source: Congressional Budget Office.

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