

August 8, 1977

ANALYSIS OF CARTER'S WELFARE REFORM PROPOSAL

At 10:00 a.m. on August 6, in a press conference in Plains, President Carter outlined his long-awaited proposals for the comprehensive reform of the American welfare system. The proposals themselves took up fifty pages of text in the release from the Department of Health, Education, and Welfare, in addition to over thirty pages of charts and outlines as an appendix. While a detailed analysis of these proposals must take some time to complete, a summary overview of them and their probable effects and problems can be presented quickly.

Overview

The President's proposals fall into two broad categories. First, it is proposed to offer a comprehensive "jobs program" that will encourage present welfare recipients to seek and take employment rather than to rely on public assistance. Secondly, for those who are not able to work or for whom work would be an unacceptable burden, it is proposed to establish a nation-wide "cash assistance" program. The two components will replace the current federal welfare system of Aid to Families with Dependent Children (AFDC), the Food Stamp (FS) program, and the Supplemental Security Income (SSI) program, with a centralized, federally-run, and largely uniform system. The President's proposals bear examination in some detail as to their consistency, coverage, cost, and practicability.

The Jobs Component

While the President assured his audience that the jobs program has been designed to encourage welfare recipients to take jobs in private employment, he also argued that the reformed system would provide for Public Sector Employment (PSE) by creating 1.4 million public jobs and training slots, about 300,000 of which

would be part-time jobs. No PSE job would be preferable financially to a private job, and inclusion on the welfare rolls would not be preferable to working at a PSE job. No more than one adult (the principal wage-earner) in a family will be permitted to fill a slot in a PSE job or training program.

While almost everyone applauds the idea of encouraging welfare recipients to work and of making it possible for them to work through training or finding them jobs, the whole concept of Public Employment is open to criticism. The most obvious argument against it is that it provides jobs for which there is no real need; if there were in fact a demand for jobs, the private sector would already have created them. The proposal points out that its PSE program is "the largest jobs program since the Great Depression" but does not say what the possible effects on the U.S. economy might be. However, this aspect of the Administration proposal relates largely to the macroeconomic effects of the proposals and does not have to do with the welfare system specifically (except that to the extent that it harms the American economy, and thereby economic opportunity, it will increase the need for special governmental assistance).

Another aspect of the jobs component of the proposal is that the "Department of Labor will assume responsibility for placing jobseekers in unsubsidized employment in the private and public sectors." (p.4)¹ Is this provision not unfair to non-welfare people who will not receive this special assistance from the DOL but will have to rely on their own job-seeking skills? This criticism is not mitigated by the fact that PSE jobs will be available to other low income persons not on welfare, for there must be a cut-off somewhere, and those in the income categories immediately above (and competing with) the recipients of special assistance will be discriminated against. The whole need for the PSE assistance for these low-income categories not now on the welfare rolls is perhaps questionable since they already have jobs and incomes. At the same time that the special aid from the DOL will be given to low income workers (and hurting their competitors in slightly higher brackets), the welfare recipients themselves will be discriminated against because the working poor will be receiving jobs for which the recipients might have applied. Thus, the reforms may well hurt both groups (the welfare recipients and the working poor) whom it is intended to benefit.

Also, there is the very practical question of what the recipients of welfare under the present system can do in the way of work, either in the private and public sectors or in an arti-

1

All page numbers specified refer to HEW News: Welfare Reform, August 6, 1977.

ficially created job market. Will they be reduced to demeaning and useless functions such as digging holes and then filling them back up? The Administration says not and has outlined the types of jobs it will train the recipients for. It itemizes thirteen categories of jobs to be created, each category providing for 25,000 to 200,000 PSE functions. Among these are jobs helping the elderly and sick, repairing and building public recreation facilities, improving public safety, weatherizing homes, cleaning, child care, controlling insects and rodents, and several other type jobs.

We should point out, however, that some of these jobs may require higher levels of ability than is possessed by the average welfare recipient, and others may be totally inappropriate. Probably most of the applicants for these jobs will come from the AFDC sector of the present system. It may not be very realistic to envision these persons fulfilling some of the jobs outlined above. As Senator Daniel Moynihan (D-NY) has pointed out, welfare mothers and persons who are not accustomed to skilled jobs may not be the best persons to employ or to expect to profit from the heavy chores involved in weatherizing homes, cleaning streets, policing low income neighborhoods, building public facilities, and other proposed jobs. Nor is it likely that these same persons, many of whom are not even minimally educated or trained at the present time, could absorb sufficient training under a training program to be very desirable teaching assistants, child care employees, or aides to the sick and elderly, with all the special problems these activities involve. Indeed, it is conceivable some of them might cause more damage than they repair.

The Administration also proposed to provide training for those on welfare who have no skills at the present time. This also raises questions about the practicability of the proposals. One of the problems of President Johnson's Economic Opportunity program was that it made very sweeping promises of adequate training and subsequent employment. However, it was often found that even well-trained persons were still unable to find jobs in the private sector simply because there were no jobs available in the skills to which they had been trained. The result was often a sense of futility and of having been deceived among those who entered the program with high hopes. Some experts have expressed the view that this disappointment was related to the widespread urban violence of the 1960s. Before embarking on a similarly ambitious training program, therefore, it would be well to consider the likelihood of achieving employment for those who enter the program. It might also be wondered whether the skills they acquire -- such as getting rid of insects and rodents -- will be transferable to more permanent employment in the private sector.

The Administration proposal states that "there will be no income or assets tests for determining eligibility" for the jobs component. The rationale for this provision is that such tests "may arbitrarily exclude people who both need and want to work" (p. 5). However, this provision too will surely lead to abuse of the program. What is to prevent persons who do not need specially provided training or jobs (such as vacationing college students, teachers, persons who are fully trained in some skills but want to acquire different ones, etc.) from signing up for the Carter program? Perhaps the Administration does not consider this an abuse, but certainly it would detract from the effectiveness of the program if anyone who wanted could sign up. What the Administration is proposing seems to be essentially a federally subsidized program of vocational training for any American who wants it, regardless of need. Moreover, it would surely be fairly simple to design a "cut-off" level above which persons of a certain income or assets would not be allowed to enter the program, or to combine this with a "needs test" by which an applicant would be examined for those skills that he already possessed.

Although it is stated that only one job or training slot will be allowed for one adult per family (p. 4), on page 5 it is stated that "Other family members will remain eligible to participate in other training or youth programs." Thus the alleged benefit of the limitation of jobs and training to one family member -- that it will "guarantee that the work opportunities will go to those families that have the fewest work opportunities" -- is considerably curtailed. This raises the possibility that the expensive and economically unpredictable jobs component (with possible dangers to public tranquility) may be expanded to provide for those other family members who are not in the program. Conceivably the program could result in a permanent program for federally provided employment.

Finally there is the problem of the search for a job. One of the tests for eligibility is that the applicant must be unemployed and must have looked for an unsubsidized job for at least five weeks prior to being placed in a subsidized job or training program. The DOL will supervise and examine this job search period, helping the applicant to find employment. But how will this search be supervised? How will the Labor Department know how hard the applicant has looked, whether he looked in appropriate job opportunities, whether he was offered a job, or what prospects he might have in the near future for a job in an opening labor market? As far as can be told from the Administration's proposal, there would be no way for the Departmental or local supervisors to know any of this unless the applicant chose to inform them. Obviously, this system opens up considerable areas for fraud and abuse, but also it should be considered that an inexperienced person looking for a job may have unrealistic expectations of the kind of job he can get or of how hard it is to find one. Thus, even if the applicant is honest in his own

mind, he may unintentionally misrepresent the quality of his job search to his supervisors.

The Cash Assistance Component

President Carter proposed that three programs presently run by the federal government under separate administrations be consolidated into one program. The three are the Aid to Families with Dependent Children (AFDC), run by HEW; the Food Stamp program, run by the Department of Agriculture; and the Supplemental Security Income (SSI) program, also run by HEW. Of these, the Food Stamp program is usually considered to pay "in-kind" benefits, since it pays no money directly to recipients but rather coupons which can be exchanged for food only at retail food stores. In place of this in-kind program, the President would establish simple cash assistance for it and for the other two as well. Furthermore, he would establish a "national uniform benefit floor" to provide "fairer treatment to needy persons in similar circumstances who live in different states." The states will pay either 10% of the total grant or 90% of the state's current welfare outlays, whichever is smaller. The Administration will from time to time review the basic floor and raise it accordingly. (Nothing is said about the possibility of lowering it from time to time.)

Consolidation

In many respects, this plan to consolidate the three welfare programs now in existence is very attractive. The current programs are separately administered, contributing to excessive administrative costs; they have different eligibility rules, though they contain many of the same recipients. They also have different regulations and procedures. Consolidation could lead to a much simpler administration with less chance of fraud and error, less bureaucratic misadministration; and much more simplicity. However, even here caution should be exercised. It should be recalled that one reason why the Food Stamp program was designed as an in-kind benefit plan was that it was felt by many that poor people who received cash benefits would not spend them for food but on other goods which were often luxury items or completely unnecessary (e.g., liquor or televisions). In view of increasing evidence of widespread fraud in other welfare programs and in the Food Stamp program itself, it cannot be said that this was an unwarranted view. However, the new plan would do away with the in-kind benefits and give the recipients cash. Since the recipients will include both those on AFDC as well as those on Food Stamps, if there is widespread misuse of the money, it is likely to be the children of the poor who suffer most. It might also be pointed out that, under the current program, although there is considerable overlap of the recipients of one program with those of the others,

this is not inevitable. With the Carter plan, it would be an unavoidable part of the system. That is, presently there are many persons on Food Stamps, for example, who are not on AFDC; presumably they do not need or want the latter or perhaps are not aware of its benefits. Under the Carter plan, anyone who received any aid or needed any aid would be presumed to need all the aid. At the present time there are about 30 million individuals on welfare. There are 11.4 million recipients of AFDC, 4.4 million of SSI, and 17.2 million of Food Stamps. It is difficult to estimate exactly how many of one program are on the others, but the differentials among these figures show that they are by no means congruent. The present system was designed to meet particular needs of different groups of poor people, but the establishment of the comprehensive cash assistance plan would go far to create a system that does not accurately discriminate among the real needs of the poor.

A Guaranteed Annual Income

The federal benefits floor establishes for the first time in the United States a Guaranteed Annual Income (GAI). Not only does this principle violate much of the American tradition of individual responsibility and the personal quest for opportunity and upward mobility, but also it does not distinguish among the very real differences among the various states and regions of the country in living standards. What is adequate in Mississippi is not necessarily adequate in New York or Chicago. Nor does the plan distinguish among the aspirations and cultural standards of the various "poverty subcultures" in the country. A Southern Black may judge an adequate income and a successful lifestyle very differently from a Northern Black, not to speak of an American Indian or a Southwestern Mexican-American. The proposed federal floor for 1978 is \$4,200 for a family of four. The states can, and are encouraged to, supplement the floor by their own outlays.

Fiscal Relief

The proposal also promises considerable fiscal relief for the state and local governments that have been increasingly burdened by welfare payments in recent years. However, the Administration admits that the states that will receive the most benefits will be the five with the highest benefits: New York, Illinois, California, Massachusetts, Michigan, and Pennsylvania, all receiving relief of 25% or more of their current outlays. No state will receive relief of less than 10%. However, it could be argued that the reform will benefit mainly these large states that have been overly generous with their welfare payments over the years and have thus contributed to their own crises. It should be noted that the average relief of the states

under this plan is 18%, but that there are 21 states that will receive only 10% to 12% relief. This rather wide scatter of relief will appear inequitable to some states.

Cost

Surely one of the most controversial parts of the President's program will be the total cost of it. President Carter has repeatedly assured the nation that his long-awaited plan would cost no more than the present system (though this in itself was hardly reassuring to some). In fact, the plan that he proposed will cost, at his own estimate, an additional \$2.8 billion. The current system costs \$27.9 billion, and the proposed one will begin at \$30.7 billion. Oddly enough, the President in his news conference found no contradiction between this cost increase and his often repeated promise to balance the budget. The cash assistance portion alone will cost more, at \$19.2 billion, than the combined total of the AFDC, SSI, Food Stamps, and Earned Income Tax Credit portions of the present system--\$18.4 billion. The EITC, which will be retained in the new system, will cost an additional \$3.4 billion, bring the total to \$34.1 billion.

Benefit Structure

The Administration plan would create a two-tier benefit structure, the purpose of which would be to "create strong work incentives and to provide more adequate cash assistance to those not expected to work" (p. 2).

The upper tier of the benefit structure would include (a) the aged, blind, and disabled (those now on SSI); (b) one parent families with children under 7 or with children 7-13 when the parent cannot find a job or day-care; and (c) two-parent families with children under 7 and one incapacitated. Also on the upper tier are single individuals and childless couples who cannot find a job.

There is no work requirement for the first group, though "they may work if they choose..." (p. 22), nor for those with children under 7. Persons with children 7-13 must accept part-time jobs during school hours or be moved to the lower tier if they refuse the job. Singles and childless couples must accept a job or training, or if they refuse, lose all cash assistance. The benefits on the upper tier are for the aged, blind, and disabled--\$2,500 for an individual and \$3,750 for a couple; for unemployed singles or childless couples--\$1,100 and \$2,200 respectively; and for a family of four with no other income--\$4,200 in 1978. The benefits are reduced by 50 cents for each dollar earned and in states which supplement the basic federal

benefits, they are to be reduced by no more than 70 cents for each dollar earned. Also, in the case of one-parent families with children 7-13, the first \$3,800 of earned income is excluded from the reduction scale in non-supplementing states.

On the lower tier, on which will be those families (one- and two-parents) with children 14 or older, the basic income is \$2,300. Since they are required to seek work; after 8 weeks of search, they are promoted to the upper tier (\$4,200). If and when they find a job, they then go back to the lower tier. But if they refuse the job, they also return to the lower tier in order to assure protection for other family members.

Problems of the Benefit Structure

Several things should be pointed out about this 2-tier structure. First, it is stated that the blind, disabled, or aged as well as those with children under 7 "will not be required to work, although they may work if they choose." Why should those who are considered to be excused from work because of their disabilities be allowed to work and receive welfare? Although the plan establishes an eligibility ceiling for this category at \$5,000 for an individual and \$8,400 for a couple, why should they not be required to work if able to do so?

Also, the expansion of the welfare system to singles and childless couples will undoubtedly expand the numbers on welfare at a time when almost everyone wants to reduce the welfare rolls. As pointed out above, there are now some 30 million people on the welfare rolls. Under the proposed system, there would be 32 million, though the Administration claims that the numbers eligible would be reduced from 40 million at the present time to 36 million under the new system.

The singles and childless couples on the new system must take jobs if they are offered. At first glance this seems suitably stringent. But what if the jobs they are offered are totally inappropriate to the abilities and backgrounds of those who are seeking them? What if a former nurse is offered a job as a stripper, or more generally, the applicants receive offers that require moving, inconvenience, or expenses that they can not normally afford given their circumstances, or life-styles which they find repugnant? Thus, it seems unlikely that the provision will resolve all the problems of the current system, and may create more.

The provision that those single parent families with children of 7 years or younger will be on the upper tier while single parent families with children of 14 years or older will be on the lower tier may also lead to problems. What is to prevent

those on the upper tier from simply having more children at more cost to the taxpayer?

The Administration also argues that without the "age 7" provision, whereby single parents with children under 7 will be absolved of a work requirement, increased costs for day-care would be required. The age of 7 is chosen because it was felt that above that age the child will be in school and the parent would then be available for part-time employment. However, the plan does not explore the very likely possibility that some single parents will have friends, older children, relatives, or neighbors who could care for the child and thus free the single for work.

The purpose of the two tier structure is not entirely clear. Recipients who are required to seek and take work if it is at all available (i.e., upper tier families with children 7-13 when a job and day-care are not available and two parent [incapacitated] families with children under 7) will be moved to the lower tier if they refuse the work offered or found. But the establishment of the upper tier coupled with the inadequate checking procedure of the supervisors may well lead to fraud or evasion. Would it not be both simpler and safer to do away with the upper tier altogether and establish a lower tier from which expulsion is the penalty for not taking a job if it is suitable to the abilities and circumstances of the applicant? In this way a penalty would be substituted for this more dubious incentive of the President's reforms.

Also, it should be noted that refusal of a job by an upper tier family leads only to a return to the lower tier. The rationale for this is that it will leave them with some income for the support of the children. However, again it should be stated there is no disincentive (penalty) other than the loss of some income rather than complete expulsion from the rolls. This alternative could be a much stronger force for reducing the rolls than the proposed incentive. There is also room to wonder whether a family would not be able to deprive their children of necessary support if they were removed to the lower tier.

Single parent families with children under 7 and between 7-13 when work and day-care centers are not available are on the upper tier; but two parent families with children are on the lower tier. Both are required to seek work and face removal to the lower tier (in the first case) if they refuse a job. But this provision would seem to encourage a serious problem of the welfare system that the President seemed especially concerned about. This is the way in which the present system encourages desertion and the breakup of the family, by giving more to single parents than to two parent ones. The new system, however, perpetuates this problem by placing the single parent on the upper tier and the two parent family on the lower one. Thus, the single receives more than the couple does. (See p. 21.)

Also on the upper tier are those two parent families with children but in which one of the parents is incapacitated. It seems to be assumed that an incapacitated parent cannot find work or care for his/her child, thus requiring the other parent to do so. However, neither assumption is accurate. Why not establish levels of incapacitation, so that those who are totally disabled are not required to work, but those who are partially so may contribute to their own, their families', and their society's productivity?

Finally, the new proposal offers a reform of the Earned Income Tax Credit (EITC). At the present time, this credit consists of a 10% credit on all earnings up to \$4,000 and a phased reduction of \$1 for every \$10 earned after \$4,000 income is reached. The new system would provide for a 5% credit on earnings after \$4,000 up to the point of entry into the tax liability system as reformed by the Administration's tax reform measures to be proposed later. The present EITC phases out at \$8,000, but the new one will continue up to an income level of over \$16,000. It is difficult to judge this proposal adequately until we know more specifically what these new tax reforms will be.

New Standards for Filing

The President proposes to alter the different and complicated eligibility standards for applying for welfare by (1) reforming the definition of "filing unit" (families), (2) providing an income and assets test; and (3) establishing a retrospective accounting period.

The filing unit that may apply will be a nuclear family (i.e., a married couple or any parent with minor children) regardless of whether they live with other nuclear units. Thus, a family of two parents, a daughter, and her child may apply; but two parents, a daughter, and an aunt or uncle or other relative may not apply. Under the present system, only one of two nuclear families living together may apply for extra benefits as a head of a household, though both may apply separately for benefits.

This proposal may have two serious defects. First, in so far as it encourages the "extended family," it may promote illegitimacy and a higher birth rate among the poor. Secondly, for the same reason, it may lead to housing problems for the larger families that would develop among the lower income sectors and cause problems of crowding, sanitation, and crime.

The income/assets test is intended to exclude persons with non-employment income (e.g., from dividends) from the welfare rolls. It is possible to argue with the exact standards of the test for income, which excludes from consideration as "countable

income" 50% of wages, 80% of non-employment income, and 100% of other federal means-tested income (e.g., veterans' pensions). Similarly, the assets test will exclude from "countable assets" the total value of owner-occupied housing, of household goods, and personal effects, the first \$3,000 of the retail value of a non-business vehicle, and the total value of pre-paid burial contracts. Thus, it would be possible for a person or family on welfare to own a house, a television (or several), expensive kitchen and household equipment and appliances, and a family car, and still receive benefits from the federal government, on the assets test alone.

Finally, the President proposes a retroactive accounting period of six months in determining need in place of the three months prospective period now used by the SSI program and the one month period used by AFDC and Food Stamps. Thus, instead of finding out what an applicant's income may be in the near future, the supervisors will ask what it has been in the recent past. This provision will probably eliminate some types of former recipients whose presence on the rolls has been embarrassing or controversial in the past (e.g., strikers and teachers). However, prospective income remains important in establishing need, though the Carter proposals ignore it completely. An alternative policy would be to require both a retrospective as well as a prospective accounting period, or to modify the period according to various types of recipients, or to use a combination of these methods.

A final aspect of the new standards is the feature of regular reporting that the President has proposed. Recipients with income from employment will be required to report on a monthly basis, "others less frequently" (p. 39).

But there is no mention of how the recipients will be required to report: in person, by mail (as suggested in the President's tentative reforms submitted in May), by phone, or with the inspection of a worker. Nor is there any indication of how frequently the "others" will have to report or in what way. And there is no indication of how the concerned agencies will verify these reports (which will be concerned with the job search, raise in salary, family size, and other not very visible factors) or whether there will be any effort to verify them. Nor are penalties for fraud specified.

Conclusion

These then are some of the problems and as yet unanswered questions raised by the President's welfare reforms. To many, they were disappointing because they failed to reduce the total costs of

of welfare or the total number of recipients , and actually increased both. Furthermore, they seem to project another expansion of the central government into the lives of Americans, both poor and affluent. There is little manifest concern in the proposals for the taxpayers and not a great deal for the areas of the country where welfare has not yet reached crisis proportions. The inclusion of singles and childless couples and the provision of a guaranteed annual income is a radical extension of the concept of the welfare state. Nor, to many, are the administrative complexities of welfare simplified or made more equitable by the design of the complicated and cumbersome two tier benefit structure, which the recipients themselves may find dismaying.

Others have praised the President's proposals as providing fiscal relief for the states and as being a major effort at the comprehensive reform of the welfare system. The controversy is, therefore, by no means concluded with the submission of these proposals.

By Samuel T. Francis
Policy Analyst