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WILL CARTER'S WELFARE REFORM PLAN REFORM WELFARE?:
EVIDENCE FROM EMPIRICAL RESEARCH

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ABSTRACT

This paper introduces the central dimensions which have emerged in the current welfare reform debate. They include adequacy, work incentives, family stability and cost. The last legislative session introduced a new group of "welfare reform" proposals, each attempting to address these critiques of the current welfare system. Considering four major bills including Carter's Comprehensive Program for Better Jobs and Income on the basis of recent research findings, results in a tentative preference for Carter's plan. It addresses the major reform dimensions better than the others and would result in modest improvements. Nevertheless, true reform is unlikely to be achieved by any of these approaches if more fundamental intervention in the labor market is not taken.

The welfare reform debate has been rescued once more by the Carter Administration from the domain of academics and the social welfare community. It has resided there since its ignominious fall from favor after the defeat of the Family Assistance Plan (FAP). In the new round of public discussions very little of its fundamental content has changed in over a decade. Indeed, the central issues of debate and the ideological positions which seize them have remained remarkably unscathed by the multitude of important social and economic changes which have occurred over the last decade.

Though the prevailing concerns of welfare reform have remained relatively unchanged, the political climate in which reform must take place has altered considerably. Years of seemingly uncontrollable inflation and unemployment, coupled with a view that government cannot work, have soured many on the value of large government policies and programs. This is reinforced by the recent onslaught of taxpayer revolt against government spending and the attendant fraud and mismanagement perceived as an inevitable counterpart of government programs.

At the same time, however, considerable progress has been made in

the state of social science knowledge. Several income maintenance experiments have been completed, analyses of longitudinal data sources circulated, and a variety of important social science evidence on the nature and determinants of poverty permit a more informed discussion of the policy options.

Nevertheless, politics and research continue to be inextricably bound to one another and the current interpretations of the relationships of recent research findings to proposed bills for welfare reform have not been completely satisfying. This paper will attempt to assess the value that current research findings have for selecting among the major welfare reform proposals.

These dimensions represent those which political debate has identified as critical. They do not represent the full array of values or goals around which social planners might design an optimal system. Rather, they address the more practical and less idealized dimensions which policy analysts are required to consider in constructing a welfare reform plan acceptable to a reluctant constituency.

A brief description of the major legislation currently under consideration will be presented. Finally, the results of empirical research will be applied to an assessment of the degree to which existing proposals can be expected to address the major welfare reform issues. Will the welfare reform plans as conceived reform welfare in response to these concerns? The paper will conclude with a discussion which explains the often inappropriate and inadequate use of the growing body of social science research in designing and evaluating welfare policy.

ENDURING ISSUES IN THE WELFARE REFORM DEBATE

Adequacy

The first dimension or goal currently considered in the welfare reform debate is the adequacy of current benefit levels. Proponents of welfare reform generally point to the great disparity in the level of current benefits available to similar families in various jurisdictions. Attempts to establish a floor of income eligible families nationally have been part of the reform movement since FAP. Critics argue that benefit disparities are inherently inequitable and impose undue hardships on participating families in low paying states. Some have argued that interstate disparities encourage the migration of eligibles from low benefit to high benefit states. Further, many argue that the failure of most states to provide benefits at a level consistent with the federal poverty line results in an unacceptable level of suffering and hardship when national policy has for some time been concerned with poverty reduction. Fewer than twenty-six states currently pay AFDC benefits as large as 2/3 the federal poverty

families for whom the wages of the male head were inadequate to lift them from poverty, dissolving their marriages (either real or feigned) would make them better off. The woman would then be eligible for AFDC as head of a family. Whatever additional income sources the former spouse could provide would make them still better off.

The welfare system, it has been argued, has thus provided the incentive for economically rational families to split up. Further, since no federal cash program covers poor single individuals, it is also claimed that poor women have an incentive to bear illegitimate children in order to meet the eligibility requirements for AFDC. Critics of the current system often observe that AFDC discourages poor young women from marrying the fathers of their offspring by rendering them ineligible for any assistance if they did.

Finally, many have suspected that granting higher benefits with increasing family size in the AFDC program results in an implicit incentive for welfare mothers to bear more children than they otherwise would. This pro-natalist orientation of the current welfare system is believed by some to result in larger families and increased dependency.

Issues related to the perverse incentives for family composition under the current AFDC program are becoming increasingly central to the assessments of alternative options for welfare reform. Each major policy initiative currently awaiting legislative consideration has taken this alleged impact of the current system for granted, offering changes which are assumed to reverse the increasing family dissolution apparent under current arrangements.

Costs

Concern about program costs in the existing income maintenance system influence legislative response to almost every element in the design of a welfare reform alternative. A particular dilemma in the welfare reform debate involves the cost implications of the tradeoffs between benefit adequacy and benefit uniformity. Establishing a uniform level of benefits nationally, without making current recipients worse off, requires setting a floor of benefits at a level as high as are currently paid in states more nearly approaching the poverty standard. This results in an extremely costly program, since dramatic increases in benefit levels are required to bring low-paying states to this level of adequacy. The less costly option, that of establishing a uniform floor of benefits at a far more modest level, compromises the adequacy of benefits in all states. When additional goals such as increased coverage are included, the dilemma becomes worse.

standard and as many as ten provide less than 2/3 the federal poverty standard when the value of food stamp bonuses is included.

Not only the generosity and uniformity of benefits is included when the debate addresses adequacy, but implicit in these discussions is coverage. Twenty-four states deny benefits altogether to two parent families and no federal program exists to cover singles or childless couples. In states which have an AFDC-UF program, eligibility rules often exclude many needy families from participating. Of the 11.8 million non-elderly poor* in 1967, 6.7 million remained poor even after welfare transfer income (CBO, 1977). Though many families are made better off by welfare, many other families do not have resources (welfare and non-welfare income) which approach the national poverty standard. These facts are even more dramatic when one recalls that the federal poverty standard is based on the Department of Agriculture's lowest level budget capable of producing a nutritionally adequate diet. Critics are not, then proposing extravagant benefit levels when they speak of adequacy based on this standard (though they are often accused of such).

Work Effort

Another issue of considerable importance in all discussions of welfare is that of work effort. Critics of the current system argue that the system discourages work in a variety of ways and, indeed, that the system itself breeds continued dependency. No other issues appear to loom larger than those concerning work in current or previous welfare reform debates. In fact, almost all changes throughout the 1960's of the Social Security Act have been made in response to the perceived lack of work effort among recipient family heads. Two major changes were made during that period in order to increase the labor force participation of recipients. One was a mandated Work Incentive Program (WIN), which required employable recipients to register for work training or work placement. Failure to do so could result in withdrawal of benefits. Similarly, provisions for day care services, though limited, were made to permit mothers of small children to register for training to work. The Talmadge amendments required welfare mothers of children over six to register for WIN.

Thus, an attempt to require work as a condition of continuing eligibility was institutionalized in the existing welfare system in AFDC. The Food Stamp Program also included a work test. Other efforts to encourage work were legislated through a reduction in the benefit reduction rate on earned income and more liberal procedures for deducting work expenses in calculating benefits. Analysts had argued that a dollar reduction of benefits for each dollar of earning provided a

*below 100% of the poverty line

strong work disincentive for participating families. Indeed, it meant that, with modest wages, families would be no better off by working than they would be by not working. The Social Security amendments in 1967 reduced the "tax" on earnings to 67 percent, while permitting working recipients to retain the first \$30 of monthly earnings without any reduction of benefits.

Concerns about work effort, however, were not quelled. WIN slots were limited and so were day care slots. Welfare case loads were growing dramatically even as national unemployment rates were quite low. Enforced work was viewed by many as a necessary component of any further welfare reform. Other critics and analysts began to discover that although the benefit reduction rate of AFDC was 67 percent, many recipients of AFDC were also participating in a variety of other cash or in-kind programs. Many of these programs, such as food stamps and public housing, had their own benefit reduction rates on earnings. Thus, the actual cumulative marginal tax rate effective as a function of the additive rates from several programs could result in benefit reductions of as high as 100 percent or more for each dollar of earnings. The work disincentive effects of this were thought to be substantial. Many critics of the current system, therefore, argue for a single comprehensive cash program with a more modest tax rate.

Economists, while recognizing the potential work disincentive effects of benefit rates, have also pointed to the work disincentive effects of high guarantees. The guarantee is the level of benefits available to an eligible family with no earnings. Those whose exclusive priority is very strong work incentives favor both low tax rates and low guarantees. A high guarantee, it is argued, competes with prevailing wages and thus, the cost of not working may be very small for a low wage worker eligible for a high guarantee. The debate over the appropriate levels for both the guarantee and the tax rate in a reformed welfare system has been at the center of academic and legislative discussions since FAP. The difficulty of reaching compromises involves the marginal impact that particular tax rates and guarantees have on a variety of other critical priorities in welfare reform, including adequacy, program costs, family stability, and equity.

Family Stability

The concern with family stability predated the welfare reform initiatives of the Nixon administration. Witnessing increasing AFDC caseload growth, policy makers and analysts began to observe that, increasingly, the poor and the "dependent" were female-headed families. Explanations of the increasing number of female-headed families generally included the incentives in current AFDC programs for family break-up. A minority of states at that time had seized the federal option to offer an AFDC-UF program which covered intact families with an unemployed father. Even in states which had such a program, eligibility criteria precluded participation of low-wage workers who were employed more than 100 hours a month. Therefore, for many needy

The cost constraints at the national level are reinforced by the problems experienced by many of the older cities and states in which large numbers of the poor and welfare recipients live. Many cities and states, particularly in the Northeast and Midwest, are facing increasing welfare costs at a time when economic growth is declining markedly. Indeed, these older cities and states are experiencing declining revenues and population while demands for public and social services are increasing. Most of these localities resist federal initiatives which will require any further financial commitments from their dwindling public treasuries. In fact, cities such as New York, Boston, Detroit and Chicago are supporting legislative initiatives which seek to relieve the fiscal burdens which now threaten to overwhelm them.

Current financing arrangements for AFDC and Medicaid apportion state-federal shares on the basis of a federal formula which compares state median income to national median income. Several states then apportion intra-state shares by city or county. New York, to cite an extreme but important case, is required to finance a full 25 percent of its welfare and Medicaid costs through its own revenues. These expenditures constitute the second largest budget category for the City. Thus, despite all the dimensions on which welfare reform might be judged, program costs and fiscal relief to states and localities may emerge as one of the critical criteria on which the potential for legislative enactment will be judged.

Before considering the usefulness of the Carter Plan and the other competing pieces of welfare reform legislation in addressing the issues of adequacy, work, family stability and costs, it is necessary to emphasize the complexity of these dimensions. The most difficult problem in designing any social policy is the multiplicity of goals which planners are simultaneously attempting to maximize in a single program. Nowhere is the case more dramatic than in the design of income maintenance programs. Competing goals, in this case, means that maximizing any one may result in minimizing another. To take a simple example, policy planners have for some time been committed to minimizing the work disincentive effects implicit in an income transfer program. At the same time, they may be required to minimize increasing program costs.

The work disincentive effects allegedly promoted by the existence of a high marginal tax on earning (high benefit reduction rate) can theoretically be mitigated through tax rate reduction. Though a lower tax rate on earnings may reduce the labor force withdrawal of participating families, at the same time it serves to increase dramatically program costs. It does this for two reasons. First, a lower tax rate results in recipient families receiving benefits at higher levels of income than they otherwise would. The level of income at

which benefits fall to zero (the break-even point) is higher under a lower tax rate. Second, not only do participating families receive continued benefits at higher levels of income, but the number of families eligible for benefits at higher levels is far greater than at lower levels, given the current distribution of income. Thus, the simultaneous goals of maximizing work incentives while minimizing program costs cannot be achieved. Planners must necessarily trade off acceptable levels of work effort for reduced program costs or the converse. It is obvious that the larger the number of goals, the more complex the nature of the trade-offs. Unfortunately, these issues are rarely resolved at the level of the analyst. Indeed, they generally fall within the domain of political expediency.

CARTER'S WELFARE REFORM PLAN VS. THE COMPETITION

Evaluating any piece of social legislation requires a complex analysis which includes not only an assessment of the projected outcomes, given a set of goals, but also a marginal analysis of the trade-offs between the costs and benefits of alternative means toward the achievement of those goals. It is beyond the ambition of this paper to carry out such an effort. Instead, the discussion will limit itself to a more general review of current research findings regarding a few key elements in the welfare reform debate. An attempt will then be made to assess the wisdom of the major legislative approaches to welfare reform, given the results of recent research.

Comprehensive Approaches

Conventional distinctions between comprehensive approaches and incremental approaches to welfare reform are useful in grouping the current available proposals in only the grossest way. A recent paper by Levy (1978) suggests that a more useful approach would be to see the current legislative options as a continuum on the basis of the resources they provide and the reorganization they require.

The first two bills calling for "comprehensive reform" are Carter's Plan for Better Jobs and Income (H.R. 9030) and the revision of this bill introduced in Feb., 1978, by the Special House Subcommittee on Welfare Reform (H.R. 10950). The two bills which call for "incremental reform" include the Welfare Reform Act of 1978 (H.R. 10711), introduced by Representative Ullman, and the Job Opportunities and Family Security Program (S. 2777), sponsored by Senators Baker, Bellman, Ribicoff, and Danforth.

The Administrations proposal for Better Jobs and Income is characterized by three major components: (1) comprehensive case assistance which establishes a national floor of income for all families or unrelated individuals; (2) a jobs component which mandates 1.4 million public service jobs for all adults in families with children "expected to work" but who cannot find jobs in the private market; and (3) an expanded Earned Income Tax Credit (EITC) for low-income

workers employed in the private market.

The case component would consolidate a variety of existing programs, including AFDC, AFDC-UF, SSI and Food Stamps. In addition, it would provide federal coverage for groups currently ineligible for assistance under existing federal assistance programs, such as childless couples, single individuals, and two parent low-income families. The bill also established two benefit tiers based on whether family heads are "expected to work" or "not expected to work." Those not expected to work include the elderly (over 65), the blind, the disabled, single family heads with children under seven. One adult in all other households would be expected to work, including one adult in two-parent households, single individuals and childless couples, and single parents with children under 14. Single parents with children between the ages of seven and thirteen would be expected to work part-time.

Those who head families but who are not expected to work would be eligible for benefits on the upper tier which vary by family size and other demographic characteristics related to need. Examples of the benefit levels available to those on the upper tier would include \$2500 for a disabled or aged individual with no income, \$3750 for a similar couple, and \$4200 for a single parent family of four with at least one child under seven.

Those expected to work would be eligible for reduced benefits on the lower tier. For example, a family of four in which an adult member was expected to work would be eligible for a benefit amount of \$2300. After an eight week job search, if no private employment could be found or placement in a public service job arranged, the family would move automatically to the upper tier. (The Subcommittee proposal reduces this period to five weeks.) If an adult expected to work were employed in a private sector job, the \$2300 supplementation would begin to be reduced by a benefit reduction rate of 50 percent up to a break-even of \$8400. In addition, an adult on the lower tier who is working would be eligible for an expanded EITC. For example, for a family of four this would amount to 10 percent of earnings up to \$4000, 5 percent up to \$9100, and would be reduced by 10 percent above \$9100. At \$15,650 the credit would fall to zero.

The Carter Plan thus integrates income support systems for the working and the non-working poor. It establishes a national floor of income support and makes jobs in the private sector more desirable than public jobs, while still offering work to those who cannot find private employment. It provides federal financing while offering incentives for state supplementation of basic income support levels. In addition, though a description will be omitted here, there are dramatic changes in administration and state-federal responsibilities,

as well as innumerable regulations, including how income is defined, over what period it is measured for benefit calculation, definitions of filing units, allowable asset limits, deductible work expenses and other important design features.

The Subcommittee proposal, while similar, alters financing arrangement, state-federal responsibility, and the rules and procedures applicable to the aged, blind and disabled. Federal costs of the Subcommittee proposal are now estimated to be substantially higher than the \$19.14 billion first-year cost attributed to the Administration proposal.* It reduces, however, the costs to the states from what it would be under the Administration plan.

Incremental Approaches

The Ullman proposal falls under the more "incremental" approaches to welfare reform and, indeed, has a more limited range of goals. Its major reform feature concerns setting a minimum cash value of AFDC and Food Stamps for families with children, while retaining existing SSI coverage for the aged, blind, and disabled. Food Stamp coverage for single individuals and childless couples would continue in its current form. The bill seeks to achieve welfare reform by modifying current programs. It mandates AFDC-UF for all two-parent families in all states, while simultaneously requiring minimum benefit levels for both AFDC and AFDC-UF. The benefit levels in the bill, however, do not vary by family size. The proposal also expands the Earned Income Tax Credit. The credit is 30 percent of earnings up to \$5000. The credit remains constant at \$1000 between \$5000 and \$7500. It is then reduced by 13 percent as earnings rise above \$7500, until its value falls to zero at \$15,200.

In addition, the Ullman bill provides modest resources (\$5.07 billion) for the creation of approximately 560,000 jobs to be administered by the WIN program. First priority of jobs is given to principal wage earners in two-parent families who are unemployed and have been receiving AFDC-UF for 16 weeks. A variety of other administrative features are also contained in the Ullman proposal. First, there is a provision which adjusts state minimum benefit levels to reflect changes in the state's median income over time. It utilizes retrospective accounting which requires recoupment of excess benefits from families whose monthly income on which benefits were based is not reflective of annual income. Because the Ullman bill maintains to a greater extent than the previous proposals continued federal-state partnership in the administration and financing of welfare efforts,

*cost estimates for the Administration proposal differ dramatically depending upon the assumptions used. The figure cited is a CBO projection for FY 1982. The Subcommittee Bill is projected to cost \$20.22 billion in FY 1982.

cost estimates indicate that for FY 1982 estimated federal cost will be between \$8 and \$9 billion while state and other levels of government will assume costs of about \$6.5 - \$8 billion. These estimates were made by the House Ways and Means Committee.

The Baker-Bellmon bill (S. 2777) is roughly similar in nature to the Ullman bill. Its goals for reform of the current system are far more modest than the comprehensive proposals. It seeks first to achieve a minimum benefit standard for families with children, while maintaining existing SSI coverage for the aged, blind, and disabled, and retains Food Stamp coverage for childless couples and single individuals. It has far less emphasis on putting recipients to work in public service jobs and requires no substantial administrative reorganization or program consolidation.

Specifically, it would mandate AFDC-UF in all states. Minimum benefits for AFDC and AFDC-UF would be tied to the federal poverty standard and would vary by family size. The benefit standards include the value of food stamps. This level would be 60 percent of the poverty standard. Based on current standards, minimum benefit levels for a family of four would be \$3875 (AFDC cash standard is \$1764 plus a food stamps value of \$2111). The benefit levels would rise in response to the impact inflation has on the poverty standard over time. In addition, goals are set which would require benefits to increase to 65 percent of the poverty standard by 1985.

The bill changes the current EITC for the working poor by setting an earnings limit equal to the poverty line. The credit would equal 15 percent of earnings up to that point and phase it out by 20 percent of all earnings over the limit. The poverty standard for 1978, as currently projected, is \$6350 for a family of four. Under this bill the maximum credit for a family of four would be \$952 with earnings of \$6350. The breakeven level would be reached when earnings are above \$11,100.

Unlike any of the previously reviewed proposals, the Baker-Bellmon bill authorizes no resources for the creation of public service jobs. In fact, the bill would cut back the existing level of Title VI CETA jobs from the existing level of 750,000 to 375,000 in 1982. These remaining jobs would be reserved first for principal wage earners in two-parent families receiving AFDC-UF for at least 90 days. Any remaining jobs could then be filled by single-parent household heads or others unemployed for at least 26 weeks. The bill does, however, authorize resources to provide incentives for private job creation through a tax credit or job voucher for private employers willing to employ a former assistance recipient. There would be a ceiling on the maximum credits permitted and regulations prohibiting the displacement of regular workers. No employer could receive both

credits and vouchers simultaneously. The bill, therefore, provides no systematic reorganization or dramatic changes in existing programs. It seeks modest goals through marginal reform much like that of the Ullman bill.

The brief descriptions of the major existing proposals for welfare reform are probably less important individually than they are as a group. None is likely to be enacted in its current form. They are probably more important as a group because they represent the current range of thinking among policy makers and because the form they take indicates a variety of underlying diagnoses of the current system and the nature and causes of poverty and dependency. Recent research has provided a considerable mass of findings which is beginning to reveal new perspectives on poverty and dependency. The dimensions of the welfare reform debate reviewed earlier can be usefully applied through the consideration of what the empirical data indicate will be the likely impact of any of these new proposals. The remainder of the paper will concern itself with evaluating the impact of the various types of reform proposals on the status and behavior of the poor.

THE WELFARE REFORM BILLS AND THE RESEARCH

Research on the behavior of welfare recipients in response to existing and proposed income maintenance programs have been financed and initialed to a large degree by governments at the local, state and federal level. Most research has been motivated by government concern about growing case loads and rising costs. It is, therefore, not surprising that questions related to work effort have dominated the research agenda. As we will discuss in the concluding section, inadequate consideration of exogenous labor market determinants of work and welfare patterns means that existing research may place far too much significance on the independent impact of changing the parameters of income maintenance programs.

Nevertheless, the preponderance of research has contributed significantly to our understanding of the importance of using policy analytic approaches in assessing proposed programs. Using research finding does help to avoid unanticipated consequences often associated with past program changes. (see Sanger, 1979)

Adequacy

All the major bills deal to some degree with the claim that current programs provide inadequate benefits. Each sets a national floor of benefits for the populations which it seeks to cover. The Ullman bill and the Baker-Bellmon bill, however, limit proposed coverage exclusively to families with children. The Adminsitration bill and the Subcommittee bill not only seek to establish a minimum floor of income but also to cover all individuals regardless of family composition

exclusively on the basis of need.

The underlying research question in determining the adequacy of existing proposals is, what will the distribution of income among poverty families look like after the enactment of any of the programs? Benefit levels alone have been an inadequate measure of economic well-being for all recipient families since, in existing programs, most families do not depend on AFDC benefits as their only source of income. Recent research has been showing, for example, that the incidence of multiple benefits is quite common (Bernstein, et al., 1973; Lyon, et al., 1976) and that if the cash value of all in-kind benefits were included in calculations of resources available to recipient families, many more would be enjoying command-over-resources equal to or exceeding existing poverty standards (Lyon, et al., 1976). Clearly, the situation is not the same in all states. This remains one of the problems; adequacy of existing benefits varies profoundly.

Not only are multiple benefits and the values of in-kind benefits important in determining the adequacy of existing benefits, but so too is the degree to which many recipients have access to other sources of income. A recent study using longitudinal data from the Panel Study of Income Dynamics (PSID) revealed that when "ever Welfare" families (headed by women) were followed over time, evidence was found of substantial serial and simultaneous work and welfare mixes. Except for some long-term dependent cases, women while on welfare over the seven years of the study, had between 25 percent and 33 percent of their total family income derived from earnings. (Rein, 1977) Of all low income women who headed families over five years of the study, 77 percent worked at some time (Hausman & Friedman, 1975). This suggests that the value of welfare benefits at zero income may not be an entirely useful measure of the adequacy of the resources available to all potential welfare recipients. The value of benefits available at zero earnings is, however, a useful and accurate reflection of economic well-being for those groups in which the incidence of earnings from work or from other forms of assistance are not substantial. For those groups, such as the aged, blind, and disabled, the value of Food Stamps plus SSI benefits is an appropriate measure on which to evaluate adequacy.

The descriptions of the proposed reform programs above failed to indicate the degree to which they would encourage state supplementation of the federal floor of benefits. This inducement to states might be a significant determinant of the level of adequacy provided by each program. However, while the degree of state supplementation is likely to affect how the adequacy of proposals may be judged, it is also likely to extend the existing criticisms of lack of uniformity. State supplementation incentives will make it advantageous for states to

assume responsibility for increasing federal benefit levels, but there are regional disparities in the degree of commitment to social welfare expenditures. Short of mandating state supplementation, any incentive scheme is likely to perpetuate existing regional disparities in welfare effort.

There are considerable uncertainties which exist in estimating the comparative level of adequacy implicit in each of the proposals reviewed. The first depends on the level of work effort of participating families. It was mentioned above that female heads of families have a strong connection to the labor market. Nevertheless, their hours of work are generally less than male heads of low-income families. Male heads of low-income families have very strong attachment to the labor force. Ninety percent of non-white males and ninety-seven percent of white males work. They, in general, work extensively and have average hours of work near or above average hours for the labor force as a whole (Levy, 1976).

The composition of eligibles is therefore important in determining adequacy of benefit levels. Access to additional sources of income and the probability of seeking and finding work varies among different demographic groups. Work, it has been found, is far more pervasive among traditional welfare eligibles than has previously been appreciated. Many view, however, that the degree of compulsion and penalties regulating work, as well as the availability and provision of public service jobs, will also affect the average income available to eligible families and individuals.

The Administration proposal and the Subcommittee revised version provide most promise for increased adequacy. Because the proposals do not maintain traditional categorical distinctions, presumably coverage would be universal and participation rates would likely be quite high. Distinctions would be made, however, between those expected to work and those not expected to work. The adequacy of benefits available to those not expected to work are reasonably simple to estimate. Without state supplementation the guarantee for a family of four would be 2/3 the poverty standard. This level of support would be higher than existing entitlements for AFDC and Food Stamps in ten states. Current benefits available in all states for combined SSI and Food Stamp entitlements for the aged, blind, and disabled exceed the Administration proposal's benefits of \$3750 for a couple and \$2500 for an individual. The Subcommittee proposal provides for the retention of benefit levels for the aged, blind, and disabled as a separate component at current levels.

Supplementation therefore becomes central for these groups in assessing their relative level of well-being under these comprehensive plans, as compared to existing programs. The Administration bill encourages supplementation by absorbing 75 percent of the additional

state costs required to raise the state minimum benefit level to \$4717 or about 3/4 of the projected 1978 poverty standard. Further encouragement is provided through a federal cost assumption of 25 percent of the expenditures states assume to raise minimum benefit levels to \$6350, the projected 1978 poverty standard.

Similar inducements are provided for supplementation for those groups expected to work under the Administration and Subcommittee proposals. There would be a 75 percent assumption of costs by the federal government for states which raise the guarantee for workers during their job search period from the federal minimum guarantee of \$2300 to \$2583; the same would apply for a state which raised the minimum benefit level for those expected to work, when no jobs were available, from the federal guarantee of \$4200 to \$4717. The Subcommittee proposal, however, pays 75 percent of the state cost of raising the guarantee from \$4200 to \$4700 and 25 percent from \$4717 to the poverty line or the state's current level of AFDC plus Food Stamps, whichever is higher.

Though the costs are assumed by the federal government at up to 75 percent for state supplementation to \$4717, it should be emphasized that currently, in many of the lowest paying states, federal cost sharing for welfare programs is often as high as 83 percent. Nevertheless, these are often the states where benefit levels remain the lowest in the country. Further, even at a 75 percent rate of federal matching, \$4717 remains lower than the combined value of AFDC and Food Stamps in many of the most generous states. Therefore, the level of adequacy for those not expected to work is likely to be increased in some states, while there is some indication that there will be places where families will be made worse off under these proposed benefit levels, even with the incentives for state supplementation.

For those expected to work, the situation is likely to be better under these proposals. Since the guarantee is less likely to be considered apart from earnings for these recipients, and because research shows that these groups work extensively, the combined value of benefits and wages will probably provide a more useful measure of adequacy (after considering the tax rate). Both bills contain a large jobs component with a strong EITC for those employed in private sector jobs.

A recent study (Sulvetta, 1978) has estimated the impact of the Administration proposal on benefits for the poor. Tables 1 and 2 compare the status of both those expected and not expected to work under current programs and the Administration program. Based on a family of four where an adult is expected to work, comparisons can be made with existing benefit levels for those assumed to be employed in public sector jobs under the Administration proposal.

TABLE 1
Comparison of PBJI Benefits and Existing Benefits in
Low-, Moderate-, and High-Benefit AFDC States

| Type of Unit | Current Program Benefits ¹ | | | PBJI Cash Benefits & PSE Income ⁵ |
|--|---------------------------------------|--------------------------------------|------------------------------------|--|
| | Low-Benefit State ² | Median-Benefit State ³ | High Benefit State ⁴ | |
| Single Individual | \$ 624 | \$ 624 | \$ 624 | \$1,100 |
| Aged, Blind, or Dis- abled Individual | 2,356 | 2,688 | 2,868 | 2,500 |
| Couple with no children | 1,128 | 1,128 | 1,128 | 2,200 |
| Aged, Blind, or Dis- abled Couple | 3,539 | 3,980 | 4,112 | 3,750 |
| 2-Parent, 2-Child Family with 1 Parent Incapacitated | 3,444 ^a | 5,164 | 6,524 ^b | (6,956 4,700) |
| 2-Parent, 2-Child Family with Head Unemployed in AFDC-UF State | 3,444 ^a | 5,164 | 6,524 ^b | 6,956 |
| 2-Parent, 2-Child Family in non-AFDC-UF State | 2,040 | 2,040 | 2,040 | 6,956 |
| 1-Parent Family with 3 Children over 13 | 3,444 ^a | 5,164 | 6,524 ^b | 6,956 |
| 1-Parent Family with 3 Children Age 7-13 | 3,444 ^a | 5,164 | 6,524 ^b | 4,950 |
| 1-Parent Family with 3 Children under 7 | 3,444 ^a | 5,164 | 6,524 ^b | 4,200 |

1. Annual benefits include food stamps, SSI, and AFDC where applicable.

2. Assumes AFDC and SSI benefits = to level paid by South Carolina. Maximum annual amount paid for an AFDC family of 4 in 1977 was \$1,404, & basic federal benefits were paid to SSI participants.

3. Assumes AFDC benefit = to that paid in Maine. Maximum annual AFDC amount paid for a family of 4 in 1977 was \$3,768. SSI payments were \$2,254 per individual and \$3,768 per couple. See table 5 for an explanation of benefit composition.

4. Assumes AFDC and SSI benefits = to that paid by New York. Maximum AFDC annual amount paid for a family of 4 in 1977 was \$5,712.

5. See table 9 for component breakdown.

a. Includes AFDC benefit of \$1,404 and food stamp benefit of \$2,040 calculated as \$2,040 - (.3(1,404) - (720 + 900)).

b. Includes AFDC benefit of \$5,712 and food stamp benefit of \$812 calculated as \$2,040 - (.3(5,712) - (720 + 900)).

Source: Sulvetta 1978: n 38

TABLE 2

Comparison of Existing Benefits and Proposed PBJI Benefits
when Head of Family Is Expected to Work and Is Employed
at Minimum Wage in Private Sector Job

| Type of Unit | Current Program | | | PBJI | | |
|--|-----------------|--------------------|---------|-----------------|--------------------|---------|
| | Annual Earnings | Benefits | Total | Annual Earnings | Benefits | Total |
| Single Individual | \$5,512 | \$ 0 | \$5,512 | \$5,512 | \$ 0 | \$5,512 |
| Couple with no Children | 5,512 | 0 | 5,512 | 5,512 | 0 | 5,512 |
| Two-Parent Family with 2 Children | 5,512 | 1,452 ^a | 6,964 | 5,512 | 1,920 ^c | 7,432 |
| Single-Parent Family with 3 Children over Age 13 | 5,512 | 1,452 ^a | 6,964 | 5,512 | 1,920 ^c | 7,432 |
| Single-Parent Family with 3 Children Age 7-13 | 2,756 | 4,778 ^b | 7,534 | 2,756 | 2,576 ^d | 5,332 |

Note: Assumes 1978 projected minimum wage of \$2.65 per hour, or \$5,512 for fulltime employment, \$2,756 for half-time employment.

- a. Includes earned income tax credit of \$249 plus food stamp benefit of \$1,203. Earned income tax credit calculated as $(.1(4,000) - .1(5,512 - 4,000))$. Food stamp benefit calculated as $\$2,040 - (.3(5,512 - (720 + 900 + .2(5,512)))$.
- b. Includes earned income tax credit of \$276, Maine AFDC benefit of \$3,768, plus food stamp benefit of \$734 calculated as $\$2,040 - .3(6,524 - (720 + 900 + .2(2,756)))$. This assumes that allowable child care deductions more than cover the loss in AFDC benefits due to earnings.
- c. Cash benefit of \$1,444 plus earned income tax credit of \$476.
- d. Cash benefit of \$2,300 plus earned income tax credit of \$276 computed as 10 percent of income up to \$4,000. Although benefits are reduced by 50 cents for every dollar of earnings, an annual child care deduction of up to \$1,800 for one child and \$3,600 for two or more children is permitted.

Source: Sulvetta, 1978;
p. 41

The degree of impact is related to whether or not male-headed families reside in states which currently operate an AFDC-UF program. For those families in states where no such program exists, the joint value of wages at the level of the minimum wage and cash benefits would make them far better off. In fact, expected value of wages and cash benefits would result in income in excess of the poverty standard.* For those residing in states which operate an AFDC-UF program, their status would still be substantially improved by the administration proposal.

For those family heads expected to work who find private employment, even at the minimum wage, the situation is far better still. Table 2 indicates that when the value of AFDC or AFDC-UF benefits are combined with both Food Stamps and the current value of the EITC, working family heads in private employment are still far better off under the Administration proposal than they are under any combination of existing transfer programs. The only exception to this is for the single parent household assumed to be working part-time. Current benefits for it are substantially better under current arrangements than under those proposed by the Administration.

The critical factor here, in terms of the average adequacy of proposed benefits, is the fact that coverage would be greatly increased as compared with existing programs. Though comparisons have been made with family heads in states with AFDC-UF, it should be clear that participation rates are quite low in these programs, even in states which have them. For example, for large numbers of low-wage workers residing in states with no AFDC-UF programs, benefits available include only the value of Food Stamps and the current EITC. No other cash benefits are currently available to the working poor in those states. Indeed, even in states operating an AFDC-UF program, monthly employment in excess of 100 hours excludes any participation for families with working heads, even if their income is quite low. Coverage of the working poor, whether in families with children or not, clearly results in raising substantially the aggregate level of adequacy of command-over-resources for millions of currently ineligible families.*

The Ullman proposal and the Baker-Bellman proposal fall far short of the Administration and Subcommittee proposals on the basis of the adequacy of benefits provided. Neither extends coverage to

* The benefit levels used are the median benefit levels paid in a representative state paying moderate benefits (e.g. Maine).

* The Subcommittee proposal goes even further in insuring an increased level of adequacy by proposing to legislate the indexing of welfare benefits for changes in the cost of living.

childless couples or individuals. Both retain the Food Stamp program which restricts the use of a large part of the total value of benefits available to food, exclusively. Both bills mandate AFDC-UF coverage in all states. The Ullman proposal restricts participation to these families if their monthly income exceeds \$350. It would permit a federal AFDC-UF benefit level of \$200 per month (\$2400 per year) for male-headed families with no income. Aid would be available for a maximum of 17 weeks at federal expense if no public service job were available. States would be required to extend aid for an additional 35 weeks at their own expense. States would be permitted to supplement the federal minimum of \$200 per month by as much as \$150, but the costs of doing so would be entirely their own. Retaining the Food Stamp program would result in an estimated yearly benefit level for a two parent family of four of \$4080. These restrictions must be seen as particularly harsh given the fact that all minima and maxima are not adjusted, as in the previous proposals, for family size. The result, therefore, is obvious. Total benefit levels for intact families, though higher than are AFDC and Food Stamp benefits currently available in seven states, do not go far enough in approaching the poverty standard. Large families, a major cause of poverty among the working poor, will be made the worst off among both intact and female-headed families.

Adequacy, it has been argued, can be judged best for those expected to work, based on the expected value of both wages and benefits available. The Ullman proposal allocates \$5.07 billion for public job creation (approximately 560,000 jobs). These are to be administered through the WIN program. This compares with an estimated 1.4 million jobs budgeted to be created in the Administration proposal. The Ullman bill gives first priority to male heads of intact families already receiving AFDC-UF who have been receiving assistance for 16 weeks. The jobs are therefore largely reserved for those who, after a relatively long search period, still remain unemployed. Wages would be at the minimum wage and credits would be available to private employers willing to hire WIN registrants.

In general, benefits are available only to families with children and those already eligible for SSI. Benefit levels mandated are low in comparison with the comprehensive proposals, as is the proposed increase in the EITC. No substantial incentives exist for state supplementation and the proposed level of job creation appears low. WIN has not had a very strong history of success in training and placement of its registrants and there are no indications that they are now either equipped to undertake or capable of undertaking substantial job creation, even with the proposed mandate to contract with CETA prime sponsors. The lack of benefit adjustments for family size appears particularly harsh, based on recent research indicating that among the working poor this appears to be a major source of hardship, even for those employed in stable jobs. (Levy, 1976).

The Baker-Bellman bill is even less generous in most respects

than the Ullman bill. It also retains existing programs but mandates AFDC-UF. Far from removing the 100 hour eligibility criterion which now results in such low participation among families with an unemployed father, the Baker-Bellmon bill merely retains the troublesome "notch" problems at a new level by setting an eligibility requirement of income less than 130 times the minimum wage for benefits for families with an unemployed parent--(\$3445). This results in ineligibility for families with income in excess of \$3445. This appears to be the case regardless of family size.

Benefit levels would be set at 60 percent of the poverty standard. This would include the joint value of Food Stamps and mandated state minimum benefits. This requirement, however, causes benefit levels to vary with family size. For an AFDC family of four the 1978 cash standard of combined value of AFDC and Food Stamps would equal a total benefit of \$3875. This exceeds the current state benefit levels of only five states. This benefit standard would apply to both AFDC and AFDC-UF households. SSI would be retained in current form. A target date is set for 1985 to increase mandated minimum benefit levels to 65 percent of the poverty standard.

Though benefit levels are quite low, generous incentives for state supplementation would exist. Any state now paying above the federal minimal level mandated would be required to retain current levels; (i.e. current recipients would not be made worse off as they would be under other proposals.) Federal cost sharing which now bases the federal rate of cost assumption on the relationship between state median income and the national median income would be modified from the existing range of 50 - 83 percent in the following manner: in 1980 the federal cost share would rise to 120 percent of its obligation under the existing formula. It would increase to 140 percent in 1981 and 160 percent in 1982. This would occur until a state's level of benefits reached the official poverty standard, after which any additional benefit increases would be exclusively assumed by the state.

Provision for public job creation is even less than under the Ullman proposal. The Baker-Bellman bill would retain current resources for providing the existing level of CETA public service jobs through 1979. At that point the allocations would decline over a four year period to reach a level of only 250,000 slots in 1983, providing that the national level of unemployment does not exceed 6 percent. The major instrument that the bill proposes for job creation is a system of either job vouchers or job credits for private sector employers who hire AFDC recipients unemployed 26 weeks, provided that they pay the prevailing wage and that there is no job displacement.

Based on the conventional level of adequacy established by the

federal poverty standard, no bill yet proposed insures that minimal level of adequacy. Only the Administration and Subcommittee bills insure this level of adequacy for those who are working. Further, the Ullman and the Baker-Bellmon bills exclude from any more support than current programs provide, large numbers of childless couples and single individuals. Though the incremental bills increase the present value of the EITC now available, neither bill insures a job for those expected to work. None of the bills totally resolves the difficult problem of wide national variation among states in their benefit levels. Though all do set a minimum floor under that part of the population to be covered, in both incremental bills the floor is so low that most states already pay that minimum level of benefits.

Substantial incentives exist for state supplementation in all but the Ullman bill. But state supplementation is ultimately a mixed blessing. It may result in disparities in benefit levels regionally. States which have traditionally been more generous in their commitment to welfare support will probably remain so, while those states which have not been so generous in their commitments will probably retain their traditionally low levels of support.

Throughout, an effort has been made to compare the value of existing benefits to those proposed for different groups in the competing proposals. No mention has been made of the important contribution that the value of in-kind benefits now available to welfare eligibles through Medicaid might have. The Medicaid dilemma, and how it will be resolved, has important implications for comparing proposed income transfer systems to the existing one. Presumably, the incremental proposals would retain existing Medicaid eligibility to participating families. The value of these benefits has been shown to be substantial. (Lyon, et al., 1976) The comprehensive proposals have not attempted to extend Medicaid eligibility to groups which would for the first time become eligible for income transfers under their proposals. Many suspect that this will result in undue hardship and implicit inequities in the value of benefits to similarly situated families within the new program; that is, those eligible under existing programs will remain eligible under the reform proposals, but those newly enfranchised will have no such option. If states are required to assume all responsibility for Medicaid to new eligibles, the costs may be tremendous. It will encourage further state disparities as well as interfere with state supplementation incentives. The Subcommittee and Administration proposals have left this question unresolved because of the expectation that national health insurance will soon make it a moot point. In the meantime, however, it weakens the adequacy of the proposals while retaining a troublesome "notch" often criticized as part of the existing system.

The goals of simultaneously providing an adequate level of resources and universal coverage are not met by any of the major legislative

proposals. Nevertheless, the Subcommittee and Administration proposals make a dramatic effort in beginning to approach those goals. The problem of making judgments in a vacuum about a particular goal in welfare reform becomes obvious. Economic theory and empirical research point to the danger of high guarantees. Work disincentive effects and costs must be traded off against adequacy. The next section will begin to place the relative merits of these competing goals in perspective. Though adequacy remains a critical factor in any attempt to design and evaluate a new income transfer system, additional concerns weight heavily in determining the optimal mix of program parameters.

Work Effort

No issue in the welfare reform debate has received more attention in the popular media or research community than that of the work effects of the welfare system. Four multi-million dollar income maintenance experiments have been undertaken for the primary purpose of estimating the level of labor force withdrawal which is to be anticipated under a reformed welfare system. A considerable amount of non-experimental research has also been done for this purpose.

Economists argue that two basic elements in an income maintenance program affect the work effort of program participants; the guarantee and the benefit reduction rate (tax rate). These two program elements influence how recipients will assess the attractiveness of work. Experimental research and non-experimental research on both the current and proposed systems have revealed significant relationships between reduction in work effort and the size of the guarantee and the tax rate. (Appel, 1972; Watts, 1974; Garfinkel, 1974; Cogan, 1978; Keeley, et. al., 1977)

Most of the research has shown that male heads of families respond the least to changes in these program parameters, followed by female heads of families. Wives of working heads (secondary workers) generally respond more immediately and dramatically to changes in the "cost of work" than do either of the other groups. By and large, male heads of families have a strong attachment to work and changes in the guarantee and tax rates seem to have a significant effect for only a small portion of them. (Freidman and Hausman, 1977)

The other finding for which there is wide support is that labor force withdrawal is more likely for those groups with lower normal income. Thus, we would expect a greater reduction of work at a given benefit level and tax rate for those groups where normal income is the lowest. But since there are far greater concentrations of families as we move up the income ladder from, say, \$1000 to \$5000, the danger of substantial reduction in work effort is contained within a smaller group of families.

Many have been particularly concerned about the unmeasured work effects of the current welfare system. The value of many cash and in-kind benefits often results in high implicit guarantees. Recent research in New York City demonstrated that the value of multiple benefits packages that many families received was far higher than they could generate through work. (Lyon, et al., 1976) Similarly, the cumulative marginal tax rates which result from multiple benefits are suspected of providing severe inhibitions to labor force participation among eligible families. (Hausman, 1974) Many of the existing disincentives and costs of a categorical and multi-program system go unmeasured. The size and cost of projected reductions in work effort from a reformed system may therefore seem greater when compared to the present system than they actually are.

The dominant group on welfare nationally is the female-headed family. New proposals which extend coverage to male-headed families are creating the largest amount of concern among researchers and policy makers because of the uncertainty of their projected labor response. Profound labor force withdrawal as a result of new income maintenance programs is feared for a variety of reasons. Work disincentives could result in a decline in national output, in the projected income (and thus, well-being) of the target population and, most dramatically, in the projected cost of any new program. More important is the moral conviction, strongly held in this country, that work ought to be stringently encouraged, if not demanded.

The most recent data on the effects of a reformed welfare system have come from interim reports from the five year Income Maintenance Experiment in Seattle-Denver. It reported labor supply effects which were large and significant. Although it was not possible to distinguish among the specific labor supply responses of families exposed to different guarantees and tax rates, it was possible to generalize about the impact of a negative income tax program in general. The results are consistent with those found in non-experimental cross-sectional studies. (Keeley, et al., 1977) Husbands were found to reduce their labor in response to the program by 5.3 percent, wives by 22.0 percent and female heads by 11.2 percent.

Legislative debates during this round of welfare reform proposals, as in past rounds, recognize the work disincentive effects of any income transfer system. Those who react most emphatically against promoting any labor supply decline, at any cost, often call for strong administrative components, in any new legislation, which create compulsion to work. The view that the work test is the proper vehicle to combat the implicit work disincentives in an income maintenance program has persisted for virtually hundreds of years. In view of the lack of any solid empirical support for the effectiveness of administration compulsion to work (Evans, et al., 1975, Stevens and Austermann, 1975; Stevens, 1974), and the tremendous

resource commitment necessary to attempt to enforce it, it is curious that it remains a politically necessary component in all proposed programs.

The Administration and Subcommittee proposals are comprehensive systems with universal coverage. Presumably a universal approach would eliminate many of the expensive and inestimable work disincentive effects of the highly decentralized, categorical, and administratively complex system of state and local welfare programs which currently exist. The costs of labor force withdrawal in a universal system must be weighed, ultimately, after netting out the perverse and highly costly behavior induced by the current maze of problems.

Nevertheless, the Administration and Subcommittee proposals are sensitive to the political debate and empirical evidence related to work effort. For those expected to work, during the job search period the head of household who is searching for a job is ineligible for benefits. The effect of this provision is, of course, to remove a known work disincentive (high guarantee) during the precise time when one would wish a recipient's work effort to be the strongest. If work is not found within eight weeks (five weeks in the Subcommittee proposal), the family would be eligible for the full support available for families who are not expected to work. The guarantee at this upper tier would be 2/3 of the poverty line.

The benefit reduction rate would not exceed 50 percent^{*} of earnings for those expected to work. In addition, benefits do not begin to be reduced until earnings reach \$3800. For those on the lower tier, therefore, benefits are not reduced at all until earnings exceed \$3800. Provisions for state supplementation specify that a total benefit reduction rate can never exceed 52 percent for combined federal and state supplemental benefits. To insure that cumulative rates do not exceed this maximum, the EITC does not begin to be phased out until earnings exceed the break-even point for benefits. Clearly this results in providing benefits from the EITC to families whose incomes are higher than the poverty line. The target efficiency of this scheme is lower, but the work disincentives of higher tax rates within the 48-52 percent range, including the federal payroll tax on earnings.^{**}

*The level at which most research suggests compromising work disincentive effects against program costs.

**Most tax rate maxima reported in this section come from recent calculations made by the Urban Institute (Levy, 1978).

For those not expected to work, the maxima are similar, with the exception of state supplemental benefits which are permitted to be reduced as rapidly as 70 percent for each dollar of earnings. Overall tax rates, however, may not exceed 71 percent for this group of recipients whose work effort is of less concern.

The Subcommittee proposal does not recognize in its provisions the same importance of work disincentive effects and has different provisions for tax rate maxima than does the Administration proposal. For those expected to work, the maximum tax rate, including state supplemental benefits, may rise as high as 70 percent. The EITC, unlike that of the Administration proposal, reaches its maximum level of benefits at a substantially lower level of earnings. Thus recipients may still be receiving cash benefits when the 6 percent reduction rate begins for the EITC. Total tax rates, therefore, may be quite high. They remain at about 64 percent when the EITC is increasing and can reach 82 percent when it is phasing out. Similar ranges face those groups not expected to work.

Neither bill, it was mentioned earlier, deals with the problem of the Medicaid "notch" which results in loss of all Medicaid eligibility when a dollar of earnings puts recipients above the break-even level. The implicit marginal tax rate for those who lose all Medicaid eligibility can, therefore, be several hundred percent. It is not clear at this state, however, how many recipients will be eligible for Medicaid in the first place, since there is no provision to allow initial Medicaid coverage to those recipients who would not be eligible under the existing system.

Both bills have a "strong" work test. The first part of the work requirement is facilitated by a distinction by category between those expected to work and those not expected to work. The criteria for classification are based, for the most part, on clearly identifiable demographic characteristics. It is not clear, however, how disability will be determined and how standards of judgment can be applied uniformly. This is, of course, a major national problem in the operation of the disability insurance program.

Though the need for complex administrative regulations is minimized, uniformity of eligibility standards for the upper tier will doubtless be subject to national variation and unavoidable administrative discretion.

Failure to accept work by the principal earner in both bills results in a reduction in benefits; that is, the part of the grant allocated for the principal earner is deducted from the total family grant. For a family of four, the benefit standard would be reduced from \$4200 to \$2300. Enforcement of the work requirement is not too difficult for those seeking public service jobs. But for jobs in the

private sector the problem remains as difficult as existing enforcement of the work test in AFDC-UF and Food Stamps programs. It is quite simple for individuals to make themselves appear undesirable to a potential employer at a job interview. This type of work evasion is impossible to monitor or control. Administrative machinery set up to attempt to enforce a work test is expensive and complex. Attempts at doing so in state and local program administrative levels have not been successful in altering work behavior of recipients in existing programs. (Evans, et al., 1975)

Recent research has shown that work is substantial even for welfare recipients. (Rainwater and Rein, 1976) Hausman and Freidman (1975) point out that even among those 3-4 percent of the participants in the New Jersey Income Maintenance experiment who did not work, it was health problems, not distaste for work, which determined their employment status. Most of those who have studied unemployment spells among low income workers have found that most of them ultimately return to work. Thus, the question remains whether a work test is likely to alter either the incidence of unemployment from job separation or the length of unemployment spells. The issue is whether the costs of effective monitoring of a work test, when the results in labor force participation are apt to be quite small, are worth the displacement of resources from other more effective forms of employment assistance.

The Ullman bill and the Baker-Bellmon bill retain many of the work disincentives which exist under the current system due to multiple benefits from a multiplicity of programs. Nevertheless, certain incremental changes are proposed to deal with many of the egregious criticisms of the current system. The Ullman bill does nothing to alter the guarantee facing those expected to work during a job search period; this is potentially more of a work disincentive than under the comprehensive plans' lower benefits during job search. Nevertheless, maximum federal benefit levels are lower than in the other two proposals and do not vary by family size (a potentially weaker work disincentive effect is therefore present for large families, however unintended). The bill does eliminate a strong work disincentive present in the current program, the 100-hour rule governing male-headed intact families. Provisions for recoupment of yearly benefits in excess of allowable levels (which results from basing yearly benefit calculations on earnings from one month) provide potential increased disincentives.

The Ullman bill establishes a tax ceiling for AFDC and AFDC-UP at 60 percent, whether or not benefits are supplemented by the states. Food Stamps (with a benefit reduction rate of 20 percent for incomes less than \$7400 and 40 percent above) are sequenced such that Food Stamps benefit calculations consider both increases in earnings as well

as decreases in AFDC or AFDC-UF benefits. This helps the problem of additive tax rates. The EITC supplements earnings up until \$5000 and phases out at a 13 percent rate above \$7500. All of these rates, combined with the federal payroll tax of 6 percent, result in maximum rates for two-parent families of about 54 percent below \$5000 and 74 percent between \$5000 and \$7500. The rates for female-headed families are similar but slightly higher.

The work test remains basically unchanged from that of the existing system. The principal wage earner in two-parent families and female heads with children over six are required to register for WIN training and job search activities. If these groups expected to work fail to register or fail to accept a bona fide job offer, the family is disqualified for AFDC and Food Stamps. If the female head failed to register, she would be disqualified, while payments for her children would still be made, but to a third party.

The same administrative difficulties exist with enforcement of these work regulations as currently exist and which were described for the comprehensive proposals. Their inclusion in all the proposals, therefore, must be taken as a political price necessary to achieve support in a conservative Congress. Similar requirements were ultimately included in the abortive reform attempts of FAP, with no additional confidence among planners or administrators in their necessity or effectiveness.

Of all the proposed legislation, the Baker-Bellmon bill responds the least with specific provisions to alter the work disincentive effects of a reformed welfare system. It provides for a single benefit level, even during job search. It does nothing about the "notch" effect of the 100-hour rule, since it merely replaces a rule based on hours with one based on earnings. And, finally, it provides additional work disincentives through the provision for benefit recoupment.

Benefit reduction rates in this bill, which result from a combination of AFDC and AFDC-UF rates of 67 percent, the current Food Stamps rates, and 20 percent reduction of the EITC above the poverty line, and the federal payroll tax, reach a maximum of 66 percent above the poverty line and 101 percent above the poverty line (as the value of the EITC declines). These rates, in general, apply to both two-parent families and female headed households. As in the other proposals, no provisions are made to deal with the Medicaid "notch." Work requirements are similar to those in the Ullman proposal.

Work incentives through low tax rates and low guarantees are unlikely to have the desired impact when jobs for welfare eligibles are simply not available. It is therefore important to consider the

strength of the commitment toward job creation in evaluating the respective impacts the various proposals have on work effort. The Administration proposal provided the strongest work incentives of all the proposals currently under consideration. The low tax rates, combined with the two-tier system, whatever its complexities in administration, provide the strongest work incentives of any of the bills. The work test, it has been argued, may be seen as unimportant in effecting work effort, but may have a substantial impact on costs and indirectly drain resources away from more effective employment assistance.

The provisions for 1.4 million jobs in the Administration proposal goes further in recognizing the limitations of the existing job market for the low wage workers than any of the others. Though it is beyond the scope of this paper, serious problems may arise in designing proper jobs and providing training which will lead to ultimate employment in the private sector. The current list of jobs to be designed does not seem to be entirely appropriate for the target population. Nevertheless, the combination of program parameters and the jobs components appears to be most consistent with what current research has been suggesting are necessary components of a reformed system. The concerns expressed by those who find the level of labor force withdrawal in the recent income maintenance experiments disturbing, are probably unfounded in a universal system where no dramatic changes in benefit levels are likely. Indeed, it appears that if all of the social costs of the current categorical system are netted out, the costs of the reformed universal system may seem quite modest.

Family Stability

During the 1960's the rapid growth of the AFDC caseloads motivated concern about the program's impact on the incidence of female headship and marital instability. The design of the program seems to support the view that the program itself encouraged, through financial incentives, marriages to break up or be postponed. This view was explained through reference to program eligibility requirements which excluded support in many states for families with an unemployed male. Restrictive eligibility requirements in states which did operate an AFDC-UF program provided additional incentives to break up existing marriages or not form them in the first place, so that a female family head could become eligible for income support.

The research has not resolved very clearly the precise validity of these concerns. Indeed, a variety of data sources has yielded contradictory results. (Cutright and Scanzoni, 1973; Honig, 1973; Bernstein and Meezan, 1975; Sawhill, et al., 1975; Hoffman and Holmes, 1976) This section, therefore, will describe the emerging theories

of the impact of income transfers and program design on issues of family stability rather than attempt a proposal-by-proposal comparison, as in the previous sections. An attempt will be made to review the trade-offs in the current system against those in a reformed system, without detailed references to the specific provisions of each of the major proposals.

The decision to marry or to dissolve a marriage is based on a complex combination of social, psychological, and economic factors. Most of the research on the effect of income maintenance systems on these decisions has concentrated on the economic determinants. Among those studies which have found a positive and significant relationship between AFDC and marital instability, the variation explained is always quite small (e.g. Hoffman and Holmes, 1976; Bernstein and Meezan, 1975).

Nevertheless, the emerging economic theories which attempt to explain the incidence of family instability among those on welfare often emphasize two competing economic relationships. One is called the "independence effect," which relates to the finding that female income (or income producing capacity), as well as the access of women to alternative sources of income (i.e. AFDC), relieves the economic pressure to remain married or to marry. Several researchers have revealed the existence of this effect. The second effect, known as the "income effect," relates to the finding that at higher levels of income the incidence of family disruption appears to decline. This is often explained by the recognition that at higher levels of income the interpersonal strains caused by economic insecurity and negative views about the male role performance are relieved. The table below lays out the relevant hypotheses and the expected influence that universal and categorical income maintenance systems are likely to have based on the hypotheses.

Proponents of a universal income maintenance system, like the negative income tax, have argued that it will remove the existing incentives for family splits which are motivated by economic need. A universal system which bases eligibility for transfers on income alone (and without any family composition requirements) has been thought to remove incentives for family break-up among needy families who wanted to meet the eligibility requirements for income support.

The most recent results of the New Jersey Negative Income Tax Experiment and the preliminary findings from the Seattle-Denver Income Maintenance Experiments have produced considerable confusion. In general, the experiments showed, contrary to expectation, higher levels of marital dissolution among experimental families than among comparable controls. Control families were permitted to take advantage of existing welfare programs. A recent study which has had a considerable impact on the debates over the Administration's proposal in committee points to the danger of inducing even greater family instability by instituting a universal income (Bishop, 1978)

TABLE 3 HYPOTHESES ABOUT ECONOMIC VARIABLES AND MARITAL STATUS CHANGE

| Theory | Relevant Income Variable | Marital Disruption | | Expected Influence of Income | |
|---|--|--|--|---|-----------|
| | | Major Hypotheses | Categorical | Maintenance | Universal |
| Economic strain | Family Income | Low income strains family relationships | No effect | Reduces disruption | |
| Husband's role performance | Husband's income (relative to some standard, as perceived by the wife) | Wife's gains from marriage are positively related to husband's income | No effect | No effect | |
| Female independence | Wife's income from earnings or public transfers | Wife's own income provides alternative to husband's support | Increases disruption | Increases disruption | |
| Female head's income influences gains from marriage | Female wage, other female income | (Re) Marriage Female independence rises with own income, reducing the probability of marriage | Increases independence, delaying marriage | Increases independence, delaying marriage | |
| Female head's income influences gains from marrying her | Female wage, other female income | Attractiveness rises with female head's own income, increasing probability of marriage | Depends on whether aid terminates at marriage* | Depends on benefit for male-headed families, vs. those for single males | |
| Potential mate's income influences female head's gains | Total income of suitable partners | Probability of marriage increases with income of suitable partners | No effect. Aid unavailable to males. | Promotes marriage insofar as it augments income of suitable partners | |

*Aid for children in an AFDC unit does not necessarily terminate upon marriage. If the stepfather does not adopt the children, aid continues. However, aid does terminate for the mother so the father must contribute something or the family will suffer a net loss in income.

Source: MacDonald & Sawhill, 1978.

Explanations about what caused greater levels of family disruption among the experimental families than the controls usually take two forms. The first points to weaknesses in the experiments themselves, such as non-random attrition. Further, many have suggested that the results of the experiments are site-specific and cannot be generalized to a national program. The other attempts to explain that the findings are of a more theoretical nature. A closer look at the Seattle-Denver results reveals high rates of family break-up at low levels of support when compared to the controls, but comparable or lower rates at higher levels of support. These results may be showing that at low levels of support the female "independence effect" dominates but at higher levels of support the "income effect" dominates. Therefore, far from suggesting that a negative income tax should be abandoned, the results may be suggesting that a negative income tax at a more generous benefit level should be instituted.

Others have interpreted the findings differently. It may be that the stigma of AFDC constrains women in unhappy marriages from dissolving them, by inhibiting them from applying for AFDC. The lack of stigma in a universal system may therefore provide these women with a non-stigmatizing option for escape. (Bradbury, 1977)

The income maintenance experiments provided experimental families with a considerable amount of program information about the rules and regulations of participating. Some researchers have argued that the experimental families, unlike the controls, were aware that they would be eligible for continued benefits even if their marriages were to end. This information may have reduced the costs that those in unhappy marriages might have perceived in dissolving their marriages. (Hannan, et al., 1977) Alternatively, it may be that the new participation of a working make household head in income supplementation under the experiment undermines the female's view of his role performance. That is, the receipt of income supplements may be viewed as a signal by some families that the husband is a failure and, when he is not able to fulfill his role as breadwinner, marital tension results. (Bishop, 1978)

These explanations remain largely unresolved. The table above demonstrated the degree to which categorical programs or universal programs are hypothesized to effect marriage and separations. Categorical programs appear to have only incentives for family dissolution. Universal programs appear to provide incentives for both decreased and increased marital dissolutions.

The cash component of the Administration bill and the Subcommittee bill generally constitutes the archetype of a universal negative income tax program. However, the distinctions made between those who are expected to work and those who are not, provides a potential for

increased marital dissolution. Though there is no punishment through withdrawal of benefit eligibility for intact families, there is an implicit incentive for male heads assigned to the lower tier to abandon their families. Their families would be eligible for benefits at the upper tier without the male head. Hausman and Freidman (1977) suggest that we consider the following example: A two-parent family of four with at least one young child, and where neither parent works, is assigned to the lower tier. They are eligible for \$2300, but if the husband leaves, the remaining one-parent family moves to the upper tier where they become eligible for \$3600, or a substantial gain in benefits. In addition, the separated husband may be eligible for benefits as high as \$1100 if he cannot find a job. There exists, therefore, as in AFDC, a strong financial incentive for the family to dissolve. The incentive among all eligibles is to move to the tier where the benefits available are higher. However, this is a dramatic and particular example which is not likely to be as universally profitable as is the incentive in the AFDC program.

The view described above that providing income supplements to an intact family signals the failure of the husband as a breadwinner, is minimized in the comprehensive proposals through the provision of jobs and, for those employed, an increase in the value of the EITC. This sort of income supplement is likely to be less stigmatizing since it is available at relatively high levels of earnings and this form of supplementation may be viewed as part of the tax system rather than the welfare system.

Finally, decisions about marriage and divorce are important long-range decisions. The immediate effect of the income maintenance experiments may not be borne out over the long run in a new system. Indeed, the option to leave a bad marriage may be facilitated by the availability of income support. It may not, however, precipitate such decisions over the long run. (Ross and Sawhill, 1975)

The added incentives in the current system for illegitimacy, though not supportable definitively by the research, are removed in the comprehensive proposals with increased coverage to include single individuals. The pro-natalist orientation which provides increased benefits with increased family size remains. Nevertheless, no research to date has provided convincing evidence that welfare mothers currently increase their family size for the purpose of increasing their welfare grants. (Presser and Salsberg, 1975) Results from the New Jersey negative income tax experiment revealed no significant difference between the experimentals and controls in their level of fertility. (Cain, 1974)

The incremental proposals modify somewhat the incentive for family dissolution by mandating AFDC-UF in all states. Nevertheless,

the Baker-Bellmon bill constrains eligibility for two-parent families with an arbitrary earnings limit. This is a potential destabilizing factor. However, if the stigma effect of welfare does indeed operate to inhibit the female independence effect, retaining the present welfare system in these bills probably will act to stabilize marriages.

If the independence effect dominates at lower levels of support and the income effect dominates at higher levels, the more generous benefit levels of the comprehensive proposals may operate to stabilize marriages. Further, it has been suggested that in programs with high marginal tax rates a male head (principal earner) may leave the family to protect his earnings. (MacDonald and Sawhill, 1978) The lower tax rates in the Administration proposal may inhibit family dissolution for this reason.

Much of the impact of the various proposals on family stability is mere conjecture. The empirical evidence and the theory are not consistent. A more important issue may be whether some additional family break-up is worth the price for reform. Few of these studies have provided any evidence on the nature of the marriages which dissolved. Bernstein and Meezan (1975), in a small sample of New York welfare mothers, did provide this kind of evidence. Many of the women in the dissolved marriages reported a high incidence of drug addiction, alcoholism, violence, and infidelity among their departed spouses. As a matter of public policy, permitting women in unhappy marriages the financial option to leave their husbands, may not be such a bad thing. Marital stability, for its own sake, does not appear to be a suitable dictum nor a sufficiently critical priority for which adequate support and equity ought to be compromised. Indeed, withdrawal of all income maintenance support is likely to increase female dependence on marriage, thereby increasing marital stability. It is not, however, reasonable to compromise the other important goals of income maintenance reform for the continuation of marriages of unknown quality. Finally, it is not at all clear whether such fears will be realized in a new program. Evidence appears mixed and the alternatives are not terribly attractive.

Costs

Although critically important issues of public policy are raised by the current crop of welfare reform bills presently before Congress, it is likely that many decisions on program content will be subordinated to considerations of program costs. The recent description of President Carter's principles for National Health Insurance reflects the overriding priority that questions of national economic health will have in determining any new social programs. Indeed, the proposal conditions the timing of phasing in national health insurance on the state of the national economy.

All the critical dimensions of welfare reform addressed in the previous sections may ultimately rest on their cost rather than any loftier concerns such as equity or adequacy. Small changes in program parameters can have a very significant impact on overall program costs. For example, the higher the guarantee and the lower the tax rate in any proposed cash assistance program, the higher the cost of the program. Lower tax rates and higher guarantees result in extending the break-even level of income. Therefore, benefits continue to be paid to families with higher incomes. As the break-even increases, given the current income distribution, larger numbers of families concentrated at higher levels of income become eligible for benefits. Therefore, the lower tax rates and the higher guarantees of the Administration proposal represent substantially larger resource commitments than either of the incremental bills.

Data on labor force withdrawal from the Seattle-Denver Income Maintenance experiment has been a great help in simulating the program costs of a reformed system. (DHEW, 1978) Labor force withdrawal can be estimated, using experimental results on the basis of proposed tax rates and guarantee levels. Further, recent results have shown that variations in program participation rates are related to these program parameters. Both of these considerations influence the ultimate cost of a program.

Additional factors which have significant impacts on program costs are the number of persons eligible for benefits and the length of time an eligible recipient is required to wait until he or she is placed in a public service job. (Levy, 1978) The number of eligibles is dependent first on the break-even level of income as determined by the guarantee and the tax rate. Equally as critical is the proposed program coverage. Obviously, whatever the guarantee and the tax rate, if the coverage is quite limited, such as to families with children exclusively, the costs will be far less than if coverage is universal.

The Administration and Subcommittee proposals propose coverage to all low income families. Included in eligibility for cash assistance will therefore be groups who are now only eligible for Food Stamps. Benefit levels in these comprehensive proposals are higher than Food Stamps benefit levels for these groups and absolute benefit levels are higher for cash assistance than for AFDC and AFDC-UF recipients in some states.

Levy (1978) points out that the incremental bills are concerned with the more limited coverage of AFDC and AFDC-UF populations. Though both bills expand AFDC coverage, by setting a minimum national benefit standard and mandating AFDC-UF in all states, they also move a number of AFDC recipients into public service jobs. "The net result is a decrease in cash assistance (as distinct from public service wages)

going to the poor. A similar effect exists in the Administration and Subcommittee bills but it is more than offset by the new groups who are eligible for cash assistance." (p. 12)

The Administration and Subcommittee proposals require a relatively short job search period before eligibles can be placed in public service jobs. The Ullman and Baker-Bellmon proposals require considerably longer job search periods (16 weeks for the Ullman bill and 90 days for the Baker-Bellmon bill). Considerable variations exist in the resources allocated for public service jobs, though all the bills claim to provide them for all eligibles. The difference in waiting period influences the number of jobs required and this, in turn, distinguishes the amount of resources required to provide the necessary jobs. Given the differences in the definition of eligibles and the length of the waiting periods, a substantial determinant of overall program costs can be explained by the job component. Indeed, as Levy has demonstrated, the differences in the cash and jobs components of the four bills account for most of the total difference among their total costs.

A variety of specific rules and regulations which have not been described in previous sections may also result in significant changes in program costs. Decisions about the period over which income will be counted for benefits determination (the accounting period), the maximum benefit level a family can receive as their family size increases, the limitation on assets, rules governing disability determination, the method of indexing benefits for changes in the cost of living, and a myriad of other program features all influence aggregate program costs. Often, small changes in these features can have profound cost implications.

Table 4 presents a breakdown of estimated new (net) federal program costs for each of the proposals. The interest here has been to calculate incremental costs or total cost minus the offsets produced by reductions in other programs. (Levy, 1978) Clearly, these are only crude estimates. A variety of assumptions were necessary, including the projected state of the national economy and the amounts states will choose to supplement federal benefit levels.

The Subcommittee proposal has the largest overall program costs but by no means the highest level of fiscal relief for the states and localities. The Ullman proposal and the Baker-Bellmon proposal are the least costly, but they do not provide the same level of new fiscal relief to the states. In fact, the Baker-Bellmon proposal provides fiscal relief consistent with that projected for the Administration proposal.

TABLE 4

BREAKDOWN OF NEW FEDERAL PROGRAM COSTS FOR
ALTERNATIVE WELFARE REFORM PROPOSALS, 1982*

| (billions of 1982 dollars) | | | | |
|--|-------------------------------|-----------------------------|---------------------------|----------------------------------|
| | Administration <u>Bill</u> | Subcommittee <u>Bill</u> | Ullman <u>Bill</u> | Baker- Bellmon <u>Bill</u> |
| 1) New funds in cash assistance and food stamps | \$2.68 | 5.53 | -.55 to -.95 | -2.01** |
| 2) New funds in public service jobs & the WIN program | 11.03 | 11.42 | 5.07 | 3.99 |
| 3) New funds in the Earned Income Tax Credit | 2.07 | 1.06 | 3.33 | 3.12 |
| 4) New funds in tax credits and wage subsidies for private sector job creation | - | - | .05 | 1.18 |
| 5) New fiscal relief | <u>3.36</u> | <u>2.21</u> | <u>1.0-1.5</u> Approx. | <u>3.05</u> |
| 6) Total 1982 costs | 19.14 | 20.22 | 9.0 | 9.33 |

*The data on the Administration and Subcommittee bills can be found in a cost memo sent from Alice M. Rivlin, Director of CBO, to Rep. James C. Corman (undated). The data on the Baker-Bellmon bill can be found in a cost memo sent from Rivlin to Sen. Henry Bellmon (undated). In particular, the Baker-Bellmon bill costed by CBO did not include regulations for "recoupment," the process by which welfare recipients repay some or all of their AFDC and Food Stamp benefits if their annual income is above a set level.

Cost estimates taken from "Summary of the Ullman Welfare Reform Proposal." document prepared by the House Ways & Means Committee Staff, Feb. 7, 1978.

** This number will be lower (more negative) when benefit recoupment is taken into account.

Source: Levy, 1978; Table 1, p. 11.

Several analysts of the Administration proposal have suggested that extreme caution must be exercised in accepting the cost estimates of the proposal. (Miles, 1978; Freidman and Hausman, 1977) Both the Administration proposal and the Subcommittee proposal require totally new administrative structures. In particular, the jobs component requires entirely new machinery for job creation, job placement, and monitoring and enforcement of the work test. No experience to date provides comparable data necessary to estimate the national costs of such a large scale undertaking with this kind of target population.

It is extremely difficult, and perhaps somewhat misleading, to make judgments looking at these comparative program costs in isolation. Even assuming that the estimates reflect more or less what actual program costs will be, the real question remains whether or not twice as much is achieved by double the expenditures from the Administration and Subcommittee bills as compared to the Ullman and Baker-Bellmon bills. The previous sections have stressed the very modest changes that the incremental bills are likely to have. Because we have more experience with existing programs, it is easier to estimate the relative impact of these modest changes. The comprehensive bills are quite costly and are attempting more universal changes. They also attempt major goals with which we have had far less experience and the impact of which we can predict with far less certainty. Nevertheless, it appears from all of the analyses of human waste and suffering, as well as of the perverse incentives and administrative complexities in the existing system, that considerable weight is added to the argument that fundamental change is required.

Though program costs are likely to have a critical impact on legislative action, it is probably well to remember that they reflect the actual qualitative distinctions in program goals and potential outcomes. Whether or not such social goals can dominate the debate on the relative merits of competing strategies may rest on a variety of exogenous economic factors such as the state of the economy. Current analysis of the present political climate indicates that welfare reform of a comprehensive nature does not occupy a priority position among the majority of legislators. Though both the Administration and officials at DHEW have taken considerable pride in their effort to design their legislation in response to the best and most recent results of empirical research, the political process is unlikely to commit the amount of resources required for passage.

CAN WELFARE BE REFORMED?

There are two ways to answer the question of whether or not welfare can be reformed. The first attempts a strictly programmatic analysis which addresses the program criticisms of the current system. Based on the analysis of current research findings, it appears quite likely

that with the necessary political and resource commitment many of the most disturbing features of the current welfare system can probably be marginally rectified. The Carter plan, though not without its weaknesses, makes the best legislative attempt to date to address these problems rationally.

The implicit endorsement of a Carter-like plan is conditioned in this paper exclusively on the degree to which it maximizes the goals which have emerged as central to the current political agenda. No attempt has been made to evaluate the criticisms leveled upon it by other important interest groups. For example, critics from the social welfare establishment reject the Carter plan as real reform based on its punitive treatment of those expected to work during their eight week job search. In addition, benefit levels below the poverty line and the insistence on a work test are viewed as distasteful if not unacceptable by those whose assumptions for reform include values derived from socialist notions of a mature welfare state.

Though the author is aware of these alternative values for assessing welfare reform approaches, it has not been the goal of this paper to consider goals other than those which have emerged as central to the political debate. More extensive analysis of these questions would, however, be critical to a final endorsement of any major approaches to poverty reduction.

Nevertheless, a second way to answer the question about whether Carter's plan constitutes true reform involves a more important institutional analysis. Though the legislative debates continue to place undue concern on issues related to work effort, recent research on low income males has shown their work effort to be substantial. (Levy, 1976) The real problems for these workers are low wages and large families. Other research on the secondary labor market has indicated that many low income males will never achieve adequate income because labor market segmentation precludes their access to employment in those industries where on-the-job training and "ladders" for upward mobility are available. (Doeringer and Piore, 1971).

Welfare reform of the universal sort typified by the Carter plan attempts to respond, through income supplementation, to the consequences of these market imperfections. It does not, however, attempt a more fundamental reform of the determinants of low wages and poverty which go to the very root of the market system. Provision of public service employment responds to an immediate problem of insufficient jobs. No attempt has been made to alter the incentive and reward structure in the private market which determines the structure of wages and the level of employment. Though Administration

spokesmen continue to argue that placement in public service jobs is only temporary, and that the expectation is that low income workers will move swiftly from public to private employment, there are no indications as to how this will occur without more fundamental changes in the economy.

Welfare reform of a programmatic nature is clearly indicated. Any advanced industrial economy will have those individuals and families who cannot provide for themselves. Providing an equitable, decent, and non-stigmatizing system for income support is incumbent upon a nation which claims to adhere to principles of the modern Welfare State. Nevertheless, there has always been an inherent conflict in the United States between the goals of the Welfare State and the goals of a capitalist economy. Fear of interfering with the labor market has always constrained social policy initiatives. One of the current debates over whether wages paid for public service employment should be set at the level of the minimum wage or the prevailing wage focuses on just such conflicts.

Strongly held ideological positions about work and income support have required all legislation to include politically motivated components (e.g. the work test). The compromises struck between real efforts at poverty reduction and politically acceptable reform continue to be uneasy. Nevertheless, it is unlikely in a period of growing conservatism and skepticism about any government initiative that a more radical type of reform than that represented by the Administration's reform proposal is realistic. Based on the comparative analysis of the current legislative alternatives, it is likely to achieve a variety of modest but important social reforms.*

*Regrettably at the final editing of this paper, a new and less ambitious plan has been introduced by the president. Far from achieving the modest goals of PBJI, it resembles far more closely the incremental bills reviewed here. Legislative analysts argue that even this pared down version (\$5.7 billion) has little likelihood of passage in the present political climate.

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