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POSITION PAPER

SUBJECT

SOCIAL AFFAIRS

ISSUE

PUBLIC WELFARE POLICY - INCOME MAINTENANCE

No. 13 A1
EMPLOYMENT DEVELOPMENT DEPARTMENT

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DATA SECTION

THEORETICAL APPROACHES

Efforts to improve income maintenance programs in the United States can take one of two directions.

1. Improvement in the present categorical assistance programs. Improvements needed are reduction in cost, reducing the rate at which persons are becoming dependent upon public assistance and providing a more adequate level of benefits.
2. Development and adoption of a negative income tax system from among the many proposed by economists and politicians. Proposals range from Milton Friedman's plan as an attempt to reform welfare ^{1/} to Robert Theobald's advocacy plans to ^{2/}eliminate poverty from the fruits of an economy of abundance.

STATEMENT OF FACTS

Continuation of current reform will eventually bankrupt the federal and state governments.

During the 1960's the AFDC payments more than tripled rising from \$1.0 billion to \$3.2 billion. ^{3/}

Coverage was greatly extended during the 1960's. Adoption of the unemployed parent category, foster care and eligibility after age 18 added some 800,000 persons to the AFDC rolls by 1970. ^{4/}

The increase in AFDC rolls was not consistent with other trends during the 1960's.

Between 1960 and 1969 the number of American's below the poverty level dropped from 40 million to 24 million, the unemployment rate fell to 3.5 percent in 1969. ^{5/}

Between 1962 and 1970 the average AFDC payment increased 60 percent; the average spendable earning of all private employers rose by only 37 percent. ^{6/}

Welfare reform programs as have been instituted in California have brought welfare caseloads and costs under control while providing increased assistance to the truly needy.

Through October 1972 there were three-quarters of a million fewer persons on the rolls than were projected. ^{7/}

Cash benefits to the truly needy have been increased from \$221 to \$280 per month for a family of four. ^{8/}

In the 1971-72 fiscal year California spent \$352 million less than anticipated for welfare. ^{9/}

FOOTNOTES DATA SECTION

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DISCUSSION SECTION

INTRODUCTION

The Social Security Act of 1935 was the first nationwide attempt at Income Maintenance.

The Act established two types of programs:

- (a) Social Insurance programs - Old Age, Survivors, Disability and Unemployment Insurance.
- (b) Public assistance programs for the elderly, the blind, the disabled and families with dependent children.

The social insurance programs distribute income maintenance payments on the basis of prior earnings and tax contribution. The public assistance programs provide support on the basis of need.

The two types of programs are based on distinction between those able to work and those who are not able to work. At the time the Social Security Act was passed it was usually thought that mothers with small children were not able to work and should remain home to strengthen family life.

The criticism that public assistance supports persons who simply prefer not to work was not widespread at first because relatively few persons were involved and the majority of persons on public assistance rolls were disabled or aged. However, after 1945 the number of persons receiving Public Assistance began to grow. The rate of growth increased during the 1960's and was not abated even when the improving economy allowed the numbers of unemployed and person living in poverty to decrease. This growth gave rise to the increasing concern that public assistance was supporting employable adults.

The growth in public assistance rolls, especially AFDC, can be explained by several factors. Population grew by over 50 percent between 1940 and 1970 and the population 14 years and under grew by 80 percent. ^{1/} Federal legislation

extended coverage in groups not previously eligible. In 1961 unemployed parents were included and in 1969 a foster care component was added. Thirdly, court actions that struck down restrictions on residency and "the man in the house rule" increased the number of potential recipients. Fourth, changes in the family structure, divorce, desertion and illegitimacy, have left higher numbers of mothers as heads of households needing support. Lastly, public assistance has become more attractive as the benefits increase and the stigma attached to it decrease. Between 1962 and 1970 the average AFDC grant increased by 60 percent while the average spendable earnings of non-recipients has only increased by 37 percent. ^{2/} Also, other benefits tied to public assistance, public housing, food stamps and medical care have been added which make public assistance more attractive. In some states substantial earning capacity is necessary to equal or exceed public assistance for certain categories of recipients.

Efforts to reverse the increase in welfare rolls have centered on attempts to reduce dependency through rehabilitation. In 1962, amendments to the Social Security Act provided for a range of social services that were intended to remove obstacles to labor force participation. In 1968, the Work Incentive Program was established to provide training opportunities and incentives to work for the employable recipients. Sanctions were also established for persons who refused to cooperate. In 1971, the work requirements were strengthened and all persons considered to be employable were required to register for work or training with the Federal Employment Service systems. Whatever the positive effect of these efforts, the growth in welfare rolls did not halt.

In California, efforts to control the welfare rolls centered upon four major program changes. ^{3/} These changes dealt with the administration of the welfare system itself more than with the individual recipient.

1. Elimination of the maximum participation base with its open-end budget.

2. Reduction of welfare rolls through a tightly controlled qualification program.
3. Assistance for those able to work to become economically self-supporting.
4. Elimination of aspects of the welfare system which weakened family responsibility and intensification of efforts to collect child support.

Most sections of California's Welfare Reform Act were implemented by October 1, 1971. However, full implementation of the reform was delayed by litigation led by welfare rights groups.

The Welfare Reform Act has resulted in decline of 352,184 cases from March of 1971 to July 1973. This decline is especially significant in view of the fact that the caseload had been increasing at a very rapid rate. There is some dispute over how significant the effects of welfare reform have been. However, the California Journal finds the figures themselves to be "indisputable". 4/

INCOME MAINTENANCE PROGRAMS

Negative Income Tax proposals are attempts to solve the very difficult programs of poverty and welfare dependency by using the framework concept and methods used in the present positive tax system.

The basic features of these proposals are a guaranteed minimum income, a rate at which non-program income is deducted from benefits, or a tax rate, and the break even point at which a person with a certain level of income no longer receives benefits. If a person's income is below the break even point rather than paying taxes, he receives payments from the Government. There are various technical problems which will not be discussed, for example, the method of payment, length of the accounting period, definition of income subject to the tax rate and what constitutes an income unit. The discussion will center on the concepts of the negative income tax plans and their application to overall income maintenance only.

Present proposals for income maintenance programs may be considered from two points of view. First, as a means of welfare reform and second as a means of eradicating poverty. The point of view one takes in this respect determines the acceptability and appeal of the various proposals. Proposals with the intent of eradicating poverty generally have higher benefit levels and universal coverage. This brings the cost of these programs up to very high levels up to a gross program cost of \$40 billion dollars. ^{5/}

Programs which may be looked upon as welfare reform programs generally cost less, under \$5 billion. They usually have strong work incentive features or work requirements and do not offer universal coverage.

For the purposes of this paper the proposals which may be considered welfare reform will be discussed. The objectives of these programs are to:

1. Minimize cost.
2. Provide an adequate benefit level.

3. Reduce the stigma attached to public assistance.
4. Be equitable and efficient in reaching needy.
5. Maintain work effort of recipients and not disrupt labor markets.
6. Receive wide political support of politicians and non-participants.

Obviously, these objectives are conflicting and any program must be a compromise based on an order or priority.

Cost of the Program

The cost of any income maintenance program is determined by the benefit level multiplied by the number of participants or coverage of the program. If earnings or non-program income are deducted from benefits then the influence of the program on earnings becomes a factor in determining cost. For example, a program is designed to influence recipients to remain or become employed even though they remain recipients of partial benefits the cost may be reduced. If on the other hand, the program causes people to drop employment in order to become or remain eligible the cost of the entire program increases.

Costs or savings to other Government programs must also be considered. If an income maintenance program can replace or reduce an existing program such as the Food Stamp Program or unemployment insurance then these become factors in the cost of the program. Also, supplementary programs tied to public assistance such as medical care and public housing may be affected if the number of eligible recipients increase.

Adequacy

The adequacy of benefit level must be compared to a standard. The most common standard is the Social Security Administration poverty line. However, this level is variously criticized for being too low or too high. Another problem is that poverty is usually viewed as relative deprivation compared to the rest of the

society. In this respect the poverty line has not maintained its relationship with the median income. In 1959 the poverty line was 47 percent of the median income, in 1968 it declines to 36 because of these programs and the fact that the poverty line varies with time and is not an absolute indication of poverty, it can only be used as comparison between programs rather than as an indication of need.

For the purpose of aggregate program comparison the most useful measure is the proportion of the poverty gap that is met. On an individual basis a useful measure is how close the program brings a typical person or family to the poverty line.

Reducing Stigma

Reduction of the stigma attached to public assistance is one of the objectives of many income maintenance programs. This intent is found in suggestions to shift public assistance to social insurance programs or to impersonally administer negative income tax schemes. This idea is important in the attempt to reach the working poor who often do not apply for aid even when eligible.

On the other hand, the stigma attached to welfare may serve to ration the program benefits by controlling the coverage and therefore reducing the cost. ^{P/}In communities where the individual is highly visible and the stigma of welfare is great. This effect may be a factor in reducing cost. However, in the large impersonal communities where most recipients now reside, the stigma has little effect on reducing welfare rolls.

Equitable Efficiency

Equitable efficiency is the level to which the program serves the persons it is designed to benefit. Efficiency may be divided into two concepts: vertical efficiency and horizontal efficiency.

Vertical efficiency is the proportion of benefits which go to the intended beneficiaries, compared to the total benefits distributed. In other words, vertical efficiency increases as more of the benefits go to the needy rather than non-needy. As this efficiency measure increases, the costs for the program are lowered. However, strict concern for vertical efficiency may be contrary to the interest of administrative simplicity. This may occur when the cost of administering strict eligibility requirement exceeds the savings achieved in reduced numbers of recipients.

Horizontal efficiency is the ratio of the number of beneficiaries in the target group to the total number in the target group. In contrast with vertical efficiency, cost is less when horizontal efficiency is low because fewer of the potential beneficiaries in the target group receive assistance. It is possible to achieve a high vertical efficiency at the same time the horizontal efficiency is low, both factors contributing to a lower cost. It must be kept in mind that neither aspect of efficiency relates to the adequacy of the benefit levels of a program. Both vertical and horizontal efficiency can be high even though benefit levels are low. ^{7/}

Work Incentive

The Work Incentive effects of any income maintenance program depend on the amount of the benefit level and on the proportion of each dollar of earned income that is deducted from the benefits. The proportion of earnings deducted may be termed a tax rate since the recipients' income is reduced by an equivalent amount to a tax on his earnings.

While there is little direct information on the effects of income maintenance programs on the work effort of recipient families, a certain amount of indirect information is available. The study "The Hours of Work and Family Income Response to Negative Income Tax Plans" by Alfred Tella analyzes the effects that non-employment

income and tax rates have on hours worked. The study is based on a selected sample from the 1967 Survey of Economic Opportunity conducted by the Bureau of the Census. The conclusions drawn from this study are that both factors, non-earned income and tax rates, have the effect of reducing hours worked. However, this reduction of work effort seems to be substantially lower for male heads of households than for female heads of households. This may indicate that female heads of families consider family responsibilities to be a greater inducement to substitute non-work time for income. The reduction of work hours was found to be greater for the higher non-employment income levels (i.e., higher subsidies) and for lower rate rates. It must be kept in mind that this study is hypothetical and based on inferences drawn from survey data on a sample of 6,500 households. The application of these conclusions to Income Maintenance proposals is uncertain. 8/

The New Jersey Graduated Work Incentive Experiment sponsored by OEO in 1969 to 1970, attempted to use experimental methods to analyze the effect of income subsidies on work effort. Though the final analysis is not available, preliminary conclusions support the assumption that income subsidies and tax rates on earnings will decrease hours of work. An interesting finding was that while hours worked by the experimental group declined 12 percent compared to the control group, earned income did not significantly change. This may indicate that participants in the experiment were more selective in looking for work and were able to find higher paying jobs. However, this hypothesis is yet to be verified through more thorough analysis of the data.

In summary, the two studies seem to show that Income Maintenance Plans would cause a reduction in work effort when compared to non-subsidized families and that high benefit levels and high marginal tax rates have a significant impact

on work effort. Reduction in work effort would be greater for persons in lower paying occupations. This effect would be likely to cause a decrease in the supply of unskilled labor. However, since there is a surplus of unskilled labor, the effect on the total economy is likely to be minimal.

Political Support

Wide support on the part of non-participants for an Income Maintenance Program is the one factor that determines its implementation. To obtain support a program must be perceived as being equitable and not providing a better standard of living to participants than non-participants. Another important factor is that non-participants must not view the program as inducing participants to forego work in order to receive benefits. Opinion polls indicate that the public is significantly more receptive to providing guaranteed jobs than a guaranteed income. This means that a guaranteed income program is likely to receive wide support only if it is limited to persons who are not perceived as being readily employable. This survey seems to show the public favor of the work ethic and presumably if a strong and effective work requirement were a major part of a program it would receive public support. ^{10/}

CATEGORICAL AID PROGRAMS

Cost

The present system of Categorical Aid as administered in California has achieved a great deal in overcoming problems with the welfare system. One of the primary objections to the welfare system has been uncontrolled cost. The cost of welfare in California has been minimized by reducing the number of eligible recipients through tighter eligibility standards and work related programs. In addition to these changes administrative changes in fraud detection, adoption of the closed end budget system, renewed emphasis on family responsibility, and collections of child support payments has resulted in more responsible management of the programs by the County Welfare Department.

Adequacy

The California Welfare Reform was able to increase grants to the truly needy by 30 percent and grant automatic cost of living increases. ^{11/} For all AFDC-FG cases the average grant has increased from \$199.00 to \$210.00 from September 1972 to September 1973. This approximates 70 percent of the poverty line for the average family receiving AFDC. Since the value of food stamps, health care and other benefits must be added to the cash grant, it seems that in California the benefits of public assistance to eligible recipients are approaching the poverty level.

Stigma

The Categorical Aid reforms in California have done little to reduce the stigma of welfare. The only change in this direction is due to the fact that removing the abuses and limiting eligibility to persons who are considered more deserving gives public assistance a more favorable image. The fact remains that persons receiving welfare still are set apart by their dependency. This aspect of public assistance is unlikely to change unless the program becomes much more accepted as an alternative

to employment with more or less universal eligibility and the cause of dependency becomes regarded as stemming from society rather than the individual.

Equitable Efficiency

Any judgment as to the efficiency of an Income Maintenance Program depends on the definition of target group. For categorical programs this may be defined as the aid categories themselves. The use of this type of definition makes this type of program potentially extremely efficient because only the intended recipients receive benefits. Any lack of efficiency in this case would only be due to fraud or administrative error. However, if the target group is defined by pre-program income level or poverty level, then the horizontal efficiency of categorical aids tend to suffer. This is due to the fact that potentially eligible and deserving individuals may be excluded through some factor as age, family status or other characteristic. Vertical efficiency also may suffer when various combinations of administrative procedures and eligibility factors do not achieve their intended effect of only serving the poor low income families.

The California Welfare Reform has certainly increased vertical efficiency as loopholes have been closed that previously made it possible for persons with high incomes to remain on aid. On the other hand, horizontal efficiency when judged by a standard based on need or poverty has declined. This is due to sanctions applied to uncooperative recipients or to unwillingness on the part of the potential recipient to meet requirements. However, this decline in efficiency may be considered justified if it results from the removal from the rolls of persons considered undeserving through their action or attitudes. The result in any case is a reduction in cost.

Work Incentive

The effect of the California Welfare Reform is likely to be a decline in monetary

work incentive. This means that the effective tax rate on earnings has increased. This is due to the abandonment of the Standard of Need concept in calculating earning deductions. Previously, earnings were deducted from the Standard of Need until it equaled the grant and only then was the grant reduced. This procedure allowed the initial earnings of a recipient to be retained or the equivalent of a 0 tax rate. With the adoption of the flat grant system, deductions for earnings are made from the grant itself. As a result all recipients ~~recipients~~ receive close to the same percentage of their need. The result of this procedure is a reduced monetary incentive to work, though it is more equitable in that it treats all recipients alike whether they have a high unmet need or not.

On the other hand, the establishment of strong work requirements and work experience programs can offset the decreased monetary incentive to work. Data on the Employables and Community Work Experience Programs show that higher numbers of recipients go to work in counties where these programs operate. ^{12/} This indicates that the incentive to work can be accomplished through program procedures and sanctions rather than monetary incentives.

Political Support

The Categorical Aid system as reformed in California has received mixed political support largely divided along partisan lines. Criticism has been made that the California system is punitive and that money has been saved at the expense of the poor. Other charges made are that the system is only stop gap and real reform must await federal action.

Supporters of the reform point to actual decreases in caseload and administrative savings in addition to increased benefits to many recipients. The public reaction also has been divided. However, there seems to be some evidence for the conclusion that the public views the reform as having eliminated much abuse and made the program more equitable.

NEGATIVE INCOME TAX PLANS

Cost

The cost of negative income tax plans is determined by three variables:

1. Maximum benefit level (or guaranteed minimum income).
2. The break even point or point where non-program earnings make the recipient ineligible for benefits.
3. Tax rate on non-program income or amount that benefits are reduced for each dollar of income.

The values for any two of the variables determine the third. The basic difficulty with negative income tax plans in meeting all objectives becomes apparent when values of these variables are considered. When a guaranteed minimum income is established at an adequate level and a tax rate is set that maintains an incentive to work, the break even point is excessively high. This results in a high number of participants who receive some benefits and therefore are not within the positive tax paying range. This very rapidly drives the total cost of the program up. Lowering the break even point to a level that reduces the number of participants to an acceptable level results in either higher tax rate or a lower benefit level. Therefore, if an acceptable cost is to be maintained, a compromise must be reached that limits the break even point, lowers the benefit level or permits higher tax on earnings.

An apparent appealing aspect of negative income tax plans is that they can be less complex to administer than categorical programs. The simplicity arises out of less involved eligibility standards and the fact that under most proposals only income related information would require investigation. The investigation of income information would be the relatively simple procedure presently used for auditing income tax returns.

This administrative simplicity depends on more or less universal coverage and establishing eligibility only by income criteria. In addition to simplicity, this method of establishing eligibility has the advantages in that the program would have the least effect on the sociological behavior of potential beneficiaries. There would be little influence on marital or family status. The remaining concern would be program influences on earnings and participation in the labor market. However, universal coverage has great influence on overall cost of the program. As the number of recipients increases, the number of taxpayers decreases and the positive tax rate needed to pay for the program rises. In order to maintain an adequate level of benefits and to keep program costs within acceptable bounds, somehow coverage must be limited. This can be done by either lowering the break even point which limits eligibility by placing more persons with income above the program limits. Another possibility is to establish categories of eligibility. For example, categories of eligibility can be based on family status and willingness to work as in President Nixon's Family Assistance Program.^{13/} The difficulty in limiting coverage in this manner is that many of the positive aspects of the negative income tax plans are eliminated. As the categories become restricted and efforts to seek work must be evaluated, administrative simplicity is lost and a larger and larger bureaucracy must be employed to administer the program. Also, incentives to alter behavior in order to become eligible become stronger. In effect, the negative income tax plans become similar to the categorical aids in these respects as efforts are made to reduce costs.

Adequacy

The adequacy of negative income tax plans simply depends on what the desired guaranteed maximum income or maximum benefit is determined to be. Of course, the adequacy of benefits of any program has a direct relationship with total cost. However, with negative income tax plans as the maximum benefit level is raised at

the same rate of taxation on earned income, the number of beneficiaries is increased because the break even point is raised. Thus, consideration must be given not only to the dollar amount of benefit increase, but also to the number of additional beneficiaries. In other words, increasing the maximum benefit has a multiplying factor for increasing cost and any decision to set or increase benefits must take into account the number of recipients drawn into the program.

Stigma

The reduction of the stigma of public assistance is often cited as a benefit of negative income tax plans. This is likely to be true if coverage is universal and if the recipient is not subject to requirements in addition to those required of the general population under present income tax procedures. However, in reality the need to keep costs down will require the establishment of restrictions previously discussed which will largely counteract efforts to reduce the stigma.

Equitable Efficiency

The efficiency of an unmodified negative income tax plan is not subject to a great deal of administrative control after the three factors of, maximum benefit level, tax rate, and break even point, have been established. The achievement of efficiency requires a compromise between adequacy and cost. If the benefit level and target group is established at the poverty level, for example, vertical efficiency suffers because anyone with outside income is above the poverty line and thus, outside the target group. If the poverty level is used as the break even point all recipients are within the target group (i.e., 100% vertical efficiency), but adequacy for persons with little or no outside income declines.

Horizontal efficiency can be high under most negative income tax plans, if coverage is universal and the consequent high cost is accepted. If coverage is limited by selecting categories of eligibility then the negative income tax plans suffer similar disadvantages to the existing public assistance system.

Work Incentive

The simplicity and uniformity of the work incentive is one of the primary advantages of the negative income tax plans. Once a decision has been made as to what the maximum benefit level and the tax rate on earned income should be, the work incentive effects of the program is set. Proposals vary from a tax rate of 0 to 90%. ^{14/} The simpler proposals incorporated a flat tax rate for all levels of non-program income. Other proposals attempt compromise between the problems of work incentive and increased cost with either progressive or regressive tax schedules. Regressive schedules, with a decreasing marginal tax rate with higher non-program income, have the effect of discouraging initial or part time earning while encouraging additional income that eventually takes the recipient off the program. Progressive schedules, with higher tax rates for increased non-program income, tend to encourage initial part time earnings while discouraging earnings near the break even point. Both types of schedules have the effect of reducing cost.

The effect of negative income tax benefits causing a substitution of leisure time for work would be the same as for any other income maintenance program. If the guaranteed minimum income is high more people might feel satisfied with their income and not work. However, Green feels that use of leisure time tends to involve a substantial expenditure of money and in today's consumption oriented society, as long as the tax rate is reasonable, benefits would not create a substantial reduction in the work effort of the poor. ^{15/}

Political Support

Negative income tax plans have received little actual support of politicians. The difficulty that President Nixon's Family Assistance Plan has encountered indicates a fundamental distrust of plans which offer aid as a matter of right and which are considered to support the non-needy. The political support for any negative income tax plan is likely to depend on the extent to which it incorporates strong work

incentives and requirements. Also, changes in the tax structure which affect non-participants will have a great deal to do with the acceptability of any proposal. If the cost of the program is high and a consequent tax increase is necessary, political support is likely to be small.

CONCLUSION

Conclusions on the subject of income maintenance depend on an order or priority of the objectives outlined earlier.

The priorities considered highest for making recommendations in this paper are as follows:

1. Maintaining an adequate standard of living for the needy.
2. Minimizing cost and keeping expenditures limited to the amount the public is willing to spend.
3. Reducing the number of persons dependent on benefits to those who are unable to maintain an adequate standard of living through their own efforts.

In order to achieve the above priorities, concern for other objectives was relaxed to the extent necessary.

It is apparent that negative income tax plans lose some of their appeal when the cost is considered to be an important factor. Of course, the basic structure of these plans can be altered in an attempt to reduce the high cost. However, these attempts at compromise result in extensive dilution of the original benefits such as simplicity and uniform work incentives.

Another aspect of negative income tax plans is that they are of necessity national plans which must be administered by the Federal Government. The effects of major changes in income maintenance programs on labor supply will certainly differ from a highly industrialized area to a rural area.

It is unlikely that a nationwide program administered by a federal bureaucracy would be responsive enough to the needs of all areas.

In short, a program that meets the given priorities and is sufficiently responsive would have to be an improved categorical aid system.

The continuing concern for improving the work incentive of public assistance led to the adoption of the thirty and one-third exclusion of earned income of welfare recipients. The result of this exclusion is that persons with extremely high earned incomes, still qualify for assistance.

The solution to this problem is to substitute work requirements and work programs for the monetary work incentive and to eliminate the thirty and one-third exclusion. This exclusion gives rise to inequities among recipients with various incomes and much dissatisfaction from the public when it is learned that persons with high earnings still receive aid. Also, while causing inequities in the welfare system, the exclusion actually provides little monetary incentive to work. Federal studies show that persons who receive the benefit of multiple programs such as medical care and public housing have a potential tax rate of 85% on earned income. This is due to the overlapping of Federal programs and the tying of eligibility to public assistance. The result is that as long as there are multiple programs tied to welfare, the monetary incentives to work will be limited. Therefore, efforts at assisting welfare recipients in becoming self-sufficient must be directed at expanding job opportunities which take persons well above the level of welfare benefits. These efforts can be effective even without the thirty and one-third exclusion of other incentives are used. Expansion of California's Employables and Community Work Experience Programs would lead to further opportunities for recipients to become self-sufficient without the inequities and excessive cost of the thirty and one-third exclusion. In other words, the monetary incentive should be replaced by the incentives of work programs and work requirements.

It would not be reasonable to expect recipients to take jobs which provide or substantially lower standards of living than received from public assistance. Therefore, efforts must be put into developing job opportunities which pay an adequate wage and have the opportunity for advancement. Other possibilities must be considered such as incentives to employer to hire welfare recipients and other means of improving the ability of the recipient to compete in the labor market.

Another direction that should be taken to reduce the cost of categorical aid is to shift the income transfer payments to social insurance programs which are more acceptable to the public, for example, unemployment insurance should be expanded to include all workers, especially agricultural workers. In counties with large numbers of agricultural workers such coverage would greatly reduce welfare expenditures in rural areas. The effect of such a change would be to shift the cost of the income maintenance from the individual taxpayer to the employer and ultimately to the consumer. This is justified since the employer benefits from the fact that his work force is supported during the off season when he has no work available. Also, the consumer is also the taxpayer who bears the cost in any case.

In addition, recent transfer of the aid categories for the blind, disabled and aged to the Social Security Administration is a step in the direction of shifting income maintenance to social insurance programs. The effect of these shifts will lead to the controversial AFDC category being administered separately. This will allow effort to be concentrated on ensuring that the employable go to work when jobs are available and on developing new jobs when there is a shortage of work.

FOOTNOTES DISCUSSION SECTION

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QUOTATIONS

QUOTATIONS

"What began on a small scale in the depression 30's has become a monster in the prosperous 60's. The tragedy is not only that it is bringing states and cities to the brink of financial disaster, but also that it is failing to meet the elementary human, social and financial needs of the poor."

President Richard M. Nixon
Speech to the Nation on August 8, 1969

"It is difficult to find anyone outside of the administration who agrees with the Department of Social Welfare's claim as to the effectiveness of the Governor's welfare reform program, yet the statistics themselves appear indisputable. (See table). The AFDC family group caseload is down from a peak of 1,287,528 in May 1971 to 1,272,747 in September of this year; the AFDC unemployed father caseload is down from a peak of 342,763 in March 1971 to 184,996 in September; and..

Jerome Evans
California Journal, December 1972, Pg. 352

"The important thing is," according to Governor Reagan in testimony before the U. S. Senate Finance Committee, "'we didnot' find any new magic formula. We simply overhauled the present structurally sound welfare system. We insured adequate aid to the aged, blind, the disabled, and children who were deprived of parental support and reduced aid to the nonneedy with realistic work incentives so that funds could be redirected to the truly needy. Our program requires employable recipients to accept work if offered and, if jobs are not available, to work in the community in order to remain eligible. Absent fathers are now legally indebted to the county for benefits paid to their families with a provision for wage attachments and property liens, if necessary. Fiscal incentives are provided to help counties trace absent fathers '"

Governor Ronald Reagan
Quoted in Welfare Reform in California,
Pg. 83

"The major disadvantage of the proposed negative income tax is its political implications. It establishes a system under which taxes are imposed on some to pay subsidies to others. And presumably, these others have a vote. There is always the danger that instead of being an arrangement under which the great majority tax themselves willingly to help an unfortunate minority, it will be converted into one under which a majority imposes taxes for its own benefit on an unwilling minority."

Milton Friedman
Capitalism and Freedom, Pg. 194

"The problem of providing incomes to those who are too old, too young, or too sick to hold a job is already urgent and is certain to become more so in coming years because of the inevitable shifts in patterns of age distribution. This reality is already causing the emergence of a new consensus that cuts across party lines and interest groups. This consensus is based on a belief that the government has already taken an implied commitment to provide a minimum level of income to all individuals, but that the present mosaic of measures designed to ensure this result is both excessively complex and unduly costly."

Robert Theobald
The Guaranteed Income, Pg. 87

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COVER SHEET

SUBJECT: Social Affairs

ISSUE: Public Welfare Policy - Income Maintenance

ASSIGNED TO: SW

TITLE:

PHONE NO:

WHEN ISSUED: December 7, 1973

EXPECTED
COMPLETION
DATE: January 8, 1974

(FOR USE IF PROJECT IS ASSIGNED TO SECONDARY SOURCE)

ASSIGNED TO:

PHONE NO:

WHEN ASSIGNED:

WORK SHEET

SUBJECT: Social Affairs

ISSUE: Public Welfare Policy - Income Maintenance

EMPHASIS: Concentrate on data which support a reduction in the costs of the categorical assistance programs while assuring an adequate level of payment to the needy. Give examples of new programs which need legislative or administrative action and "welfare reform" programs which require additional administrative implementation. Consider data on the negative income tax concept as an alternative to public assistance.

Directions

BIBLIOGRAPHY:

Construct a bibliography for the issue stated above. The bibliography should contain not less than five nor more than 20 sources. The sources must be representative of the entire body of knowledge related to this issue and must be authoritative. Authoritative means that the author is considered an expert in the field dealing with the issue in question. Always select the most recent sources which are available.

DATA SECTION:

1. Reread the issue and the required emphasis.
2. Consider and list the theoretical positions which are related to this issue and are consistent with the required emphasis. For example:

ISSUE: The death penalty

EMPHASIS: Support the use of the death penalty in select cases

Theoretical positions which could be constructed from such an issue and emphasis are:

The death penalty deters capital crimes.

The death penalty is necessary to maintain internal prison order.

- - - etc. - - -

3. Having considered and listed the theoretical positions, now present factual data which support each or all of these theories. Factual data must be statistical, analytical, and legal/legislative. Philosophical considerations do not belong in this section.
4. The data should be sufficient to fill no less than one single-spaced typewritten (8½x11) page and no more than three single-spaced typewritten pages.
5. The source of all factual data must be referenced.

DISCUSSION SECTION:

1. Reconsider the theoretical positions represented above.
2. Based on this data, construct a position paper covering the issue in question. The paper must be consistent with the required emphasis. It should, to the maximum extent possible, include a discussion of the role which private industry, local government, state government and federal government plays or could play in dealing with the issue in question.
3. The desired length for the Discussion Section is 15 double-spaced (8½x11) pages.

QUOTATION SECTION:

1. Select no less than five nor more than ten quotations from experts or influential leaders which are representative statements on the issue being researched.
2. The majority of the quotations must represent support for the general emphasis indicated above.

Issue:

Public Welfare Policy -- Income Maintenance

Emphasis:

Concentrate on data which support a reduction in the costs of the categorical assistance programs while assuring an adequate level of payment to the needy. Give examples of new programs which need legislative or administrative action and Welfare Reform programs which require additional administrative implementation. Consider data on the negative income tax concept as an alternative to public assistance.

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DATA SECTION

Theoretical PositionsPositions:

1. In the categorical aid programs, the public responsibility is to insure that the basic needs of individuals with insufficient financial resources are met.
2. The family unit is the basic component of American society. Increased emphasis on the responsibility of the family to provide for its members should be an agreed upon goal in the categorical aid programs.
3. A corollary to family responsibility is the obligation of welfare recipients to establish and maintain self-support at the earliest opportunity. The public is responsible for providing social services and other incentives to assist the recipient in becoming financially independent.
4. Categorical aid administration should be based on sound financial management principles.

5. Regardless of internal improvements, welfare remains a cumbersome and costly way of meeting the financial needs of the poor. Alternatives should be explored.

Factual Data*

1. The estimated total California State cost for Health and Welfare programs during the 1974-75 fiscal year is 24.5 percent of a proposed \$9.8 billion budget, or roughly \$2.4 billion.¹⁰ Of this \$2.4 billion it is estimated that \$864,684,000 will be spent on categorical aid payments alone.¹¹
2. The average annual income for California families is roughly \$12,000.¹²
3. The average poverty threshold in California is about \$3,900 per family.¹³
4. During September 1973, the average monthly cash grant payment to AFDC-FG recipients in California was \$66.35 and to AFDC-U recipients, \$61.89. The average cash grant payment to OAS recipients was \$110.82, \$160.63 to AB recipients, and \$143.56 to ATD recipients.¹⁴
5. The expected annual cash grant income for the average AFDC family is approximately \$2,500 for "Family Group" program (3.2 persons), and \$3,300 for "Unemployed" program families (4.4 persons). The expected annual cash grant income for the average OAS recipient in 1974 is \$1,670, \$2,300 for the average ATD recipient, and \$2,400 for the average AB recipient.¹⁵

* Footnotes are contained after the Quotation Section.

6. When the cash grants are combined with the medical care, food stamps and exempt personal income provided welfare recipients the annual gross approximates \$4,600 for AFDC-FG families, \$5,900 for AFDC-U families, \$3,600 for OAS recipients, \$4,500 for ATD recipients, and \$4,300 for AB recipients.¹⁶ This does not include the value of social services received.
7. AFDC constitutes the largest single welfare category in the State of California, cash grants currently being provided to assist over 934,000 children.¹⁷ While a small percentage of these cases are on the welfare rolls because of the death, incarceration, or incapacity of the father, almost 85 percent are on welfare because of desertion, divorce, or separation of their parents, or because the father and mother were never married.¹⁸
8. Child support collections in welfare cases during the 1972-73 fiscal year were 11 percent higher than during the previous year, bringing annual collections to an estimated \$56 million. Currently 24 percent of the absent parents in welfare cases are contributing child support. This compares with 15 percent in 1969 when annual collections totaled \$37 million.²¹
9. An adult child with three dependents, whose net income (after liberal exemptions) in November 1973 was \$1,000 was required to pay \$135 in OAS responsible relatives contributions. Under the provisions of AB 134

(Chapter 1216, 1973 Statutes), the same adult child will be required to pay only \$25 in January 1974.²²

10. California collected \$7,098,792 during the 1972-73 fiscal year in OAS relatives contributions. The estimated total collections for the 1974-75 fiscal year under AB 134 are \$3,500,000.²³
11. Between September 1971 and September 1973 AFDC caseloads were reduced by nearly 222,000 persons.²⁶
12. If it is found upon death of the recipient that he was in possession of excess real or personal property, the state can collect the amount of grant overpayments as a recovery on his estate.²⁸
13. During the 1972-73 fiscal year \$187,727 was collected in OAS estates recoveries.²⁹
14. HEW Secretary Weinberger estimates that AFDC payment errors presently cost the nation approximately \$1.17 billion annually. The national averages are 10.2 percent errors on eligibility decisions and 22.8 percent overpayments. Reported error rates in California are 8.4 percent and 17.8 percent, respectively.³⁰
15. It is estimated that incorrect grant and eligibility determinations cause in excess of \$100 million in erroneous aid payments annually.³¹ This

problem is compounded by the fact that HEW has notified the state welfare departments that federal reimbursements will be withheld for states having error rates greater than three percent on eligibility decisions and five percent overpayments.³² To California, this could mean a loss of approximately \$17 million in federal funds during the 1974-75 fiscal year if present error rates persist.³³

16. On October 2, 1973, Governor Reagan signed legislation creating a new Department of Benefit Payments within the Health and Welfare Agency.³⁵ The new department, operative July 1, 1974, will consist of the existing Department of Social Welfare, the Department of Employment Development functions related to the collection of California personal income tax withheld by employers and employer UI/DI insurance contributions, the Department of Health Audit and Recovery Sections, and the claims payment functions for various Department of Health programs. The Director of Benefit Payments will be responsible for reviewing and evaluating the benefit payment systems remaining in the Departments of Health and Employment Development, principally UI/DI and Medi-Cal.

FOOTNOTES

- 1 Poor Relief Act of 1958, as contained in Eugene Welser, The Western Tradition, (D. C. Heath and Co., 1959), pp. 346-349.
- 2 J. M. Wedemeyer and Percy Moore, "The American Welfare System", in the California Law Review, 54:326, (1966), p. 326.
- 3 James Leiby, State Welfare Administration in California, 1879-1929, (Unpublished Manuscript, University of California, Berkeley, 1971), pp. 2-3.
- 4 Created by State Legislature, added by Statutes of 1927, Chapter 49, p. 86, Section 1.
- 5 As discussed in Welfare Reform in California - Showing the Way (California State Department of Social Welfare, December 1972) p. 84, footnote 6.
- 6 42 USDA 601.
- 7 Wedemeyer and Moore, op. cit., 329.
- 8 1937 Welfare and Institutions Code.
- 9 For example, the Social Security Act or its amendatory provisions prompted California to liberalize aid to needy children in 1937, the limits of which aid were greatly expanded in 1949 and again in 1962; expand aid to the blind in 1941 and 1949; establish a public assistance medical care program in 1957 which culminated in the Medi-Cal program of 1965; and initiate aid to the needy disabled in 1957.
- 10 The proposed 1974-75 Budget, as presented to the California Legislature, by Governor Ronald Reagan January 9, 1974.
- 11 California State Department of Social Welfare, December 1973 Subvention Estimates Including Estimated Effects of HR 1, December 19, 1973.
- 12 General Social and Economic Characteristics (California), 1970 Census of Populations, U.S. Department of Commerce, Bureau of the Census, issued April 1972, p. 6-403.
- 13 This figure is based on General Social and Economic Characteristics..., op. cit., Appendix B, p. 30. The figure was adjusted to the approximate 1973 level by applying Division of Labor Statistics and Research Consumer Price Index information for June 1969 (109.2) and June 1973 (129.4).

- 14 California State Department of Social Welfare, Public Assistance Caseloads and Expenditures, October 30, 1973.
- 15 Figures for AFDC obtained by multiplying average monthly payment per recipient by the average family size and by twelve.
- 16 California State Department of Social Welfare, Estimates Bureau statistics, January 15, 1974.
- 17 December 1973 Subvention Estimates, op. cit..
- 18 California State Department of Social Welfare, Report to the Assembly Welfare Committee, December 5, 1973.
- 19 Report to the Assembly Welfare Committee, op. cit..
- 20 Welfare Reform in California, op. cit., pp. 38-44.
- 21 ~~Material contained in State Department of Social Welfare News Release 46-73, December 10, 1973.~~
- 22 Section 12351 of the Welfare and Institutions Code.
- 23 Figures obtained from State Department of Social Welfare, Estimates and Fiscal Operations Bureaus, January 10, 1974.
- 24 State Department of Social Welfare, Estimates Bureau.
- 25 As described in Welfare Reform in California, op. cit., pp.6-7.
- 26 State Department of Social Welfare, Estimates Bureau, January 10, 1974.
- 27 See Welfare Reform in California, op. cit., pp. 61-73.
- 28 Section 12205 of the Welfare and Institutions Code.
- 29 Reported collections obtained from State Department of Social Welfare, Fiscal Operations Bureau, January 10, 1974.
- 30 HEW News, U.S. Department of Health, Education, and Welfare, December 19, 1973.

- 31 State Department of Social Welfare, Budgets Bureau, January 10, 1974.
- 32 HEW News, op. cit.
- 33 State Department of Social Welfare, Program Assessment Branch, January 1974.
- 34 California Corrective Actions Report, State Department of Social Welfare, December 14, 1973.
- 35 AB 1950 (Ch. 1212, 1973 Statutes) created DBP.
- 36 Richard A. Musgrave, Peter Heller and George E. Peterson, "Cost Effectiveness of Alternative Income Maintenance Schemes", National Tax Journal, Volume 23 (June 1970), pp. 140-156.
- 37 A complete description of these experiments and their origins may be found in Income Maintenance Experiments, Material Submitted by the Department of Health, Education, and Welfare to the Committee on Finance of the United States Senate, (U.S. Government Printing Office, 73-397), 1972.
- 38 As described by David N. Kershaw, "A Negative-Income -- Tax Experiment", Scientific American, Volume 227 (October 1972), pp. 19-25.
- 39 A summary of recent research findings is contained in Ralph D. Husby, "Impact of Negative Income Tax on Aggregate Demand and Supply", Western Economic Journal, Volume II (March 1973), pp. 111-117.
- 40 See Proposal For a System of Income Assistance, unpublished report to the State Department of Social Welfare, January 1972.
- 41 Ralph D. Husby, Loc. cit., note Z, p. 111.

QUOTATION SECTION

1. "Our goal is to improve public assistance management so that welfare money is carefully used to make correct payments to the truly needy. I am concerned about overpayments and payments to ineligible and I am equally concerned that so many eligible families are receiving less money than they should.

"I am particularly pleased that the states have moved vigorously to develop corrective actions. The next step is for states to implement these corrective action plans so that error rates will be sharply reduced by June 30, 1975 to an ineligibility rate of no more than three percent and an overpayment rate of no more than five percent. States that fail to meet their reduction goals will lose part of their federal funds. Stakes are high in terms of both public dollars and public confidence. I am gratified by the support of governors and the systematic efforts of state welfare administrators to work toward these and other management improvements in welfare."

- Secretary Casper W. Weinberger
U.S. Department of Health,
Education, and Welfare
1973 (see footnote 30)

2. "The traditional approach to welfare has come under increasing criticism. The major objections are (1) that benefit payments are inadequate, (2) that they differ sharply among states, (3) that work incentives are reduced by a high marginal tax rate implicit in the formula, (4) that incentives are given to break up families, and (5) that detailed regulations interfere with the privacy of the welfare recipient."

- Richard A. Musgrave

Peter Heller

George E. Peterson

1970 (see bibliography)

3. "Today, we stand at the crossroads. We can continue to talk about welfare, complain about it, watch it grow unchecked. Or, we can take the steps necessary to control it and reform it so that instead of destroying our greatest resource - the people of California - it will maximize human dignity and salvage the destitute."

- Governor Ronald Reagan

State of California

1971 (see bibliography)

4. "Our (child support) efforts in both the nonwelfare and welfare cases are based on the simple belief that the primary responsibility for

supporting children rests with the natural parents. Government makes an inefficient and costly stepparent."

- David B. Swoap, Director, California
State Department of Social Welfare
1973 (see footnote 21)

5. "...most important is the fact that the California plan retains most of the administration and responsibility for an effective and efficient welfare program at the level (county) closest to those who benefit and those who must pay the bill."

- Governor Ronald Reagan
State of California
Statement before the Senate
Finance Committee in Washington, D.C.
February 1, 1972

6. "Two problems of equity arise in the area of who should get what: the exclusion of many groups of the poor from equal participation in welfare programs; and preferential treatment granted some of the poor relative to Americans of moderate income. The urgency of finding 'solutions' to these problems is growing. But coming to grips with them will require a wrenching departure from past public welfare policies - policies which have developed over a considerable period and with no overall

chart to revise their redundancies and inconsistencies. Programs as diverse as cash welfare assistance, Social Security, food stamps Medicaid and housing assistance may be altered substantially as the reevaluation of our traditional practices takes place. And we may have to scale down our immediate promises: a nation needs its dreams and visions, but we can be ill-served if we fail to work out the mathematics of what is reasonable and possible to do."

- Rep. Martha W. Griffiths

U.S. House of Representatives

1973 (see bibliography)

DISCUSSION SECTION

Background

Historically, money has been a critical element ever since the first documented welfare crisis culminated in the enactment of the English Poor Laws of the Sixteenth Century. The broad institutional patterns of social welfare in the United States are said to have emanated from those Acts of Parliament which authorized governmental support of the poor through taxation.¹

Until the turn of this century, welfare consisted primarily of various forms of poor relief financed by local political subdivisions or private agencies.² Aid was administered largely under such institutional auspices as "the county hospital", "orphanages", and "old folks' homes".³ States, meanwhile, moved in varying degree toward developing standards, programs and facilities dealing with the social plight of the dependent, sick, and homeless. California, for example, officially created its "state board of charities" in 1903 which evolved into the State Department of Social Welfare in 1927.⁴

Although public policy had long opposed expansion of federal participation in the welfare field,⁵ the Great Depression of the 1930's gave impetus to a series of temporary emergency relief measures and to the passage of the Social Security Act of 1935.⁶

Signaling a major change in federal social policy, the act provided increased financial support for what had been termed as "token operations"⁷ and, in 1937, became the keystone of the social welfare program in California.⁸ Succinctly,

the act introduced: (a) a program of social insurance for the aged and a federal-state system of unemployment compensation; (b) a program of categorical public assistance supported by federal grants-in-aid for the aged, the blind, and dependent children; and (c) a program of health and welfare services providing for maternal and child health, service to crippled children and child welfare services.⁹

Hence, the categorical assistance programs have become an integral part of the national welfare system. The estimated total California state general fund cost for Health and Welfare programs during the 1974-75 fiscal year represents 24.5 percent of a proposed \$9.8 billion budget, or roughly \$2.4 billion.¹⁰ Of this \$2.4 billion it is estimated that \$864,684,000 will be spent on categorical aid payments alone.¹¹

Categorical Aid Program Policies and Objectives

The legal responsibility of government officials, is to insure that the basic needs of individuals with insufficient personal resources are met. With respect to the income maintenance programs (OAS, ATD, AB, APSE, and AFDC), this means assuring that the needy have adequate financial resources to meet their basic subsistence needs. There exists an equal responsibility to insure that our tax dollars are properly allocated and expended on such programs - that the money for which our taxpaying "clients" have toiled and sacrificed to provide is expended as economically and efficiently as possible.

This dual orientation underlies the policies and goals of the income maintenance programs. To concentrate solely on maximizing public assistance grants would be to impose an unmanageable strain on the taxpayer as well as on the ability to fund other important public programs. To concentrate solely on minimizing categorical aid expenditures would be to ignore our responsibility to the needy. The intent is to provide adequate financial assistance to the truly needy who have nowhere else to turn to meet their basic needs, while conserving categorical aid expenditures by: (1) basing public assistance administration on sound financial management principles, (2) strengthening work experience/training requirements and incentives for recipients, and (3) emphasizing family responsibility as a basic element in our society.

Assistance Grant Levels

It is easy to assert that grant levels should approximate the basic subsistence needs of categorical aid recipients; yet it is somewhat difficult to translate the term "basic subsistence needs" into a meaningful dollar figure. For example, the average annual income for California families is roughly \$12,000.¹² The average annual poverty threshold in California is about \$3,900¹³ per family. During September 1973, the average monthly cash grant payment to AFDC-FG recipients in California was \$66.35 and to AFDC-U recipients, \$61.89. The average cash grant payment to OAS recipients was \$110.82, \$160.63 to AB recipients, and \$143.56 to ATD recipients.¹⁴

The expected annual cash grant income for the average AFDC family is approximately \$2,500 for the "Family Group" program (3.2 persons), and \$3,300 for "Unemployed" program families (4.4 persons). The expected annual cash grant income for the average OAS recipient in 1974 is \$1,670, \$2,300 for the average ATD recipient, and \$2,400 for the average AB recipient.¹⁵ However, cash grant levels alone do not express the total picture. When the cash grants are combined with the medical care, food stamps and exempt personal income allowed recipients of public assistance, the annual gross income approximates \$4,600 for AFDC-FG families, \$5,900 for AFDC-U families, \$3,600 for OAS recipients, \$4,500 for ATD recipients, and \$4,300 for AB recipients.¹⁶ This does not include the funds expended on social services for the needy. In California the "goods and services" acquisition power of categorical aid recipients is actually in many cases above that of the working poor who do not receive welfare!

Most people would agree that welfare recipients should not live at the level of the average "working family". Clearly, this goes beyond our "basic subsistence" responsibility. Economically, such an increase would, by definition, raise the average income in California, which would in turn necessitate further grant increases. This approach could, if carried to an extreme, result in a state entirely composed of welfare recipients with a reduced or nonexistent work incentive, speaking strictly from the economics involved.

Similar arguments apply to raising cash grant payments to the income level of the working poor. While the economic impact would not be as catastrophic,

the work incentive of both the working poor and the welfare recipient would doubtless suffer.

A general approach to "basic subsistence" in the AFDC program is to keep grant levels below the poverty threshold to encourage the development and continuance of work incentive and self-improvement attitudes among the poor, while insuring that all Californians have adequate financial resources to provide shelter, clothing, medical care, and food for their families while they are working towards self-sufficiency. In the major adult aid programs (OAS, AB and ATD) it should be recognized that many recipients are not, and never will be, capable of self-support. Appropriately, adult aid levels should be generally higher than in the AFDC program. In all programs, grant levels should be adjusted periodically, taking into account the cost of living, to insure that basic subsistence needs continue to be met over time. In California these needs are being met.

Family Responsibility

In part, the basic approach to grant levels which is described above identifies the segment of the population for which public assistance grants are intended: persons who have insufficient financial resources to meet their basic subsistence needs, both adults and children. However, to define the recipient population in this way is to ignore a basic tenet in our society. Simply

stated, the family unit is the basic component of American society; and increased emphasis on the responsibility of the family to provide for its members should be an agreed-upon goal. The recipient population should consist only of persons whose individual and family financial resources (e.g., absent parents, adult children of aged parents, stepfathers, parents of unwed minor mothers) are insufficient to meet the basic subsistence needs.

Within this definition an area of special concern is the absent parent's responsibility to support his children. To illustrate, AFDC constitutes the largest single welfare category in the State of California with cash grants currently provided to assist over 934,000 children.¹⁷ While a small percentage of these cases are on the welfare rolls because of the death, incarceration, or incapacity of the father, almost 85 percent are on welfare because of desertion, divorce, or separation of their parents, or because the father and mother were never married.¹⁸

Before 1971, child support in California was handled on an extremely low priority basis due to inefficient collection procedures coupled with the prevailing view that it was cheaper to pay welfare than to enforce the obligation.¹⁹ Under the Welfare Reform Program this situation was substantially reversed:

1. Child support was treated as a law enforcement problem.
2. Fiscal incentives were provided at the county level for efficient enforcement (SEIF).

3. Adequate statistics were provided through monthly District Attorney reporting and Grand Jury audits to ensure the priority of child support over other debts, and the effective use of other legal remedies.²⁰

The results of the strengthened child support program are promising. Child support collections in welfare cases during the 1972-73 fiscal year were 11 percent higher than during the previous year, bringing annual collections to an estimated \$56 million. Currently 24 percent of the absent parents in welfare cases are contributing child support. This compares with 15 percent in 1969 when annual collections totaled \$37 million.²¹

The present 24 percent contribution rate is still unacceptable. Voluntary absence from the home should afford no release from parental obligations, and government must pursue every administrative and legal avenue with regard to maximizing absent parent contributions. Where existing laws are inadequate, they should be changed.

Included within family responsibility is the obligation of adult children to contribute to the maintenance of their aged parents when the parents are no longer capable of self-support. Just as parents are responsible for the growth and development of their minor children, adult children should be responsible for the care of their aged parents as an alternative or supplement to the OAS program.

The Relatives' Contribution Scale which was implemented during Welfare Reform required the adult children of OAS recipients to contribute a reasonable amount toward their parents' financial support. An adult child with three dependents, whose net income (after liberal exemptions) in November 1973 was \$1,000, was required to pay \$135. Under the provisions of AB 134 (Chapter 1216, 1973 Statutes), the same adult child will be required to pay only \$25 in January 1974.²²

California collected \$7,098,792 during the 1972-73 fiscal year in OAS Relatives contributions.²³ This "collection amount" does not fully represent the impact of this program. It is estimated that the OAS caseload would balloon by at least 15,000 recipients were it not for the Responsible Relative program. These 15,000 recipients represent families who have opted to "care for their own" rather than rely on Government to provide the cure-all for every ill.²⁴

Work-Incentive

A corollary to the basic responsibility of the family to provide for its members is the obligation of categorical aid recipients to establish and maintain self-support at the earliest opportunity. The public and private sectors share a responsibility for providing services and incentives to assist recipients in becoming financially independent; and in this respect, one might conceptualize the goal of welfare as putting welfare out of business.

Government provides recipients with a range of services and incentives aimed at reducing dependency. Those which may have the greatest direct impact on the income maintenance programs are related to the "work-incentive" concept. For the purposes of this discussion, "work-incentive" refers to (1) the degree to which people are positively motivated toward employment and (2) their relative preparedness for accepting and retaining gainful employment.

First, consider the case of positive motivation, or the "will" to work. An otherwise able recipient who lacks this quality may be induced to seek employment. He may even find and accept work. However, the probability of his long-term success in any job is greatly reduced. Perhaps the most important positive incentive for a recipient of this type was discussed earlier: to insure that his welfare grant is significantly less than would be his salary if he were working; and to hope that his desire for a higher subsistence level for he and his family, for higher social status in the community, a more luxurious lifestyle, or any combination of these will induce the desire for long-term gainful employment.

Unfortunately, this "innate desire" approach is not wholly successful. There are those who are well satisfied at the subsistence level that the categorical aids provide; and there are those who use a portion of the money which should be devoted to the care of their children to satisfy personal desires. Because of this reality, we have the necessity for negative motivators. One prospect is to require all able-bodied adults who are not in full-time, approved

training programs or gainfully employed to work as a condition of eligibility to the categorical aid programs. One might argue that "there aren't enough jobs to go around". There are plenty of jobs or potential jobs. The problem is insufficient money for salaries, not insufficient work. The success of work programs such as the Civilian Conservation Corps during one of the worst economic periods in our history attests to this fact. Today, if anything, there are more jobs that can and should be done: (1) park improvement, (2) schoolyard supervision, (3) hospital maintenance and service; the list goes on.

The constant increase in the minimum wage has had an impact on the marginally employable. While an employer could afford to employ several people at \$1.65 an hour, at \$2.00 the prospect starts to fade. This is especially noticeable in such fields as housekeeping, nurses aides, etc.

One might also argue against a mandatory work requirement that AFDC mothers with small children belong in the home. We agree; and they can work at the same time. For instance, they can conduct telephone polls or perform typing and other clerical duties now going undone. The important point is that all able-bodied recipients can perform useful job services for the performance of which funds are either insufficient or nonexistent. They can in the process perform an important service for themselves and their children. They can earn their welfare checks.

The second part of the "work-incentive" concept relates to an individual's ability to work irrespective of his motivation. In this regard we should recall that a certain number of recipients, especially in the adult aid programs, do not now and never will have the potential for successful long-term employment. For those having work potential, however, it is our public responsibility to facilitate the full realization of this potential through (1) guidance counseling, (2) career interest and aptitude testing, (3) job training services, (4) job location services, and (5) job creation services.

It is recognized that the motivation and ability variables which are presented as the basic components of "work-incentive" tend to be positively correlated. That is, as ability increases so does motivation. This is conversely true. This expresses the need for an integrated approach to work related programs. For example, the mandatory job requirement which was described as a negative motivator (i.e., aid is denied if the recipient is not working or training to work) should be used to increase the recipient's skill level and should coincide with his interests to the extent possible. The increased ability to work may lead to a greater desire to work, creating a cyclical relationship which leads to reduced dependence upon public assistance, and hopefully self-sufficiency.

Counseling, testing, job training and job location services fall within the purview of existing service programs. With this in mind, the administrative thrust of "work-incentive" should be (1) to improve upon these programs, and (2) to pursue jobs in both the private and public sectors for which the "hard core" can qualify.

Financial Management Orientation

During the 1960's the focus of welfare was on social services activities. In most agencies, services were provided by social workers who were also establishing eligibility and determining grants - a circumstance that provided almost unlimited discretion to caseworkers in the intake and treatment of recipients. As a result, nearly all agencies experienced sizable increases in services staff, contributing to larger welfare bureaucracies and higher caseloads.²⁵

The social services orientation on income maintenance had to yield to the demands of managing our tax dollars in the most effective and efficient possible way. In 1971 the social services function was organizationally split from activities related to eligibility and grant determination. In 1973, state responsibility for social services was transferred to the Department of Health. During this time, fiscally-oriented managers and analytic staff were brought into the Department of Social Welfare, resulting in a restructured grant and eligibility determination system with greater emphasis on providing assistance to those most in need through strict financial management concepts. As a result of these changes, welfare caseloads have shown a continual downward trend. Between September 1971 and September 1973, for example, AFDC caseloads were reduced by nearly 222,000 persons.²⁶

The family responsibility and work-incentive goals described in previous sections are ways to insure that the financial needs of categorical aid recipients are met now and in the future. They are also methods of reducing

the drain on the taxpaying public. For example, to the extent that responsible relative contributions are required and enforced in the AFDC and OAS programs, aid payments are reduced in direct proportion. To the extent that categorical aid recipients are required to work in the private sector, caseloads and public assistance expenditures decrease; and to the extent that recipients perform useful public services in lieu of private employment, the taxpayer receives a tangible return on his investment.

A financial management tool which is receiving continued emphasis is the fraud control program. Under Welfare Reform, an Operations Security Office was established within the Department of Social Welfare to serve as a focal point for the administration of statewide policies and procedures aimed at the detection, prosecution and prevention of welfare fraud in California. While significant progress has been made in this area, existing state laws make it difficult to prosecute welfare fraud suspects.²⁷

There has been a special fraud control tool in the OAS program. Simply stated, if it is found upon the death of the recipient that he was in possession of excess real or personal property, the state can collect from his estate.²⁸ During the 1972-73 fiscal year, \$187,727 was collected in OAS estates recoveries.²⁹

Welfare fraud is one source of misspent public funds. Another source is administrative error. HEW Secretary Wienberger estimates that AFDC payment errors presently cost the nation approximately \$1.17 billion annually. The national averages are 10.2 percent errors on eligibility decisions and 22.8 percent overpayments. Reported error rates in California are 8.4 percent and 17.8 percent, respectively.³⁰ Though California is substantially below the national average, it is estimated that incorrect grant and eligibility determinations cause in excess of \$100 million in erroneous aid payments annually.³¹ This problem is compounded by the fact that HEW has notified the state welfare departments that federal reimbursements will be withheld for states having error rates greater than three percent on eligibility decisions and five percent overpayments.³² To California, this could mean a loss of approximately \$17 million in federal funds during the 1974 calendar year if present error rates persist.³³

In response to this problem, the Department of Social Welfare recently developed a plan aimed at reducing administrative errors by one-third before July 1974.³⁴ It should be recognized, however, that error rates are symptoms, not causes. The causes of misspent welfare funds lie in the inherent complexity of the system and the inadequacy of present state and federal laws.

In 1973, Secretary Earl W. Brian of the Health and Welfare Agency created two special task forces: one to study the AFDC program, and the other the Food Stamp Program. The emphases are on systematizing welfare operations

and developing recommendations for policy, procedure and legislative change. AFDC Task Force findings and recommendations will be available in March 1974. The Food Stamp Program is a perfect example of conflicting federal requirements that cause error, waste money, and cause administration nightmares, due to its nonalignment with other public assistance programs.

On October 2, 1973, Governor Reagan enacted legislation creating a new Department of Benefit Payments within the Health and Welfare Agency.³⁵ The new Department, operative July 1, 1974, will consist of the present Department of Social Welfare, the Department of Employment Development functions related to the collection of California personal income tax withheld by employers and employer UI/DI insurance contributions, the Department of Health Audit and Recovery Sections, and the claims payment functions for various Department of Health programs. The Director of Benefit Payments will be responsible for reviewing and evaluating the benefit payment systems remaining in the Departments of Health and Employment Development, principally UI/DI and Medi-Cal.

The objectives for the proposed Department are to:

1. Through review and evaluation of payment systems, provide faster payments with fewer errors to those who receive them - the unemployed, the disabled, welfare recipients, health care providers, and other vendors of benefits under the health and welfare programs.

2. Improve the economy and efficiency of the state's collection of taxes, and recovery of amounts due, owing or collectible as a result of the foregoing payments.
3. Improve the state's ability to detect and prevent fraud and administrative error in program benefit payment systems.
4. Improve checks and balances within the payment programs presently administered by the Health and Welfare Agency by establishing centralized control, financial accountability, responsibility for the supervision and administration of payment programs, and by eliminating the duplication and fragmentation of these payment programs.

The goal is to consolidate payment systems into the Department of Benefit Payments with program control, the authority for policy decisions, remaining with the "program" departments directly responsible for the operation of their programs. The program departments will concentrate on program planning and execution; the Department of Benefit Payments will give primary attention to financial matters, enabling its staff to better specialize in collection, accounting and accounting systems, auditing, monitoring, and payment functions.

To the extent that the goal of the Department of Benefit Payments is actively pursued, a "financial management" environment will develop with respect to all

of the state's benefit payment programs - an environment which most clearly accentuates our dual responsibility to the beneficiaries and recipients of assistance and to the taxpayer.

An Alternative View

The concept of Benefit Payments ultimates our dual responsibility to the taxpayer and to the recipients and beneficiaries of public financial assistance, under the present scheme of cash assistance programs. To this end the creation of the new Department of Benefit Payments is a significant step forward in the administration of such programs. Yet, while we strive for improvement within the existing systems, we should also devote our energies to the systematic analysis of the underlying assumptions and philosophies of those systems.

Focusing on the welfare program, widespread public criticism has been the rule rather than the exception during recent times. According to Musgrave et al.,

"The traditional approach to welfare has come under increasing criticism. The major objections are (1) that benefit payments are inadequate, (2) that they differ sharply among states, (3) that work incentives are reduced by a high marginal tax rate implicit in the formula, (4) that incentives are given to break up families, and (5) that detailed regulations interfere with the privacy of the welfare recipients."³⁶

It should be pointed out that this statement was published in 1970, prior to Welfare Reform in California. However, it is commonplace that inconsistency in the application of federal policies among states, the inadequacy of many state and federal laws, administrative complexity and rising costs remain valid arguments against the present categorical aid programs.

In 1968, HEW and OEO began a series of income maintenance experiments which were, among other things, aimed at developing an alternative view on public welfare policies and procedures.³⁷ One possibility emerging from these, as well as more recent studies, relates to the Negative Income Tax (NIT) concept. Briefly stated, NIT has two essential features: (1) a minimum guaranteed level of income for everyone, and (2) a system for reducing negative tax payments as other income increases at a rate which is always less than the amount of the rise in other income until some "break even" point is reached.³⁸

A number of possible NIT systems have been researched during recent years.³⁹ Based on a special report prepared for the Department of Social Welfare, the advantages and disadvantages of NIT may be summarized as follows:

1. Advantages

- a. Provides a guaranteed minimum income for all Americans including the working poor and others who do not qualify for categorical aid programs.

- b. Provides uniform benefits for all Americans if adopted nationally.
- c. Provides full support for those physically unable to work, while enabling them to receive any earned benefits from social insurance programs.
- d. Eliminates the cumbersome welfare bureaucracy, thus enabling more money to be channeled directly into benefits.
- e. Eliminates the incentive for families to break up that exists in current welfare programs.
- f. Provides incentives to limit family size.
- g. Provides built-in work incentives.
- h. Fits directly into the Federal Income Tax System, thus alleviating many of the administrative problems involved in setting up a new program.

2. Disadvantages

- a. Initially the NIT system would cost more to operate than the present welfare programs.

- b. Since the income level at which a person begins to pay taxes would be raised, there would have to be an increase in income tax rates for those in higher income brackets to offset the loss of revenue.
- c. Some marginal income workers may find it desirable to cut back working hours to qualify for NIT although overall income would be reduced.⁴⁰

Superficially, the advantages exceed the disadvantages of NIT, and promise a solution to some of the most serious problems facing the categorical aid programs. However, two points seem especially problematical. The first is that "work-incentive" is presented as both an advantage and a disadvantage of NIT. According to Ralph Husby, broad disagreement exists concerning the effects of NIT on work, and there is yet no satisfactory approach for estimating them. To illustrate, one study indicates that the number of hours worked by low-income males would be reduced by as much as 50 percent, while another study suggests little or no correlation between NIT and "work-incentive".⁴¹

The other concern relates to family responsibility. As discussed, a basic tenet in our society holds that the family is primarily responsible for the care of its members. The guaranteed income feature of NIT would appear to remove this obligation.

Perhaps future studies will provide concrete evidence that "work-incentive" would not be reduced under NIT. Perhaps the time has come for America to reassess the role of the family unit. Continued effort should be devoted to the exploration of alternatives to the present categorical aid structure. This much we already know: welfare is a cumbersome and costly way to meet our obligations to the needy.

CONCLUSION

This paper has attempted to briefly outline the history, objectives and needs of the categorical aid programs. In many respects this is analogous to drinking a tidal wave through a straw. Of a few points, though, we can be sure:

1. Under the present welfare system our goals are to (1) provide adequate financial assistance to the truly needy who have nowhere else to turn to meet their basic needs, (2) emphasize the family unit as a basic element in our society, (3) strengthen the "work-incentive" of recipients, and (4) base public assistance administration on sound financial management principles.
2. California is meeting its financial obligations to welfare recipients. We are also making significant progress in meeting an equal obligation to our taxpaying "clients"; the major needs for improvement being

concentrated in the areas of administrative simplification and consolidation, and in strengthening state and federal welfare laws.

3. Regardless of internal improvements, welfare remains a cumbersome and costly way of meeting the financial needs of the poor. Alternatives should be explored.