



AgEcon SEARCH

RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

No endorsement of AgEcon Search or its fundraising activities by the author(s) of the following work or their employer(s) is intended or implied.



UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Research Service

NATIONAL ISSUES IN WELFARE REFORM

Talk by Alair A. Townsend*

Technical Director, Subcommittee on Fiscal Policy, Joint Economic Committee
at the Annual Agricultural Conference
Washington, D.C., 9:00 a.m., Thursday, February 22, 1973

The Status of Welfare Reform.

Now that the President's budget has been unveiled and welfare reform is notable for its absence of mention therein, it may seem to many people to be an exercise in irrelevance to discuss--yet again--the issues in welfare reform. The seers have examined welfare reform and have pronounced it dead. My own view is that little substantive change will be made in welfare in the next two years, but that welfare reform is inevitable in the not too distant future. I would even argue that the hiatus gives us a welcome opportunity to grapple with the seemingly insoluble problems in reform which were raised in the debate over the President's Family Assistance Plan (known as FAP).

Since 1969, when FAP was first unveiled, steady progress has been made in defining more clearly the issues involved and in collecting more of the necessary facts. In those early days, the chief target of reform was the Aid to Families with Dependent Children program known as AFDC. This program was shown to be inequitable to male-headed families, to set up perverse incentives for family splitting, to offer less than adequate incentives to work, and to pay far too little in benefits to female-headed families in some states.

While this type of critique is still valid in general, the major lesson of the Family Assistance Plan debate was that the focus on

* Views expressed are those of the author and do not reflect those of the Subcommittee or its staff.

AFDC alone is too narrow. It is too narrow because of the thick, junglelike growth of other public welfare programs which often worsen but sometimes reduce the problems in AFDC.

How much are we spending?

Indeed, while the debate over whether we should adopt a guaranteed income (i.e., the Family Assistance Plan) was raging, billions of dollars were being spent on several variants of guaranteed income programs. If by guaranteed income we mean simply that some people are eligible for benefits if their incomes are below certain levels or if they are unlikely to be employed, then we can add up the \$17 billion that we spend on the Federal/state public assistance programs (including aid to families with dependent children, old age assistance, aid to the blind and disabled), plus veterans pensions, and state and local general assistance programs. We should also count in the \$3.9 billion spent on food stamp, food distribution, and other food and nutrition benefit programs because they guarantee a certain food consumption to low-income persons. We should add on \$55.7 billion for social security and railroad retirement, since these programs guarantee income to retired, disabled, and surviving persons, and are paid for by the contributions of current workers. We could throw in the projected \$4.6 billion for unemployment insurance too. In fact, if we total these programs, plus other veterans programs, medicaid and medicare, other Federal, state, and local retirement systems, public housing and other housing subsidy programs, we find that all levels of government will spend over \$120 billion in Fiscal Year 1974 on programs to increase current personal consumption, whether in the form of cash or food, health care or housing. Altogether, "income security" programs account for 30 percent of the proposed Fiscal Year 1974 budget. All "human resource" programs account for 49 percent of that budget.

The deliberations over the Family Assistance Plan highlighted the necessity of analyzing welfare reform plans in the context of all these existing programs-- all income-tested cash assistance; programs offering food, health, and housing benefits; and social insurance--rather than just in the context of the existing public assistance programs like AFDC. There are several reasons for this which I will discuss using FAP as a case study.

Adequacy of Benefits. In order to analyze the adequacy of FAP benefit levels, one has to know what other benefits and private income are available to potential FAP recipients and how they are currently distributed. Knowing this allows one to judge more realistically the adequacy of the combined benefit and income levels that would result. For example, the AFDC or the FAP basic cash benefit level may appear to be cruelly low, but this is offset by the benefits that usually are attached to AFDC--free medical care, free school lunches for the children, eligibility for food stamps or surplus food commodities, free day care. Depending on the state, a family of four with no other income can receive a package of benefits which would require the equivalent of over \$6,500 in gross earnings to purchase. Of course, AFDC families in many areas receive nowhere near this amount, but no one has been very certain who receives what because benefits in the form of food, health, and housing are rarely included in official

census-style surveys, and measurements of the extent of poverty do not count the value of such benefits in summing the incomes of the poor.

The Subcommittee on Fiscal Policy's study of public welfare has attempted to gather information on the distribution of these benefits to fill the void. What we have found indicates that a package of several benefits is received by large enough numbers of people to warrant further investigation and concern over the equity of these packages and the impact on work incentives of the higher value packages. For example, we estimate that 9 to 12 percent of AFDC families receive AFDC, medicaid, food stamps or surplus commodities, and live in public housing.^{1/} This population--roughly 300,000 families--faces much higher work disincentives and has higher levels of benefits than one would guess by looking only at the AFDC level. Twenty eight percent of old age assistance recipients receive food stamps, and an additional 18 percent receive food commodities. Forty percent of civil service retirees also receive a social security check. Six percent of old age assistance recipients also received medicaid, medicare, and public housing benefits. The Subcommittee will publish by early March the results of a major field study on the distribution of public welfare benefits which will add to our knowledge of combined benefits.^{2/}

Work Incentives.

Returning to the second reason why it is important to evaluate reform plans such as FAP in a broad programmatic context, we find that the level of combined cash, food, housing, health, and other benefits is only one factor in determining the work incentive aspect of such plans. Equally important is the way in which benefits are tailored to income.

Many programs today are related to income, and benefits are reduced as income rises. Some of these benefit reduction or loss rates are high and some are low. Unemployment insurance typically has a 100 percent benefit loss rate--that is, a dollar earned is a dollar of unemployment compensation lost. AFDC benefits are reduced by 67 cents for each dollar of net earnings. As your income rises by \$1.00, you must pay about 30 cents more for the same amount of food stamps and about 25 cents more in public housing rent. If your income rises above a certain level, you may lose eligibility for medicaid completely. The cost of day care may increase if the center bases its fee schedule on family income. The recently enacted higher education law provides scholarships based on family income, and the higher the family's income, the lower the aid.

1/ Studies in Public Welfare, Paper No. 1, "Public Income Transfer Programs: The Incidence of Multiple Benefits and the Issues Raised by Their Receipt," April 10, 1972.

2/ Studies in Public Welfare, Paper No. 6, (forthcoming).

The number of programs based on need seems to be rapidly increasing, and with it the probability that low- or even middle-income families will participate in one or more of them. The result is that each program takes its share of increased income, sometimes adding up to more than a dollar-for-dollar reduction in benefits as income rises.

Consider the following examples.

* In New Jersey an unemployed man with a wife and two children receiving public assistance and food stamps would add only \$110 to his net monthly income if he took a full-time job paying \$500 a month. In addition, he would lose eligibility for medicaid, which pays an average of \$52 a month for the medical bills of an AFDC family in New Jersey;

* An aged couple receiving veterans' pensions and a social security check for \$140 per month achieves only a \$75 per month rise in spendable income if one of them earns \$300 per month from a part-time job;

* A Tennessee father who is eligible for food stamps and the unemployment insurance maximum gains only \$4 a week by taking a part-time job paying \$75 a week. In New Jersey the job must pay over \$100 per week before a similar man receiving unemployment insurance and food stamps gains anything at all by working;

* A New Jersey mother of three receiving benefits from medicaid, aid to families with dependent children, food stamps, and public housing would gain only about 20 percent of the total income derived from taking a full-time job paying as much as \$700 or even \$1,000 per month. A \$4.00 an hour job is worth only 80 cents an hour to her.

New proposals could further complicate this problem if simply added to existing programs. The Family Assistance Plan got bogged down when it became clear that, when added on top of these other benefits, it both raised the guarantee level for persons receiving various combinations of programs, and more importantly raised to extraordinarily high levels the combined rate of benefit loss for earnings. The work incentives that were built carefully into FAP could be undermined by the operation of other programs.

Equity of Benefits.

The distribution of existing benefits, especially those tied to eligibility for AFDC, seem to meet few of the criteria for equity. In singling out the unemployables in most of the cash assistance programs, for example, we have often reversed the income position of persons who work and those who do not. It is well known by now that in a state with liberal welfare benefits a female-headed family on AFDC can receive a higher cash income than a family headed by a man or woman working for low wages, and the inequity is exacerbated when food, health, and other benefits are tied to AFDC. The Family Assistance Plan promised to reduce the difference in the cash benefits available to male-rather than female-headed families. But, critics countered, so long as FAP benefits are lower than the AFDC benefits provided by some states, and so long as eligibility for other benefits such as medicaid is tied to AFDC, then inequities can be reduced but not eliminated.

That criticism was valid but it was not generally appreciated how much male-headed families were already receiving in benefits to supplement low income. Thus, the erroneous impression was given--and did great harm politically--that male-headed families would be eligible for welfare for the first time under FAP.

In fact, many states and localities currently supplement the earnings of working fathers under their own general assistance or home relief programs; these working men can participate in the food stamp or surplus commodities programs in almost every place in the country; they are eligible for public housing and other subsidized housing programs on a space available basis like everybody else; and they may be eligible for free medical care under medicaid in some states. If they are employable but unemployed--whether fully or partially--many will be eligible for unemployment insurance or for the unemployed father portion of AFDC which 23 states operate. But the extent to which such programs help to reduce the inequities created by AFDC both currently and under FAP was unknown because little data existed on who was benefiting from these programs.

Administration and Program Planning.

The FAP debate focused attention on the problem of administering this complex set of programs. Very few seem to be models of efficiency, and the rapid expansion of programs such as AFDC and food stamps may have outpaced the ability of administrators to handle them within existing organizational structures. The complex, ever-changing rules and eligibility requirements create such administrative confusion that rather large numbers of ineligible persons receive benefits and some eligible people are rejected. While each program has its own problems, administration of multiple programs at the local level generally is uncoordinated. The rate of error in public assistance transactions has been estimated to be as high as 30 percent without fraud. And a single family may be affected by several programs, none of which share information or administrative burdens. The result seems to be hopeless inefficiency and confusion. Rather than cutting and paring, it appeared to many that FAP was only adding another layer. They wondered: "Can't we develop a plan that can consolidate and substitute for some of those that currently exist?"

Since there has been relatively little attention to problems of program coordination, program planning often takes place in a vacuum. The result is that intended changes in one program are often countered by features of an overlapping program. Every Congressional office is aware of the fact that when social security benefits were increased recently, some persons got nothing and some actually lost income. About 4 million low-income persons over age 65 receive either old age assistance (OAA) or a veterans pension. An increase in social security may lead merely to a corresponding decrease in one or other of the income-tested programs, and no change in total income. But some people--whose social security

increase is so large as to get them completely off OAA--will generally lose real income. As long as they get a dollar of OAA they are eligible for medicaid and probably food stamps, and special local benefits such as property tax credits or free garbage collection. When they go off OAA they can lose eligibility for these and other benefits.

Similarly, there have been increases in the social security minimum benefit to aid the poor. Yet of all married men who are newly retired social security beneficiaries and are receiving the minimum, 52 percent also have public pension income, 6 percent receive private pensions, and 4 percent receive veterans' cash benefits. Only 3 percent also receive public assistance. And 14 percent of civil service retirees receive the social security minimum. Thus, increasing the social security minimum constitutes more of a "windfall" for persons who have retired under other personnel systems than an efficient antipoverty measure.

Another example is the interaction between social security and the black lung program for disabled coal miners. The latter program is often discussed as if the victims of pneumoconiosis were totally without income and dependent on black lung benefits. In fact, as of December 1971, nine out of every ten miner beneficiaries were also receiving social security benefits. Most widows already were receiving social security as well.

Lack of Overview.

Despite these complex interactions among our growing body of programs designed to affect standards of living, neither the structure of Congress nor of the Executive agencies is geared toward their analysis. Considerable analytic work is done by Congressional committees, the agencies, and nongovernmental researchers preceding major legislative changes. But in general such analysis focuses exclusively on one program at a time--the one under consideration. Rarely is the set of programs reviewed in its entirety.

The Congress and the Executive agencies are organized in programmatic terms--and thus wear blinders imposed by jurisdictional boundaries. For example, if we look only at the 21 major income maintenance programs with some Federal involvement, we find they fall under the jurisdiction of 10 committees of the House and 9 of the Senate, and they are administered by 11 Federal agencies. No one committee has the responsibility for viewing them all together. Each passes legislation affecting directly only a few programs with different eligibility requirements, different benefit levels, different treatment of income, and so forth--all this despite the fact that the programs reach many of the same people.

It is this proliferation and fragmentation of programs, whose benefits seem arbitrarily distributed, that have created the most serious technical and policy problems that remain before many members of Congress can accept a cash income supplement program; namely, how to integrate and coordinate this multitude of programs. Indeed, this is the rationale for the Subcommittee's special welfare study. The problem at bottom is to focus on what the Federal Government properly should provide to its citizens by way of basic living levels; to

assure that this is done in as equitable and in as streamlined a fashion as is possible; and finally to assure that the resulting package is consistently structured so as to encourage and reward the maximum work efforts of its recipients.

The Conflict Between Level of Benefits and Work Incentives.

By now it is generally understood that there are conflicts among these objectives. For example, it would be very costly to provide a basic cash benefit of, say, \$4,500 to every family of four if we also want to structure the plan to encourage work. What is involved mainly in building work incentives into programs is reducing benefits by less than one dollar for each dollar earned, so that there is always some income advantage to increasing one's work effort. The less we reduce benefits as income rises (and, hence, the greater the reward for work), the more costly a plan becomes, and the greater the number of people covered. Thus, an inevitable compromise must be made between the basic guarantee level and the provision of work incentives if there is a fixed cost constraint.

My preference is for the maintenance of strong rewards for work even at the expense of benefit level--this for two reasons. First, relatively few people are totally without nonwelfare income sources over a year's time. Most perform some work, however spasmodically, or have alimony income, or receive social security, or have some small savings or assets, or are in and out of extreme poverty rather quickly. For example, it is estimated that 40 to 50 percent of AFDC family heads worked for some part of the year. What many of the poor require from welfare reform, therefore, is not total income support but rather partial income supplementation.

If this fact is accepted, then it follows that a plan which reduces benefits by only a small fraction of private income will help many of the poor more than a plan which reduces its benefits very sharply and by a large percentage of private income. Indeed, a recent analysis of FAP found that many of its prime beneficiaries--the working poor--would have been better off under the food stamp program which it proposed to eliminate. Despite the fact that FAP would have paid the family of four with no other income about twice as much as the food stamp program provides in stamps, the food stamp program treats earnings far more generously than FAP would have. As a result, families would have been worse off under a program with high benefits reduced sharply with earnings than under the current food stamp program which provides a smaller benefit amount per year for a family of four but which reduces benefits only very gradually as income rises.

How much can we provide?

These benefit level versus work incentive and equity tradeoffs loom even larger when we attempt to mesh cash benefits with food, health, housing, and day care benefits. At issue above all is whether it is within our current fiscal capacity to guarantee to everyone good housing, proper food, enriching day care, superior medical care, and all the necessities of life--apart from or in addition to a basic cash allowance. No doubt we all wish we could.

In the short run, however, it is impossible for the Federal Government to guarantee these benefits to everyone on an equitable basis. And the distribution of benefits is inequitable in the extreme now, both between beneficiaries and nonbeneficiaries and among the beneficiary group itself. If we take the cash, food, and health package available to AFDC recipients in the most liberal states (ignoring for the moment subsidized housing and day care benefits), the fiscal constraints on providing this package to all low-income persons become clear. There is a great deal of resentment which results when nonworkers seem to be better off than workers. True, there are probably all kinds of other prejudices against, for example, AFDC recipients which are bound up with and heighten this resentment, but that does not make the income inequity any less real. It seems to me that the distribution of the benefits will have to be made more equitable. Given the enormous cost of providing this package of benefits to everyone not now receiving it, a cut-back in benefits for some current beneficiaries may be entailed.

Conclusion

Those of you who have followed the debate over AFDC and FAP will recognize that the welfare reform issues mentioned here are not new. What has been newly appreciated is the complexity of the public welfare program world and that many earlier analyses and "solutions" only treat the tip of the iceberg. Many programs other than AFDC are past due for overhaul and the scope of public debate about them must reflect the \$100 billion scale on which they operate.