THE WELFARE REFORM BILL AND ITS EFFECTS IN THE SOUTH

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> "The majority of Americans now living in comfortable circumstances should become better off, not worse off, as a result of such a (redistribution) policy. To get this dynamic thought understood and widely accepted is the major task for all who would enlighten public opinion in America" [10].

The number of Americans living in poverty increased by an estimated 1.2 million during 1969 and 1970, reversing the downward trend in numbers of poor registered through the 1960's [15]. It seems a paradox that 12 percent of our citizens live in poverty in a trillion dollar economy. The grossly unequal distribution of income is illustrated by the fact that average annual after-tax personal income was $3,098 per person in 1970 [8]. Yet, 25 million lived below the 1970 poverty level, defined as $3,944 for a family of four [15]. Roughly speaking, those living in poverty existed on incomes of less than one-third of the national per capita level. This paper is not concerned with the highly skewed distribution of personal income, but is directed to the effects on those living below or near the officially defined poverty level.

Coupled with the incidence of poverty is the intense and growing dissatisfaction with current welfare programs. The Aid to Families With Dependent Children (AFDC) Program is a special target of criticism from both liberals and conservatives, seemingly satisfying neither recipients nor taxpayers.

SCOPE

Society generally realizes the obligation to provide for the disabled, aged, and young. Various forms of aid have been administered which show that the U.S. is committed, at least in principle, to provide for those who are physically unable to work. This paper focuses on the effects of the proposed welfare reform bill in the South,[1] particularly to the effects on the working poor and households headed by females.

RECENT WELFARE REFORM EFFORTS

In August, 1969, in response to growing concern about the plight of Americans living in poverty and the ineffectiveness of present welfare measures, the Nixon Administration sent Congress a message regarding a proposed income maintenance plan. The proposal was notable in several respects. For the first time, official approval was given for extending public assistance to the working poor [8]. In addition, an eligible family could be headed by a male, as well as a female, in contrast to current AFDC rules in many states which actually encourage desertion by male heads of families. And finally, the proposal was formulated by the generally more conservative Republican party, not the Democrats.

Later in 1969 the administration sent a proposed bill, the "Family Assistance Plan," to Congress. The bill eventually passed the House of Representatives, but was defeated by the Senate late in 1970. In January, 1971, the administration submitted a new proposal to the House Ways and Means Committee.

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[1] Refers to the census geographic delineation, which includes Alabama, Arkansas, Delaware, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, West Virginia, and District of Columbia.

On May 12 the committee handed the White House a new bill, "The Social Security Amendments of 1971," an omnibus bill which included provisions for new Titles XX and XXI in the Social Security Act. Title XX, called Adult Categories, applies to and for the aged, blind, and disabled and would be administered by the Social Security Administration effective July 1, 1972 [11]. Two additional forms of income maintenance are included in Title XXI. The "Opportunities for Families Program" would apply to families with at least one employable person and would be administered by the Department of Labor. The "Family Assistance Plan" is for families with no employable person, and would be administered by the Department of Health, Education, and Welfare. Title XXI would replace AFDC effective July 1, 1972 [11]. The administration promptly announced support of the bill, which preserves basic innovations of President Nixon's original Family Assistance Plan [6].

Numerous plans have been proposed over the past few years for income redistribution, but the proposed welfare reform bill has been and will likely continue to be the focus of debate for several months in Congress and the Nation.

SPECIFIC PROPOSALS IN THE REFORM BILL

Title XX is designed to provide financial assistance to needy persons who have reached age 65 or are blind or disabled. Individuals or couples would be eligible for graduated benefits when their monthly income is less than the amount of the monthly payment, which would be $130 for an individual and $195 for an individual with an eligible spouse [16]. The same computation of benefits would be required under provisions of the omnibus bill for both the Opportunities for Families Program and the Family Assistance Plan in Title XXI [10], as illustrated in Table 1.

For a 4-person family with no income, the payment is $2,400. After earnings reach $720, the cash payment is reduced by 2/3 of each dollar earned. For a family with earned income, some payment would be received until annual income reaches $4,260 [12].

Some additional proposals in the Opportunities for Families Program are as follows [11]:

1. Every member of the family eligible for work would be required to register for man power services, training, and employment.

Table 1. AMOUNT OF BENEFITS IN THE PROPOSED WELFARE REFORM BILL (TITLE XXI)

No. of persons in family	Benefits
2	$ 1,600
3	2,000
4	2,400
5	2,800
6	3,100
7	3,400
8 or more	3,600

Source: [11]

Table 2. EXAMPLES OF PAYMENTS WITH EARNED INCOME (FAMILY OF FOUR)

Earnings	Family Assistance Payment	Total Income
None	$2400	$2400
$ 720	2400	3120
1800	1680	3480
2400	1280	3680
3000	880	3880
3600	480	4080
4140	120[a]	4260

[a]Least amount payable is $10 per month or $120 per year.

Source: [12]

Exclusions from this requirement are the disabled, mothers caring for a child under age 6, children under 16, or a person needed in the home to care for an incapacitated family member.

2. Every person who is registered would be required to accept available employment except when the wage rate is less than 3/4 of the highest Federal minimum wage.

Provisions relating to both programs are as follows:

1. Families with assets in excess of $1,500 are ineligible. A home not exceeding a reasonable value, household goods and personal effects, and property essential to the family's support are excluded.
2. Families receiving benefits under the assistance programs would not be eligible for food stamps.
3. A parent of a child receiving benefits who leaves home to avoid support would be guilty of a misdemeanor and subject to a fine and imprisonment.
4. Child care services are provided for those registrants who would require them. This requirement is necessary in the Family Assistance Plan to enable mothers to take vocational rehabilitation training.

Additional Federal spending required by welfare changes is estimated to be about $5.5 billion. Estimates indicate that the adult and family programs would affect 25 million people and cost initially $14.9 billion. Gross maintenance payments are estimated at $9.9 billion [12].

IMPACT OF THE BILL IN THE SOUTH

Because of the low per capita income characteristic of many areas in the South, passage of the bill would have a significant economic impact on the region. Referring to the Nixion Administration's original plan, Richard Armstrong called its expected impact "The Looming Money Revolution Down South" [1]. In the original proposal, there were estimated to be 15 states in which 15 percent or more of the population would be eligible for welfare benefits. Ten of these were in the South (see Table 3).

The number of persons of all ages who would receive Federal Aided welfare in the South in 1973 under current law was estimated at 4,902,300. If the bill under discussion passes, benefits would be paid to 10,692,000 recipients, a 118 percent increase over current programs. Nationally, the increase in number of recipients would be 70 percent (Table 4).

The amount of revenue going into the South is estimated to be about $4.3 billion. The family programs would account for $2.4 billion of that amount and $1.9 billion would be paid in adult categories. Thus, the South should expect about 42 percent of the cash payments resulting from the welfare reform bill. The Ways and Means Committee estimated that savings in state welfare expenditures would be $635.8 million in the southern states [12].

Southern politicians would be quick to point out that the money has to come from somewhere, perhaps requiring increased taxes. But with low per

Table 3. SOUTHERN STATES WITH MORE THAN 15 PERCENT OF THE TOTAL POPULATION ELIGIBLE FOR WELFARE BENEFITS UNDER THE ADMINISTRATION'S REVISED PROPOSAL

	percent of population eligible for benefits
U.S. average	12%
Mississippi	35%
Louisiana	25%
Georgia	22%
Alabama	19%
North Carolina	19%
Tennessee	19%
South Carolina	19%
Arkansas	19%
Kentucky	16%
West Virginia	15%

Source: [4]

Table 4. NUMBER OF WELFARE RECIPIENTS UNDER CURRENT LAW AND NUMBER OF PERSONS ELIGIBLE UNDER HOUSE OF REPRESENTATIVES 1 BY STATE, FISCAL YEAR 1973

	Number under current law			Number under H.R. 1		
State	Total	Adult Categories	Family Categories	Total	Adult Categories	Family Categories
(U.S. Total)	15,025.1	3,385.3	11,639.8	25,503.3	6,189.2	19,314.1
Alabama	408.2	149.0	259.2	761.9	174.8	587.1
Arkansas	149.0	75.6	73.4	404.5	114.5	290.0
Delaware	36.1	5.0	31.1	58.5	10.4	48.1
District of Columbia	101.7	15.0	86.7	144.9	24.9	120.0
Florida	449.9	91.6	358.3	917.6	228.4	689.2
Georgia	485.1	140.8	344.3	961.0	231.0	730.0
Kentucky	259.8	89.5	170.3	621.0	162.3	458.7
Louisiana	473.3	149.8	323.5	823.7	212.1	611.6
Maryland	217.5	28.3	189.2	388.5	71.7	316.8
Mississippi	269.4	111.7	157.7	626.3	174.7	451.6
North Carolina	248.2	77.0	171.2	821.6	186.2	635.4
Oklahoma	218.6	106.7	111.9	400.7	108.1	292.6
South Carolina	142.3	34.8	107.5	466.8	94.4	372.4
Tennessee	358.1	98.1	260.0	830.4	222.0	608.4
Texas	771.6	287.0	484.6	1,571.3	373.0	1,198.3
Virginia	185.4	26.6	158.8	566.5	120.1	446.4
West Virginia	128.1	25.2	102.9	326.8	69.4	257.4
South Total	4,902.3	1,511.7	3,390.6	10,692.0	2,578.0	8,114.0

Source: [12 p. 228]

capita incomes, southern states already pay less taxes per capita than states from other sections of the nation. In 1963, Federal individual income tax collections was $237 per capita for the U.S. compared to $169 per capita for the South. The welfare reform bill will actually amount to a significant regional redistribution of income to the South.

Public expenditure to improve the lives of low income people would stimulate the economy of the South. Individuals now living below estimated poverty thresholds represent the main under-utilized resource in America. By their inability to participate to any appreciable degree because of lack of marketable skills and/or opportunity in the economy, a potential source of economic growth is not realized. The reform bill, which is actually a monetary redistributional reform, would have the initial effect of building aggregate demand which would be in turn lead to increased productivity and encourage increased economic growth. Gunnar Myrdal maintains that, "Never before in the history of America has there been a more complete identity between the ideals of social justice and the requirements of economic progress" [10]. An estimate of the social cost of unemployed and underemployed manpower in rural areas has been made by Coffey [4].

Tradition and an inherent belief in the protestant work-ethic causes distrust of most welfare measures. Many observers are deeply concerned about the effects of welfare on the initiative of the individual recipient. Fortune's Richard Armstrong captured this feeling in interviews with southern politicians and leaders. Georgia representative Phillip Landrum, who voted against the Nixon bill in the Ways and Means Committee remarked, " There's not going to be anybody left to roll these wheelbarrows and press these shirts. They're all going to be on welfare" [1]. Former Governor Lestor Maddox of Georgia says that "able-bodied men or women who could work, but refuse job after job in order to draw a welfare check, should be made to feel like the bums that they are" [1].

Maddox and Landrum are merely reflecting the image that the general public has of welfare recipients - living in a shack with a color TV, and an able-bodied man driving to town monthly in a new Cadillac to pick up the welfare check. But that image is far from the fact. The Department of Health, Education, and Welfare (HEW) reports that at best only about 5 percent of welfare recipients in current programs can be helped to self-sufficiency in a reasonable length of time. The rest are children, the aged, disabled, and mothers who have nowhere to leave their children [17].

EFFECTS ON CASE – STUDY FAMILIES WITH EARNED INCOME

At the heart of the debate is the bill's effect on work incentive. For this reason, much attention is being centered on research being conducted by the Institute for Research on Poverty at the University of Wisconsin. The Office of Economic Opportunity is funding the Institute for a study on effects of income maintenance of some 1,300 families in the Trenton, New Jersey-Scranton, Pennsylvania area [14]. The experiment was restricted to families with male, able-bodied heads. About 80 percent of the eligible families had incomes of 100 to 150 percent of the poverty level. Plans being tested in the experiment have a range of tax rates on outside earnings of 30 to 70 percent, and guranteed income levels of $1,741 to $4,352 for a family of four [7]. The assumptions were that higher tax rates would decrease incentive to work and that secondary earners (wives, for example) would leave the work force.

After 14 months in one area and 8 months in another, the Institute reported little indication of wage earners leaving the labor force. Average payments over time were stable (indicating no change in work status), and average family incomes rose at approximately the same rate for both experimental and control groups. Increases in family incomes were attributed to increase in prevailing wage rates. Indications were that work incentive was not decreased by negative tax transfers. Furthermore, there was no evidence that families unusually changed their consumption patterns. Families apparently budgeted payments as any other item of income [7].

More recently, with the 3 year study nearly half completed, the Office of Economic Opportunity (OEO) prepared a report for the Ways and Means Committee indicating work habits remained virtually unchanged. The new data seemed to indicate that the guranteed income payment helped low-income workers get higher paying jobs. Two possible explanations were suggested as to why higher tax rates did not decrease incentive to earn money. First, it is possible that any kind of a gurantee for the working poor gives security to seek better jobs. A second possibility is that there is a time lag before recipients actually find out the true effects of outside earnings [14].

OEO is also sponsoring rural tests with 800 families in North Carolina and Iowa. Congressmen are certain to carefully scrutinize the North Carolina experiment in which about half the families are Negro. Preliminary findings have not yet been reported, but already difficulties are surfacing in administering programs in rural areas. The difficulties are due to the self-employed status of some recipients, lower literacy levels, and the complicated nature of reporting income for farm families.

In the South, several concentrated areas of rural poverty can be distinguished. Among the well-known areas are Appalachia, the Coastal Plains, the Ozarks, the Black Belt of the Deep South, and Mexican-American concentrations along the southern border. In poverty areas, census data from the 1966 Composite Survey of Economic Opportunity indicated that 70 percent of the poor families existed on less than $2,000 per year [13]. In 1969, the average wage of southern farmworkers was $1,034 [1]. The income of many of these farmworkers families could easily double or triple should the bill pass. Many previously dying rural areas would experience new economic life with the flow of money into small towns. Increasing prosperity in these areas could be expected to slow out-migration to urban areas, such as occurred with the mass exodus of more than 3.5 million Negroes from the South since 1940 [1]. Thus the initial effect of the bill could be to stabilize, or significantly reduce, migration from poverty-stricken counties in the South. Out-migration from the South is not necessarily bad; however, it is commonly believed that the rapid out-migration of low skilled people has contributed to urban problems in other regions.

In the urban South, there is a sizable pool of subemployed blacks earning less than the minimum wage. In Atlanta where per capita income is higher than the national average, one out of twelve black males is unemployed, one out of four works part time, and, of those employed full time, one out of four makes less than $1.60 per hour, or $3,328 yearly for a 40 hour week [1].

EFFECTS ON SOUTHERN FAMILIES HEADED BY WOMEN

The OEO studies do not answer questions about the effects of income payments to families headed by females. This category is the fastest growing portion of welfare rolls, increasing from two-thirds of the AFDC recipients in 1961 to three-fourths in 1967 [8]. It is among this group that poverty is most acute. Families headed by women now make up 14 percent of the National population, but include 44 percent of the poverty population.

A large-scale increase toward self-sufficiency in families headed by mothers is hard to envision in the South. In the first place, there are not enough jobs even for males. Generally, industry has not provided new jobs quickly enough to absorb the surplus labor resulting from mechanization of southern agriculture. Secondly, many of the mothers are not skilled or trainable to the extent necessary for many jobs. Thirdly, the requirement in the Welfare Reform bill that individuals cannot be required to work for less than three-fourths of the Federal minimum wage rate which is as low as $3 a day in some areas of the Deep South [1]. Many liberals view this provision as a necessity because in the work-ethic oriented South, work requirements are expected to be strictly enforced. President Nixon's original proposal in 1968 did not specify a minimum wage requirement, prompting Reverend Rims Barber, a civil rights worker in Mississippi, to call the work requirement ". . . . slave labor. That's just subsidizing lazy white women who shouldn't be allowed to have maids at that price," remarked Barber, as quoted in *Fortune* [1].

Even if families headed by women are not able to become self-sufficient, the bill can be looked upon as a break-through. The Ways and Means Committee estimated that 717,000 such southern families would receive payments. For a family of 4 in the South, $2,400 is much higher than the average AFDC payment. The maximum level now in effect for a family of four in Alabama is $972; Arkansas, $1,140; Louisiana, $1,248; and South Carolina, $1,236 [16]. Mississippi had the lowest national payment per month per recipient of $11.00 while Virginia had $45.15 per recipient [9]. Maximum benefits among the 15 southern states is currently less than $2,400 [12].

PROBLEM AREAS

The bill is not without faults. Without distracting from the generally constructive thrust of the proposal, faults should be recognized.

There is serious question regarding the adequacy of manpower training, retraining, and placement. The bill would establish 412,000 manpower slots in addition to 187,000 now authorized. However, unemployment at 6 percent means about 5 million out of work. Many millions more are underemployed. In the face of high unemployment, 599,000 training slots may be inadequate. Unless structural unemployment is attacked by workable manpower programs, inflation may absorb the gains of recipients of welfare assistance, as increased employment resulting from the stimulus of increased aggregate demand would go to the already employed through overtime and bonuses for higher productivity.

Public service employment currently provides only 200,000 jobs. This area may represent the best opportunity to bring into the work force unskilled and semi-skilled workers. At the same time environmental improvement, urban renewal, and other socially desirable programs could be started. The welfare bill runs the risk of becoming a half-measure, raising hopes that are not fulfilled, if the problem of structural unemployment is not met sufficiently.

The marginal tax rate on earned income may be too high at 66 percent. This high reduction in benefits when added to transportation costs to and from work and other work related expenses may result in recipients losing all incentive to earn income.

The method of financing the bill is a potential problem area. Financing by increasing the money supply could lead to inflation which might neutralize a large share of the benefits.

SUMMARY AND CONCLUSIONS

The welfare proposals in H.R. 1 would cost the nation 14.9 billion dollars, 5.5 billion more than present programs. Total payments would approximate 9.9 billion dollars in the first year, of which 5.8 billion dollars is to family programs and 4.1 billion dollars to adult programs.

The southern region contains 30 percent of the nation's population, but pays just 22 percent of the total Federal individual income tax collections. The region would receive an estimated 4.3 billion dollars in payments, or more than 40 percent of the total for the nation. Thus, the bill redistributes income to the South.

Revenue coming into the region would stimulate economic activity, especially in hard-core poverty areas. The payments should enable poor families to improve their skills and gain access to better employment opportunities. Studies in families of the working poor tentatively show that payments have not decreased incentive to work. However, assistance to families headed by women probably will not result in women entering the work force, particularly in the South. Payments are necessary in this case to better equip children for productive lives. The welfare bill thus contributes toward generally accepted policy objectives. Since provisions of this bill are a marked departure from current welfare programs, research is needed to illuminate some potential problem areas.

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