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THE WELFARE REFORM PROVISIONS IN H.R. 1

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ABSTRACT

This paper offers a quick summary of the fifth version of "welfare reform" to be considered by the Congress since President Nixon offered his Family Assistance Plan in 1969. Like its predecessors, this version would raise benefits in some states and would extend benefits to the working poor. Three federal agencies would divide the administrative responsibilities for public assistance. Able-bodied adults, including some mothers with small children, are to be subject to a work test and to relatively high marginal tax rates. The bill emphasizes training and rehabilitation. Some provisions are made for child day-care and public jobs. States are encouraged by the bill to maintain their present levels of AFDC benefits and to turn the administration of all public assistance cash benefits over to the federal government.

A Review of the Welfare Reform Provisions in H.R. 1

I. Introduction

The Congress is now in its second round of considering the welfare reform proposed by President Nixon in August of 1969. In the first round, the House passed a bill only to have it die in the Senate Finance Committee after it had been twice revised to meet objections of the Committee. In May, 1971, however, the House Ways and Means Committee, after long deliberation, reported out, in H.R. 1, a new (this is the fifth) version.[1] That bill passed the House on June 23 and now is before the Senate where it is expected to be under study for several months.

In its broad outlines the present bill is responsive to the leadership of the President.[2] It would take the Federal Government into the dominant position vis-á-vis the States in all aspects of public assistance. It would provide $1.6 billion of fiscal relief to state and local treasuries. It would establish a national minimum for assistance levels and would set uniform rules for determining eligibility and for calculating benefits. In these ways the bill represents a step toward Federal Government take-over of assistance. It would also introduce the revolutionary idea of paying assistance to families with children headed by able-bodied men, including those who are fully-employed.

The new version, like its predecessors, calls for a relatively small addition to the total of cash transfers. (All the estimates on benefits and costs here are by the Committee and are to be found in the Committee print cited above. I will indicate some skepticism about some of their estimates, but I will cite them to begin with.) If the states maintain their benefit levels and add the cash value of food stamps, the bill would increase cash benefits to the so-called adult categories of the aged, blind, and disabled by $2.0 billion, and to families with children by $1.4 billion. ($1.4 billion of the $3.4 billion is to be financed by the elimination of food stamps for welfare recipients.) More striking is the fact that the increase in benefits would be associated with an increase in the number of assistance beneficiaries of 10.5 million: 2.8 million in the adult categories and 7.7 million in families with children. This would bring the total number of persons on the welfare rolls up to 25.5 million, which is, coincidentally, the number who were counted as poor in 1970.[3] The only group of poor persons who would not be eligible would be childless persons who are neither aged nor disabled.

Presently the total outlay for cash assistance is about $10 billion. These payments go to 15 million persons, the largest part of whom are in the program called Aid to Families with Dependent Children. This program has had a startling growth during the last decade, for the most part, unpredicted growth. It tripled in size, even though poverty declined in its extent, and even though employment and earnings improved quite satisfactorily on the average until 1969. At present more than 7 million children are receiving benefits under this program. That is about 70 percent of all the children counted as being in poverty.

There were only 4.8 million children under 18 in poor families headed by women in 1970. There appears to be a discrepancy in the estimates that we get from different sources of the number of poor families headed by women. It appears that there are fewer such families counted by the Census than are registered with AFDC. Differences may come from asking somewhat different questions. Apparently, if you ask the family "Who is the head of this family?" or "Is there a man in this family?", they often answer yes when the Census Bureau confronts them with that question. But when there is some economic, psychological, or other problem in that family and they go to the welfare office, they report that the man in the family is absent. And so, we get a somewhat conflicting count of people. The number of families in the country that are headed by women is, according to the Census, about the same percentage of the total number of families now as in 1940 or in 1950. However, in some cities, it appears that there is a rapid growth in the number of families--especially non-white families--headed by women. This is part of the controversy and part of the explosive nature of the facts that confront us in looking at this family program.

II. Public Assistance in Perspective

To keep the numbers involved in the proposed welfare reform in perspective, it is useful to envision public assistance as only a part of a broader set of cash transfers which include benefits paid by social insurance programs, the veterans program, and public employee retirement systems. Total outlays for cash benefits, including public assistance benefits, were $64 billion in 1970. Closely related to this, $15 billion worth of hospital and medical care benefits were paid for out of public funds, along with a couple of billion for food stamps and surplus commodities, and a lesser amount for public housing and rent supplements.

If we want to think in still broader terms about what we transfer out to families in the form of benefits, perhaps one should include education benefits and training benefits. One might include in a broad purview not only what government does but what private philanthropists do, and what employers and unions do in contracting for transfer payments. I have tried to envision and promote the idea of such a broad set of transfer programs. As now counted up these involve an expenditure of more than $150 billion a year. These benefits to individuals or to families, which modify the original distribution of income arising out of the market place, amount to about one-sixth of the total Gross National Product of this country. This is a measure of the "welfare state" aspect of the American economy.

In talking with students, I find that they often have only the vaguest notion of the total amount of expenditure of this kind that is taking place. They are aware that we have a military-industrial complex in this country that involves the expenditure of a considerable amount of money: close to ten percent of the Gross National Product. But we should also be aware of something we could call the health-education-welfare complex, and that complex at the federal, state and local levels, including some private activity, involves the expenditure of almost twice as much money as we spend on the military-industrial area. It may be important to understand that this latter complex has been successful in increasing its rate of expenditure much more than the military-industrial complex has been. No part of our political economy has been so dynamic in the postwar period as health-education-welfare, expenditures for which have been increasing at a rate of ten percent a year per capita. Hardly any other line of activity exhibits such a high rate of growth. Students often are disbelieving of this. They do not understand these facts; they do not interpret them in these ways. They are receptive to the idea that this country's priorities are all mixed up; they often say that we spend far more money destroying people than we do on bettering them. I challenge this particular interpretation of recent history. In that perspective, the total outlay for welfare reform proposed in H.R. 1 of about $4 billion (which included, in addition to the increases in cash benefits mentioned,

$.7 billion for child day-care, $.8 billion for public service jobs, $.5 billion for training, and $.1 billion for family planning and for other services) is seen as a relatively small one. It is less than one year's normal growth in the overall system of transfers. It is even less than the $7.1 billion of increases proposed in H.R. 1 itself for improving Old Age, Survivors, Disability and Hospital Insurance. Most of that amount will go to the non-poor, as well as the half-billion dollars of tax relief proposed via liberalization of the child-care deduction and the retirement income credit.

But in another perspective, the proposed expansion of public assistance is more significant. Compare the $3.4 billion of cash benefits, if you will, with the size of the poverty-income-gap, which is now about $11 billion. Or compare it with that part of cash transfers which goes to those who have incomes prior to transfer below the poverty line.[4] It appears that in 1966 (note that this was well before the explosive increase in AFDC), the pre-transfer poverty-income-gap of $24.3 billion was reduced to a post-transfer gap of only about $10 billion. In other words, about $14 billion of the original poverty-income-gap was filled by the existing cash transfers.

It is ironic that in the last decade cash transfers increased so markedly, from $25.9 billion in 1960 to over $60 billion in 1970, and yet the poverty-income-gap fell by only $3.5 billion. You might wish to reflect how this could be. We have had a flood of public cash transfers, and yet the size of the gap between the income that poor people actually receive and what it would be if they all received poverty-line income has shrunk very little. This must mean that much of the increase in transfers has gone to people already above the poverty line. This is, we have increased Social Security benefits often during this last decade, most of the increase going to those people who would not have been poor without it. We have increased unemployment compensation and many of the other cash benefits and they tended to go in largest part to people already above the poverty line. So, the added public assistance benefits proposed in H.R. 1 may be significant in reducing the poverty-income-gap, more significant than a comparable increase in any other part of the transfer system.

Quite aside from the increase in cash benefits, the bill is notable in that it will "put a lid" on benefits in some states and reduce benefits for some families. Moreover, it might, as its sponsors claim it would, induce a higher pre-transfer income for the poor by encouraging and making possible more family stability, more work, and higher wages. But whether that will prove to be true will depend on the significant details of the welfare reform. So let us turn to those details.

III. Some Details of Welfare Reform in H. R. 1

H.R. 1 would redesign public assistance into three programs, each administered at the federal level by a different agency. The program for the adult categories of aged, blind, and disabled would be administered by the Social Security Administration. It is interesting to ask ourselves why the whole set of programs is not given over to the Social Security Administration, which has high prestige as a most efficient and scandal-free administrative organization. Why don't we take advantage of the great talent, trust, and confidence they have built over the last thirty years? I do not know the answer.

For the adult categories, benefits would be set at the relatively generous level of $2400 a year for a couple, relatively generous by comparison with what is offered to families under the programs that will be discussed later. The benefits, in the case of the blind and disabled, would be taxed at zero percent on the first $1020 of earnings and at 50 percent on extra earnings. The term "tax rate" used here refers to the rate at which benefits are reduced as other income is added. That is, if you earn $1000 and your benefits are reduced $500, the implicit tax rate is 50 percent. In the case of the aged, however, the set aside or zero tax on earnings extends to $720 and the tax rate on added earnings is 66 2/3 percent. The reason for that difference is not understood, and Committee comment is not very illuminating. No work test is required, but there is a resources test which excludes those with assets other than a house, and certain other assets, in excess of $1500. This resources test would be uniform throughout the country. At present, this test differs not only among the several programs but across the various states.

States may supplement these federal benefits, but it is expected that many states will not do so. It appears to have been the intent of the Administration, and of the Ways and Means Committee, to "ride over" almost all the states with respect to the programs for adult categories--to be relatively generous, and thus to relieve the state treasuries and to take a great many people above the poverty line in the process.

H.R. 1 divides families with children into two groups, those with and those without an "employable" person. Those who are "employable"--and therefore subject to the work-test described below--include not only non-disabled, non-aged men, but also juveniles over fifteen who are not in school, and mothers who head families and have no child under age three. The age three criterion for mothers would not take effect for a couple years; in the meantime the age level would be six years. (One member of the Committee was in favor of setting the age level of the child after which the mother should be expected to work at two months. Here the emphasis is on getting the mothers who head families into monetarily rewarding work. Interestingly, all mothers with a husband who meets the work test are exempt from work requirements. No rationale has been given for excluding mothers with husbands from the work requirement. This seems a contradiction.)

The bill would refer families having no employable person to the Family Assistance Plan (FAP), to be administered by a new agency in the Department of Health, Education, and Welfare. On the other hand, it would send families with an employable member to the Department of Labor, which is directed to set up a new Opportunities for Families Program (OFP) with responsibility for training and employment. This program is a new version of the Work Incentive Program legislated in 1967 and would have funding for 412,000 training slots, 200,000 public service jobs, and 875,000 child-care places.

Under FAP and OFP, the maximum benefit, or guarantee is $2400 for a family of four. The term "guarantee" refers to the benefit in the absence of any other earnings or income. Medicaid, which varies from state to state, may be thought of as adding to the guarantee. There is no work test, but the financial disincentive to work is not total: the tax rate is zero on the first $720 of earnings and 66 2/3 percent thereafter.

This would yield a break-even point, or earnings level at which benefits fall to zero, of $4320, except that the bill specifies that benefits of less than $10 per month are not payable, so that the operating break-even point is $4140.

The two-thirds tax rate applies to alimony and child support payments as well as to earnings. However, a 100 percent tax rate applies to property income--such as interest, rents, and dividends--gifts, and commercial and social insurance benefits. This means that a family having only income from these sources faces a break-even point of $2400. The Committee anticipated the question of why anybody would bother to collect what is called "unearned" income in this situation by requiring that a family collect all public benefits due them or forfeit FAP benefits, and by requiring that property not yielding a reasonable rate of return must be disposed of under the resources test. These stipulations require considerable administration. An alternative would have been to put a lower tax rate on such earnings and leave some incentive for the family to collect such benefits. This was done with respect to alimony and child-support payments. The Committee did not relent on other types of "non-earned" income.

OFP would have the same schedule of benefits and taxes but with some interesting variations. One might have thought the Committee would have set lower tax rates for persons expected to work. At the extreme, they might have gove to negative rates--that is, rates below zero--by means of a wage rate subsidy or an earnings subsidy. You will recall that it is the OFP families that have an employable member. One Senate Finance Committee member who does not wish to pay able-bodied men for doing nothing is in favor of helping them if they help themselves. A logical follow-through of that idea would be to supplement each dollar earned by an additional specified amount from the public treasury. This would be the strongest possible incentive for one to work. The supplement would have to reach zero at some point, and therein lies one of the difficluties of such a plan. The Committee did reject the idea of an earnings subsidy. However, they sought other ways to reduce disincentives to work.

One of the ways adopted by the Committee to reduce disincentives to work is through variation of the guarantee, depending on the activity of the family head. The guarantee is zero if the head of the family goes to college, seemingly the least favored form of activity. For a family of four, the guarantee is $800 if neither the father nor the mother will take training or work at "suitable" work at "reasonable" wages; the "work test" would be administered by the OFP director. For a family of four, the guarantee is $1600 if the mother works but the father will not and $2400 if the father stays with the family and works or takes training. In addition, there are training allowances and reimbursements of expenses, including child care expenses, associated with training. A family in training may collect far more than $2400 in cash and value of services. An interesting transition occurs when moving out of training into employment: some of the benefits are lost upon becoming employed following training.

The Committee also would limit disincentives for parents to work (and I believe this applies to women whose husbands are working and to fathers with wives absent, as well as to women who are heads of families) by reducing the tax rate on earnings that go to pay for up to $2000 worth of child care from 66 2/3 percent to zero percent. This does not mean that child care is free to a working parent, but that within certain earnings ranges, the government absorbs two-thirds of the cost. The child-care deduction extends the zero tax range to $2720 and the break-even point from $4140 to $6140.[5] Additionally, the government will pay part of child-care cost for some families via the child-care deduction under the income tax. The Committee estimates that by this child-care financing, by the reduction of guarantee for non-workers, and by training and other measures, they can induce half the AFDC mothers, or about 1 million women to work.

Training is a way to break down barriers to work and to better wages. Similarly, relocation allowances will help in some instances. And, of course, the creation of public jobs, if they are genuinely new jobs and if they go to members of poor families, will provide new opportunities which some will take even if their extra earnings are taxed at the two-thirds rate. One may note, in passing, that there will be many equity problems in rationing the limited number of training slots and public jobs among the 2.6 million OFP families, some of whom have more than one worker. In other words, two hundred thousand public jobs may sound like quite a number, but with five million or so takers, it is only a "drop in the bucket". In this vast country, there are many people earning less than the federal minimum wage that would be payable on these public jobs. Many of them have insecure private employment and would prefer--even, perhaps, at somewhat lower hourly rates--to move from private to public work. We note here that the Committee bows in the direction of those many people who believe that public work is preferable to cash payments to the poor for no work at all. This is an explosive element on the horizon in the development of the American welfare state. The only similarly explosive issue that I sense at the moment is that of child care. We could spend easily $20 or $25 billion a year on some of the child care proposals which are now before Congress. We can move in the direction of more jobs funded out of the public treasury and more child care funded out of the public treasury and in the process we would dwarf the total amount now going toward public assistance within the next few years.

It is important that people see the choices before us. Do we want to pay out more cash to people? Do we want to spend more money on child care and on public jobs even though some of these latter expenditures would accrue to middle class, and in some cases, upper class families in the country?

We mentioned that Medicaid adds to the guarantee of cash beneficiaries in most states. In some states, Medicaid provides benefits that could only be purchased by a health insurance policy costing $1000 or more a year. H.R. 1 proposed that the "notch", or sudden loss of health benefits with an extra dollar of earnings, be modified by allowing states to say that totally free health care would extend to a level of earnings as low as $720 and no higher than a total income, including cash benefits, of 133 percent of the guarantee. Beyond that level and up to the break-even point of FAP or OFP the family would continue to have a Medicaid "insurance policy" but would have to pay a deductible equal to the excess of earnings over the $720 or other amount selected. This does limit the compounding of tax rates, but it does leave a combined tax rate for the two programs of over two-thirds, and leaves a notch at at the break-even point of the cash programs.[6] Social security tax and income taxes will further raise the marginal tax rate on earnings. Some families will, under this set of combined programs, pay a tax rate on extra earnings of 100 percent or more--a lamentable fact, certainly, but one difficult to avoid unless you are willing to spend much more money on the initial design of the program.

One of the most explosive social issues of the moment is this tendency to condition benefits on income and to lay them one on top of the other, so that in attempting to help people below the poverty line, we put them in a position where we offer them a great deal free but where we give them no advantage for extra earnings. This issue is arising repeatedly now. A new program before the Housing Committees of Congress would add housing allowances that are income-conditioned: as your income rises your housing allowance falls. Another program developed by a Congressional Committee would offer child care benefits reaching well beyond the poverty line but nonetheless having an implicit tax rate in it again. In each such instance, benefits below the poverty line are being built up to a point that is above the level of after-tax earnings of the ordinary worker, leading to a situation wherein the more you earn the less you have. This is a peculiar and unsustainable set of relationships. All of us interested in social policy should be alert to these possibilities and be concerned about them.

IV. Issues

The fact that there is such variability of guarantees, tax rates, and break-even points--as well as great variation of response among human beings--means it is very difficult to estimate costs of the family programs in H.R. 1. How will mothers respond to the cost arrangements for child care? Will workers be discouraged by the two-thirds tax rate on extra earnings?[7] What response will people make to the "first baby bonus" under which the guarantee for a couple goes from zero without a baby to $2000 with a baby? How will a father who is thinking about deserting his family respond to the provision which would make him forever liable for OFP benefits paid to his family? Will the "man in the house", who does not have to be counted as a family member under the bill, be discouraged from marrying a mother by the rule that a step-father's income must be included? Will large families tend to split, or share children among relatives, in order to get larger benefits? Each of these questions bears on the matter of how we estimate the cost of the program.

The Committee emphasizes that they have leaned toward the high side in estimating costs, but there is one matter they seem to have overlooked, namely, the fact that deductibility of child care cost will show in increased cash benefits and will, by extending the break-even point, make more families eligible for benefits. Such an arrangement will raise the total benefits payable to families below the break-even point, and it will add many more families to the eligible-for-benefits category. Recall, if you will, that the median income of husband-and-wife families is approximately $10,000. The relatively high break-even of $6140 is well beyond the poverty line of about $4000 for a family of four. If one million mothers deduct $1000 each for child care (remember, there are 10 million children in poverty), the cost might be $.67 billion in extra cash benefits.

H.R. 1 makes a significant departure from earlier versions in defining the income-accounting period to be used in calculating benefits. This is a "sleeper" in much of the discussion of welfare reform and of negative income taxation. Public assistance traditionally has thought of the income period as one month. Negative income tax proposals have usually defined income periods as a year. The period adopted in H.R. 1 is a year, but is more accurately described as quarterly with a carry-over of above-break-even income from the preceding three quarters. This is a social invention which I credit to my colleagues Lee Bawden and William Klein.[8] It has the advantage of a one-year accounting period of treating those with seasonal variation of income like those with stable income; yet it has some of the responsiveness to change in family need associated with a shorter period. This will certainly yield lower costs and result in fewer beneficiaries than does the one-month closed accounting period which is traditional in public assistance. In other words, many people now eligible for welfare would not be eligible if this income accounting period is adopted. Many cases exist where families have zero income for one month yet have annual incomes of, for example, $10,000 or more and remain eligible for benefits under the one-month income period.

In this respect, H.R. 1 moves in the direction of a negative income tax. It also does so by making all families with children and with incomes below the break-even point eligible for benefits (public assistance since 1967 has had a lower standard for initial eligibility), by doing away with allowances for "special needs",[9] by eliminating food stamps, and by clarifying and reducing the deductions and disregards[9] in the various state public assistance programs. So H.R. 1 is a national scheme something like a negative income tax. The Committee emphasizes the fact that most of these changes will save money for the taxpayer and will produce greater uniformity across the country and among families. In each case, it also means that some people now on welfare will lose benefits or potential benefits. The National Welfare Rights Organization and other spokesmen for the poor are conscious of these consequences and, therefore, in some cases are opposing the legislation.

In certain other ways, H.R. 1 is unlike a negative income tax, It leaves many matters to the discretion of administrators. Someone must determine who is employable and who is not. There is a discretionary question in evaluating the resources of a family. What is suitable work? Is a person, in fact, meeting a work test? For example, let us suppose that a man is working but is earning only \$2000 a year. Suppose that he is already working forty hours a week, but since he is earning only \$2000 some administrator requires that he take training or a different job or his family guarantee will be cut. Under the proposed legislation, such a decision is left to the discretion of the Secretary of Labor. Many such examples can be drawn from the proposed legislation. To the extent that such discretionary features exist, H.R. 1 is quite unlike what most people have thought of as a negative income tax.

From the beginning of the discussion of President Nixon's welfare reform, one of the most troublesome questions has been that of what to require the states to do and how much to relieve their treasuries. H.R. 1 offers states the option of supplementing the guarantees in the adult national scheme something like a negative income tax. The Committee emphasizes the fact that most of these changes will save money for the taxpayer and will produce greater uniformity across the country and among families. In each case, it also means that some people now on welfare will lose benefits or potential benefits. The National Welfare Rights Organization and other spokesmen for the poor are conscious of these consequences and, therefore, in some cases are opposing the legislation.

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From the beginning of the discussion of President Nixon's welfare reform, one of the most troublesome questions has been that of what to require the states to do and how much to relieve their treasuries. H.R. 1 offers states the option of supplementing the guarantees in the adult and family programs. States can elect to supplement without including a guarantee for families headed by men or by fully-employed men. (In other words, they do not need to have a form of AFDC-U in the state.) There is no requirement that present benefit levels be maintained. Certain incentives in the plan would encourage states to maintain present levels. States may maintain existing benefit levels and add the cash value of food stamps, which amount to as much as $800, and be assured that there will be no cost to them above 1971 levels. In other words, their treasuries will be "held harmless" so long as they do not raise benefits. On the other hand, there is no federal sharing if states elect to raise benefits above 1971 levels. States would be able to save all administrative costs by turning administration over to the several federal agencies involved. This means that those families who receive only a state supplement, because their earnings are above $4140, may get their check from Washington. Let me point out that some families will receive only a federal payment, some will receive only a state payment, and some will receive part federal and part state benefits.

State supplements must conform to federal standards reviewed above with regard to the definition of income, income period, family, resources and work tests, deductions and the tax rate. The Federal Government would clearly be the senior partner in this interpretation of "creative federalism." Curiously, however, the bill does not specify one important matter, namely, the tax rate on earnings beyond the break-even point for OFP benefits. Hence, it appears that the tax rate could be 100 percent plus social security taxes and income taxes.

The several states would get varying amounts of the $1.6 billion of fiscal relief under a maintenance-of-effort assumption, but some might decide to take more relief by reducing benefits or by dropping AFDC-U, or by refusing to add the cash value of food stamps. Clearly, the net increase in benefits to the poor which flow from H.R. 1 would depend on how the states exercise the few options left to them.

V. Summary Comment

We have reviewed what seem to be the main points of the welfare reform proposed in H.R. 1, We find that the Ways and Means Committee has responded to broad goals stated by the President and it has taken account of some of the criticisms heard at the Senate Finance Committee in the last Congress. H.R. 1 is recognizable as an ideological descendent of the welfare reforms of 1961 and 1967 with its emphasis upon training, rehabilitation, and pressures to work. However, it also bows to those who see child care and public jobs as ways to break the poverty cycle. It reflects some, but not very much, of the thinking of academics who have promoted negative income taxation as a way to reduce poverty. It would produce a particular pattern of modest fiscal relief to the states and it would alter the way in which public assistance funds are shared among the poor--that is, between families headed by men and women, and between the aged and children, and between those in rich and poor states.

The bill would depart from the idea that encouraged the adoption of Aid to Dependent Children in 1935, namely, that a mother should stay home with her children. It would convert most AFDC mothers into "working poor" and treat them, perhaps in accord with the demands of the women's liberationists, as the equals of men. This is a most lively issue about which I must confess a lack of understanding. The proponents of this particular idea in the bill contend that this is a way to "free" women. It will free women by penalizing them for not working. The proponents argue that we now have a "conspiracy" against women that works through the welfare system's offering women a cash benefit if they want to stay home. The next point in the conspiracy, so the theory develops, is that when a woman has that guarantee no man will offer her a job. Women are discriminated against through this conspiring to keep them out of the labor market. The remedy is to say that there is no haven for the woman in the form of free cash benefits with no work done. This will require men to treat women's applications for employment more seriously and in that sense it will liberate them. I sense the great emotion but I am not sure I fully appreciate the logic in that statement. There is a powerful movement at work here of which I was not aware at the time the President made his initial proposal for welfare reform in 1969. The dynamics of the issue may be accommodated only by very large expenditures on child care and a considerable amount of training as well as a shift of attitude by employers, many of whom are men.

Perhaps it needs to be emphasized that the initial impulse for new treatment of the "working poor" had to do with men. In the discussion recently, little concern has been shown about how we should treat "working poor" men. Much of the emphasis in popular discussions has been on the level of the guarantee for the family where there are no earnings. Much more relevant to the discussion about families headed by working poor men is the tax rate. The typical working poor family now is headed by a man, and he earns something like $1500 less than his poverty-line income. That means that the total federal benefit payable to him under H.R. 1 would be about $1000. This is a prime question before us: Is such income supplementation--and the two-thirds tax rate associated with it--a good use for some of the nation's transfer funds? We have never had a program like this. It is almost true that no other country in the world has had one. Recently, the new Conservative government in England adopted a "Family Income Supplement" program which is similar in principle.[10] We were the first country to seriously consider the adoption of such a set of benefits. We should not lose sight of that idea in considering this welfare reform.

Only time will tell whether the complex piece of legislation known as H.R. 1 is a politically acceptable combination of measures and, if so, whether it would achieve the purposes to which it is addressed. In the meantime, however, it deserves the careful study of all who are interested in the welfare of American families.

NOTES

[1]House Report No. 92-231, 92d Congress, 1st Session, Social Security Amendments of 1971, Washington, U.S. Government Printing Office, May 26, 1971.

[2]A related paper by the author is "Nixon's Family Assistance Plan," Institute for Research on Poverty Discussion Paper 57.

[3]U. S. Bureau of the Census, "Poverty Increases by 1.2 million in 1970," Current Population Reports, Series P-60, No. 77, May 7, 1971.

[4]For more discussion of this point see paper entitled "Transfer Approaches to Distribution Policy," American Economic Review 60 (May 1970): pp. 270-279, and Institute for Research on Poverty Reprint 61.

[5]A person taking the child-care deduction will often have a "take-home" income no higher than the $2400 guarantee. If child-care cost exceeds earnings, take-home earnings plus benefits less payment for child-care would be less than the guarantee. Only if earnings exceed child-care costs (and costs for ideal care are at least $1500 per child), will take-home income exceed the guarantee. Some states now pay the full costs of child-care even if earnings are less than child-care costs.

[6]President Nixon has proposed that Medicaid be replaced by a federally-financed Family Health Insurance Plan, which would pay for basic health care for families earning less than $3000. Health benefits would be gradually reduced by deductibles and co-payments so that at $5000 of earnings, one-fourth the cost of the insurance would be paid for by the family.

[7]For the latest evidence from the New Jersey experiment with negative income taxation, see Harold W. Watts, "Mid-Experiment Report on Basic Labor-Supply Response," Institute for Research on Poverty Discussion Paper 98.

[8]See Michael R. Asimow and William A. Klein, "The Negative Income Tax: Accounting Problems and a Proposed solution," Harvard Journal on Legislation, November, 1970; also available as Reprint No. 67, Institute for Research on Poverty. Also see D. Lee Bawden, Glen G. Cain, and Leonard J. Hausman, "The Family Assistance Plan: An Analysis and Evaluation," Institute for Research on Poverty Discussion Paper 73.

[9]These two changes would reduce benefits now payable under AFDC in a number of states. Thus, while some families would gain benefits, others would lose.

[10]Also similar is the proposed plan to make the Canadian family allowance income conditioned. See Income Security for Canadians, Department of National Health and Welfare, Ottowa, 1970.