



INSTITUTE FOR RESEARCH ON POVERTY

NIXON'S FAMILY ASSISTANCE PLAN

by

Robert J. Lampman

DISCUSSION PAPERS

THE UNIVERSITY OF WISCONSIN, MADISON, WISCONSIN

NIXON'S FAMILY ASSISTANCE PLAN

Robert J. Lampman

Robert J. Lampman is Professor of Economics at the University of Wisconsin. The research reported here was supported by funds granted to the Institute for Research on Poverty at the University of Wisconsin by the Office of Economic Opportunity, pursuant to the provisions of the Economic Opportunity Act of 1964. The conclusions are the sole responsibility of the author.

November, 1969

ABSTRACT

This is a discussion of President Nixon's recent proposal to "reform the welfare system." It includes a review of the background to his particular choice of a plan for reform, a description of his Family Assistance Plan, and a listing of some points of controversy concerning it.

NIXON'S FAMILY ASSISTANCE PLAN

President Nixon is asking Congress to give a radical twist to the income maintenance system which took shape with the landmark Social Security Act of 1935. His Family Assistance Plan, if adopted, would enable

- (1) a greatly enlarged role for the federal government in federal-state public assistance or welfare programs;
- (2) a new federal plan to pay income supplements to all poor families with children, including those headed by able-bodied men.

BACKGROUND TO THE PRESIDENT'S DECISION

The President has responded to a combination of discoveries, events and changes of attitude of recent years. Among these are:

- ° The discovery and identification of poverty as a national problem and the commitment by President Johnson to eliminate poverty.
- ° The riots in the street and the quiet hunger in the countryside--both of which have been attributed in some degree to the malfunctioning of the welfare system.
- ° The shift from thinking of welfare as a nonenforceable privilege over to thinking of it as a legal right to stated benefits in response to objectively determined needs.

- ° The revolt by state and local taxpayers who see the escalating costs of welfare as too much for them to bear without at least some new sharing arrangement with Washington.

To get the President's decision into perspective, it is necessary to look back to the 1930's when the United States moved to play down the importance of state-local welfare programs and to build up a system of income maintenance dominated by social insurance, with the key role set for the federal government. Benefits for old-age and short-term unemployment led the list, and benefits for survivors were soon added. Later, in Eisenhower's first term, benefits for permanent and total disability were included. Social insurance benefits, including those for "social security," unemployment insurance, and workmen's compensation, amounted to \$30 billion in 1968, and they are an important layer of protection against the leading hazards to family security. The first layer of protection is, of course, earnings and property income made by the family itself. The second is private insurance, with or without employer participation. The third is social insurance, which establishes contractual rights to income in stated circumstances.

The fourth layer of protection is categorical assistance, for which the federal government in 1935 agreed to share costs with the states, which had, in turn, just recently undertaken to share costs with the local governments. The "categories" of "deserving poor" were identified in 1935 as the old-aged, the blind, and the children in broken homes. Later, the permanently and totally disabled were accorded categorical status. The fifth layer of protection is noncategorical or general assistance, which is taken care of primarily by local government and private charity.

The architects of the Social Security Act theorized that the residual role of assistance would gradually wither away with the growth of social insurance and the return to prosperity. This has turned out to be a fair prediction with respect to general assistance and old-age assistance (OAA), but it was a mistaken forecast for aid to families with dependent children (AFDC). Since the late 1950's, AFDC has expanded at an accelerating rate. One minor reason for this expansion is that in 1961 Congress extended the basis for eligibility to include payments for children with fathers who are unemployed for long periods. To date, 23 states have taken advantage of the unemployed parent provision (AFDC-UP), but less than ten percent of all the AFDC recipients are in this category. The largest portion of AFDC benefits go to families broken by a cause other than death of a husband: divorce, desertion, or illegitimacy. Not only are there proportionately more such family break-ups, but more people in such circumstances apply for, and are found eligible, for AFDC benefits.

The Congress has liberalized the program through such measures as raising the age limit for children to 21. State legislators and administrators have forced local jurisdictions up to statewide standards and have backed away from certain ancient devices for keeping down costs, including: "rateable reductions" in benefits, whereby benefits are reduced as the appropriation period wanes; pursuing absent fathers and other "responsible relatives;" establishing an actual budget as a fraction of a "needs budget" for families of given sizes; and requiring a family to deplete all of its resources before benefits begin. The courts have also played their part in this liberalization by overruling legislative

provisions that have (1) limited eligibility to those who have resided in a state for a year or more and (2) cut off families which have a "man in the house" other than the father. Furthermore, social workers and welfare rights organizations have publicized the availability of welfare and have encouraged families to apply.

As of now, six percent of all children under age 18 are receiving AFDC benefits. They comprise 40 percent of the nation's poor children, and two-thirds of all the poor children in families headed by women. The typical length of stay on AFDC rolls is a little over two years. Over a fifth of all the children now reaching 18 have been served by AFDC at one time or another during their childhood, making this category of public assistance one of the most important institutions we have for dealing with the needs of children.

The rising number of children in AFDC (now four million) is gradually approaching the declining number of children in families below the poverty line (under ten million). However, the possibilities for further expansion of AFDC cost are still pretty wide open. If the patterns of New York and California were to become general, the number of beneficiaries would increase by one-half. And, if for all the states the average AFDC benefit were to approach that of the richer states, the national AFDC cost would be half again as high.

It is true that, by a 1967 amendment to the Social Security Act, Congress served notice that it wanted to "freeze" the numbers in each state to which it would extend AFDC matching funds. But it is also true that another amendment to the same act required states to adopt an incentive benefit formula which would raise the earnings level below which families would be eligible, and hence increase the number of

beneficiaries. These amendments, which went into effect July 1969, lent urgency to some action by President Nixon.

The trends discussed above mean that the \$3 billion which AFDC is costing us this year could quickly go to \$6 billion or more before it levels off. It is a vision like this which prompts Mitchell I. Ginsberg, Commissioner of Human Resources in New York City, to conclude that "Welfare is now almost beyond the power of any city to handle. It is getting too big for a state." It is a vision like this that leads the Advisory Council on Intergovernmental Relations to call for the federal government to take over the whole cost of welfare and relieve the state and local governments of their present share of that cost. AFDC's cost, even if it were to rise to \$6 billion, would be less than one percent of a \$900 billion gross national product. It is curious, then, that it should be such a significant cause of a state and local taxpayer's revolt, and that it should be considered by Governor Nelson A. Rockefeller "the most serious economic paradox of our times," and by President Nixon's Special Assistant, Daniel Patrick Moynihan, "the leading conundrum of American domestic policy."

The excitement is partly due to the fact that a large fraction of any increase in AFDC costs will come out of badly strained state and local budgets. Another part of it is that any discussion of AFDC in any state legislature or county board is likely to yield equal parts of controversy, outrage, and bitterness and to bring up topics most legislators would prefer to avoid--touching on race (half the beneficiaries are black), religion (family planning), illicit sex, and family responsibility.

A leading cause of the current agonizing about AFDC is the fact that, as the number in the program and the average AFDC benefits rise, the disparity between the poor who are on versus the poor who are off the program becomes less and less tolerable. For the most part, a poor child is not eligible for AFDC unless his father dies or deserts. This means we have what Yale's economist James Tobin calls "an insane piece, of social engineering" which encourages family break-ups. In any event, AFDC is not set up to reach all, or even most, of the children who are poor. If more than a minority of the nation's poor children are to be helped, a new program is needed. President Nixon's proposed tax reform, which raises the income level at which the federal individual income tax begins, is a notable help to many poor and near-poor families. Raising this level from \$3,000 to \$3,500 for a family of four, with varying changes for families of different sizes, will add a total of \$669 million to their after-tax income. However, none of that extra money will reach families (of four) with less than \$3,000 income.

Commission after commission has called for a new program which would respond to the needs of all those who are poor for any reason. As long ago as 1964 a President's Task Force on Income Maintenance, of which the present writer was a member, recommended the introduction of a "Tax Adjustment Allowance" for low-income families with children. The Advisory Council on Public Welfare (1966), the National Commission on Technology, Automation, and Economic Progress (1966), the Advisory Commission on Rural Poverty (1967), and the Kerner Commission on Civil Disorders (1968), all recommended an extension and reform of welfare to recognize a national interest in the poor in every state and in every category and noncategory. Finally, from statements by Chairman Ben W. Heineman, it appeared that the Commission on Income Maintenance Programs appointed

by President Johnson would report this year in favor of a reform aimed both at more nearly uniform nationwide benefits and at eligibility for the noncategorical poor. (They did so report on November 12, 1969.)

All these advisory groups challenge two tenets of America's conventional wisdom. The first is that relief should be managed by governments close to home, where judgment of what is "really needed" and what the taxpayers can "afford to pay" is alleged to be most reliable. This tenet is used to rationalize the wild variations in recipient rates and benefits from one state to the next. It is also used to justify the refusal by some southern counties to distribute food stamps because of a fear that better-fed families will not provide willing workers in the local labor markets. But it is hard to reconcile this tenet with the fact that Chicago may pay the price for Alabama's neglect when migration occurs.

The second tenet being challenged is that government should not make welfare available to all those who are poor, but only to those who are poor "through no fault of their own." The notion of the blameless or deserving poor goes back to the enlightenment of 19th century reformers, who sought to save people from the pauperization, the deprivation of civil rights, and the ostracism then accorded indiscriminately to all the welfare poor. The thing most to be avoided, by the lights of American social philosophers from the 17th century on, was encouragement of poverty and idleness. The aim, as Sargent Shriver rather crudely put it in selling the Economic Opportunity Act, is "to convert tax-eaters into tax-payers."

The question of how to do that, however, remains open, with one side saying the poor should suffer scorn and shame, and the other advocating sympathy and "investment" in their future. The Puritan ethic is

challenged by a social interest in equality of opportunities. The idea that welfare is giving something for nothing--or worse, that welfare is rewarding the nonperformance of parental duties by what George Bernard Shaw called "the barbarous poor"--is challenged by the modern social work proposition that welfare is not a cause of misery but merely a passive receiver of the failures of individuals and economic and social organizations. Hence, to present-day policy makers, it is at least an open question whether poverty is encouraged or discouraged by a system which denies benefits to needy children because of the category of their parents. Are children of the "undeserving" themselves undeserving of a good change at life? James L. Sundquist, of the Brookings Institution, asserts that it is ". . . unsound public policy to deprive multitudes of children of the sustenance they require to grow into healthy and self-sustaining adults, in their own time, in order to punish those of their parents' generation who may be considered to deserve such punishment in our own time."

In summary, President Nixon's arrival in the White House was preceded by the maturing of the social insurance system, a decade of rising cost for AFDC, increasing pressure to change the intergovernmental sharing of the cost for that program, and persistent advice to correct inequities among the poor in the several states and in and out of the categories. Thus, two questions awaited the new President. Should the extension of income maintenance be accomplished by abolishing existing categories, or by establishing new ones? And, should the federal government work out a new sharing agreement with the states or take the whole assistance program over unto itself?

Answers to these questions came from all quarters. Former Health, Education and Welfare Secretary, Wilbur J. Cohen, urged that the federal government take over the financing and administration of the categorical programs. "Such a system," says Cohen, "would overcome many of the problems of inequity, State variation, and fiscal inadequacy which have plagued the States and the present welfare system for more than 30 years . . . and would release State funds to meet need in the area of general assistance. . . ."

A task force appointed by Nixon before he took office, headed by Richard P. Nathan (now assistant director of the Bureau of the Budget), suggested in January of this year that the federal government should strive to reduce disparities of welfare payments in different parts of the nation by (1) requiring all states to pay at least \$40 per person per month and then (2) itself providing three-fourths of that minimum and half of the next \$40. This task force urged a breakdown of the categories by making AFDC-UP (that is, for unemployed parents) mandatory in all the states and a blurring of the distinction between assistance and social insurance by (3) moving all aged, blind, and disabled persons on to social security rolls at increased benefits. This scheme would help many of the poorest people in the country and would, it is alleged, slow down the migration into northern cities. It is important to know that 40 percent of the nation's poor are in the South.

However, if the Nathan task-force approach were followed, states which now pay low benefits would find themselves confronted with a problem already familiar to high-benefit states like Wisconsin: AFDC benefits for moderate and large-sized families would exceed the earnings

of a fully-employed man at the going wages for low-skill work. Let me cite an example: A mother and three children living in a state such as Mississippi and having no wages, would, under the new approach, get \$160 per month or \$1,920 per year--and that would be more than many employed men earn in Mississippi. And it is far more than the \$500 assistance now available to that mother and her children. Inequity of this sort would be heightened by the new federal requirement to disregard the first \$360 of an AFDC recipient's annual earnings and to reduce benefits by no more than 66 2/3 cents for every dollar earned beyond that \$360. Thus, the AFDC mother cited above could earn \$1,000 and have her benefits reduced by only \$426 (2/3 of the amount earned beyond \$360) to give her a total income of \$2,494 for the year. This discrepancy between the incomes of those on and those not on welfare means that, given the regressive nature of state and local taxes, many working-poor men would be contributing through their taxes to the support of broken families who would then have incomes at levels above the amount that they themselves can provide for their own families. As stated by Richard A. Cloward and Frances Fox Piven, of the Columbia University School of Social Work, this inequity is an affront to the value of work and tends to drive a wedge of bitterness between the low-income worker and the welfare poor.

In order to avoid this type of inequity and bitterness, some--most notably, the Advisory Council on Public Welfare--think it would be plausible simply to abolish the categories and pay AFDC benefits to families headed by able-bodied, working men. But this would subject added earnings of the workers to a 66 2/3 percent tax (something which we now do in the

income tax only to those married persons rich enough to earn upwards of \$140,000). And, in states like New York, where the AFDC benefits for a family of four is about \$3,500, a worker would have to earn \$5,700 to get himself out from under that high tax rate.

To avoid such a high marginal tax rate on those who are ordinarily in the labor force, sound proponents of a negative income tax urged that a new category of the "working poor" be created and be made eligible for a special "income supplement" which would feature a relatively low tax rate of 50 percent. One plan would set the federal benefit, to be uniform in all states, at \$1,500 a year for a family of four having no other income, and would tax all earnings up to \$3,000 at a 50 percent rate; that is, the \$1,500 benefit would be reduced 50 cents for each dollar of earnings. Parallel schedules of benefits would, of course, apply for families of different sizes.

The noncategorical poor would have a new source of aid in every state. (New York City's home-relief wage-supplement plan is similar but has a different tax-rate schedule). Most of the working-poor families now have earnings in the range of \$1,500 to \$2,500 and, in the case of a four-person family, would have those earnings supplemented by \$750 to \$250 under the 50 percent rates schedule. The assumption is that few families now earning in these ranges or above would opt for no earnings and \$1,500 of benefits. On the contrary, it is expected that most would continue to work about as much as before and to take the benefits as additional income rather than replacement income.

A lively argument goes on concerning the likely effect of this plan on wage-rates. Some labor leaders fear it would depress wages,

while most employers suspect it would make low-income people less eager to work and hence raise the going wage rate. The accompanying schedule clearly shows that it is always to the financial advantage of a family to work more. It further shows that any two families having a given rank order in terms of pre-allowance income will always have the same post-allowance order.

Schedule of Benefits for a Family of Four Persons

<u>Pre-Allowance Income</u>	<u>Net Allowance</u>	<u>Post-Allowance Income</u>
\$ 0	\$1,500	\$1,500
500	1,250	1,750
1,000	1,000	2,000
1,500	750	2,250
2,000	500	2,500
2,500	250	2,750
3,000	0	3,000

For those who are alarmed over the possibility that some men would opt for the maximum benefit of \$1,500 at no work, one could design another schedule, which would pay a maximum benefit of only \$750 for a family of four. That benefit would not be diminished at all until a man was making \$1,500, at which time the total of benefit and wages would be \$2,250. When he was earning more than \$1,500 the benefit would be reduced by 50 cents for each additional dollar earned and would thus equal \$500 at \$2,000 of earnings, \$250 at \$2,500 of earnings, and zero at \$3,000 of earnings.

These allowances or benefits would be paid directly to families by a federal government agency. They would be computed as are social security benefits on the basis of earnings and family size information supplied by potential beneficiaries. One technique would base monthly payments on the earnings record of the previous twelve months, but there are a number of alternatives which might be considered, each having its advantages and disadvantages. This particular technique has the advantages of avoiding over-payments which would have to be collected back at the end of a year and of blunting the disincentive of a 50 percent tax on extra earnings, since extra earnings this month would have no effect on this month's net allowance. It has the disadvantage of responding slowly to changes in family need; a family might experience several months of low income before benefits would start.

By looking beneath all the confusing details about possible changes in assistance and possible new schemes for income maintenance, one can identify two strands of thought that were influential in the early days of the Nixon Administration. One concentrated on the interstate inequities among the welfare or categorical poor, while the other emphasized the inequity between the welfare poor and the working poor. It began to look like two steps were in order: (1) to raise public assistance benefits in the low-income states, and (2) to introduce a special benefit for the working poor. It was being argued in expert circles that these two steps would shift much of the burden of helping the poor from the states to the federal government at a surprisingly modest addition to total cost of about \$3 billion per year. At the same time, the manner of paying this cost would also be shifted from regressive property and sales taxes to the progressive income tax. Moreover, it would overcome many of the

objections to welfare. Disincentives to work would be moderate. Artificial incentives to migrate across state lines because of welfare differences would be reduced. Benefits for the working poor would be available under a nationwide set of rules administered by a federal civil service. These benefits would be payable under terms that approximate those of social insurance and income taxation, that is, terms that involve the fewest possible demeaning and stigmatizing conditions. Families would, of course, have to report income and family status. But they would not be forced to accept counseling or file suit against relatives, or accept employment or retraining opportunities--all of which are required under present welfare regulations.

The direct federal payment would be an innovation not only technically but conceptually as well. It would establish a right to minimum income without prior contract and without determination of blame, and it would introduce the notions of horizontal and vertical equity of the progressive income tax into the patchwork of systems we now have for paying out cash to people.

Because the idea is novel, it would undoubtedly encounter resistance in Congress and from the public. Public opinion polls showed the majority of citizens oppose a guaranteed income, and only a few members of Congress, the first one being William Fitz Ryan of New York, have had the courage to sponsor bills proposing a negative income tax. No other nation has yet undertaken to supplement the incomes of the working poor in this fashion. However, it is worth mentioning that several states have property tax and sales tax credits which embody the principle, paying cash refunds via the state income tax mechanism to low-income families. It should also be noted that the President's

proposal in May of this year (and Senator McGovern's proposal which passed the Senate in September) to expand the food stamp plan is, in essence, a negative income tax. Food stamps would be free for families with very low incomes and would be sold to others at higher costs scaled to rise with the family income. This scheme embodies the same principle as the sliding scale of cash benefits shown in the preceding schedule. Apparently public opinion has supported the idea of giving food to the poor.

But it was understood that, if the President were to propose direct federal cash payments, it would be shot at not only by those who oppose any and all schemes to spend more on the poor, but also by those who have rival plans. One such plan which is employed in 62 other countries is the child or family allowance. Backers of this plan say it is good policy to pay benefits to all children, rich and poor alike, since this avoids dividing the community between tax-paying non-poor and benefit-receiving poor. Leading spokesmen for this point of view are James Vadakin at the University of Florida, Alvin L. Schorr at Brandies, and Eveline M. Burns at Columbia.

Perhaps the leading objection to the universal child allowance is its cost. To pay \$300 per year to each of the nation's 70 million children would cost \$21 billion. Withdrawal of income tax exemptions for children would recover \$6 billion of revenue. Making the allowance itself taxable would recover another \$3 billion at existing tax rates. This would leave \$12 billion to be paid for by higher tax rates, a great problem for a tight budget. Such a scheme would produce about \$3.5 billion of added income for the poor--little more than the plan

discussed above would net them. Negative income tax advocates sought to convince the child-allowance enthusiasts that a negative income tax is best thought of as an "income-conditioned child allowance," that it would benefit almost every poor child in America, and that it was deserving of their support.

Another, and probably larger group, has been critical of the two-stage line of thought outlined above because it would not go far enough and take everybody out of poverty. But to set the benefit for a family with zero earnings as high as the poverty line for all the categorical and noncategorical poor would raise the cost enormously. If benefits were reduced a dollar for each dollar of earnings (a 100 percent tax rate), this would undoubtedly induce many families to opt for the full benefit at no work. On the other hand, a 50 percent tax rate and a full poverty-line benefit would mean that families would be receiving some benefits up to earnings of twice the poverty line, or \$7,000 for a family of four. Hence, about 40 percent of all families would draw net benefits and would be subject to a 50 percent marginal tax rate plus all existing taxes. With either scheme, those earning enough to disqualify them from benefits would have to pay a total of over \$20 billion in new taxes.

This is how much it would cost to eliminate poverty this year. There is no way to do it for less. It is most unfortunate that many writers have estimated, in error, that it could be done for \$10 or \$11 billion, which is the size of the so-called "poverty-income-gap." The cost of any given schedule of benefits will, it is true, fall over-time if the nation continues to register its recent progress against poverty.

This progress has averaged a net reduction of the number of people in poverty of two million per year, and a shrinkage of the poverty-income gap of one-half billion dollars (in constant prices) per year.

Our federal-state-local income maintenance system now pays out over \$40 billion in cash benefits per year, \$30 billion of which is in the form of social insurance, \$5 billion in veterans' benefits, and \$6 billion in public assistance. About half of these payments go to persons who are poor or who, in the absence of such payments, would be poor, and hence make up a significant part of our continuing war on poverty. A plan to refinance assistance and to introduce a new benefit for the working poor would be, it could be argued, a prudent addition to the income maintenance system. However, it was understood that any such plan would compete for funds that potentially could go to social insurance or to various in-kind programs that would benefit the poor. Public housing, medical care, family planning services, and day-care nurseries all have their devotees, and were being offered as alternatives.

Undoubtedly the most attractive alternative to both liberal and conservative opponents of cash payments is to take the same amount of money and spend it on creating jobs for the poor. Three billion dollars would finance about 750,000 jobs at \$4,000 each. But no one has yet worked out a convincing plan to distribute that few jobs among all the poor, most of whom already have jobs, in a manner that achieves vertical and horizontal equity. It is possible to agree with Michigan State University's Charles Killingsworth when he says that, "It is far less costly in human and economic terms to pay for the performance of needed

services than to support able-bodied and willing workers on welfare or some other form of the dole," without at the same time necessarily agreeing that a given amount of money would be better spent on job creation than on a two-stage change, such as that outlined above, to revise and extend America's income maintenance system. A proposal related to that of job-creation is that the government pay every low-wage worker a wage subsidy. Unlike a negative income tax, this would induce poor persons to work more. There are, however, great administrative difficulties in any such scheme.

This, then, was the state of argument as President Nixon came to address the nation on August 6, 1969, on the subject of "welfare reform."

THE PRESIDENT'S DECISION

President Nixon has offered a multi-faceted program in response to the problems and remedies reviewed above. Its broad strategy is (1) to make working-poor families with children eligible for income-supplementation benefits; and (2) to raise the benefits to the categorical poor in the low-benefit states. The latter involves two approaches, one for the so-called adult categories of old-age assistance, aid to the blind, and aid to the permanently and totally disabled, and another for AFDC. The adult categories are to be aided by a revised federal-state sharing formula, but the dependent children minimum is altered by substituting the Family Assistance Plan (FAP) for AFDC. In short, the present system of federal-state sharing of AFDC cost is to be abolished. We will return to a discussion of this point shortly.

The critical details of the President's plan for income supplementation for the working poor include the following. (a) Only families with unmarried children under age 18, or under 21 if in school, are eligible (this means a couple could collect a "baby bonus" of \$1,300 if they were to have a child and had no other earnings). (b) A family of four having no other income will be eligible for a maximum benefit of \$1,600. The first \$720 of earnings will not reduce the benefit, but all nonwork income and work income beyond \$720 is to be subject to a 50 percent tax. The combination of zero and 50 percent rates will yield a breakeven point--that is, a point at which benefits fall to zero--of \$3,920 for a family of four. Actually there are exceptions to all this. Veterans' pensions and certain farm payments are taxed at 100 percent; children's earnings, welfare payments, and other payments based on need are taxed at zero percent. Further, some part of earnings paid out for child care is to be excluded. These ways of handling various types of income mean that breakeven points will vary; hence, it is hard to estimate costs for the program. (c) A family with resources in excess of \$1,500 over and above a home, household goods, personal effects, and other property deemed essential to the family's means of self-support, is ineligible for FAP benefits unless they dispose of the excess resources at some rate. (d) A family is defined to exclude a person who is not related by blood, marriage, or adoption. In other words, it leaves out "the man in the house." A stepfather, however, cannot be excluded. Also excluded are persons not living at home. Some persons, such as 20-year-olds not in school, grandparents, and in-laws, whose income is not available to

other members of the family may be excluded. Members of the armed forces and their spouses and children, and recipients and dependents of recipients of aid to the aged, blind, and disabled are ineligible.

(e) The income period is apparently one year, but benefits are to be based on an estimate of income for the current quarter. Over-and underpayments are to be corrected "whenever the Secretary of HEW finds that more or less than the correct amount has been paid." (f) A family's benefits may be reduced if certain members of the family refuse to accept a "suitable" work or training opportunity. In particular, every able-bodied adult who is working less than "full-time," including women heads of families whose youngest child is over the age of 6, but excluding a person needed to care for an incapacitated family member, is required to register with the state employment service. That person's benefits (which will be \$500 at the maximum) may be denied if he fails to register or if he declines to accept training or employment opportunities deemed to be suitable by the employment service operating under guidelines to be set down by the Secretary of Labor. This "work test" is designed to discourage the "working poor" from abusing the income supplementation concept. But it could alternatively be viewed as an incentive to the less than fully-employed person to register.

Secretary Finch estimates that this income supplement will extend benefits to about \$14 million persons not now on the welfare rolls. The cost, all of which will be borne by the federal government, will be \$1.9 billion per year. A quick calculation suggests that he expects the average supplement to be about \$135 per person per year.

The Secretary tells us that another \$1 billion of federal money will go into other elements of redesign for the welfare system; \$.3 billion will go to present welfare recipients, mostly in the adult categories, and \$.7 billion will go to relieve state treasuries.

That \$.7 billion is involved in the President's bold bid to do something we did not discuss in Part I of this paper. That is to "abolish AFDC." This "other edge of the sword" of the Nixon plan was quite unlooked for by most experts and is still only imperfectly understood by them. Upon the adoption of the Family Assistance Plan, the federal government will no longer match state contributions to AFDC. Families presently on AFDC will in the future receive a federal FAP payment. And, in ten states where \$1,600 is more than the combined federal-state AFDC payment, that will be the end of the story. In Mississippi, for example, AFDC will have been abolished. But what about the other forty states? The \$1,600 guarantee with a sliding scale of benefits will apply nationwide, and the federal government will pay no more to New York residents than to residents of Mississippi. However, the states are not to be free to do anything they wish with regard to those in the AFDC and AFDC-U categories. (A notable difference between FAP and the Heineman Plan--discussed below--is that the latter would allow states to reduce their benefit levels if they wanted.) In order to prevent harm to any class of present beneficiaries, and to promote interstate equity, Nixon would replace AFDC with "state supplementary plans" for the categories presently called AFDC and AFDC-U. If a state does not presently have AFDC-U, it must adopt it; that is, its supplementary plan must cover unemployed fathers. Existing levels of

benefits must be maintained. Moreover, each state supplementary plan must adopt all the FAP rules concerning definitions of family, income, resources, income period, and work test. The first \$720 of earnings is to be taxed at zero percent, and subsequent amounts at 66 2/3 and 80 percent. In other words, AFDC is to be abolished and replaced by a system of state supplements to FAP. These supplements are to vary from state to state only as regards level of benefit. Presumably intrastate variation will also be limited.

State treasuries will be relieved in varying amounts, but if a state pays out less than 50 percent of what it would have paid under the old system of AFDC, it must pay the excess to the federal government. If, on the other hand, a state pays more than 90 percent of what it would have paid, it may claim a refund for the excess from the federal treasury. Apparently Nixon rationalized this difficult-to-administer "maintenance of effort" scheme as a way for the federal government to protect present beneficiaries and at the same time to put a ceiling on high benefits. If a state wants to raise its benefits after FAP is in effect, it will have to do it with its own 100 cent dollars. In the future, the federal government will hold the power to initiate or resist increases in benefits.

FAP will place the nation's welfare system in a giant vise, equalizing benefits up to \$1,600 in the low-benefit states, and holding benefits down to present levels in the high-benefit states. But, aside from that, it will change the structure and pattern of benefits within states, because the critical details of FAP will force a rewriting of almost every provision of AFDC manuals. Consider, for example, the magnitude

of change involved in converting from a monthly income period to an annual income period. Or, for another example, shifting over from subjecting alimony and social security to a 100 percent tax to applying a 50 percent tax on those items. A great unknown in the FAP strategy is how these details will affect the numbers eligible and the average benefit payment under the state supplementary plans. Will differential state administration move some states into the realm where they are spending more than 90 percent of "what they would have spent" and thus be in a position to claim "free" federal dollars?

It is hard to estimate what the balance would be after a few years in the number of recipients of the two types of benefits offered by FAP and the state supplement plans which are to replace AFDC. They would fall into three groups: (1) those who receive only the basic FAP and are ineligible for the higher state benefit; (2) those who receive both the FAP and the state supplement; and (3) those who receive only the state supplement (AFDC or AFDC-U) because they have income beyond the FAP breakeven of \$3,920 but below the state breakeven (the new breakeven in Wisconsin is about \$5,000). The key to this balance is how strictly eligibility for the state benefit is controlled, but it is not hard to imagine a situation in the high-income states where almost all the FAP recipients would also get state supplements. And, remember, states have no incentive to control costs once they pass expenditures equal to 90 percent of those they hypothetically would pay if FAP had not been adopted. At the margin, the federal pocket-book is open, and this time with no match from the states.

This would certainly be a backfiring of the presumed strategy of putting a ceiling on benefits in rich states while raising benefits in

the poor states and giving the federal government control over its own expenditures on welfare. It would also mean that total expenditures on FAP and welfare combined could be much higher than they have been officially estimated.

THE BEGINNING OF CONTROVERSY IN THE CONGRESS

President Nixon's presentation of his Family Assistance Plan has added excitement to an already excited forum. And it may be expected that the next few months will bring forth both opposition and support. The course of a presidential plan through Congress is seldom easy. Interestingly, opposition to FAP has been slow to develop and remains muted. The Conference of Governors in August resolved in preference for greater federal sharing of the cost of categorical public assistance. Some critics protest the "baby bonus" feature of the plan. Labor organizations object to what they call "subsidization of low-wage employment." Many liberals object to the "punitive work test." Most liberals, however, appear to adopt the position that FAP is "good, but not enough." In response to the latter point, the Administration points to a hope to incorporate food stamps in FAP. This would raise the guarantee for a family of four from \$1,600 to \$2,350, but would not, apparently, change the breakeven point. In September, the Senate adopted the McGovern food stamp bill, which is properly viewed as a large-scale income maintenance plan. It has a \$1,500 guarantee for a family of four, a 25 percent tax rate, and a \$6,000 breakeven point. It covers single persons and childless couples as well as families with children and

would cost over \$5 billion to fund. If FAP were to be combined with the McGovern Plan, now tied up in the House Agriculture Committee, it would yield a \$3,100 guarantee--a \$6,200 breakeven point plan that would cost over \$10 billion.

On November 12, the Heineman Commission came forward with the result of its two years of study--a recommendation for a \$6 billion program to cover all persons, with a \$2,400 guarantee for a family of four, a 50 percent tax rate, and, hence, a \$4,800 breakeven point. As far as general levels goes, this is not much different from the FAP benefit plus Nixon's food stamps. It would operate without a work test and without imposing any supplementary plans or maintenance of effort requirements in the states. It would, however, drop all federal contributions to the categorical public assistance programs and to food stamps. Since the Heineman Commission was appointed by President Johnson, their report will be considered by some as the Democratic Party's alternative to FAP. It remains to be seen whether some Democratic congressman or senators will introduce a bill based on the Heineman report.

In any event, the McGovern and Heineman initiatives make President Nixon's FAP look relatively conservative, even though it does embody the revolutionary principles of extending benefits to the working poor and taking the federal government into a dominant position in the field of public assistance. Only time will tell how congressional and public opinion will form on these two principles.