

THE ADMINISTRATION OF A WAGE RATE SUBSIDY

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ABSTRACT

The paper outlines a procedure for administering a wage rate subsidy. Vouchers and companion I.D. cards would be issued to beneficiaries certifying their eligibility to employers. The employer would make the wage rate subsidy payment to the worker and, upon presenting the vouchers received from the worker, would be reimbursed by the government.

A wage rate subsidy has a number of administrative advantages over Food Stamps, AFDC-UF, an NIT and an earnings subsidy. There is no need to enforce asset or work tests or to obtain timely and accurate reporting of other sources of income and earnings; and because it is conditioned on hours worked, and there are only so many hours in the day, it is inherently less subject to multiple filing abuse.

The Administration of a Wage Rate Subsidy

Several years ago the negative income tax (NIT) seemed to be an idea whose time had come. There was strong support for it in the economics profession and in the HEW bureaucracy. A Democratic presidential candidate and a Republican president both proposed the implementation of a NIT with universal coverage. The public and their representatives in Congress refused to be persuaded, however. The primary source of political and public resistance has been the feeling it is not fair to pay benefits to employable individuals who are unwilling to work.

This concern has led politicians and economists to the search for ways to raise the income of working poor families without weakening incentives to work. The Senate Finance Committee, for instance, proposed a package of wage rate and earnings subsidies as its substitute for President Nixon's NIT proposal.

A wage rate subsidy (WRS) is a government supplement of a worker's hourly wage. The per hour payment is equal to a percentage (the subsidy rate, r) of the difference between some target wage (TW) and the worker's actual wage (W). The total payment would then be = Subsidy = $r(TW - W) \cdot \text{Hours worked}$. If desired, a higher target wage can be set for the heads of large families and in high cost of living locations.

Early analysis of the WRS by economists established that it creates stronger work incentives than an NIT (Kesselman, 1969) and that it is a preferred mechanism of income transfer if the income (not the utility) of poor persons is the subject of social concern (Zeckhauser, 1971). Kesselman (1976) has shown that where the utility of poor persons is the subject of social concern (i.e., a Mirlees type optimal taxation model with an

individualistic social welfare function), a WRS combined with positive taxation according to wage rates achieves any given degree of equality more efficiently than an income tax with negative components. Garfinkel (1973) has demonstrated that, relative to an NIT or laissez faire, a WRS reduces incentives to sacrifice work time in order to invest in human capital. This is not a major drawback of a WRS, however, for other policy instruments such as scholarships and free schooling are available to counteract this effect (Hamada 1974). A WRS should also reduce the level of search or frictional unemployment for it raises costs of searching for another job while it simultaneously reduces the payoff to search by lowering wage differentials.

The target efficiency of WRS's and NIT's have been compared in a number of studies. Garfinkel and Masters (1977) show that while the proportion of direct payments going to poor families is low if a WRS has universal coverage and a fixed target wage, this proportion is quite high if only heads are eligible and the target wage is family size conditioned. Garfinkel and Haveman (1977) show that if neediness is defined in a way that holds work effort constant, a WRS of family heads focusses its payments on the needy just as efficiently as an NIT. Other measures of program efficiency tend to favor the W.R.S. Because of the induced reduction in family labor supply every \$100 of NIT payment increases family income only an average of only \$50 to \$75. (Keeley et al. 1977). A WRS for heads alone will leave work effort essentially unchanged so the increase in recipient income will be roughly equal to the number of dollars paid out. A study of the general equilibrium impacts of a WRS and an NIT has shown that redistribution is greater and GNP effects more positive for a WRS (Bishop 1976).

A WRS does not provide an income guarantee for families whose members cannot find work. Alone therefore it is not a comprehensive system of income

support. The system of which it would be a part would categorize people into those expected to work and those not expected to work (as is currently done). Families with no members in the expected to work category would receive support from SSI and a reformed AFDC program.

For families headed by someone expected to work, unemployment induced reductions in income would be dealt with by unemployment insurance and public service jobs. A universal income guarantee could be implemented, if desired by offering public jobs paying the minimum wage to the long term unemployed. A WRS integrates very well with a job guarantee (Bishop and Lerman 1977). It can be manipulated to make private jobs more attractive than the public service jobs thus reducing the number of PSE jobs that must be created to make the job guarantee effective.

Since the WRS will be received as part of the worker's pay check, there will be very little stigma attached to receipt of the governmental supplement. By raising the wage of the family's breadwinner, it will magnify the importance of his contribution to the family. Social psychological theory predicts that this should promote marital stability in families holding traditional views of the man's role. Because they are income tested, AFDC-UP and NIT payments may be viewed by recipients as evidence of the inadequacy of the husband thus accentuating marital instability. Support for this hypothesis is provided by the high proportions of AFDC-UP families that later split up (39% within 2 years, Doolittle et al. 1975) and the evidence of increases in marital disruption in the negative income tax experiment. Since female headed families were already eligible for AFDC, the experiments were expected to reinforce family stability by subsidizing intact families as well as single parent families. Counter to expectations, intact families on the experimental

NIT plan were in New Jersey slightly more likely to split up and in Seattle Denver twice as likely to split up. (Tuma et al. 1977; Sawhill et al. 1975 p. 68).

The wage rate subsidy is generally agreed to have excellent incentive and equity features. Questions, however, have been raised about our ability to design an administrative mechanism for it that can determine and make payments based on hours worked without placing administrative burdens on employers, employees, or the government that are larger than for other types of income maintenance. An examination of how it could be administered is, therefore, in order.

The first section lays out the general features of a wage rate subsidy plan for families. Whether the program is for families or for individuals, however, does not importantly affect the administrative feasibility of a wage rate subsidy program. The rest of the paper, therefore, talks about wage rate subsidy programs applicable to individuals or families. Section II describes a suggested administrative mechanism for such a program. Section III then compares the administrative problems inherent in different types of income maintenance programs.

1. A FAMILY WAGE RATE SUBSIDY

For a family wage rate subsidy the eligible population would be husbands and wives with children who are citizens or legal immigrants and employed in the United States. Upon presentation of a voucher card to their employer certifying their eligibility they would receive additional wages equal to 50 percent of the difference between their nominal hourly wage and a target wage that would be a function of the

minimum wage, the number of children in the family and if desired the metropolitan area of residence. There would be upper limit on the number of hours that can be subsidized, and a lower bound on the wage rate that could be subsidized.

Within these bounds a host of potential configurations is possible. The choice of configuration depends on the policy goals given priority in the program. Minimizing family-splitting incentives, reducing discrimination against women, ending poverty in large families, providing equal pay for equal work--all these are appropriate policy goals which conflict, in some measure, with one another. For example, family wage rate subsidy could achieve the first three by covering wives as well as husbands and by being substantially more generous to large families than to small. Appendix Tables 1, 2 and 3 present details for one such plan. In this plan, the head and spouse of families with one child are eligible for a wage rate subsidy based on a target wage of \$2.50, 1978's proposed minimum wage. When there are two children the target wage is 130 percent of the proposed minimum wage. Three or more children make a family eligible for a target wage equal to 160 percent of the same minimum. Family heads with four or more children receive a subsidy based on a target wage of 190 percent of the same minimum. This family wage rate subsidy is generous by current policy standards and is sufficient on its own to bring many families out of poverty. It could readily operate in conjunction with existing income maintenance programs if families receiving other forms of income maintenance--AFDC, food stamps or SSI--were made eligible for a less generous wage rate subsidy. They might receive, for instance, 40 percent of a target wage that rises by 25 percent with each child. If the objectives of reducing discrimination against women and

providing disincentives for family splitting are given low priority, the cost of a family wage rate subsidy could be substantially reduced and target efficiency increased, either by limiting eligibility to heads of families or by setting lower target wages for secondary workers.

None of these issues, however, impinge on administrative feasibility. From the point of view of administration the unique feature of the wage rate subsidy is that it is conditioned on the wage rate rather than on income. Its administration, consequently, does not require concurrent reporting of unearned income or the earnings of other family members or earnings from jobs other than the one that is subsidized. The only design parameters of a family wage rate subsidy that importantly affect administration are the lower limit on wage rate and the upper limit on hours. The lower limit on wage rates insures that there is a market test on the value of the work being subsidized. It should also act as a magnet to pull wage rates up to the minimum subsidizable level. The upper limit on hours prevents the subsidy from artificially stimulating individuals to work more than what is considered a full-time week. These features also have the desirable affect of reducing the incentive to fraudulently increase one's receipt of subsidy by overreporting hours.

While the wage rate subsidy described in this paper is income conditioned only by virtue of the subsidy being taxable income, stronger income conditioning is feasible if policy makers desire it. This can be accomplished by a special calculation in the yearly income tax return. The simplest method would be require that the subsidy be counted twice in income. This would mean the subsidy would fall to 72% of its nominal amount at the income tax threshold, to about 34% of its nominal value

at a taxable income of \$20,000 on a joint return, and vanishes when taxable income reaches \$44,000. Alternatively, a special tax could be placed on the wage subsidy when taxable income reaches some critical level.

2. AN ADMINISTRATIVE MECHANISM FOR A WAGE RATE SUBSIDY

Determination of the Individual's Eligibility

The information needed to determine whether an individual is eligible is minimal: citizenship or immigrant status, marital status and number of children. The starting point of the application process would be the individual's Social Security card plus proof of birth in the United States or immigration papers. Marital status can be certified by either a marriage certificate or joint application by husband and wife. (Step-parents would only be eligible for a family wage rate subsidy if the children were not receiving AFDC). Where one of the adult members of a family must be designated the head, the following definition could be used: the person with the greatest earnings in the previous calendar year. In order to facilitate checking of social security records and the addition of information about eligibility to the person's basic file, applications would be made to the local social security office. The application form would also ask the individual's occupation and wage rate in the current or most recent job, and eligibility would be limited to the unemployed or to those with sufficiently low wage rates. While there would generally be no attempt to verify answers about wage rate, occupation or unemployment in advance of granting the voucher, having

to answer these questions would be an easy way of limiting the number of unused vouchers in circulation. A week or so after application the individual would return to the Social Security office to exchange his social security card for a plastic wage rate subsidy identification card that would be embossed with the person's social security number, eligibility category, and either a signature or photograph. Reapplication would be necessary every year which, in most cases, could be handled by mail.

Certification of Eligibility to Employers

The eligible worker is also issued another copy of the ID card (a file ID to be given to and kept by the employer) and a book of vouchers with tear-off sheets for each week of the year (which would be retained by the employee). In addition to name, Social Security number, and eligibility category (the target wage), these vouchers would specify the upper bounds on subsidizable hours. If a worker is layed off, fired, or quits, the employer would return the ID card to the worker who would carry it to the next employer.

A worker who has more than one employer could receive more than one file ID. His voucher book would be made up of dated vouchers of smaller denominations (10 hours, 5 hours, 1 hour) that sum to the weekly limit of say 45 hours a week. The individual would have a wide range of choice in the division of his overall allocation. He could, for instance, allocate a 40-hours worth of vouchers to one job and 5 hours worth to another.

Payment of the Subsidy

The actual payment of the subsidy would be accomplished in the following way. The subsidy due each vouchered employee is one-half the difference between actual earnings and target earnings. Target earnings is the individual's target wage times the number of hours worked that week. The employer calculates the amount of subsidy and adds it to before-tax wages of the individual. For social security and income tax purposes the subsidy would be taxable just like any other income, and employers would deduct appropriately.

Every pay period an eligible vouchered worker would turn in his voucher slips for the appropriate weeks. The earnings, number of hours worked, wage rate, and subsidy would be entered on the voucher slip and have it stamped with his voucher ID as is done in credit card transactions. To be eligible for subsidy, wages would have to be paid by check. The check and check stub would also specify the wage rate, hours worked, gross subsidy and before-subsidy gross earnings. For jobs now covered by the minimum wage this would require no increase in employer record-keeping because they are already required to maintain records with all this information (see Part 516 of Title 29 Regulations (U.S. Department of Labor, 1976) attached as Appendix A).

The employers' administrative costs would be defrayed by the government. In order to insure that employers compete to hire vouchered workers, these reimbursement rates should be generous. (They might be paid, for example, at the rate of \$1 per worker per month plus 5 percent of the subsidy received by the employee).

Measurement of Wage Rates and Hours Worked

In most employment environments there will be no difficulty in defining or measuring hours worked and the wage rate because almost all wage and salary workers work under the supervision of their employer or his agents. The amount of time worked is thus known by both the worker and his employer. At a given wage rate, workers will desire to overcount the number of hours worked and their employer will desire to undercount them. Since the employer and employee will jointly certify the accuracy of the reports of hours, the natural opposition of interests inherent in this situation will go a long way to assure accuracy.

In general, the definitions of wage rates and hours worked used in a wage rate subsidy would be identical to those used to enforce the minimum wage (U.S. Department of Labor, 1976). The accuracy of hours and wage reports would be spot checked by the Wages and Hours Division of the Department of Labor--making it possible to integrate this aspect of the enforcement of accurate reporting with minimum wage enforcement. The use of an agency already experienced in defining wage rates and hours is not the only advantage of such integration. The incentives currently existing for firms to overreport wage rates and underreport hours to the enforcers of minimum wage and maximum hour legislation would now be counterbalanced by a reverse set of incentives deriving from the fact that the government subsidy is larger at lower wage rates and longer hours. Consequently, voluntary compliance with minimum wage legislation should increase. Minor infractions would be dealt with administratively by penalties that would be a substantial multiple of the discrepancy. Serious and systematic infractions would result in criminal prosecution for fraud.

The number of hours reported for salaried employees would generally be the number of hours they are expected to be at work minus a standard time interval for lunch. Extra hours would not be counted unless they received compensation. There are some situations, however, for which special administrative arrangements may be necessary. Some of the problem areas (such as employees who regularly receive tips) relate to the reporting of earnings and are, therefore, common to all income maintenance programs. These are discussed in the comparative section below (Section III). The problem areas unique to the wage subsidy are discussed in the subsections that follow.

Measuring Hours Worked for Hourly and Salaried Workers

The one administrative problem that is unique to the wage rate subsidy is obtaining accurate reports of hours worked. Employers can be expected, in general, to have some incentive to undercount hours worked. Employees have a corresponding incentive to overcount. The introduction of a wage rate subsidy may increase the worker's desire to overreport hours but it leaves the employer's desire to undercount hours intact. Thus, it will be in the interest of an employer to allow a worker to overreport hours only if the employer is able to pay a lower wage rate in return. Minimum wage laws, union contracts, and the opposition of unsubsidized employees will tend, in large firms, to prevent such a lowering of the quoted wage in response to the program. In small establishments with informal employment arrangements, however, agreements to overreport hours and underreport the true wage--thereby increasing the worker's wage subsidy--might be possible. Since the false report on hours worked

must be made by both the employer and employee, collusion is necessary to perpetrate this kind of fraud. And for the maximum ripoff to be achieved, the employee must make side payments to his employer.

In the family wage rate program described in Section I the amount of money that can be gained by such a fraud is very small. A measly \$33 is the maximum monthly ripoff obtainable by an adult member of a family with two children earning \$6000 a year for 2000 hours of work. If this person is working 1000 hours and earning \$3000, the maximum ripoff is \$27 a month in a job covered by the minimum wage and \$65 a month in an uncovered job. Monthly amounts for other circumstances are given in Tables 2 and 3.¹ Only a few entries in these tables are greater than \$80, most of which involve working part time and reporting at least twice the correct number of hours. It is hard to imagine that many people will risk prosecution for fraud for such small rewards. It is the structure of the wage rate subsidy--with its lower bound on wage rates and upper bound on hours--that limits the ripoff premium.

¹The maximum possible cheating gain is equal to the maximum subsidy obtainable with the given earnings minus the correct subsidy. If the job is covered by the minimum wage, Cheating gain =

$$.5 [(W_t - 2.50) \left(\frac{E}{2.5}\right) - (W_t - W_a) \left(\frac{E}{W_a}\right)]$$

$$\text{or } .5 \left\{ [(W_t - 2.50)160 + (W_t - 3.75) \left(\frac{E - 400}{3.75}\right)] - (W_t - W_a) \frac{E}{W_a} \right\}$$

$$\text{or } .5 [(W_t - \frac{E}{H_m})H_m - (W_t - W_a) \left(\frac{E}{W_a}\right)] \text{ whichever is lower, } \dots$$

where W_t is the target wage, W_a is the actual wage, and E is earnings in the month. H_m is the maximum number of hours eligible for subsidy, which is 180 in the bottom panel where a weekly limit of 45 is specified and 190 where a 47.50 hours-per-week limit is specified. If the job is not covered by the minimum wage, 2.50 in the formulas above must be replaced by 2.00 (the lowest wage that is eligible for a subsidy) and 3.75 replaced by 3.00.

The cheating premium is, of course, larger for an employer who is able to accomplish a general reduction in wages or obtain side payments from a large number of employees. The risks, however, are correspondingly greater as well. The risk of detection is roughly proportional to the number of people involved in the conspiracy. The penalty rises as well, because one component of it is to make the firm an ineligible employer of a wage rate subsidized workers.

Since the ripoff-to-risk ratio of cheating is very low, self-conscious collusion is not likely. There will be a tendency, however, in informal work environments for a somewhat more elastic definition of hours worked to be applied. The subsidy may not only reduce worker's tardiness and absenteeism, it may also reduce the employer's propensity to dock him for it. Since day-to-day interaction occurs in the context of a fixed wage rate, however, there is a limit to the relaxation of discipline that employers will tolerate. The moderate reductions of shop discipline that are likely to result may very well be considered a good thing.

Measuring Hours Worked When Workers are Paid on a Piece-Rate Basis

In November 1975 only 1.2% of the nation's workers were paid on a piece rate basis and only 1.9% on a pure commission basis. (Flaim 1976). Since piece rate pay is common in low wage industries like footwear, apparel, and agriculture, the typical piece rate worker is not well paid. They receive an average of \$126 per week compared to \$136 for hourly paid workers, \$182 for workers paid on a weekly basis, and \$199 a week for those paid on a pure commission basis. Nevertheless, the incidence of piece rate

and pure commission workers amongst those receiving a wage rate subsidy is likely to be less than 4%.

If a wage rate subsidy is in effect, employers of piece rate workers will have to measure and keep records on hours worked as well as the number of units of output produced. This does not place any new administrative burdens on most employers. In almost all cases, the work is done at the employer's establishment and mechanisms for reporting hours worked are already in place because of the minimum wage law. While employers should have no difficulty measuring hours worked, they may have a diminished incentive to insure that hours are reported accurately.

Since the wages the employer has contracted to pay the worker are independent of how long it took the worker to produce the output, the employer may not try as hard to check the employee's tendency to exaggerate hours worked.

Enforcement activity will, therefore, have to be focussed on establishments that pay on a piece rate basis. Large establishments using piece rate pay could be required to introduce time cards. In addition, firms could be encouraged to adopt hybrid incentive schemes that pay on the basis of both hours worked and output (i.e. \$1.00 per hour + 50¢ per basket). Incentive pay schemes of this nature would strengthen the employers' incentive to insure that hours are reported accurately. Firms could be encouraged to make this switch by making the upper limit on subsidizable hours higher for workers paid at least partially on an hourly basis. The overtime pay provisions of existing law will build in another incentive for accurate reporting--covered piece rate employees must be paid an overtime premium of 50% if they work longer than 40 hours in a week. This could be checked for on

the records sent in by such employers and this would give them a strong incentive to prevent their workers dawdling on the job for more than 40 hours a week.

The one type of employment where special action must be taken to limit the overreporting of hours is in work not done under the employer's supervision, such as typing done at home on a contract basis. Since payment is on a piece-rate basis and hours are not observed by anyone but the worker, there would be no checks on the employee's tendency to overreport hours. Four solutions to the problem are available. First this category of worker could be excluded from eligibility. A second approach would be to define a standard wage rate for each take-home task and then estimate hours by dividing this wage rate into earnings. If estimated hours exceeded 40 a week, a new higher wage rate would be calculated by dividing weekly earnings by 40. A third approach would be to determine what the hourly wage rate equivalent of the piece rate is for typical workers and then to calculate a corresponding subsidy for the piece rate. A fourth approach would be to follow through with the minimum wage enforcement mechanism for this category of workers currently used by the Wages and Hours Division (See section 516.31 on industrial homeworkers of the regulations in Appendix A.) Detailed records are currently required and the subsidy could be based on these records. This approach depends upon the honesty of the home workers. (The second and third of these approaches could also be applied to piece-rate employees working in their employer's establishment.)

3. COMPARISON OF ADMINISTRATIVE PROBLEMS OF A WAGE RATE SUBSIDY WITH THOSE OF ALTERNATIVE FORMS OF INCOME MAINTENANCE

In this section the relative severity of the administrative problems under alternative income maintenance programs is discussed for earnings subsidies and cash and in-kind benefit programs as well as wage rate subsidies.

Preventing the Filing of Multiple Applications

One of the possibilities for income maintenance fraud is that the same recipient files for and receives multiple benefits.

Wage rate subsidies and jobs programs are inherently less subject to multiple filing fraud than either cash and in-kind programs or earnings subsidy programs. The receipt of federal dollars is proportional to the number of hours spent at work and there is a natural maximum to the number of hours a person can spend working. Entirely fictitious jobs and employers have to be created for any substantial fraud, which is obviously hard.

An earning subsidy is also tied to a job, but multiple filing is still a potential problem for any liberal earnings subsidy that is built into the withholding system. Many employers (including, for example, the University of Wisconsin) do not ask a new employee to show them their social security card when withholding forms are being filled out during the hiring process. High wage workers who are employed by more than one employer can, therefore, purposely make "mistakes" in writing down their social security number, name and address and, thereby, receive the benefits of more than one earning subsidy. If the earning subsidy is built into the withholding system, they can receive multiple benefits without even

having to file more than one income tax return. Even where employers do examine social security cards, multiple filing would not be difficult, for social security cards are not difficult to buy or steal.

The incentive and potential for multiple filing fraud in the cash and in-kind benefit programs (where benefits are inversely related to reported income) are even larger.

A secure system of identification can prevent multiple filing, but since it will probably be considered neither desirable nor politically possible to require everyone to have such an ID, a special application process and some special system of identity for recipients of any form of income maintenance will be necessary. The careful identification process described in the previous section for a wage rate subsidy is thus not peculiar to that particular type of program.

A second reason why a special application process should be a necessary component of any income maintenance liberalization is to exclude from eligibility the three to eight million illegal immigrants in the country (presuming of course, that we desire to exclude them).

Making Sure Recipients Work When Work is Available

Congressional and public sentiment insures that any income maintenance program for able-bodied adults will have a work requirement. Wage rate subsidies and earnings subsidies are inherently conditioned upon work and, consequently, require no special administrative mechanism to impose a work requirement.

Programs that have maximum benefits (guarantees) in cases where the recipient has no other income must make special administrative arrangements.

Work registration requirements are not difficult to impose but are not effective. The worker often does not have to accept employment outside his occupation and can, in any case, make himself seem sufficiently unattractive to forestall the offer of an unwanted job. And many will be unable to find even a bad job. The only way to have an effective work requirement is for the government to create a number of jobs which are then offered to able-bodied applicants for welfare. Creating these jobs and supervising these workers is a truly massive administrative undertaking.

If everybody is to be guaranteed a job, a wage rate subsidy cannot be expected to remove completely the need for public jobs, but it will certainly reduce it by increasing the attractiveness of private employment thereby reducing the number of public jobs that must be created.

Avoiding Agency Error in Determining Eligibility and the Size of the Payment

Wage rate subsidies, earning subsidies, and negative income taxes all lack most of the complicated provisions that make administration of the current system (AFDC and food stamps) so difficult. Quality control studies of 44,000 AFDC records found that in 1976 5.5% of the people on AFDC were ineligible and another 19.1% were eligible but had their payment calculated incorrectly (U.S. Department of Health, Education, and Welfare 1976a). The estimates of error rates from this study imply that of the 9.8 billion dollars paid out in 1976, 470 million dollars were paid to ineligible recipients and over 402 million dollars were overpayments to eligible families.

The Food Stamps program has an even more serious quality control problem. Quality control studies of 29,674 non-public-assistance house-

holds receiving food stamps in the second half of 1974 found that 17.3% of these households were ineligible, and that 36.7% were eligible but had their payment calculated incorrectly (U.S. Department of Agriculture, 1975). Of the 2.84 billion dollars of food stamp bonus value paid out in 1974 roughly 500 million dollars went to ineligible households and 240 million dollars were overpayments to eligible families. The quality control study also identified about 74 million dollars in underpayments. If these error rates persisted into 1976, the estimate of payments received by ineligible recipients in these two programs would be 1.5 billion dollars. The corresponding estimate of overpayments and underpayments received by eligible families would be 900 million dollars and 240 million dollars respectively.

Many of the errors made in administering AFDC and food stamps are a consequence of attempts to take all sorts of special circumstances into account in the calculation of need. The implementation of the asset test is the source of 4% of the errors found in the food stamp program and 3% of the errors discovered in AFDC (USDHEW 1975b). Another 29% of the errors found in the food stamp program occur in calculating medical shelter and other deductions. The individual calculation of need was responsible for 19% of the errors in AFDC. This source of error should decline with time, as more and more states go to a flat grant system.

Programs like wage rate subsidies, earning subsidies and negative income tax systems that eschew assets tests and do not adjust the grant for special circumstances will have lower rates of administrative error.

The largest source of error in these programs--51% in AFDC and 43% in food stamps--is the reporting of non-AFDC income. Misreporting

of earnings is responsible on its own for 20% of the errors. Because of the long delays allowed employers in reporting each worker's earnings for social security and income tax purposes, giving welfare agencies access to these reports is not going to produce timely information. Attempting to obtain reimbursement for overpayments from this population is likely to be futile. The problems created by inaccurate reporting of other income is discussed in greater detail in the next section.

Ensuring Accurate Reporting of Unearned Income and Earnings in Other Jobs

A wage rate subsidy program's income reporting requirements are limited to the covered job, so obtaining information on sources of other income is not a problem. The earnings subsidy and all programs with guarantees require accurate reporting of all sources of earned and unearned income-- a much more difficult administrative undertaking because the high marginal tax rates of these programs create strong incentives for people to neglect to report income from casual and intermittent employment. Really tight administration of these programs requires a kind of surveillance of recipients that is generally considered neither desirable nor feasible.

Even cross checking with social security earnings reports or income tax withholding records is not going to solve the problem for three reasons. First, unearned income and much of self-employment income do not have to be reported to social security. Second, a substantial amount of wage and salary income goes unreported. The wages reported for farmworkers are 87% of the NIA estimate of their actual earnings; the earnings of private household workers reported to social security are 60% of the CPS estimate and 24% of the National Income Account's estimate. (See U.S. Department

of Health, Education, and Welfare 1975a and 1975c). The third reason is, as noted above, that it is not difficult to file for income maintenance under one social security number and work under another. In almost any big city, extra social security cards are easy to obtain.

A wage rate subsidy avoids tempting people's honesty by not asking for information that will not be checked. For jobs which earnings are habitually underreported to the Social Security system (household work, for instance), a wage rate subsidy will, in fact, create strong incentives for accurate reporting by employers. In order to receive a subsidy, eligible employees must have their hours and earnings reported. They will, therefore, put pressure on employers for compliance with wage reporting requirements.

Avoiding Making Payments for Fictitious Work

Earning subsidies, wage rate subsidies, and wage bill subsidies are all subject to abuse if the employer and employee conspire to report wages being paid in a fictitious job. Since social security taxes must be paid on fictitious earnings, there is no danger of such collusion until the level of subsidy rises above 11 or 12% of earnings. The family wage rate subsidy outlined in section II reduces the potential for this kind of abuse by (1) excluding from subsidy selfemployment income, (2) excluding those working for relatives, (3) limiting eligibility to heads and wives in families with children, a group which has much to lose if caught, (4) having a secure identification system that prevents multiple filing of fictitious jobs either through the same employer or through different employers, (5) by placing an upper limit on the total number of

hours for which a person can receive a subsidy. With respect to features (1), (2), and (4) above, the family wage rate subsidy is to be preferred over a liberalized version of Senator Long's earning credit.

Enforcement activity in a wage rate subsidy could effectively focus on employers that report most or all of their employees as eligible for a subsidy and that are, consequently, requesting substantial reimbursement from the IRS. Unannounced visits would be made to suspect establishments, in which the examiner could ask for the picture ID's the employer keeps and go out on the shop floor to visit with the workers. Employers whose total wage rate subsidy payments are larger than the social security and income tax they are required to withhold on all employees might be required to wait until the annual income tax form is filed to receive reimbursement.

Collecting Accurate Reports of Income on the Subsidized Job

Wage rate subsidies, and programs with cash or in-kind guarantees all have similar needs for accurate reporting of the earnings on the subsidized job. Since a job would not be eligible for a wage rate subsidy unless social security taxes were being paid on it, accurate reporting of employer-paid compensation could be expected. Integration with the tax system is an advantage the wage rate and earnings subsidies have over food stamps and AFDC.

The primary remaining problem occurs when compensation is received from more than one source for the same work, as with tipped employees. Table waiters, for instance, receive 61% of their compensation in the form of tips. Bartenders, busboys, and counter waiters generally receive

around 25% of their income from tips (U.S. Department of Labor 1970). One advantage of the wage rate subsidy is that it places a lower bound on reportable earnings. A minimum wage of \$2.50 or so would be assumed and earnings would have to be at least as large as that minimum wage times the hours worked. If it were less the number of reported hours, and therefore the subsidy, would be adjusted downward and a visit would be made to that establishment by Wages and Hours staff. Another possible strategy for forcing tips to be reported as income would be to require records of total revenues received by each worker to be kept and assume a standard ratio of tips to revenues.

Table 1. A Liberal Family Wage Rate Subsidy for 1978

	Before Subsidy Income	After-Subsidy Income (no. of children)				Wage Subsidy (no. of children)				
		(1)	(2)	(3)	(4+)	(1)	(2)	(3)	(4+)	
<u>Case I: Head Works 2000 Hours</u>										
Wage rate:	\$2.00	\$4000	4500	5250	6000	6750	\$500	1250	2000	2750
	2.50	5000	5000	5750	6500	7250	0	750	1500	2250
	3.00	6000	6000	6250	7000	7750	0	250	1000	1750
	3.50	7000	7000	7000	7500	8250	0	0	500	1250
	4.00	8000	8000	8000	8000	8750	0	0	0	750
<u>Case II: Head Works 2000 Hours, Wife Works 1000 Hours</u>										
Wage rate:	\$2.00	\$6000	6750	7875	9000	9750	\$750	1875	3000	3750
	2.50	7500	7500	8625	9750	10500	0	1125	2250	3000
	3.00	9000	9000	9375	10500	11250	0	375	1500	2250
	3.50	10500	10500	10500	11250	12000	0	0	750	1500
	4.00	12000	12000	12000	12000	12750	0	0	0	750
Food Stamp Break- even		\$6574	8452	9861	11270					
Poverty Line		\$4719	6014	7109	8000					

Note: This illustration is a program for which the target wage rises 30% of the minimum wage for each child, the subsidy is 50% of the difference between the actual and target wages, and the family is not receiving food stamps or AFDC.

Table 2. Maximum Monthly Dollar Benefit of Employee/Employer
Collusion to Overreport Hours in a Job Covered by
Minimum Wage Legislation

Wage Rate:		Case I (no. of children)				Case II (no. of children)			
		(1)	(2)	(3)	(4+)	(1)	(2)	(3)	(4+)
		\$2.00	0	0	0	0	0	0	0
	2.50	0	0	0	0	0	0	0	
	3.00	0	\$33	45	53	0	\$40	48	56
	3.50	0	13	45	53	0	29	68	79
	4.00	0	0	45	53	0	0	68	79
	5.00	0	0	5	53	0	0	28	79
	6.00	0	0	0	0	0	0	0	19

Wage Rate:		Case III (no. of children)				Case IV (no. of children)			
		(1)	(2)	(3)	(4+)	(1)	(2)	(3)	(4+)
		\$2.00	0	0	0	0	0	0	0
	2.50	0	0	0	0	0	0	0	
	3.00	0	\$26	36	42	0	\$13	18	10
	3.50	0	42	72	84	0	21	36	25
	4.00	0	48	108	126	0	24	54	40
	5.00	0	60	160	210	0	30	80	70
	6.00	0	53	165	233	0	36	96	100
	7.00	0	13	25	194	0	42	112	130

Note: The family wage rate subsidy pays 50% of the difference between actual and target wage up to the maximum hours limit. To be eligible for the subsidy the job must pay at least the minimum wage (assumed to be \$2.50 an hour). The target wage rises 30% of the minimum wage for each child.

Table 2--Continued

Case I assumes the employee works 40 hours a week and the upper limit on hours is 45.

Case II assumes the employee works 40 hours a week and the upper limit on hours is 47.5.

Case III assumes the employee works 20 hours a week and the upper limit on hours is 45.

Case IV assumes the employee works 10 hours a week and the upper limit on hours is 45.

Table 3. Maximum Monthly Dollar Benefit of Employee/Employer
Collusion to Overreport Hours in a Job Not Covered
by Minimum Wage Legislation

	Wage Rate:	Case I (no. of children)				Case II (no. of children)			
		(1)	(2)	(3)	(4+)	(1)	(2)	(3)	(4+)
	\$2.00	0	0	0	0	0	0	0	0
	2.50	\$25	33	45	53	\$37.5	43	60	70
	3.00	0	33	45	53	0	49	68	79
	3.50	0	13	45	53	0	29	68	79
	4.00	0	0	45	53	0	0	68	79
	5.00	0	0	5	53	0	0	28	79
	6.00	0	0	0	0	0	0	0	19
		Case III (no. of children)				Case IV (no. of children)			
		(1)	(2)	(3)	(4+)	(1)	(2)	(3)	(4+)
	\$2.00	0	0	0	0	0	0	0	0
	2.50	\$25	33	45	53	\$13	16	23	26
	3.00	30	65	90	105	15	33	45	52
	3.50	35	89	135	158	18	44	68	79
	4.00	40	100	180	210	20	50	90	105
	5.00	25	93	205	273	25	63	125	158
	6.00	0	53	165	282	30	75	150	195
	7.00	0	13	125	282	35	88	175	227

Note: The family wage rate subsidy pays 50% of the difference between actual and target wage up to the maximum hours limit. To be eligible for the subsidy the job must pay at least \$2.00 an hour. Assumptions for Case I through IV are the same as Table 2.

APPENDIX A

Wages and Hours Publication 1261
(revised April 1976)

INTRODUCTORY

Regulations Title 29**Section 516.1 Form of records; scope of regulations**

(a) *Form of records.* No particular order or form of records is prescribed by the regulations in this part. However, every employer who is subject to any of the provisions of the Fair Labor Standards Act of 1938, as amended (hereinafter referred to as the "Act"), is required to maintain records containing the information and data required by the specific sections of this part.

(b) *Scope of regulations.* (1) The regulations in this part are divided into two subparts. Subpart A of this part contains the requirements applicable to all employers employing covered employees, including the general requirements relating to the posting of notices, the preservation and location of records, and similar general provisions. This subpart also contains the requirements applicable to employers of employees to whom both the minimum wage provisions of section 6 and the overtime pay provisions of section 7(a) of the Act apply. As most covered employees

fall within this category, employers, in most instances, will be concerned principally with the recordkeeping requirements of Subpart A of this part. Section 516.3 thereof contains the requirements relating to executive, administrative, and professional employees (including academic administrative personnel or teachers in elementary or secondary schools), and outside sales employees.

(2) Subpart B of this part deals with the information and data, which must be kept with respect to employees (other than, executive, administrative, etc., employees) who are subject to any of the exemptions provided in the Act, and with special provisions relating to such matters as deductions from and additions to wages for "board, lodging, or other facilities," industrial homeworkers, employees dependent upon tips as part of wages, and employees subject to more than one minimum wage. The sections in Subpart B of this part require the recording of more, less, or different items of information or data than required under the generally applicable recordkeeping requirements of Subpart A of this part.

SUBPART A—GENERAL REQUIREMENTS

Section 516.2 Employees subject to minimum wage or minimum wage and overtime provisions; section 6 or sections 6 and 7(a) of the Act

(a) *Items required.* Every employer shall maintain and preserve payroll or other records containing the following information and data with respect to each and every employee to whom section 6 or both sections 6 and 7(a) of the Act apply:

(1) Name in full, and on the same record, the employee's identifying symbol or number if such is used in place of name on any time, work, or payroll records. This shall be the same name as that used for Social Security record purposes,

(2) Home address, including zip code,

(3) Date of birth, if under 19,

(4) Sex and occupation in which employed (sex may be indicated by use of the prefixes Mr., Mrs., or Miss),

(5) Time of day and day of week on which the employee's workweek begins. If the employee is part of a work force or employed in or by an establishment all of whose workers have a workweek beginning at the same time on the same day, a single notation of the time of the day and beginning day of the workweek for the whole workforce or establishment will suffice. If, however, any employee or group of employees has a workweek beginning and ending at a different time, a separate notation shall then be kept for that employee or group of employees,

(6) (i) Regular hourly rate of pay for any week when overtime is worked and overtime excess compensation is due under section 7(a) of the Act, (ii) basis on which wages are paid (such as "\$2 hr."; "\$16 day"; "\$80 wk."; "\$80 wk. plus 5 percent commission on sales over \$800 wk."), and (iii) the amount and nature of each payment which,

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pursuant to section 7(e) of the Act, is excluded from the "regular rate" (these records may be in the form of vouchers or other payment data),

(7) Hours worked each workday and total hours worked each workweek (for purposes of this section, a "workday" shall be any consecutive 24 hours),

(8) Total daily or weekly straight-time earnings or wages, that is, the total earnings or wages due for hours worked during the workday or workweek, including all earnings or wages due during any overtime worked, but exclusive of overtime excess compensation,

(9) Total overtime excess compensation for the workweek, that is, the excess compensation for overtime worked which amount is over and above all straight-time earnings or wages also earned during overtime worked,

(10) Total additions to or deductions from wages paid each pay period. Every employer making additions to or deductions from wages shall also maintain, in individual employee accounts, a record of the dates, amounts, and nature of the items which make up the total additions and deductions,

(11) Total wages paid each pay period,

(12) Date of payment and the pay period covered by payment.

(b) *Records of retroactive payment of wages.* Every employer who makes retroactive payment of wages or compensation under the supervision of the Administrator pursuant to section 16(c) of the Act, shall:

(1) Record and preserve, as an entry on his payroll or other pay records, the amount of such payment to each employee, the period covered by such payment, and the date of payment.

(2) Prepare a report of each such payment on the receipt form provided or authorized by the Wage and Hour Division, and (i) preserve a copy as part of his records, (ii) deliver a copy to the employee, and (iii) file the original, which shall evidence payment by the employer and receipt by the employee, with the Administrator or his authorized representative within 10 days after payment is made.

(c) *Employees working on fixed schedules.* With respect to employees, working on fixed schedules, an employer may maintain records showing instead of the hours worked each day and each week

as required by paragraph (a) (7) of this section, the schedule of daily and weekly hours the employee normally works, and

(1) In weeks in which an employee adheres to this schedule, indicates by check mark, statement, or other method that such hours were in fact actually worked by him, and

(2) In weeks in which more or less than the scheduled hours are worked, shows the exact number of hours worked each day and each week.

Section 516.3 Bona fide executive, administrative, and professional employees (including academic administrative personnel and teachers in elementary or secondary schools), and outside sales employees as referred to in section 13(a)(1) of the Act—items required.

With respect to persons employed in a bona fide executive, administrative, or professional capacity (including employees employed in the capacity of academic administrative personnel or teachers in elementary or secondary schools), or in the capacity of outside salesman, as defined in Part 541 of this chapter (pertaining to so-called "white collar" employee exemptions), employers shall maintain and preserve records containing all the information and data required by § 516.2(a) except subparagraphs (6) through (10) thereof, and, in addition thereto the basis on which wages are paid in sufficient detail to permit calculation for each pay period of the employee's total remuneration for employment including fringe benefits and perquisites. (This may be shown as "\$725 mo. * * * \$165 wk. * * * \$1,200 mo. plus 2 percent commission on gross sales * * * on fee basis per schedule No. 2" with appropriate addenda such as "plus hospitalization and insurance plan A," "benefit package B," "2 weeks' paid vacation," etc.)

[38 F.R. 7115, Mar. 16, 1973]

Section 516.4 Posting of notices

Every employer employing any employees who are (a) engaged in commerce or in the production of goods for commerce, or (b) employed in an enterprise engaged in commerce or in the production of goods for commerce, and who are not specifically exempt from both the minimum wage provisions of section 6 and the overtime provisions of section 7(a) of the Act, shall post and keep posted such notices pertaining to the applicability of the Act, as shall be prescribed by the Wage and Hour Di-

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vision, in conspicuous places in every establishment where such employees are employed so as to permit them to observe readily a copy on the way to or from their place of employment.

Section 516.5 Records to be preserved 3 years

Each employer shall preserve for at least 3 years:

(a) *Payroll records.* From the last date of entry, all those payroll or other records containing the employee information and data required under any of the applicable sections of this part, and

(b) *Certificates, agreements, plans, notices, etc.* From their last effective date, all written:

(1) Collective bargaining agreements relied upon for the exclusion of certain costs under section 3(m) of the Act,

(2) Collective bargaining agreements, under section 7(b)(1) or 7(b)(2) of the Act, and any amendments or additions thereto,

(3) Plans, trusts, employment contracts, and collective bargaining agreements under section 7(e) of the Act,

(4) Individual contracts or collective bargaining agreements under section 7(f) of the Act. Where such contracts or agreements are not in writing, a written memorandum summarizing the terms of each such contract or agreement,

(5) Written agreements or memoranda summarizing the terms of oral agreements or understandings under section 7(g) or 7(j) of the Act, and

(6) Certificates and notices listed or named in any applicable section of this part.

(c) *Sales and purchase records.* A record of (1) total dollar volume of sales or business, and (2) total volume of goods purchased or received during such periods (weekly, monthly, quarterly, etc.) and in such form as the employer maintains in the ordinary course of his business.

Section 516.6 Records to be preserved 2 years

(a) *Supplementary basic records:* Each employer required to maintain records under this part shall preserve for a period of at least 2 years:

(1) *Basic employment and earnings records.* From the date of last entry, all basic time and earning cards or sheets of the employer on which are entered the daily starting and stopping time of individual employees, or of separate work forces, or the individual employee's daily, weekly, or pay period amounts of work accomplished (for ex-

ample, units produced) when those amounts determine in whole or in part the pay period earnings or wages of those employees.

(2) *Wage rate tables.* From their last effective date, all tables or schedules of the employer which provide the piece rates or other rates used in computing straight-time earnings, wages, or salary, or overtime excess computation, and

(3) *Worktime schedules.* From their last effective date, all schedules or tables of the employer which establish the hours and days of employment of individual employees or of separate work forces.

(b) *Order, shipping, and billing records:* Each employer shall also preserve for at least 2 years from the last date of entry the originals or true copies of any and all customer orders or invoices received, incoming or outgoing shipping or delivery records, as well as all bills of lading and all billings to customers (not including individual sales slips, cash register tapes or the like) which the employer retains or makes in the course of his business or operations.

(c) *Records of additions to or deductions from wages paid:* Each employer who makes additions to or deductions from wages paid shall preserve for at least 2 years from the date of last entry:

(1) Those records of individual employee accounts referred to in § 516.2(a)(10),

(2) All employee purchase orders, or assignments made by employees, all copies of addition or deduction statements furnished employees, and

(3) All records used by the employer in determining the original cost, operating and maintenance cost, and depreciation and interest charges, if such costs and charges are involved in the additions to or deductions from wages paid.

(d) Each employer shall preserve for at least 2 years the records he makes of the kind described in § 516.32 which explain the basis for payment of any wage differential to employees of the opposite sex in the same establishment.

Section 516.7 Place for keeping records and their availability for inspection

(a) *Place of records.* Each employer shall keep the records required by the regulations in this part safe and accessible at the place or places of employment, or at one or more established central recordkeeping offices where such records are customarily maintained. Where the records are maintained at a central recordkeeping office, other than

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516.31 Industrial homeworkers

and "homeworker," as used in this section, mean any employee employed or suffered or permitted to perform industrial homework for an employer.

(2) "Industrial homework," as used in this section, means the production by any person in or about a home, apartment, tenement, or room in a residential establishment of goods for an employer who suffers or permits such production, regardless of the source (whether obtained from an employer or elsewhere) of the materials used by the homeworker in such production.

(3) The meaning of the terms "person," "employ," "employer," "employee," "goods," and "production" as used in this section is the same as in the Act.

(b) *Items required.* Every employer shall maintain and preserve payroll or other records containing the following information and data with respect to each and every industrial homeworker employed by him (excepting those homeworkers to whom section 13(d) of the Act applies and those homeworkers in Puerto Rico to whom Part 545 or Part 581 of this chapter apply, or in the Virgin Islands to whom Part 695 of this chapter applies):

(1) Name in full, and on the same record, the employee's identifying symbol or number if such is used in place of name on any time, work, or payroll records. This shall be the same as that used for Social Security purposes.

(2) Home address, including ZIP code,

(3) Date of birth if under 19,

(4) With respect to each lot of work:

(i) Date on which work is given out to worker, or begun by worker, and amount of such work given out or begun,

(ii) Date on which work is turned in by worker, and amount of such work,

(iii) Kind of articles worked on and operations performed,

(iv) Piece rates paid,

(v) Hours worked on each lot of work turned in,

(vi) Wages paid for each lot of work turned in,

(vii) Deductions for Social Security taxes,

(viii) Date of wage payment and pay period covered by payment,

(5) With respect to each week:

(i) Hours worked each week,

(ii) Wages earned for each week at regular piece rates,

(iii) Extra pay due each week for overtime worked,

(iv) Total wages earned each week,

(v) Deductions for Social Security taxes,

(6) With respect to any agent, distributor, or contractor: The name and address of each such agent, distributor, or contractor through whom homework is distributed or collected and name and address of each homeworker to whom homework is distributed or from whom it is collected by each such agent, distributor, or contractor.

(7) Record of retroactive payment of wages. Every employer who makes retroactive payment of wages or compensation under the supervision of the administrator pursuant to section 16(c) of the Act, shall:

(i) Record and preserve, as an entry on his payroll or other pay records, the amount of such payment to each employee, the period covered by such payment, and the date of payment.

(ii) Prepare a report of each such payment on the receipt form provided or authorized by the Wage and Hour Division, and (a) preserve a copy as part of his records, (b) deliver a copy to the employee, and (c) file the original, which shall evidence payment by the employer and receipt by the employee, with the Administrator or his authorized representative within 10 days after payment is made.

(c) *Homework handbook.* In addition to the information and data required in paragraph (b) of this section, a separate handbook (to be obtained by the employer from the Wage and Hour Division and supplied by him to each worker) shall be kept for each homeworker. The information required therein shall be entered by the employer or the person distributing or collecting homework on behalf of such employer each time work is given out to or received from a homeworker. Except for the time necessary for the making of entries by the employer, the handbook must remain the possession of the homeworker until such time as the Wage and Hour Division may request it. Upon completion of the handbook (that is, no space remains for additional entries) or termination of the homeworker's services, the handbook shall be returned to the employer for preservation in accordance with the regulations in this part. A separate record and a separate handbook shall be kept for each person performing homework.

Section 516.32 Employees subject to the equal pay provisions of the Act, as set forth in section 6(d)

Every employer of employees subject to the equal pay provisions of the Act shall maintain and preserve all records required by the applicable sections of these regulations of this part and in addition, he shall preserve any records which he makes in the regular course of his business operation which relate to the payment of wages, wage rates, job evaluations, job descriptions, merit systems, seniority systems, collective bargaining agreements, description of pay practices or other matters which describe or explain the basis for payment of any wage differential to employees of the opposite sex in the same establishment, and which may be pertinent to a determination whether such differential is based on a factor other than sex.

Section 516.33 Employees employed in agriculture

(a) No records, except as required under paragraph (f) of this section, need be maintained by an employer who did not use more than 500 man-days of agricultural labor in any quarter of the preceding calendar year, unless it can reasonably be anticipated that more than 500 man-days of agricultural labor (including agricultural workers supplied by crew leaders if the farmer has the power to direct, control or supervise the work, or to determine pay rates or method of payment) will be used in at least one calendar quarter of the current calendar year.

(b) If it can reasonably be anticipated that the employer will use more than 500 man-days of agricultural labor (including agricultural workers supplied by crew leaders if the farmer has the power to direct, control or supervise the work, or to determine pay rates or methods of payment, but not counting members of the employer's immediate family and hand harvest laborers as defined in section 13(a)(6)(B) of the Act), the employer shall maintain and preserve payroll records containing the following information with respect to each worker:

- (1) Name in full. This shall be the same name as that used for Social Security purposes.
- (2) Home address, including zip code.
- (3) Sex and occupation in which employed (sex may be indicated by Mr., Mrs., or Miss).

(4) Symbols or other identifications separately designating those employees who are (i) members of the employer's immediate family as defined in section 13(a)(6)(B) of the Act, (ii) hand harvest laborers as defined in section 13(a)(6)(C) or (D), and (iii) employees principally engaged in the range production of livestock as defined in section 13(a)(6)(E).

(5) For each employee, other than members of the employer's immediate family and hand harvest laborers as defined in sections 13(a)(6)(B) and (C) of the Act, the number of man-days worked each week or each month. (A man-day is any day during which an employee does agricultural work for 1 hour or more.)

(c) For the entire year following a year in which the employer used more than 500 man-days of agricultural labor in any calendar quarter, exclusive of members of the employer's immediate family and hand harvest laborers as defined in sections 13(a)(6)(B) and (C) of the Act, he shall in addition to the records required by paragraph (b) of this section, maintain and preserve the following records with respect to every covered employee (other than members of the employer's immediate family, hand harvest laborers and livestock range employees as defined in sections 13(a)(6)(B), (C), (D), and (E) of the Act):

(1) Time of day and day of week on which the employee's workweek, or the workweek for all employees, begins.

(2) Basis on which wages are paid (such as "\$1.30 an hour"; "\$15 a day"; "piece work".)

(3) Hours worked each workday and total hours worked each workweek.

(4) Total daily or weekly earnings.

(5) Total additions to or deductions from wages paid each pay period.

(6) Total wages paid each pay period.

(7) Date of payment and pay period covered by payment.

(d) In addition to other required items, the employer shall keep on file with respect to each hand harvest laborer as defined in section 13(a)(6)(C) of the Act for whom exemption is taken, or who is excluded from the 500 man-day test, a statement from each such employee showing the number of weeks he was employed in agriculture during the preceding calendar year.

(e) With respect to hand harvest laborers as

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defined in section 13(a)(6)(D), for whom exemption is taken, the employer shall maintain in addition to subparagraphs (1) through (5) of paragraph (b) of this section, the minor's date of birth and name of the minor's parent or person standing in place of his parent.

(f) Every employer (other than a parent or guardian standing in the place of a parent employing his own child or a child in his custody) who employs in agriculture any minor under 18 years of age on days when school is in session or on any day if the minor is employed in an occupation found to be hazardous by the Secretary shall maintain and preserve records containing the following data with respect to each and every such minor so employed:

- (1) Name in full,
 - (2) Place where minor lives while employed.
- If the minor's permanent address is elsewhere, give both addresses,
- (3) Date of birth.

(g) Where a farmer and a bona fide independent contractor or crew leader are joint employers of agricultural laborers, each employer is responsible for maintaining and preserving the records required by this section. Duplicate records of hours and earnings are not required. The requirements will be considered met if the employer who actually pays the employees maintains and preserves the records specified in § 516.33(c).

[38 F.R. 27520, Oct. 4, 1973]

Section 516.34 Domestic service employees.

(a) With respect to any person employed as a domestic service employee who is not exempt under section 13(a)(15) of the Act, the employer of such person shall maintain and preserve records containing for each such person the following:

- (1) Name in full;
- (2) Social security number;
- (3) Address in full, including zip code;
- (4) Total hours worked each week by such employee for the employer;
- (5) Total cash wages paid each week to such employee by the employer;
- (6) Weekly sums claimed by the employer for board, lodging or other facilities; and
- (7) Extra pay for weekly hours worked in excess of 40 by such employee for the employer.

(b) No particular form of records is required, so long as the above information is recorded and the record is maintained and preserved for a period of 3 years.

(c) Where an employee works on a fixed schedule, the employer may maintain the schedule of daily and weekly hours the employee normally works, and (1) indicate by check mark, statement or other method that such hours were actually worked, and (2) when more or less than the scheduled hours are worked, show the exact number of hours worked.

(Sec. ii(c), 52 Stat. 1060, as amended (29 U.S.C. 211 (c)))

[40 F.R. 7405, Feb. 20, 1975]

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