141-72

INSTITUTE FOR RESEARCH ON POVERTY DISCUSSION PAPERS

WORK-CONDITIONED SUBSIDIES AS AN INCOME MAINTENANCE STRATEGY: ISSUES OF PROGRAM STRUCTURE AND INTEGRATION

Robert H. Haveman

UNIVERSITY OF WISCONSIN ~ MADISON

WORK-CONDITIONED SUBSIDIES AS AN INCOME MAINTENANCE STRATEGY: ISSUES OF PROGRAM STRUCTURE AND INTEGRATION

Robert H. Haveman

The research reported here was supported by funds granted to the Institute for Research on Poverty at the University of Wisconsin-Madison by the Office of Economic Opportunity pursuant to the provisions of the Equal Opportunity Act of 1964. The conclusions are the sole responsibility of the author.

October, 1972

ABSTRACT

This paper analyzes a strategy for aiding low income families in which the aid provided families with able-bodied heads is tied to the level of work effort. Families without an employable head would continue to qualify for welfare. This strategy involves the integration of public employment, wage subsidy, and direct cash transfer programs.

In the first main section of the paper, the Senate Finance Committee version of such a strategy is described and its effect on several categories of low income families is analyzed. This is followed by a detailed critique of the proposal in which its equity and efficiency effects are evaluated, as well as the likely effect of its implementation on the national wage structure and the administrative difficulties which it will encounter. This critique concludes that while the target efficiency of the subsidy to the poor and the non-poor is rather high, the proposal has other (primarily horizontal) equity effects which are undesirable. Also, while the proposal has labor-supply incentive effects which are more desirable than those of negative-income-tax type plans, it tends to discourage increased earnings stemming from higher wage rates. When the implicit tax rates of other income-conditioned programs are added to this discouragement, it seems likely that there would be little incentive for low income family heads to seek advancement or investment in human capital.

In analyzing the effect of this strategy on the national wage structure, the critique concludes that there would be little if any undermining of that structure. This is due to both the size and character of the program and the nature of labor market rigidities.

A major set of difficulties with the proposal is seen to revolve around the question of administrative feasibility.. These difficulties center on the multiplicity of programs within the strategy, the problems inherent in a major public employment program, and the difficulties of implementing a national wage subsidy.

In the final section, an alternative work-conditioned income-supplementation program is suggested. This program is built around an earnings subsidy program and strives to avoid many of the difficulties of the Finance Committee proposal. The paper concludes with a discussion of how this form of income-supplementation strategy could be integrated with a number of other cash and in-kind transfer programs without losing its desirable work incentive characteristics. A technique for mitigating the disincentive effects of cumulative tax rates is described. It involves establishing a ceiling on the number of programs from which any family can receive benefits.

WORK-CONDITIONED SUBSIDIES AS AN INCOME MAINTENANCE STRATEGY: ISSUES OF PROGRAM STRUCTURE AND INTEGRATION

Robert H. Haveman

I. Introduction

Since the inception of need-related federal income-maintenance programs in the U. S., the expectation has been that such programs would be both residual and transitional. They would be residual in that they would provide income support to those limited number of households which had little expectation of self-support--female-headed families with children, the aged, the blind, the disabled--and which were not covered by the contributory social-insurance programs. They would be transitional in that they would shrink in size as the social-insurance programs expanded in coverage.

Neither one of these expectations has been fulfilled. The coverage of public-assistance eligibles by social-insurance programs has proceeded slowly. More importantly, as the proportion of the population living in female-headed families rose and as the eligibility for public assistance was broadened, the size of the residual expanded rather than shrank.

During the 1960s, especially from 1967 on, the rate of expansion of the AFDC program (the largest of the public-assistance programs) was very substantial. Between 1960 and 1971, the number of AFDC recipients tripled and program costs rose six-fold. During this same decade other programs were initiated which also provided assistance to the poor--food stamps, Medicaid, public housing, and a plethora of other social services. By 1971, nearly $20 billion per year was being spent on cash and in-kind transfer programs with an anti-poverty objective.

During the early 1970s, this "welfare system" came under increased public scrutiny. Viewed as a whole, it had many characteristics which gave it the appearance of unwise--indeed, unproductive--social policy. Because of eligibility standards and benefit levels, some families on welfare had higher total incomes than similar families in which the head worked full-time. Because of the benefit schedule and the lack of integration among the many programs, little if any income improvement could be obtained by increased effort to earn income. Because of the restriction of eligibility in the AFDC program to female-headed families[1] together with the increasing number of apparently "able-bodied" women receiving support, the program was viewed by many as unequitable to male-headed poor families, as "sexist" in its discouragement of labor-force participation by women, and as conducive to family breakup and family instability. Because of the variance in eligibility and benefit levels by state, interstate inequities persist and artificial inducements to mobility are feared. Moreover, even though the system has grown rapidly, the existence of poverty has not been eliminated.[2]

---

[1] Some families with an incapacitated male head also receive benefits from AFDC.

[2] For an analysis of the nature and evolution of the public-assistance system see Sar A. Levitan, Martin Rein, and David Marwick, Work and Welfare Go Together (Baltimore: Johns Hopkins Press, 1972).

In response to these concerns, many reform proposals have been made--negative-income-tax plans, demogrant schemes, and children's allowances. In all cases, these proposals were aimed at alleviating many of the problems with the existing system. To be seriously considered, a proposed plan had to demonstrate an increase in work incentives, an increase in equity between able-bodied male and female heads (often stated as extending coverage from the deserving to the working poor), the establishment of an acceptable need-related income floor for all families, and administrative feasibility--all of this without any major expansion in roles or costs. Because of the conflicting nature of some of these objectives, proposals traded gains in achieving one objective with costs in achieving the others.

The proposal which has received the most widespread attention is the Family Assistance Plan--later known as H.R. 1--of the Nixon administration. The latest version of this program calls for a national minimum income guarantee of $2400 for a family of four persons, both male- and female-headed. As the earnings of a family increase above $720 per year, the level of the guarantee would decrease by $ .67 per $1 of earnings--a 66.7 percent tax rate. However, because recipients of cash transfers often receive other income-conditioned benefits--for example, Medicaid and public housing--and pay other, positive taxes on their earnings, the effective tax rate would be substantially in excess of 67 percent. For some recipients and over some income ranges the effective rate would be over 100 percent. To counteract these offsets to the work incentive implied by the basic tax rate of 67 percent, the proposal incorporates a work requirement for adult benefit recipients who are not ill, incapacitated, elderly, mothers with children under six, youths between 16 and 22 who are attending school, or needed in the home because of illness.

To assist those required to register for work and training, H.R. 1 provides financing for 200,000 public-service jobs, and support for some job training and day care. If an "employable" adult refuses employment or training, a penalty of $800 will be subtracted from family annual benefits.

In addition to these provisions, H.R. 1 would eliminate the Food Stamp program, would alter the eligibility requirements of Medicaid and public housing to eliminate the "notch," would encourage states to supplement federal benefits so as to minimize the adverse effect of the program on current recipients, and would establish federal government administration of the program. The effect of these changes would increase the number of recipients from 15 million in 1973 to about 25 million, at a total additional federal cost of about $2 billion.

While H.R. 1 passed the House of Representatives on two separate occasions, it has not been supported by the Senate Finance Committee. In its place, the Committee has put forth an income-maintenance plan of its own. By comparing the provisions of this plan with H.R. 1, the failure of H.R. 1 to gain Committee approval appears to be attributable to the lack of effective work incentives implicit in the high cumulative marginal-tax rate on earned income, the likely ineffectiveness in employing able-bodied family heads of a work test which is not accompanied by sufficient employment and training opportunities and day-care support, and the high income guarantee available to an able-bodied family head--male or female--who manages to elude the work test.

The keystone of the strategy developed by the Senate Finance Committee is the proposition that both male and female family heads without severe impediments to work should rely on earned income as their primary means of support. There are four corollaries to this proposition: First, a criterion must be established to distinguish employable family heads from those with severe impediments to work. Second, <u>positive</u> work-related incentives--as opposed to work disincentives in the form of implicit tax rates--are important both to induce work effort by employable family heads and to supplement their earned income. Third, a program of guaranteed public jobs is essential to offset the destructive effect of a loose labor market on such an employment-related program. Finally, for those family heads who cannot be expected to work, a more traditional income-support system with little concern for work incentives should be made available.

While such a work-conditioned income-maintenance strategy has some familiar components, it represents a rather different policy approach than either the current welfare system or H.R. 1. As such, it the Committee plan leaves many unanswered questions and unresolved problems. In succeeding sections of this paper many of these will be raised and analyzed. In the second section, the specifics of the Senate Finance Committee strategy will be described and its impact on various categories of low-income families analyzed. In the third section, the Committee proposal will be critiqued and compared with H.R. 1. This critique will focus on considerations of efficiency, equity, effect on the national wage structure, and administrative feasibility. The fourth section presents an alternative work-conditioned income-maintenance scheme which corrects a number of the structural problems of the Senate Finance Committee proposal. The integration of this plan with other income-transfer programs is also discussed in this section and some of its advantages and disadvantages are evaluated.

II. Work-Conditioned Income Supplementation: Senate Finance Committee Style

In June, 1972, the Senate Finance Committee announced their version of a welfare reform bill. The "Assistance to Families" provision of this bill emerged after two years of Committee deliberations as a substitute to H.R. 1 which had been passed by the House. Upon its release, the Administration, Senate liberals, and the media denounced the bill as "a $9 billion step backward," as "slavefare," and as "barbaric".

The proposal which drew this response is not a simple and straightforward scheme. While it would reduce the size of the current AFDC program it would not eliminate it. While it would require some current welfare recipients to be employed in order to qualify for income supplementation, it would guarantee success to their efforts to find employment. Moreover, it would provide substantial assistance for child care services to heads of single-parent families who are declared to be "employable." While it would be a less attractive program to some current welfare recipients than the current AFDC program, it would funnel substantial income support to working poor and near-poor families who are now effectively excluded from the nation's income-maintenance system. In describing their strategy, the Committee stated:

> ...Paying an employable person a benefit based on need, the essence of the welfare approach, has not worked. It has not decreased dependency--it has increased it. It has not encouraged work--it has discouraged it. It has not added to the dignity in the lives of recipients, and it has aroused the indignation of the taxpayers who must pay for it...the only way to meet the economic needs of poor persons while at the same time decreasing rather than increasing their dependency is to reward work directly by increasing its value.

The Structure of the Senate Bill

The primary provisions of the Senate Finance Committee proposal are conveniently described by focusing first on the program of assistance to families without an employable head and then on those with such a head. The program, it should be noted, provides no assistance to single individuals or childless couples.

The Program of Assistance to Families without an Employable Head

Under the current welfare system income support through AFDC is provided for female-headed families and those headed by incapacitated fathers and stepfathers which meet the income and asset tests of state welfare systems--about 3 million families. In addition, in about 25 states families headed by long-term unemployed fathers receive support through AFDC-UP.[3] The Committee bill would continue these cash transfer programs only for those single-parent (primarily female-headed) families in which the parent has a child under age 6 or is ill or incapacitated, attending school full-time, or residing in a geographically remote region. About 1.8 million families fall into this category, approximately 60 percent of the current AFDC population.

For this residual AFDC population the Senate bill would require that states with high benefit levels not reduce payment levels below $2400 for a family of four. States with payment levels below this amount could not reduce them at all. In addition, a block grant would be provided states to enable them to raise benefits to this level with no additional cost to them.[4] After disregarding $240 of earnings plus earnings to cover another $240 of child support costs, earned income would be taxed at a 100 percent rate.[5]

The Committee proposal, like H.R. 1, would not provide federal matching of the state supplemental payments. Also, like the Administration

---

[3]About 20 percent of all AFDC families are male-headed.

[4]The block grant, however, does not cover costs for benefit levels beyond $2400 even though the family has more than four members. While this appears to be tantamount to a guarantee level of $2400 for a four-person family, it should be noted that some states may well not increase benefit levels, even though costless.

[5]The 100 percent tax rate provision goes into effect only after the employment program (described below) is in operation.

proposal, the Food Stamp program would be eliminated for families who are eligible for welfare benefits. However, states could choose to supplement the basic federal program by the amount of the implicit cash value of food stamps to a family (an average of about $800) without incurring additional cost. However, unlike H.R. 1, the Senate proposal does not encourage states to cede administration of the welfare program to the federal government.

<u>The Program of Assistance to Families with an Employable Head</u>

Under the Committee proposal, families with heads who are classified as employable would not be eligible for direct cash transfers unrelated to work. For some of these families--employable female- and male-headed families who are now receiving AFDC or AFDC-UP benefits--this will significantly change their status. Such family heads, however, are guaranteed a minimum income of $2400 per year (unrelated to family size) provided they participate in the employment program.[6]

The employment program would be administered by a Work Administration (WA) which would be created by the bill. Any eligible family head would be guaranteed a job by the WA. In dealing with registrants in the program the WA would have three options open. First, the participant could be placed by the WA in a regular public- or private-sector job paying $2.00 per hour or more. Full-time

[6] Eligibility for the employment program is limited to the heads of families with less than $300 per month of unearned income or $5600 of total family income per year.

work for a year in a job provided by the WA would yield the worker an income of at least $4000 per year.

A second option for the WA would be to place the participant in a regular private- or public-sector job which pays less than the national minimum wage,[7] but more than three-fourths of it. In this case, the WA would subsidize the applicant's wage rate by three-fourths of the difference between his wage rate and the national minimum wage rate.[8]

For applicants who find themselves in either of these circumstances, there is a supplemental subsidy which would be administered by the WA--an earnings bonus. For every dollar earned in employment by the family head and his wife covered by the social security program,[9] an additional 10 percent bonus would be paid, up to an earnings level of $4000. Beyond $4000 of husband's plus wife's earnings, the bonus (which reaches a maximum of $400 at an earnings level of $4000) would be decreased by $ .25 for each additional dollar of earnings, hence falling to zero at an earnings level of $5600. The schedule of work-conditioned subsidies related to the earnings of a family head in full-time employment (without a

---

[7] Currently, the minimum wage is $1.60 per hour. However, passage of at least a $2.00 minimum wage seems likely. Except where noted, the subsequent discussion of the proposal will assume that the minimum wage is $2.00 per hour.

[8] The formula for this form of wage rate subsidy is: $S = .75(X-W)$, where S is the per hour subsidy, W is the actual wage rate and X is the national minimum or target wage rate. To be eligible for the subsidy $.75X < W < X$. For example, if the national minimum wage rate is $2.00 per hour, and if the applicant is placed in a position paying $1.50 ($1.80) per hour, the WA would subsidize the wage rate by $.375 ($ .15) per hour. From the employee's point of view, his wage rate would be $1.875 ($1.95) per hour, which for full-time work implies an income of $3750 ($3900) per year.

[9] A part of the rationale for the earnings bonus is to eliminate the social security payroll tax for low income workers. The earnings bonus would be administered by the Internal Revenue System.

working wife) is shown in Figure 1. Total income for such a family is shown in Table 1. It should be noted that both the wage-rate subsidy and the earnings bonus would also be payable to low-income family heads who secured regular public or private employment on their own.

TABLE 1

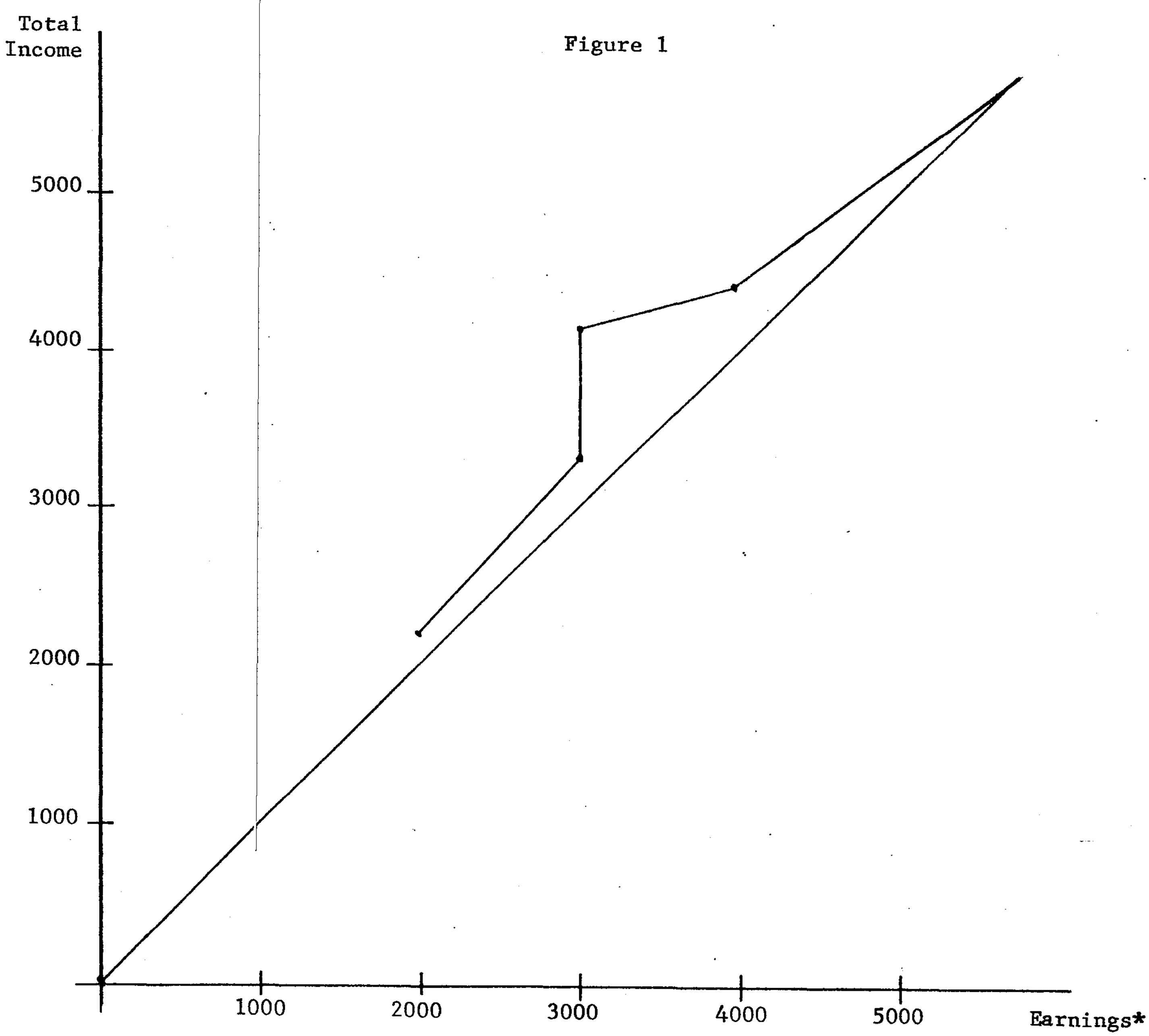
Earnings, Subsidies, Bonuses, and Total Income for Participants in Employment Program Working Full-Time in Regular Employment

Wage Rate	Annual Earnings from Employer	Wage Rate Subsidy	Earnings Bonus	Total Income
$1.50	$3000	$750	$300	$4050
$1.75	$3500	$375	$350	$4225
$2.00	$4000	---	$400	$4400
$2.50	$5000	---	$150	$5150
$2.80	$5600	---	---	$5600

The third option available to the WA would be exercised if it failed to place the applicant in regular private- or public-sector employment. In this case, the applicant would be employed in one of the public service activities to be either arranged or operated by the WA. For such employment, the applicant would be paid three-fourths of the national minimum wage and would be guaranteed 32 hours of work per week. Presuming a $2.00 minimum wage and 32 hours of work per week, this would imply an annual income of $2400.[10] Neither

[10]The limitation of work to 32 hours appears to be based on a desire to keep the guarantee at the $2400 level, hence making the public service alternative less desirable than full-time private employment. An alternative would be to guarantee full-time employment, which at $2.00 per hour implies an annual income of $3000. In the remainder of this paper, both alternatives are analyzed.

Figure 1



*Increased earnings from $3000-$4000 assumed to come from full-time work but at increasing wage rates.

the wage-rate subsidy nor the earnings bonus would be paid for such employment.

A special arrangement is provided for the low-income family head who is able to secure only part-time regular public or private employment. In such a situation, the employee would receive his wage rate from the regular private- or public-sector job, the wage-rate subsidy (if his wage rate was less than the minimum wage but more than three-fourths of it), and the earnings bonus on the sum of husband's and wife's earnings. In addition, the part-time worker would be eligible for additional employment from the WA to result in a combined total of 40 hours per week. The amount of income (and hence, employment) which the WA would provide the applicant through some regular part-time employment is shown in Table 2.[11]

Of concern is the matter of state income-supplementation programs and their relationship to the work-conditioned subsidies embodied in the Committee bill. To eliminate the chance that state supplementation would reduce the work incentives of the plan, the bill requires states which <u>choose</u> to supplement the incomes of participating families to assume that the annual earnings of the family are at least $2400--implying 32 hours of work at the guaranteed wage rate of $1.50. Moreover, states would be required to disregard

---

[11]An interesting question affecting this package of employment options concerns the availability of public service employment to a family head currently holding full-time regular employment at, say, the minimum wage. With a minimum wage of $2.00, the annual earnings of the worker would be $4000 to which would be added the earnings bonus of $400. Could this person become eligible for additional public service employment through the WA? The Committee has answered this affirmatively, stating that the WA <u>may</u> provide the worker up to 20 additional hours of work per week if such employment is available.

annual earnings between $2400 and $4500 in computing state supplemental payments. This implies a constant additional cash benefit which is not eroded by incremental earnings until earnings equal more than $4500. As the Finance Committee report states:

> The effect of this requirement would be to give a participant in the work program a strong incentive to work full-time..., and it would not interfer with the strong incentives he would have to seek regular employment rather than working for the Government.

In addition to this basic structure of the cash transfer, work-conditioned subsidy, and public service employment programs, there are other important provisions. One such provision concerns the subsidization of child-care services for participants in the employment program. Perhaps more than other proposals for welfare reform, a work-conditioned income-support program has implications for the public-sector provision or subsidization of day-care services. Because the Committee bill would lead to essentially full-time employment for over 1 million mothers of school-age children who are currently receiving AFDC benefits, a major increment to the supply of after-school and full-time summer day-care services is required.

The Senate bill would establish within the WA a Bureau of Child Care which would have as its central function the provision of child-care services to single-parent family heads participating in the employment program. The Bureau would train persons to provide family day care, contract with existing day-care providers, give technical assistance to organizations wishing to establish facilities, and provide day-care services in its own, to-be-developed facilities,

TABLE 2[a]

Public Service Income and Employment Provided by Work Administration to Low-Income Family Head with Part-time Regular Employment

Number of Hours of Work and Wage Rate	Annual Income from Employer	Income from Wage-Rate Subsidy	Income from Earnings Bonus	Total Income from Part-time Employment	Additional Income and Hours Per Week Guaranteed by Work Administration[b]		Total Income
10 hours/week							
$1.20/hour	$600	--	$60	$660	$2250	(30)	$2810
$1.60/hour	$800	$150	$80	$1030	$2250	(30)	$3280
$2.00/hour	$1000	--	$100	$1100	$2250	(30)	$3350
$2.40/hour	$1200	--	$120	$1320	$2250	(30)	$3575
20 hours/week							
$1.20/hour	$1200	--	$120	$1320	$1500	(20)	$2820
$1.60/hour	$1600	$300	$160	$2060	$1500	(20)	$3560
$2.00/hour	$2000	--	$200	$2200	$1500	(20)	$3700
$2.40/hour	$2400	--	$240	$2640	$1500	(20)	$4140
30 hours/week							
$1.20/hour	$1800	--	$180	$1980	$750	(10)	$2730
$1.60/hour	$2400	$450	$240	$3090	$750	(10)	$3840
$2.00/hour	$3000	--	$300	$3300	$750	(10)	$4050
$2.40/hour	$3600	--	$360	$3960	$750	(10)	$4710

[a]Assumes employee is head of house and that there are no secondary workers in family.

[b]Number in parentheses behind dollar income entitlement is number of hours per week the WA would have to provide in public-service employment.

making maximum use of mothers who are participants in the employment program.[12] While mothers employed in special public-service jobs would apparently receive free day-care services--valued at $800 per child per year--the day-care benefit would be diminished for employable mothers who earn in excess of $2400. The Committee has not specified the rate at which this subsidy is to be reduced as earnings increase above $2400.

A second important provision enables participants in the employment program to volunteer for training programs to be administered by the WA. However, during the training, participants would be paid $1.30 per hour rather than the $1.50 in the special public service jobs. The cumulated difference between the two wage rates would be paid as a lump sum to those trainees who complete the program.

III. The Senate Finance Committee Proposal: A Policy Evaluation

The Finance Committee proposal represents a major alternative to other proposed welfare reform strategies such as negative income taxation, the credit income tax (demogrant), and H.R. 1. As such, its efficiency and equity characteristics require evaluation as well as the likely effect of its implementation on the national wage structure and the behavioral patterns of recipients. In this section, several of these probable impacts will be analyzed.

[12] The Committee would authorize $800 million for the provision of such services.

Equity Effects

The Finance Committee proposal is likely to cost $12-$15 billion dollars over and above the cost of the existing AFDC, AFDC-UP, and Food Stamp programs. About 40 percent of this cost is attributable to the public-employment program, with the work-conditioned subsidies and the direct transfer components accounting for 20 percent each. Each of these components have equity effects which must be considered.

First, the public employment program. The participants in this program will be those current AFDC and AFDC-UP recipients declared to be employable, and those persons who find the public service option superior to their current job. It is apparent that the overwhelming majority of these people are below the poverty line and most of them are substantially below. Government expenditures providing income for these people have a high "target efficiency"--a high proportion of the dollars spent would be received by the poor with little of the cost spilling over to non-poor recipients.

A second component of this strategy is the work-conditioned subsidy.[13] This subsidy would be paid to workers who are household heads and who are earning a wage rate below the national minimum wage but above three-fourths of it. Because of the low level of this standard, most of these workers would have incomes below the poverty line.

However, it should be noted that some of the family heads holding such low paying jobs may not be poor. Examples would include

[13] Because the wage rate form of a work subsidy has been most extensively studied, it will be used here as the basis of the analysis.

individuals with substantial unearned income, family heads holding second jobs, families with two or more full-time earners, and the heads of small families. While evidence on the extent to which this subsidy would spill over to non-poor recipients is not firm, there is some indication that it would not be trivial.

In a recent study, Michael Barth analyzed the distribution of the benefits of a universal wage-rate subsidy among poor and non-poor.[14] Because this study displayed the population sub-groups which would be recipients of such a universal program it is possible to estimate the distributional effect of a program limited to family heads (as the Senate bill is). Table 3 displays such results for two wage-rate subsidy plans--a $1.60 minimum wage and a $2.00 minimum wage, with the subsidy equal to 50 percent of the differential between the actual wage and the national minimum.

TABLE 3

Distribution of Recipients and Benefits of
Wage Subsidy Plans Among Poor and Non-Poor
(Based on the 1967 Survey of Economic Opportunity)

	POOR				NON-POOR			
	Recipients		Benefits		Recipients		Benefits	
	millions	% of the total	$ millions	% of the total	millions	% of the total	$ millions	% of the total
$1.60 Plan	2.5	62.5	1.0	52.6	1.5	37.5	.9	47.5
$2.00 Plan	2.9	41.4	1.7	39.5	4.1	58.6	2.6	60.5

[14] Michael C. Barth, "Cost, Coverage, and Antipoverty Effect of a Per Hour Wage Subsidy," Ph.D. dissertation, City University of New York, 1971. Barth estimated that a universal wage-rate subsidy plan would target only about 20 percent of its benefits on recipients below the poverty line.

The table shows that for the smaller plan nearly 65 percent of total recipients are poor and that well over one-half of the benefits go to poor recipients. Comparable figures for the larger plan are 41 percent and 40 percent. The same study showed that for the smaller plan, 65 percent of poor family heads who work for wages would receive some subsidy while 75 percent of such workers would be subsidized under the larger plan.[15]

While there would be some leakage of benefits to those families who are not classified as being in poverty, it seems safe to claim that three-fourths of the benefits from the work subsidy component of the strategy would accrue to poor or near-poor families.

Similarly, it appears that the child-care subsidy to be integrated with work-conditioned subsidy and public-employment programs would place a high priority on the provision of these services to AFDC-type mothers deemed to be employable. Because such mothers would receive this subsidy if they worked and because most of them would in all likelihood be employed in public-service employment, the target efficiency of this expenditure would also be high. However,

---

[15] A number of things should be emphasized regarding the implication of these results for estimating the target efficiency of a work-conditioned income supplementation strategy. First, because of the change in wage rate level between 1966 and 1973, work subsidy based on a $2.00 wage standard is closer in real terms to the $1.60 plan described in the study. Second, because the plans discussed in the study subsidize 50 percent of the wage rate differential, they would concentrate a smaller share of the subsidy on those with actual wage rates at the lower end of the wage distribution than would a plan with a higher percentage subsidy. Such plans, however, would concentrate a larger share of the subsidy on very low wage rate earners than would a plan that subsidized only wage rates above some level, as in the Senate Finance Committee bill. Finally, to the extent that there is non-trivial leakage of benefits, it seems highly likely that the bulk of the leaked benefits would accrue to near-poor family heads.

to the extent that the expenditure was subsidizing day-care costs of mothers with earnings above the poverty line--as an income-conditioned subsidy schedule would imply--the target efficiency would be reduced.

Finally, the additional public expenditures required to support a $2400 benefit level for all families of size four in the non-work-related cash transfer program would have a 100 percent target efficiency. All of the beneficiaries would be single-parent families without an employable head with current benefits below such a national standard.

Although this evaluation is a crude one, it seems clear that the target efficiency of the Finance Committee strategy is very high. For example, it is not unreasonable to assert that at least 75-80 percent of the subsidy provided will be received by families below the poverty line with much of the remainder accruing to the near-poor. This level of target efficiency, it should be emphasized, is higher than that of an equally costly negative-income-tax-type plan. The reason for this is the relatively high breakeven earnings level for moderately large negative tax plans with "reasonable" tax rates. The work-conditioned income supplementation strategy is able to avoid some of this leakage of support to the non-poor by tying subsidies to labor-market performance, hence eliminating the tax rate of negative-income-tax plans required to erode the guarantee.[16]

[16]It should, in addition, be noted that nearly 30 percent of the costs of H.R. 1 is earmarked for state and local government savings--a not very "target effective" expenditure if the target is low income families. See Jodi Allen, "A Funny Thing Happened on the Way to Welfare Reform," Urban Institute Paper 301-14, 1972.

An equity question related to that of target efficiency concerns the effect of the program on the very poorest of the poor. One way to state this question is to inquire if the bill would establish a minimum income below which no family would fall. While the current welfare system does not provide such an income floor, H.R. 1 would. The $2400 minimum income level for a family of four in this proposal would raise benefits in 22 of the 50 states and would establish this guaranteed minimum income level for 9 million people in working poor families not now covered by public assistance.

In considering the existence of this income floor for the Committee bill, its effect on each of the several categories of low income families must be evaluated. One primary category consists of the families without an employable head who would continue to be eligible for cash transfers unrelated to work. About 1.5-2 million of the 3 million families now covered by AFDC would be in this category. The Committee bill would enable states to establish an income floor of $2400 for families of four persons in this category at no additional state cost, plus enabling states to supplement the federal benefit by "cashing out" food stamps--worth $800 per family--at no additional cost. It seems likely then that the minimum income guarantee would be at least three-fourths of the poverty line for most families in this category.

A second category consists of those families whose head is declared to be employable. For these families, there is also a guarantee. However, access to it requires work effort. In addition to subsidized regular employment, employable family heads would always have the guarantee of public-service employment on which to fall back. Even if this program paid but three-fourths of a national minimum wage of $2.00 per hour, full-time work would yield an annual income of $3000. Consistent with such a strategy, single-parent family heads who are employable would be guaranteed after-school and summer day-care subsidies (valued at about $800 per year) for each child. For the group of employables then, an income floor would also be established.[17]

This is not to say, however, that all of these families would be as well-off in terms of spendable income (cash benefits less net child care and other work expenses) in this program as they would be under the current welfare system or H.R. 1. Some clearly would not be. In particular, those mothers now receiving AFDC who are declared employable and who reside in current high benefit states are likely to find themselves with less spendable income under the Finance Committee strategy than under either the current system or H.R. 1. This is especially true if the high benefit states--in the absence of a federal mandate--reduce their current benefit levels or fail to provide supplemental benefits to public-service employees.

Moreover, for some family heads currently receiving AFDC, the welfare loss induced by requiring work outside the home in lieu of "home work" may be substantial. For others this substitution may

---

[17] An apparently unresolved question, however, concerns the support provided children in case the family head <u>refuses</u> to work.

yield a welfare gain. In evaluating the existence of a minimum income guarantee for families in this category, the concept of real income should not be ignored and contribution of the welfare loss or gain attributable to the implied substitution of employment outside the home for "home work" should be counted.

However, because of the work subsidy, most of the current working poor would find themselves with substantially more net spendable income than they currently have. Moreover, those families whose heads earn a very low market wage rate, even though they would get a work subsidy, might not have income above that guaranteed by public-service employment provided by the WA. The heads of these families would have every incentive to shift from regular employment to the WA program to take advantage of its guaranteed employment and income.[18] With this option available, no family headed by an employable person who is willing to work should find itself with less spendable income than that guaranteed by special public-service employment programs.

While the Finance Committee strategy appears to both target its support on the poverty population rather effectively and to establish a minimum income floor for all families, it has some additional equity effects which are not so attractive. One of these structural problems

---

[18] While the wage rate paid to public service employees--being below the national minimum wage rate--would seem to be in conflict with the notion of a minimum standard, it should be noted that 2.3 million workers in the U.S. earn less than $1.50--three-fourths of the minimum wage, (from surveys conducted in 1970 and 1971 by the Employment Standards Administration of the U.S. Department of Labor). From a special tabulation of the SEO tape (1967), it was estimated that 4 million family heads earned less than $1.60 per hour and 7 million family heads earned less than $2.00 per hour. Similar figures for male family heads are 3 and 6 million.

is related to the concept of "need" which serves to justify the family-size conditioned benefit schedules of the current AFDC program, H.R. 1, and other reform proposals. The subsidies provided through the Work Administration depend only upon the wage rate received and the number of hours worked. As a consequence, large size families will be substantially less well-off if the head is declared to be employable than under the current welfare system (if eligible) or H.R. 1. However, it should be added that although not included in the legislation, the Committee anticipates that state supplementation plans will reinstate family-size conditioned benefits.[19]

Finally, the Committee bill has a number of provisions which create horizontal inequities among program beneficiaries, only some of which appear to be justified. The first is the classification of some people as eligible for cash transfer unrelated to work because of their distance from the nearest WA office. As a result, a family with an otherwise employable head living in a rural area will receive cash assistance without work effort while a similar family in an urban area will achieve an income supplementation only through participating in the work program. This inequity may be justified on efficiency grounds given the transportation costs of bringing a rural family head together with the nearest WA office.

---

[19] An earlier version of the bill did provide for a children's allowance to be paid to all low income families with more than four members. For the fifth, sixth and additional members of a family unit, annual grants of $300, $180, and $120 were suggested. The allowance would have been reduced by $1 for every $2 of earnings above $3600 annually.

A second provision generating horizontal inequities is a fundamental one. The only way in which a participant who is directly employed by the WA in a public-service job can be distinguished from one placed in regular public or private employment is that the WA was successful in the latter case but not in the former. While the regular employee gains the benefits of a wage which is likely to be at least the national minimum plus both the wage subsidy and the earnings bonus, the public-service employee does not. This inequity is the price required to maintain the incentive for public-service employees to seek regular employment.

The third provision resulting in horizontal inequities is the generous provision of child care to mothers employed directly by the WA in public-service jobs. For these participants, provision of child care would be given highest priority and would be fully subsidized. Other working mothers not employed by the WA may have equally low incomes but would apparently be assigned a lower priority for provision of day care services. They would be unlikely to receive full subsidization of such services.

A further provision encouraging horizontal inequity is that which leaves the decision of supplementation open to the states. As a result, those welfare beneficiaries or work program participants residing in states which legislate generous state supplementation plans would have higher total incomes than equally poor residents in low supplementation states. However, because the Committee bill enables states to raise benefit levels for welfare benefits to $2400 for a family of four at no additional state cost, this inequity would be reduced from the one existing in the current welfare system.

Finally, because of the heavy emphasis placed on the provision of subsidized day care to single-parent families, inequity between one- and two-parent families is created. While low income single-parent families will have some day-care expenses subsidized, they will at some income level be subject to a tax rate on earnings net of day-care payments. Alternatively, if the mother in a two-parent family directly provides child care, there is no implicit tax rate on earnings attributable to day-care provision. By conditioning the day-care subsidy on income and making it available only to single-parent families, an inequity between some equally situated one- and two-parent families is created.

Efficiency Effects

In addition to equity considerations, a second criterion used to evaluate the effectiveness of a government expenditure program is the economic efficiency criterion which focuses on the resource allocation effect of a policy change. When this criterion is applied to an income transfer policy, it is the impact on the work-leisure choice which is a primary issue. In this regard, a work-conditioned income supplementation strategy embodies a quite different set of incentives than do the current welfare system, H.R. 1, or proposed negative-income-tax or credit-income-tax plans.

For example, as noted in the first section, H.R. 1, when integrated with payroll taxes and state supplements, imposes a marginal tax rate of at least 80 percent or more on recipient earnings. The effect of this, together with the guaranteed income obtainable without work, may be to seriously erode the incentive for work efforts for both current AFDC recipients and the working poor. The Committee bill, on the other hand, incorporates three characteristics which induce work effort.

The first characteristic is the requirement that those who are employable must engage in productive employment (not merely be available to work) in order to be eligible for an income supplement. The second is the inducement for work effort implied in the work subsidy provision. As an example of the difference in work incentives between a negative-income-tax-type plan and a work-conditioned subsidy scheme, Table 4 compares the marginal tax rates of a few individuals in different circumstances under H.R. 1 and under the Committee bill. There it is seen that in all cases the marginal tax rate on earnings is substantially lower in the Committee bill than in H.R. 1. In one-half of the cases shown for the Committee bill the marginal tax rate is negative, implying that a $1 increase in earnings results in an increase in income of more than $1. The pattern of benefits and marginal tax rates for both schemes are also shown in Figures 2 and 3. Figure 2 shows the relationship of total income and earnings when increased earnings result from increased wage rates; Figure 3 shows the relationship when increased hours worked account for increased earnings.[20] The dashed line in Figure 3 shows the relationship when increased earnings are obtained by full-time work at a wage rate which increases from $1.00 to $1.50 to $1.80 to $2.00 per hour.

---

[20]It will be noted in Figures 2 and 3 that the guarantee in H.R. 1 includes the cashed out value of food stamps. While the Committee proposal enables states to supplement to the equivalent of the food stamp benefits without bearing any cost, this is not included in the schedules shown.

A third positive work incentive provision in the Committee proposal is that which affords family heads who are working part-time in regular employment the opportunity for additional work in public-service employment up to a total of 40 hours per week. By opening up additional opportunities to those seeking income beyond that attainable through part-time employment, it is likely to stimulate additional work effort by at least some workers.

Although these positive inducements for work effort are substantial, the Committee bill is not uniform in its labor-supply effects. As noted in Figures 2 and 3, the marginal tax rates vary significantly depending on whether incremental earnings are attributable to an increase in hours worked or an increase in wage rates. Because the wage-rate subsidy is based on the differential between the actual wage <u>rate</u> and the national minimum wage rate, the volume of subsidy at a given wage rate is a direct and linear function of the number of hours worked. However, efforts to increase earnings through seeking higher paid employment are not so rewarded. Indeed, increased earnings from higher wage rates erode the per hour subsidy, permitting the worker to retain only a fraction of the increased earnings from the higher paying jobs. As seen in Table 4 and Figure 3, the implicit marginal tax rate on earnings increases due to wage rate increases is over 70 percent through some earnings ranges.

Moreover, while the Committee wishes to encourage female family heads eligible for cash transfers unrelated to work effort to participate in the employment program on a voluntary basis, it has

TABLE 4

Some Illustrations of Benefits and Marginal Tax Rates for H.R. 1 and the Senate Finance Committee Bill

	H.R. 1[a]			SENATE FINANCE PROPOSAL[a]			
						MTR[b]	
	Earnings	Total Income	MTR[b]	Earnings	Total Income	Hours[c] Variable	Wage Rate[c] Variable
Case 1: Family with head employed at $1.40 per hour	$2800	≈$3500	+72.2%	$2800	$3080	- 4.8%	- 4.8%
Case 2: Family with head employed at $1.60 per hour	$3200	≈$3850	+72.2%	$3200	$4120	-23.8%	+70.2%
Case 3: Family with head employed at $2.50 per hour	$4500	≈$4000	+86.2% (+119.2%)[d]	$4500	$4775	+30.2%	+30.2%

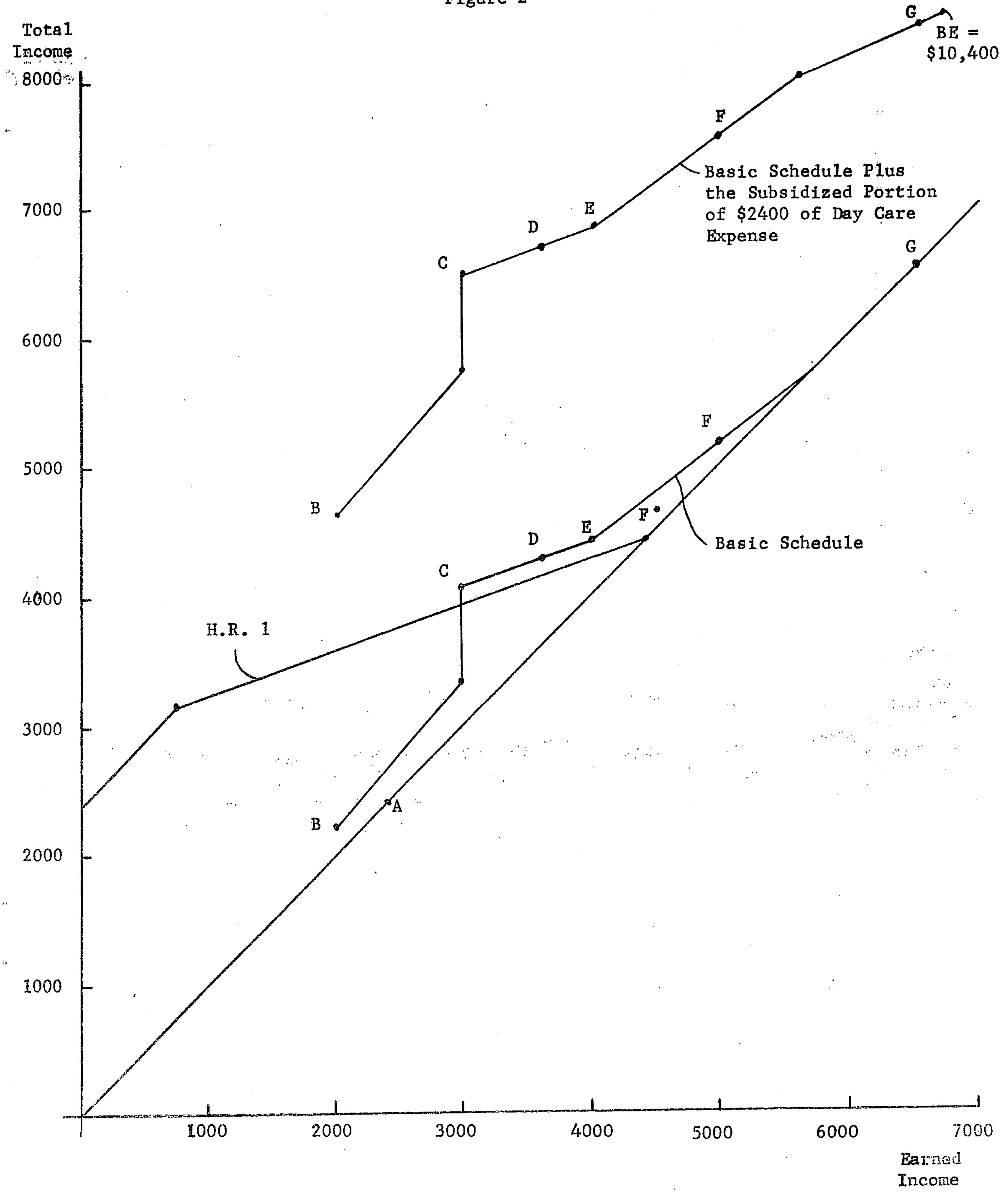
[a]For both H.R. 1 and the Senate Finance Committee bill, the cases shown assume that the family head is the only working family member and that he or she is employed in a regular public or private job. The benefits implied in the data exclude any public service employment income, state supplemental benefits, child care subsidies, or any other benefits in addition to the basic program.

[b]The estimate of the marginal tax rate on earnings cumulates the payroll tax rate and the marginal tax rate implicit in the plan for both H.R. 1 and the Senate Finance Committee bill. Those tax rates shown with a + sign in the table are tax rates in the conventional sense: those with a - sign are negative marginal tax rates or marginal subsidy rates. In the latter case, a $1 increase in earnings results in an increase of after tax income which is greater than $1.

[c]For the Senate Finance Committee proposal two marginal tax rates are shown. In the first case, it is assumed that the increase in earnings is generated by an increase in <u>hours</u> worked, wage rate constant. In the second case, it is assumed that the increase in earnings is generated by an increase in the <u>wage rate</u>, hours worked held constant.

[d]This extreme tax rate is due to the provision in H.R. 1 that beyond the federal breakeven states may impose 100 percent tax rates on earnings. This figure assumes that states exercise this option.

Figure 2*


Total Income
8000
7000
6000
5000
4000
3000
2000
1000
1000
2000
3000
4000
5000
6000
7000
Earned Income
G
BE = $10,400
F
Basic Schedule Plus the Subsidized Portion of $2400 of Day Care Expense
E
D
C
G
B
F
E
D
F*
Basic Schedule
C
H.R. 1
A
B

Notes to Figure 2

A. Family head working full-time in public service employment program, requiring day care for 3 children.

B. Family head working full-time in regular employment, requiring day care for 3 children, earning $1.00 per hour.

C. (D) Family head working full-time in regular employment, requiring day care for 3 children, earning $1.50 ($1.80) per hour.

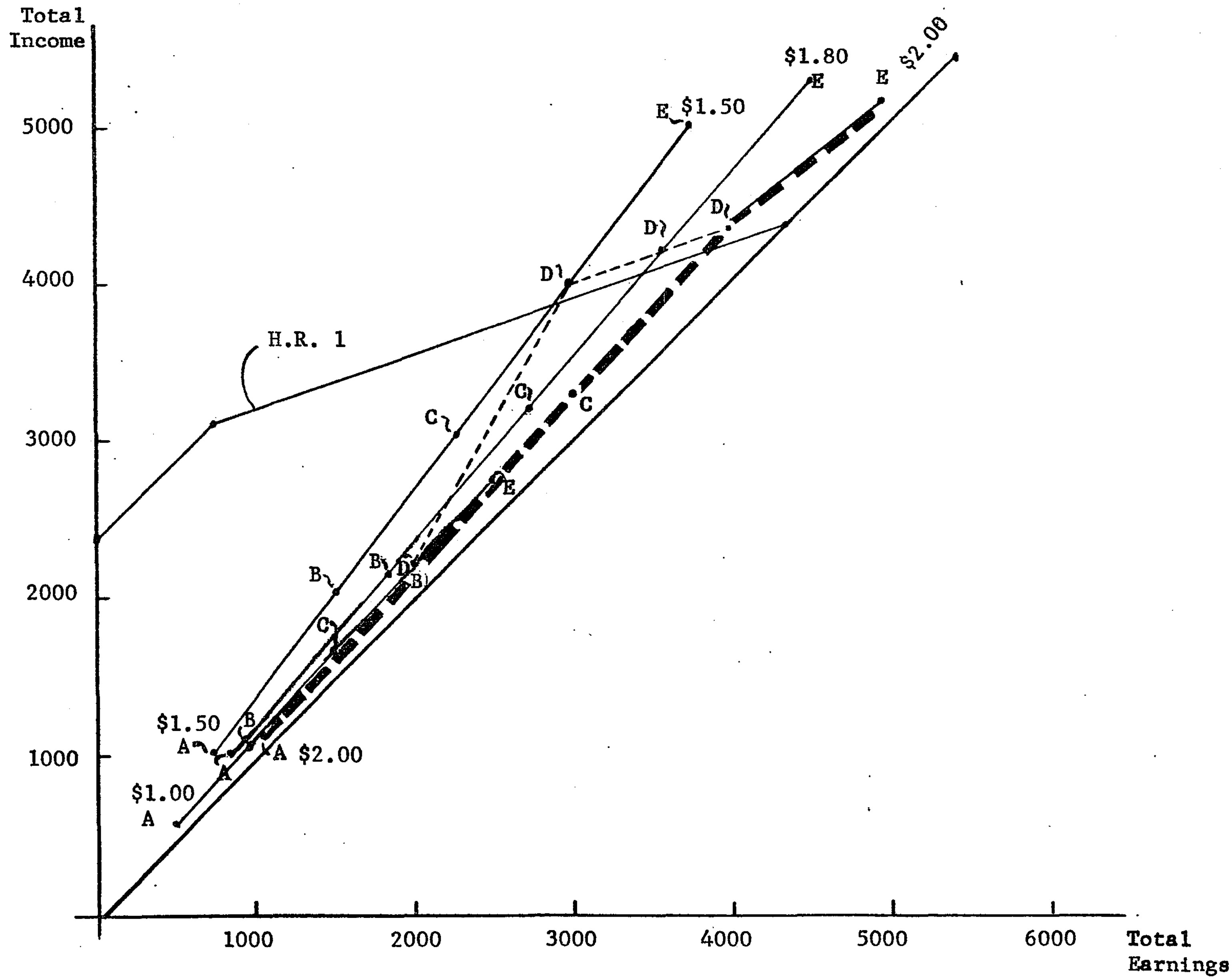
E. Family head working full-time in regular employment, requiring day care for 3 children, earning $2.00 per hour.

F. Family head working full-time in regular employment, requiring day care for 3 children, earning $2.50 per hour.

G. Family head working full-time in regular employment, requiring day care for 3 children, earning $3.25 per hour (assuming that day care subsidy decreased by 50 percent of additional earnings beyond $5000).

* The upper curve includes child care subsidies; the lower curve displays only work subsidies--the wage rate subsidy and the employment bonus. The curves display the positions attained by increasing earnings through increasing wage rates, assuming full-time work.

Figure 3*



Total Income
5000
4000
3000
2000
1000
H.R. 1
$1.50
$1.80
$2.00
$1.00
A
B
C
D
E
A $2.00
1000
2000
3000
4000
5000
6000
Total Earnings

Notes to Figure 3

*The three solid lines and the heavy dashed line show income levels related to earnings as earnings increase by increases in hours worked, wage rate constant. From highest to lowest, the solid lines represent wage rates of $1.50, $1.80 and $1.00. The heavy dashed line represents a wage rate of $2.00. On each curve the points A, B, C, D, and E refer to 10, 20, 30, 40, and 50 hours worked per week, respectively. The dotted line connecting the D's indicates the schedules for increasing earnings by increasing wage rates, hours worked constant.

stipulated a tax rate on earnings for such employment (except for a small disregard) to be 100 percent.

Moreover, because of likely differentials in state supplementation between welfare recipients and participants in the employment program, mothers who do volunteer may be subject to an implicit tax on earnings in excess of 100 percent. Only if such volunteering mothers could achieve earnings in excess of $2400 per year would such confiscatory tax rates be avoided.

Finally, the Committee bill contains two provisions which would discourage participants in the employment program from engaging in job training programs. As described above, while the proposal permits participants in public-service employment to opt for training rather than work, it places those who choose to do so at a financial disadvantage. Further, because the wage-rate subsidy imposes high marginal tax rates on increased earnings from higher wage rates, the incentive to upgrade one's skills and wage-rate potential is weakened.

This problem of high marginal tax rates on increased earnings <u>from higher wage rates</u> is further exacerbated by the failure of the Committee to deal explicitly with the other income-conditioned programs from which work subsidy recipients can draw benefits. While the Medicaid program would be modified by the Committee to eliminate the notch, the income conditioned nature of the benefits would persist. In addition, public housing, higher education subsidies and the positive income and social security taxes would all add their tax rates on earned incomes to the cumulation. When all of these are considered, some work subsidy recipients would be no better off in terms of net spendable income by receiving a higher paying position. Moreover, the positive incentives for increases in earnings through increases in hours worked would be reduced by this cumulative tax rate problem.

In addition to the effects of the proposal on the labor-leisure choice, there are other important economic efficiency effects of the proposal. One of the most significant of these is the effect on real output from diverting mothers from the production of "home services" to the employment program. Clearly, a net social gain from this diversion exists if the marginal product of such a worker (as indicated by her market wage) is in excess of the value of her home services (perhaps, as indicated by the costs of hiring a housekeeper in her place) plus the consumption value she places on being at home. While it is difficult to ascertain reliable estimates of these values, it is not obvious that a female family head with low skills and marginal employability will produce more in, say, a public-employment program than she would have by remaining a homemaker. Given the stated intent of the Senate Committee to employ former AFDC mothers in day-care centers sponsored by the WA, it is not unrealistic to view a portion of the program as one in which mothers care for each other's children. Their activity would be called public-service employment and they would receive a pay check rather than a welfare check.

That such an arrangement will automatically increase real national output is not obvious. In sum, while the net increase in work effort outside the home (in either private or public-service employment) surely represents a gross increment to social output, it must be compared with the value of home services foregone (including the consumption value of home work) in ascertaining the net efficiency effect of required employment outside the home.

A further efficiency effect concerns the impact of the wage-rate subsidy on factor input combinations. Viewing that subsidy as an artificial alteration in the market price of workers receiving the subsidy, employers are likely to substitute labor subject to the subsidy for both capital and labor which is not subsidized. To the extent that this artificial alteration in effective wage rates induces inefficient input substitutions--as standard economic theory would suggest--a real welfare loss must be attributed to the policy. Again, the magnitude of this efficiency effect is unknown and, in all likelihood, unknowable.

In summary, the Committee bill would, in all likelihood, increase the amount of work effort by low income family heads. It would do so by requiring employable family heads to work in order to qualify for subsidization, by raising their effective wage rates by direct subsidization, and by guaranteeing employment to those seeking work. However, the bill provides substantially greater incentives for a family head to increase earnings by increasing the number of hours worked rather than increasing his or her rate of pay.

By failing to integrate the full program with other income conditioned subsidies, the bill would confront some recipients with tax rates of nearly 100 percent on increments to earnings from improved skill levels, promotions, or job changes. Further, the bill almost completely discourages work efforts by families eligible for direct cash transfer, and may generate reductions in real social output through inducing inefficient substitution of employment outside the home for home work and inefficient substitution of subsidized low wage inputs for unsubsidized labor and capital.

Effects on the National Wage Structure

According to standard economic analysis, a wage-rate subsidy, by itself, would tend to erode the structure of wages in any given labor market. The logic is as follows: As viewed by low wage workers, the effect of a wage-rate subsidy is to increase the effective price at which they can sell their labor. With a labor-supply curve of positive elasticity, workers will respond to the higher effective price by making available an increased supply of labor. The labor market, in turn, will respond to this shift in supply by establishing a lower observed price or wage rate. At this lower market wage rate, those workers whose wage rates are subsidized will still be better off than before the subsidy--assuming that the decrease in the market wage rate is not equal to the subsidy.

However, because of this artificially induced reduction in the market wage rate for low wage workers covered by the subsidy, employers will have incentive to substitute such labor for higher wage, non-covered (and presumably higher skilled) workers and for capital. The effect of this substitution would be a reduction in the demand for both higher skilled labor and capital inputs, which the market would transform into lower wage rates for higher skilled workers and a lower return on capital.[21]

Those employers able to make such substitutions would experience a reduction in production costs which, if they sold their goods in a competitive market, would result in some reduction in the price of their output. Through this mechanism some of the wage subsidy paid to low wage workers would be passed along to consumers in the form of lower prices.

To some extent, these decreases in observed wage rates in both high and low skill markets will be offset by an output effect. Because of the net increase in labor supply induced by the subsidy, real output in the economy will rise. This in turn will increase the demand for labor in both high and low skill markets, providing some offset to the first-round wage rate decreases. In the absence of rigidities, however, observed wage rates are likely to show some net reduction.[22]

---

[21] If for some reason, the market price for these inputs (higher skilled labor) was inflexible downward, the effect of the wage subsidy would be to move some of the higher skilled labor into the lower skill labor market, further increasing the labor supply in that market and further decreasing the market wage rate in that market. Under these circumstances, it is possible that the wage rate in this market would fall to such an extent that low wage workers receiving the subsidy might be worse off than before the subsidy was put into effect.

[22] It should be noted that if the wage rate in the market for low wage workers was inflexible downward, the increase in labor supply induced by the wage subsidy would force some low wage workers into unemployment.

Under some combinations of labor market circumstances, then, one might perceive the following adverse effects from a wage subsidy:[23]

1. A reduction in the market wage rate for both low wage workers covered by the subsidy and those who are not.
2. Under certain extreme labor market conditions, a reduction in the market wage rate for low skill labor sufficient to override the subsidy, leaving the low wage worker worse off than before.
3. A reduction in the demand for--and wage rates paid to--higher skill, higher wage labor.
4. Under certain labor market conditions, more competition between higher and lower skilled workers in the lower skilled labor market and/or increased unemployment for low skilled workers.

Given the current state of knowledge, it is impossible to discern which, if any, of these impacts might accompany the institution of a wage subsidy for low wage workers. The net effect depends upon the nature of labor market imperfections, the elasticities of the supply and demand for both higher and lower skilled workers, the elasticity of substitution of high and low skill workers within firms and industries, and the nature of supply,

[23]Again, offsetting these adverse effects is the real output effect which would tend to increase the demand for both high and low skilled labor.

demand, and cross elasticities in product markets. Simultaneous determination of the interacting effects of all of these relationships is required to answer the question with any certainty. Currently, neither the data nor the general equilibrium models are available for such estimation.[24]

This is not to imply, however, that nothing can be said about the likelihood of any of these effects developing from any specific legislative proposal incorporating a wage subsidy. Consider a wage subsidy targeted on low wage workers (say those with wage rates below the national minimum) consistent with a Finance Committee type work-conditioned income supplementation strategy. Presume the existence of two separate labor markets: that covered by minimum wage legislation and that not covered by the minimum wage law. Assume also a public-service employment guarantee for any family head whose regular employment alternatives are less desirable than the guaranteed public employment. Finally, assume that minimum wage legislation constrains <u>most</u> employers from substituting workers not covered by the minimum wage law for workers who are.

In this context, it seems unlikely that the demand for higher skill workers and the prevailing wage paid them would be greatly undermined by the wage-subsidy provision of the program. This erosion can occur only if employers can easily substitute low for

---

[24]Neil Weiner, Robert D. Lamson and Henry M. Peskin, "Report on the Feasibility of Estimating the Effects of a National Wage Bill Subsidy," Institute for Defense Analysis paper HQ 69-10725, September, 1969.

high skill workers in response to a change in relative prices.[25] Such substitution is difficult given the influence of labor organizations and the industrial coverage of minimum wage legislation.[26]

Without this erosion in the market for higher skill labor it seems unlikely that substantial additional competition between high and low skill would be induced. As a result, it is most unlikely that workers newly covered by the subsidy could receive lower net wages after the institution of the subsidy than before.

However, if by some set of circumstance--perhaps, wage inflexibility again--some workers in the low skill (covered) labor markets are forced into unemployment because of the increase in labor supply induced by the subsidy, real costs could occur. It is with respect to such occurrences that the strategy provides the guarantee of public-service employment. With the guarantee, low wage workers experiencing unemployment or wage rate reduction are presented with an alternative which may be superior to their situation prior to the effects of the wage-rate subsidy, let alone after the possible adverse effects of the subsidy have occurred.

On the basis of these considerations, it appears that, especially in the face of existing labor market inflexibilities caused by

---

[25]It should be noted, however, that some substitution of this sort will occur as a matter of course if the price of goods produced by low skill intensive industries falls relative to the price of goods produced by high skill intensive industries.

[26]Again, recall the real output offset to the reduced demand for both high and low skill labor.

minimum wage laws and labor organizations, the work-conditioned income supplementation strategy offers protection against many of the possible adverse effects of a wage-rate subsidy on workers in most skill and wage rate categories. Due to industry coverage of the minimum wage, the subsidization of low wage workers and the guarantee of public service employment, few workers are likely to be adversely affected by potential wage rate erosion induced by the wage subsidy.

Finally, the small size of the subsidy relative to the market for low wage workers should be noted. In 1966, approximately 32 million workers had wage rates below $2.00 per hour according to the Survey of Economic Opportunity. This group of workers earned in excess of $50 billion. It seems highly unlikely that a $2-3 billion wage-rate subsidy targeted on this group of workers would seriously erode the wage structure of the labor markets in which they operate.

<u>Questions of Administrative Feasibility</u>

It seems to be an axiom that issues of administration pose serious questions of feasibility for all proposed modifications of the public-assistance system. Issues of administrative discretion regarding categorization, reporting, eligibility and benefit determination, termination, and social service provision have plagued the current welfare system for many years. Neither H.R. 1 nor the Finance Committee proposal avoid these problems. In fact, because the Committee proposal (and to a lesser extent H.R. 1) involve the integration of public employment and additional in-kind benefit and service programs with cash transfers, the problem of discretion is likely to be exacerbated. Moreover, the difficulties inherent in implementing programs requiring inter-agency coordination are expanded several-fold in both of these proposals. For example, the Finance Committee proposal would not only establish several new programs, it also imposes administrative responsibilities on three separate agencies. Any person covered by legislation could receive benefits and services from 3-4 different programs and from as many different offices.

Some sense of the extensiveness of these administrative difficulties can be gained by an enumeration of the primary new administrative tasks implied by the Committee proposal. One of the most basic new responsibilities is the separation of the population of current welfare recipients into employables and welfare eligibles. While the basic rules for distinguishing the status of different recipients have been suggested, numerous special situations are inevitable and unspecified in the rules. With such special situations the basic difficulty of categorization becomes even more severe and the opportunity for horizontal inequities through administrative discretion becomes enormous.[27]

A second major set of administrative responsibilities and difficulties is associated with the development of the Work Administration. As described in the proposal the WA will have a number

[27] It should be noted that H.R. 1 also requires a separation of those families with and without an employable head and is thus subject to these same difficulties.

of options in dealing with an employable family head who is guaranteed public-service employment but who does not already have a job. It can:

1. Work with private-sector employers to secure regular employment for applicants. In this case, the applicant, once placed in a job would deal directly with the employer in negotiating the terms of employment.
2. Work with public-sector employers in much the same way to gain regular employment for applicants.
3. Provide special public-service employment to applicants who cannot be placed in regular public or private employment. This requires the WA to either create an enterprise employing labor and producing outputs or services for "the betterment of the community," or to hire out employees to private or regular public employers on a temporary basis.[28]

All of these activities imply enormous new responsibilities in the areas of job development and job placement.[29] To accomplish them with creativity, efficiency, and equity is a major new and difficult undertaking. Consider, for example: How does the WA deal with a worker who refuses to accept private-sector employment

---

[28]In the latter case the payment would be made directly from the employer to the WA and wages would be paid by the WA to the workers.

[29]As noted above, the development of a large scale day care program and the employment of participants in the employment program in it is also envisioned to be one of the primary responsibilities of the WA.

to which he is referred? How does the WA determine if a private-sector job is appropriate for regular placement of an applicant or if the job is a temporary one which the employer should contract out to the WA? On what basis does the WA declare that a rural applicant is too remote from a WA office to require public-service employment in order to be eligible for benefits? How is the danger of "dead-end," "make work" jobs to be avoided as the WA seeks to create jobs for "the betterment of the community?" How does the WA deal with recalcitrant employees in the special public service part of the program? What is the maximum length of time that a person can remain in special public-service employment? What can the WA offer to employers to induce them to deal with it rather than fill job openings in the open market? The alternatives open to the WA in all of these areas imply the necessity to exercise enormous administrative discretion.

As the proposal is now structured, a person could be in several different programs over the course of a year. For example, during a single year a person could be in special public-service employment and, hence, ineligible for the wage-rate subsidy or earnings bonus, in regular employment in the private sector and either eligible or ineligible for both the subsidy and the bonus, or in the residual AFDC program. In each of these situations, the individual would be eligible for packages of benefits of one type or another. The record-keeping effort required to account for these changing situations for, say, 10 million families is mind-boggling.

Moreover, depending on the accounting periods used for determining payments and the mode of payment, these basic difficulties could be compounded.

A further administrative difficulty stems from the dependence of the wage-rate subsidy on the reported wage rate. Because of this dependence, an incentive is created for both the subsidized worker and his employer to collude in reporting a lower than actual wage rate and a larger number of hours than actually worked for any given earnings level. In this way the subsidy payment would be increased over its appropriate level and both employer and employee could gain. The enforcement of prohibitions against this practice would be a difficult undertaking. Moreover, because the standard employee paycheck shows only total earnings, it fails to yield the information required to determine eligibility for the subsidy and the amount of subsidy to be paid. As a consequence, special documentation would be required for determination of the appropriate subsidy to be paid.

In addition to these administrative difficulties, a number of additional problems inhibit the implementation of the special public-service employment program. The first of these is the inevitable competition of special public service employees with regular public employees if the WA negotiates such special positions within government agencies. A second problem is that of locating appropriate work for a population which is primarily female when most tasks in the public sector are thought of by many as "male jobs."[30] Finally, it appears that many state governments would be reluctant to participate in such a program if the federal government paid only the salary of special public-service employees. State governments have emphasized the need for the federal government to cover other associated costs of the program--supervisory, equipment, space and supply costs--if they were to be induced to accept special public-service employees.

IV. An Alternative Work-Conditioned Income Supplementation Program

While the Senate Finance Committee bill has a number of equity, efficiency, and administrative problems, it represents an income-maintenance strategy with work incentive and income support characteristics which are attractive to many. In this section, the dimensions of an alternative program of work-conditioned subsidies is described and critiqued. The objective is to retain some of the desirable characteristics of the Committee bill while correcting several of the structural problems of that proposal. This alternative incorporates all three of the attributes essential to a work-conditioned income-supplementation strategy--direct cash transfers for those not expected to work, work subsidies for low income family heads with jobs, and guaranteed employment for poor families with employable heads unable to secure a job. Its major provisions would include:

---

[30] This point was emphasized by several state governors who responded to questions of the Senate Finance Committee regarding the potentiality of such a program.

1. An Employability Criterion. This proposal, like that of the Finance Committee and H.R. 1, would require the categorization of low income family heads into two groups: those who are employable and those who, because of disability or severe child care responsibilities, are not expected to work. While the criterion proposed by the Senate Committee recognized a number of the determinants of "employability," a more comprehensive criterion is required. This criterion should perhaps consider the number of children as well as the age of the youngest child. If the program is to be integrated with day-care subsidies, the determination of employability on the basis of number of children can be justified on efficiency grounds. It should also incorporate comprehensive standards for determining the seriousness of partial disabilities.

2. A Cash Transfer Program. Both male and female single-parent families without an employable head would be eligible for direct cash benefits unrelated to work effort. A federal minimum of $3000 for a family of four would be guaranteed, with states remaining free to supplement incomes above the federal minimum. The guarantee would be reduced by $2 for every $3 of other income--earned and unearned. The federal government would administer the program.

3. A Public-Service Employment Program. All family heads found to be employable would be guaranteed a special public service job paying three-fourths of the national minimum wage. Assuming the

national minimum wage to be $2.00 per hour, this implies a public-service wage rate of $1.50. Work for up to 40 hours per week would be offered, implying an income guarantee of $3000 per year.

4. An Earnings Subsidy. All families would be eligible for a subsidy on their earnings from regular public- or private-sector jobs. Moreover, low income family heads could add special public-service employment income to subsidized earnings up to a total income level of $3000 per year without facing a positive marginal tax rate.

The earnings subsidy would be paid at a 50 percent rate on regular family (sum of husband's and wife's) earnings up to $2000. Hence, a family head working one-half time at the minimum wage rate of $2.00 per hour (hence earning $2000) would receive a subsidy of $1000, yielding a total income of $3000. Beyond earnings of $2000, the worker would fall on a schedule implying a positive marginal tax rate of 33 percent. The breakeven point would occur at $5000. Table 6 illustrates the earnings subsidy schedule applicable for low income families who engage only in regular private- or public-sector employment.

In addition to being in either the special public-service employment program (without the earnings subsidy but guaranteeing an income level of $3000) or employed in a regular private or public job, a worker could combine both. For a worker with some regular earnings, the special public-service program could be used to supplement private matched earnings up to a total of $3000 without

TABLE 6

Net Allowances from the Earnings Subsidy for a Family with Regular Employment Income

Family Income Before Allowance	Net Allowance	Income After Allowance	Marginal Tax Rate
$ 0	$ 0	$ 0	----
500	250	750	-50%
1000	500	1500	-50%
1500	750	2250	-50%
2000	1000	3000	-50%
2500	883	3337	+33%
3000	666	3666	+33%
3500	500	4000	+33%
4000	333	4333	+33%
4500	167	4667	+33%
5000	---	5000	+33%

an erosion of marginal earnings through the implicit tax rate. Beyond $3000, incremental public-service program earnings would be subject to the 33 percent tax rate. Similarly, a worker with some special public-service earnings could use regular (subsidized) earnings to supplement public earnings up to the $3000 level without an erosion of marginal earnings. Again, total earnings in excess of $3000, but below the breakeven point, would be subject to the implicit 33 percent tax rate. Table 7 illustrates the total income pattern for low-income workers who engage in either regular public- or private-sector employment or special public-service employment or who combine these alternatives in various proportions.

In the table, several patterns are of special interest. First, the very large incentive for increased regular employment (provided by the 50 percent subsidy on private earned income up to $2000) is seen in the first column. As regular earned income increases from $500 to $1000 to $1500 to $2000, total income increases from $750 to $1500 to $2250 to $3000. This incentive for incremental regular employment is also seen by reading across the rows. For any level of earned income up to $4000, the level of total income is inversely related to the proportion of it which is earned in the special public-service employment.

Second, the effect of the 33 percent tax rate on income over $3000 is seen by reading down any of the columns. This tax rate--which assures that the breakeven income level will not exceed approximately $5000--has yet another impact which is observable in the table. While individuals who have some income from regular employment would be eligible for a total of $3000 of special public-service income, any such income earned after a total income level of $3000 has been attained would be subject to the 33 percent tax rate. In effect, such earnings would entail employment at 67 percent of the hourly wage rate paid for special public-service employment--or about $1.00 per hour. Few would be expected to make themselves available for the public program at this hourly rate. Consequently, this provision assures that excessive use of the public program will be minimal.

Finally, it should be emphasized that in all cases in the table showing total income of less than $3000, family heads could obtain additional tax-free income by taking advantage of the special public-service employment guarantee. (These cases are denoted by a single asterisk and are found above the line running diagonally through the table.) As shown in the table, then, these cases represent individuals who choose not to avail themselves of the $3000 public-service guarantee which is open to them.

Several of the combinations implicit in Table 7 are shown in Figure 4.

5. <u>A Children's Allowance</u>. A notable characteristic of the earnings subsidy and public-service employment programs is the absence of differential subsidization based on family size. To condition employment-based subsidies on family size would entail the payment of a variety of wage rates for the same work effort, hence violating the principle of "equal pay for equal work."

To provide some family-size-conditioned subsidy differential, the structure of low income subsidies described in points 2 and 4 would be supplemented by the payment of a children's allowance for families in excess of four members. In order to recognize the economies of scale in family size, grants of, say, $300, $180, and $120 would be provided for the fifth, sixth, and additional members of a family unit.

Such family-size-conditioned subsidies are most important for large families with very low incomes. At higher income levels not only is the ability to support large families greater but, in addition, through the personal exemption provision of the federal income tax, large families which pay federal taxes receive substantial implicit family-size-conditioned subsidies. To accommodate

TABLE 7

Total Income by Earned Income Level and by the Regular Employment-Public Service Employment Division of Earned Income for a Family Head

Earned Income	100 percent private	75 percent private 25 percent public	50 percent private 50 percent public	25 percent private 75 percent public	100 percent public
$ 500	$ 750*	$ 687*	$ 625*	$ 562*	$ 500*
1000	1500*	1375*	1250*	1125*	1000*
1500	2250*	2063*	1875*	1687*	1500*
2000	3000	2750*	2500*	2250*	2000*
2500	3337	3293	3125	2812*	2500*
3000	3666	3666	3500	3250	3000
3500	4000	4000	3912	3625	NA
4000	4333	4333	4333	4000	NA
4500	4667	4667	4667	NA	NA
5000	5000	5000	5000	NA	NA

*Any individual with total income below $3000 is eligible for additional public-sector earnings equal to the difference between the total income figure shown and $3000 without an erosion of marginal earnings.

[NA] Not applicable, in that public-sector earnings cannot exceed $3000 per worker.

Family head earning $2000 in regular employment
Total Income = $3000 — A

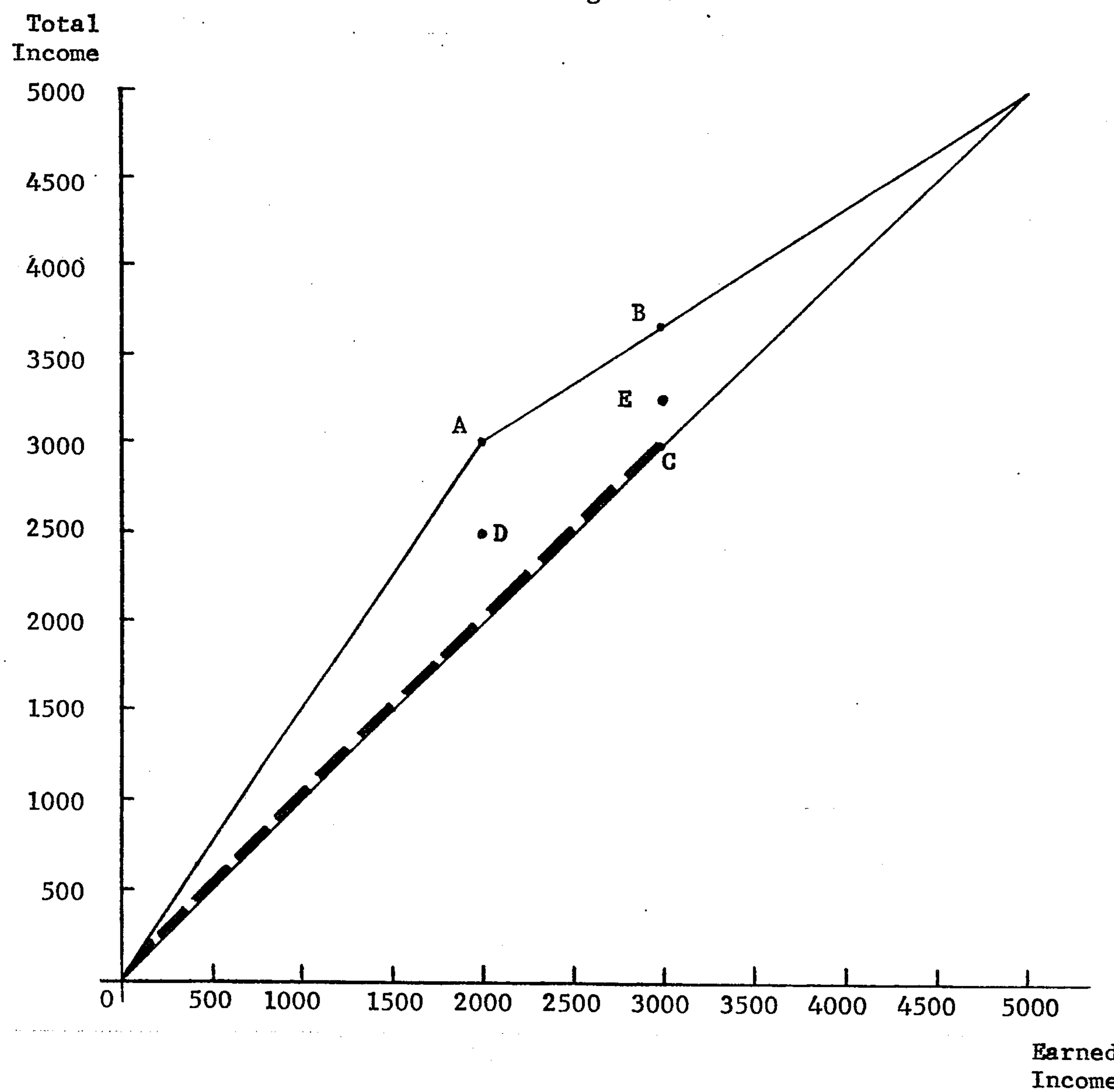
Family head earning $3000 in regular employment
Total Income = $3666 — B

Family head earning $3000 in special public-service employment
Total Income = $3000 -- C

Family head earning $1000 in regular and $1000 in special public-service employment .D

Family head earning $750 in regular and $2250 in special-public service employment .E

Figure 4



the goal of targeting the family-size-conditioned benefit on those with very low incomes:

a. The total children's allowance benefit would be reduced by \$ .10 for every dollar earned in special public-service employment.[31]

b. The total children's allowance benefit would be reduced by \$ .15 for every dollar earned which was subject to the earnings subsidy.[32]

The total benefit schedule for a family of six members with earnings only from regular employment is shown in Figure 5.

6. Integration with Child Care Subsidies. Substituting a work-conditioned income-supplementation strategy for the current welfare system would require additional work effort from numerous female and long-term unemployed male family heads with school-age children. Hence, subsidization of after school and full-time summer day care would appear to be an essential part of such a policy shift.

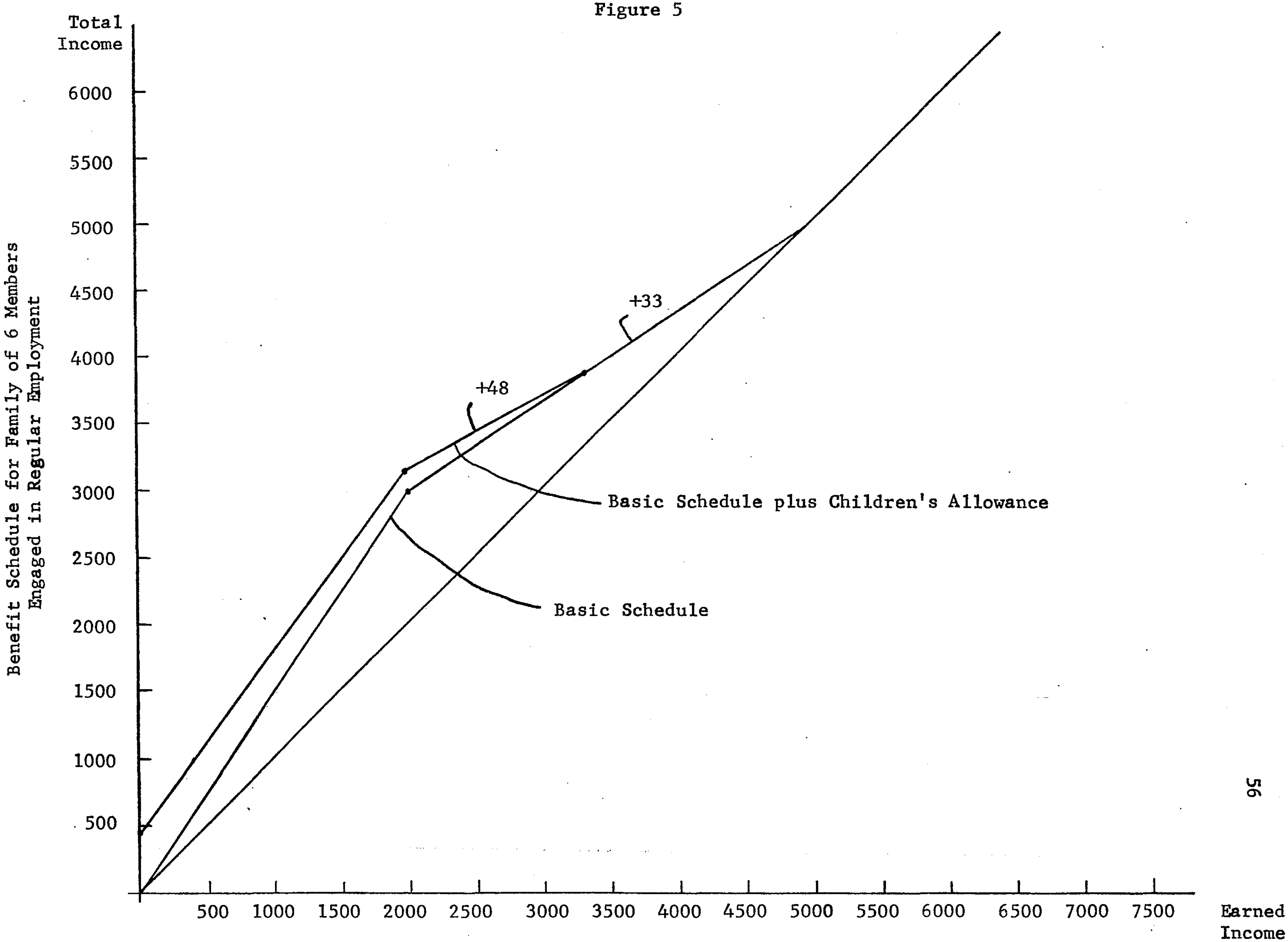
There are two standard means of integrating a program of child care support with an income-supplementation program. The first is through a system of child care expense deductions from gross earnings. The second is through either direct governmental provision of child care services or direct government payment of child care expenses privately purchased.

---

[31] Hence, the head of a five-member family working full-time in special public service employment would receive no net children's allowance. If the family had six members, children's allowance benefits would be \$180.

[32] The head of a family of five (six) with only regular employment earnings would experience a breakeven earnings level on children's allowance benefits of \$2000 (\$3200). It should be noted that the differential marginal tax rate modestly reduces the relative incentive to seek regular employment as opposed to special public service employment.

Figure 5


Total Income
Benefit Schedule for Family of 6 Members Engaged in Regular Employment
6000
5500
5000
4500
4000
3500
3000
2500
2000
1500
1000
500
+33
+48
Basic Schedule plus Children's Allowance
Basic Schedule
500
1000
1500
2000
2500
3000
3500
4000
4500
5000
5500
6000
6500
7000
7500
Earned Income

In the first case--deductibility of child care expenses from gross income--the implicit marginal tax rate on earnings determines the portion of child care costs which are borne by the government and the portion borne by the family. Hence, if the marginal tax rate is .5, child care expenses will be shared equally by the program and the family; if the marginal tax rate is .67, the government will bear two-thirds of the cost of child care.

Subsidization of child care through deductibility is impossible to integrate with an income-supplementation program in which there are negative marginal tax rates on earnings, as in both the earnings and wage-rate subsidy plans. A standard deductible arrangement here would entail the family's bearing of more than 100 percent of the cost of child care.

The alternative in such a situation would be for either direct government provision of services or reimbursement for services purchased privately. If this form of subsidization is to be targeted on the poor, the subsidy must be income-conditioned. Three difficulties are encountered with this form of subsidization. First, for large single-parent families--say, 3 or more children requiring child care--this may entail federal subsidies in excess of the earnings of the parent. Some would regard such public expenditures as inefficient when the alternative is for the parent to stay at home, produce his or her own child care services, and support the family from direct cash transfers. Second, because such income-conditioned child care subsidies cause the breakeven income level to be extended beyond that implied by cash subsidies, the budgetary costs of the program become very large. The target efficiency of the program becomes simultaneously reduced. The third difficulty is the standard one of cumulative tax rates. Given the substantial costs of child care services, the implicit tax rate required to achieve an acceptable breakeven level may be very high. When this tax rate is combined with the tax rate on income-conditioned cash subsidies, the cumulative tax rate may be prohibitive.

The first of these problems can be mitigated by including the number of children requiring child care subsidization in the criterion of "employability." Hence, a mother with, say, 6 children from ages 6-12 would be eligible for direct cash transfers unrelated to work plus the children's allowance.

One possible way of alleviating the second and third problems for families receiving the 50 percent earnings subsidy is to require the family to begin sharing the costs of child care in the income range at which the subsidy is still in effect. This would reduce the need for a high implicit marginal tax rate through the income range where tax rate cumulation is a problem. Such an arrangement is shown in Figure 6 for child care expenses of $500 and $1000. In this situation, the full cost of child care would be borne by the government while family earnings were less than or equal to child care costs. From that earnings level to $2000 of earnings--at which level the 50 percent earnings subsidy is replaced by a 33

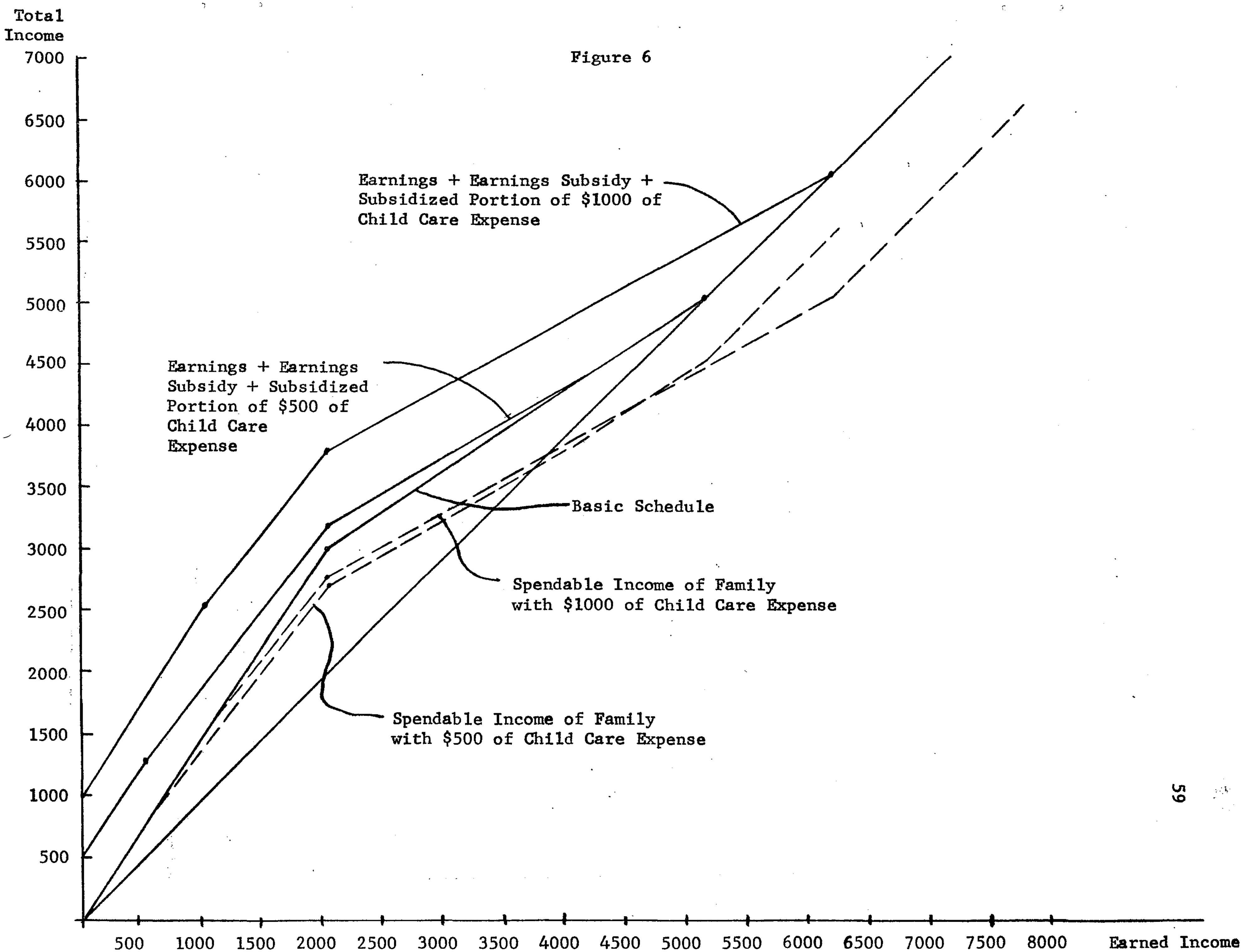

Total Income
7000
6500
6000
5500
5000
4500
4000
3500
3000
2500
2000
1500
1000
500
Earnings + Earnings Subsidy + Subsidized Portion of $1000 of Child Care Expense
Earnings + Earnings Subsidy + Subsidized Portion of $500 of Child Care Expense
Basic Schedule
Spendable Income of Family with $1000 of Child Care Expense
Spendable Income of Family with $500 of Child Care Expense
500
1000
1500
2000
2500
3000
3500
4000
4500
5000
5500
6000
6500
7000
7500
8000
Earned Income

Figure 6

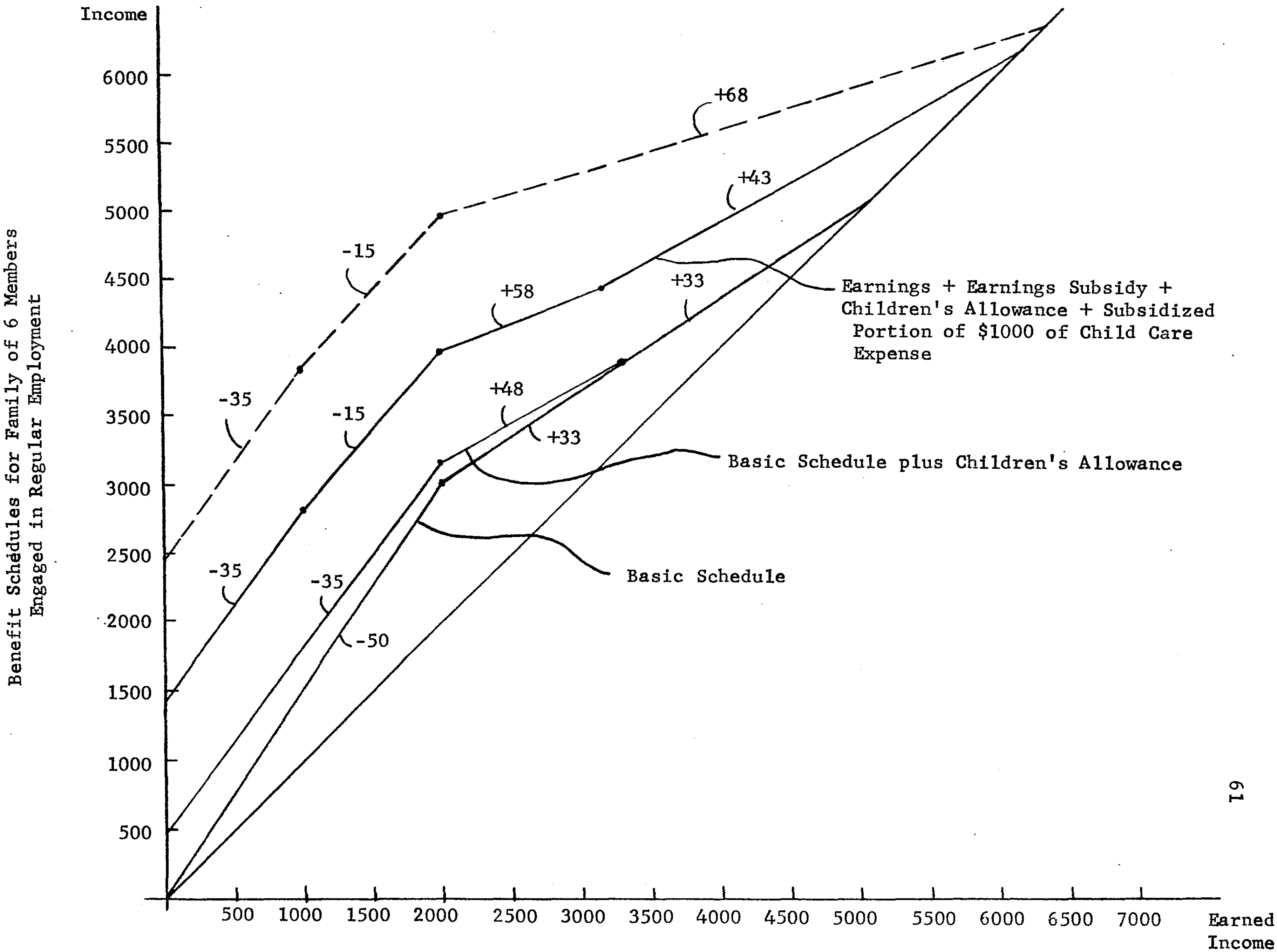
percent tax rate--an implicit tax rate of 20 percent would be imposed on earnings in order to reduce gross child care subsidy. This would effectively reduce the earnings subsidy from 50 percent to 30 percent through this range. Beyond $2000 of earnings (implying at least $3000 of total income for workers in regular employment), the child care subsidy would be taxed at a rate of 10 percent. This implies a cumulative tax rate of 43 percent from $2000 to either the new higher breakeven point or the earnings level beyond which no child care subsidy is provided.

In Figure 7, the integrated benefit schedule is shown for a family of <u>six</u> with earnings from regular employment, children's allowances of $480 at zero earnings, and $1000 of child care expense. The upper solid line shows that the cumulative tax rate varies from -35 percent to +58 percent. The high tax rate of 58 percent is the result of the implicit tax rates on the earnings subsidy (33 percent), the children's allowance (15 percent), and the day-care subsidy (10 percent). The breakeven earnings level for such a family is about $6200.

7. <u>Integration with State Supplementation</u>. States would be permitted to supplement the incomes of families whose heads are employed in special public-service jobs or whose earnings from regular employment are subsidized. However, such supplementation programs would be constrained in the following ways:

a. State supplemental benefits would be based on the assumption that total income (including federal subsidies) is at least $3000 even if it is less than $3000.

Figure 7


Total Income
Benefit Schedules for Family of 6 Members Engaged in Regular Employment
6000
5500
5000
4500
4000
3500
3000
2500
2000
1500
1000
500
500
1000
1500
2000
2500
3000
3500
4000
4500
5000
5500
6000
6500
7000
Earned Income
+68
-15
-35
+43
+58
-15
-35
+33
+48
+33
-35
-50
Earnings + Earnings Subsidy + Children's Allowance + Subsidized Portion of $1000 of Child Care Expense
Basic Schedule plus Children's Allowance
Basic Schedule

b. Where children's allowance subsidies do not extend above earnings levels of $2000 (families of less than six members), the supplementation program would be limited to a marginal tax rate of 25 percent. This tax rate would apply to earned income from $2000 to $5000. For incomes above $5000, the program would be limited to a tax rate equal to the sum of the tax rate on the supplemental program (25 percent) and the tax rate on the federal earnings subsidy (33 percent). This implies a maximum combined tax rate from federal and state income supplementation programs of 58 percent. Including child care subsidies, the maximum marginal tax rate would be 68 percent.

c. Where children's allowance subsidies do extend above earnings levels of $2000 (families of six or more), the supplementation program would be limited to a tax rate of 10 percent over the earnings range through which children's allowance subsidies are paid. For earnings ranges above that amount, the provisions of b. would apply.

The benefit schedule for a family of six with $1000 of child care expense and with state supplemental benefits of $1000 is shown as the dashed line in Figure 7. This schedule incorporates the provision for adjusted tax rates for families with children's allowance subsidies which extend above earnings levels of $2000.

8. Refund of Payroll Taxes. Families with earnings from special public-service employment or those receiving the earnings subsidy would receive a refund of social security taxes paid on earnings.

9. A Ceiling on the Number of Programs in Which a Family May Participate. As the preceding analysis has shown, marginal tax rates march up to a significant level when a family participates in the earnings subsidy program, the children's allowance program, the child care subsidy program, and the program of state benefit supplementation. These programs by no means exhaust the list of federal in-kind and cash transfer programs with benefit levels which are income conditioned. Consider, for example, existing medical care programs, public housing programs and other housing subsidies, higher education subsidy programs, veteran's benefit programs, unemployment compensation benefits and social security survivor benefits. Moreover, recent proposals for subsidized health care have high benefit levels and implicit marginal tax rates of 25 percent or more on earnings. Participation in several of these programs implies marginal tax rates well in excess of 100 percent and a total elimination of work incentives.

A number of techniques exist for reducing this cumulative tax rate problem including the taxation of the benefits of one program in the benefits of another, the sequencing of programs, and the use of the deductibility procedure.[33] While each of these techniques

[33]These techniques have been analyzed in Henry Aaron, "Why Is It So Hard to Reform Welfare?" (mimeo), and Thad Mirer, "A Rational Approach to Integrating Transfer Programs" (mimeo).

can reduce the cumulative tax rate below the simple sum of component program tax rates and below 100 percent, none keep the cumulative tax rate from closely approaching the 100 percent level. An alternative to these techniques which could restrain the cumulative tax would be to establish a ceiling on the number of programs from which a family can receive benefits. Having established the ceiling, families could choose among that set of available program benefits which best fit their needs and tastes.

For example, a standard integrated income-supplementation program for the nation's families could be defined to be the earnings subsidy, children's allowance, child care, and state supplementation programs, the integrated benefit schedule of which is shown in Figure 7.[34] Any family which desired to draw benefits from a program not included in this set (say, public housing or veteran's benefits) would have to agree to cede benefits from any one of the included programs (say, state supplements) at its own choosing. Participation in <u>two</u> non-included programs would require the ceding of benefits from any <u>two</u> included programs. This provision would be combined with a maximum implicit tax rate on any non-included program of, say, 10-15 percent. This sort of ceiling could restrain the cumulated tax rate from ever exceeding approximately 70 percent.

Such a ceiling on participation would require coordination among the various programs to insure that benefits were not being

---

[34]One might also wish to include the national health care program covering poor families.

received from an excessive number of programs by any given family. While such a ceiling on program participation restricts the extensiveness of program participation in order to place an effective maximum on the cumulated tax rate, it does provide substantial choice among beneficiaries concerning program participation.

The alternative program of work-conditioned income supplementation described by these provisions (points 1 to 9) was designed to correct some of the structural problems in the Senate Finance Committee proposal, while retaining its desirable work incentive characteristics. In addition, it was designed to highlight the difficulties of integrating the several components of income support inherent in the strategy (and in all other welfare reform proposals) with the plethora of other income-conditioned subsidy programs. In considering the problem of program integration, it was concluded that the devices of program sequencing and deductibility would not keep the cumulative tax rate from approaching 90 percent or more. The proposed ceiling on the number of programs from which a family could draw benefits could constrain the cumulative tax rate to below 70 percent.

The major difference between the alternative proposal and that of the Senate Committee is the substitution of the earnings subsidy for the wage-rate subsidy and earnings bonus. In addition to increasing the negative marginal tax rate on earnings to give additional work incentive and subsidization to low income families, the earnings subsidy simplifies administration of the program by replacing two work-related programs by one. Further, it eliminates both the incentive for beneficiary fraud implicit in a subsidy focused on the wage rate and the comparative disincentive for seeking job training, advancement, and new positions with higher wage rates as opposed to working more hours which is also implicit in the wage rate subsidy. Finally, the important incentives to seek regular employment rather than accept special public-service employment are strengthened in the alternative proposal.

However, because it would also lead to an increase in the supply of low wage workers, the alternative proposal would have much the same sort of effect on market wages and the combination of low wage workers, high wage workers, and capital inputs employed in the economy. However, as indicated above, while the direction of the effects of these changes is known, their size is not likely to be substantial.

Because this alternative combines the basic components of the Committee bill, it too would have a high target efficiency (or anti-poverty effectiveness). The larger earnings subsidy which it provides to families earning very low wage rates or working part-time--likely characteristics of current welfare recipients which would be declared employable--would tend to increase the target efficiency of the program.

By incorporating a children's allowance, the alternative eliminates the lack of family-size conditioned subsidies inherent in the Senate bill. Because many of the poorest families are the very large families, this provision would also have a high target efficiency. While these are attractive equity effects of the alternative, it does very little to remove the several horizontal inequities of the Finance Committee bill.

Finally, by eliminating the incentive for fraud, the alternative eliminates one of the major administrative problems with the Senate bill. However, most of the other administrative difficulties inherent in that bill are also present in the alternative proposal. These include the difficult--and perhaps insoluable--administrative problems in implementing a major public-service employment program and the leeway for substantial discretion in applying a criterion for categorizing the poor.

In conclusion, then, the alternative proposal remedies many of the maladies of the Finance Committee bill and moves toward integration of a work-conditioned income-supplementation strategy with other income-conditioned programs. However, it does not eliminate other difficulties of such an income-maintenance strategy. Because of its emphasis on the employment of the heads of single-parent families, the proposal is still subject to the criticisms levied against any "workfare" proposal. It, however, strives to avoid the epithet of "slavefare." While requiring work effort, the proposal not only guarantees employment but provides sizable financial supplements to earnings. At a minimum, the alternative proposal should enable the work-conditioned income-supplementation strategy to be considered without the unnecessary difficulties of the Finance Committee proposal.